

***Southwest Airways***

C O M P A N Y



***Eleventh Annual Report 1951***

Southwest Airways



General Offices • San Francisco Airport • So. San Francisco, Calif.

### OFFICERS

LELAND HAYWARD . . . *Chairman of the Board of Directors*  
 JOHN H. CONNELLY . . . *President and General Manager*  
 T. R. MITCHELL . . . *Vice President*  
 HARRY S. WHITE . . . *Vice President*  
 ALWIN W. JOHNSON . . . *Treasurer*  
 WALTER ROCHE . . . *Secretary*  
 FLOYD HENDRICKSON . . . *Assistant Secretary*

### BOARD OF DIRECTORS

<i>Bert Allenberg</i>	<i>Alwin W. Johnson</i>
<i>John H. Connelly</i>	<i>Daniel O'Shea</i>
<i>Leland Hayward</i>	<i>Walter Roche</i>
<i>Floyd Hendrickson</i>	<i>Harry S. White</i>

### AUDITORS

*Price, Waterhouse & Co.*  
 351 California Street, San Francisco, California

### REGISTRAR & TRANSFER AGENT

*Walter Roche*  
 309 First National Bank Building, Phoenix, Arizona

## President's Report

to the stockholders and employees of  
 Southwest Airways Company

We are pleased to present here for your consideration the eleventh annual report of Southwest Airways Company covering the calendar year 1951. The Company has now been operating for over five full years under a Certificate of Public Convenience and Necessity issued by the Civil Aeronautics Board for the transportation by air of passengers, U. S. Mail, express and freight

over three route segments serving 33 cities in California and Oregon.

Net profit for the year 1951, after Federal income taxes, amounted to \$73,230.79. The following table shows the financial history of Southwest's operations since the Company's inception as a certificated air carrier on December 2, 1946:

Operating Revenues:	1951	1950	1949	1948	1947
<i>Passenger, express,</i>					
<i>freight, charter, etc.....</i>	\$1,601,833	\$1,269,857	\$1,148,588	\$ 962,421	\$ 710,451
<i>Mail.....</i>	789,131	943,888	1,249,992	1,401,332	1,504,510
<i>Total operating revenues</i>	\$2,390,964	\$2,213,745	\$2,398,580	\$2,363,753	\$2,214,961
<i>Operating Expenses.....</i>	2,352,265	1,968,883	2,263,878	2,283,989	2,172,077
<i>Operating Profit.....</i>	\$ 38,699	\$ 244,862	\$ 134,702	\$ 79,764	\$ 42,884
<i>Non-operating income</i>					
<i>(expense).....</i>	56,932	(16,856)	(481)	(15,602)	(37,403)
<i>Net Profit Before Federal</i>					
<i>Income Taxes .....</i>	\$ 95,631	\$ 228,006	\$ 134,221	\$ 64,162	\$ 5,481
<i>Federal income taxes.....</i>	22,400	92,533	53,078	36,100	
<i>Net Profit After Taxes.....</i>	\$ 73,231	\$ 135,473	\$ 81,143	\$ 28,062	\$ 5,481





Analysis of the summary of earnings will reveal that for the year 1951 the Company's revenue from non-mail sources (passengers, express, freight and charter) increased \$331,976, or 26.14% over the year 1950; compensation for carrying U. S. mail reflected a favorable decrease of \$154,757 or 16.40%. Due to the inflationary spiral, operating expenses increased \$383,382 or 19.47% over the year 1950. The trend of increased operating expenses was first felt by the Company in the early summer of 1951, and rising prices coupled with the impact of the renegotiation of labor contracts at the year end, has continued this trend into 1952. The problem of rising costs, which is common to all industries in the present economy, is

receiving constant attention from the management and every effort is being made to keep costs to a minimum consistent with safe and sound operating procedures. Although it is one of the Company's major efforts to achieve self-sufficiency and independence from government support in the form of mail pay, the inflationary conditions mentioned above are beyond the control of management. For this reason the Company felt compelled to file a petition with the Civil Aeronautics Board for an increased mail rate to become effective February 1, 1952. The following summary shows the Company's break-even point before mail pay for the past five years:

#### PER REVENUE MILE FLOWN

	1951	1950	1949	1948	1947
Operating revenues (exclusive of mail pay).....	\$ .6340	\$ .5346	\$ .4747	\$ .4071	\$ .3832
Operating expenses.....	.9309	.8289	.9356	.9662	1.1715
Amount of mail pay needed to break even.....	\$ .2969	\$ .2943	\$ .4609	\$ .5591	\$ .7883

## Summary OF OPERATIONS

	1951	1950	1949	1948	1947
Revenue miles flown.....	2,526,630	2,375,224	2,419,695	2,363,827	1,854,117
Revenue passenger miles Flown in scheduled service.....	26,332,303	22,236,008	20,947,484	18,046,778	15,348,113
Passenger load factors (21 seat basis).....	51.41%	45.80%	41.56%	36.06%	39.23%
Number of passengers carried: Scheduled service .....	135,158	118,860	114,573	97,424	83,994
Charter service .....	2,663	3,111	1,345	530	1,082
Total passengers carried .....	137,821	121,971	115,918	97,954	85,076
Mail ton miles.....	62,909	46,406	51,136	45,892	35,146
Express ton miles.....	46,480	49,394	34,199	31,856	32,177
Freight ton miles.....	125,243	126,773	90,177	75,064	10,431
Excess baggage ton miles.....	8,660	7,495	6,746	6,142	5,142

It will be apparent from the above summary of operations that the efforts of Southwest Airways have a significance not only in financial terms, but in the ever-widening range of the Company's services to people. In 1951 the Company transported 135,158 persons in scheduled air carrier service, a gain of approximately 14% over the previous year. Revenue

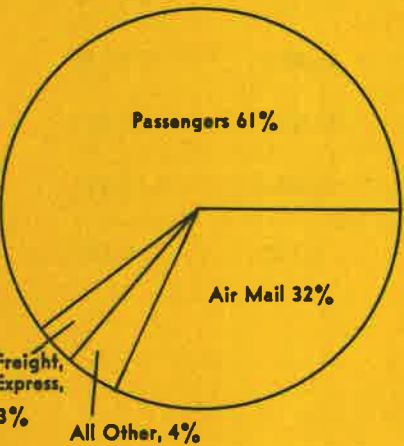
passenger miles flown increased by over 18%, indicating not only an increase in the number of passengers carried, but reflecting a growth in the length of average passenger trip. The amount of mail carried by Southwest increased from 46,406 ton-miles in 1950 to 62,909 ton-miles in 1951—an increase of 35.56%.



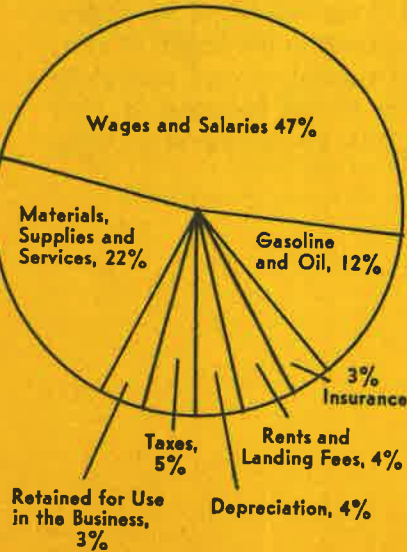


Simplified Comparative Statement of  
INCOME and EXPENSES

Revenue Dollar



Where It Went



	1951		1950	
Amount Received From:	Amount	Per \$1.00 of Revenue	Amount	Per \$1.00 of Revenue
Passengers.....	\$1,452,523	\$ .5845	\$1,139,969	\$ .5121
Express.....	16,857	.0068	18,877	.0085
Freight.....	47,803	.0192	43,925	.0198
Excess baggage.....	5,671	.0023	4,056	.0018
Charter.....	55,829	.0225	41,898	.0188
Incidental revenues.....	23,150	.0093	21,132	.0095
Profit on disposition of property.....	84,998	.0342	1,563	.0007
Interest earned.....	7,288	.0029	3,612	.0016
Other income.....	1,682	.0007	7,032	.0032
	\$1,695,801	\$ .6824	\$1,282,064	\$ .5760
Mail.....	789,131	.3176	943,888	.4240
Gross Income.....	\$2,484,932	\$1.0000	\$2,225,952	\$1.0000
Disposition of Gross Income:				
Wages and salaries.....	\$1,161,636	\$ .4675	\$1,013,610	\$ .4554
Gasoline and oil.....	291,419	.1173	243,729	.1095
Telephone, telegraph, teletype.....	85,733	.0345	78,106	.0351
Other materials, parts and services.....	303,555	.1222	215,050	.0966
Rentals and landing fees.....	104,166	.0419	65,323	.0293
Insurance.....	86,689	.0349	69,994	.0314
Travel and incidental.....	63,650	.0256	52,320	.0235
Advertising and publicity.....	69,168	.0278	83,572	.0375
Depreciation.....	103,727	.0417	82,256	.0369
Taxes other than Federal income taxes.....	90,174	.0363	72,054	.0324
Amortization of route development expenses.....	29,384	.0118	21,932	.0099
Federal income taxes.....	22,400	.0090	92,533	.0416
Total Expenses.....	\$2,411,701	\$ .9705	\$2,090,479	\$ .9391
Balance Retained for Use in the Development of the Business.....	\$ 73,231	\$ .0295	\$ 135,473	\$ .0609



Airline operations are conducted with a modern fleet of 10 Douglas DC3 aircraft, eight of which are equipped with 28 new seats each and two with 27 seats each. At the year end this flight equipment, exclusive of spare engines, radios, propellers, parts and assemblies, was stated on the records at an amortized value of \$271,179. While the market value of these 10 aircraft is subject to fluctuation, the management maintains hull insurance coverage on the fleet of \$850,000. The Company also operates complete aircraft maintenance, repair and overhaul facilities at the San Francisco Airport for its own fleet and for the aircraft of others.

Several of the Company's route development cases before the Civil Aeronautics Board were resolved recently. Most important to the continued success of the Company was the action of the Board in extending Southwest's Certificate of Public Convenience and Necessity to September 30, 1954, and suspending United Air Lines, Inc., from serving Santa Barbara, Monterey, Eureka and Red Bluff. United has appealed the issue of their suspension to the Seventh U. S. Circuit Court of Appeals, and a decision will probably be rendered early this summer. Other decisions by the Civil Aeronautics Board involving Southwest included the denial of a contemplated merger with West Coast Airlines, Inc., and the award of a route between Los Angeles, California, and Phoenix, Arizona, to Bonanza Air Lines, Inc. This latter decision was followed with a Board order of investigation "to determine whether the integration of the routes of Southwest and Bonanza into a single unified system by means of merger, consolidation, acquisition of control, route transfer or in any other lawful manner would be in the public interest and in accordance with the public convenience and necessity as defined in Section 2 of said Civil Aeronautics Act." Preliminary and exploratory discussions have already been held in accordance with the Board's order.

The Ninth U. S. Circuit Court of Appeals is now considering whether or not the Civil Aeronautics Board has the authority to suspend the service of Western Air Lines at El Centro, California, and Yuma, Arizona, and to substitute Bonanza Air Lines. Southwest has also petitioned the Circuit Court of Appeals in this case to rule on the Civil Aeronautics Board's authority to rescind the Certificate of Public Convenience and Necessity which was issued to Southwest in December, 1949, to operate between Los Angeles, California, and Phoenix, Arizona. The outlook for 1952 in the local service airline industry is one of widening opportunities and especially so for Southwest Airways which serves an area that still continues to grow in population and industry.

No annual report is complete without acknowledging the splendid work and cooperation of Southwest's employees, whose constant efforts are so important to the success of our Company.

*John F. Connelly*

President





Southwest Airways

## BALANCE

## SHEET

### ASSETS

#### CURRENT ASSETS:

Cash in banks and on hand.....  
U. S. Government securities, at cost.....  
Accounts receivable:  
    U. S. Government—mail, passengers and other  
    Traffic and agents.....  
    Miscellaneous, less allowances for possible  
    losses in collection (1951—\$704.70;  
    1950—\$1,248.58).....  
Employees.....  
Inventories of materials and supplies, motor  
fuel, and customers' work in process, at  
approximate cost.....

	December 31	
	1951	1950
Cash in banks and on hand.....	\$ 87,474.18	\$ 299,569.43
U. S. Government securities, at cost.....	500,022.79	299,473.84
Accounts receivable:		
U. S. Government—mail, passengers and other	188,786.63	194,013.37
Traffic and agents.....	114,113.22	97,086.46
Miscellaneous, less allowances for possible		
losses in collection (1951—\$704.70;		
1950—\$1,248.58).....	30,216.02	30,183.33
Employees.....	3,669.19	1,323.08
Inventories of materials and supplies, motor		
fuel, and customers' work in process, at		
approximate cost.....	102,753.55	80,424.77
	<u>\$1,027,035.58</u>	<u>\$1,002,074.28</u>

#### INVESTMENTS IN STOCKS OF SERVICE

ORGANIZATIONS, at cost.....

	\$4,321.00	\$511.00
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#### PROPERTY AND EQUIPMENT, at cost:

Flight equipment.....  
Ground and shop equipment.....  
Leasehold improvements.....  
Other.....

Flight equipment.....	\$1,188,517.33	\$1,183,974.30
Ground and shop equipment.....	135,915.58	107,652.49
Leasehold improvements.....	124,697.63	120,697.22
Other.....	156,696.73	94,064.48

Less—Accumulated depreciation.....

	\$1,605,827.27	\$1,506,388.49
	1,119,485.48	1,136,448.33
	<u>\$486,341.79</u>	<u>\$369,940.16</u>

#### DEFERRED CHARGES:

Prepaid insurance and taxes.....  
Extension and development expense.....  
Engine overhaul in process, etc.....

Prepaid insurance and taxes.....	\$18,838.96	\$ 33,027.23
Extension and development expense.....	55,073.49	72,597.78
Engine overhaul in process, etc.....	14,403.31	25,437.21
	<u>\$88,315.76</u>	<u>\$131,062.22</u>

	<u>\$1,606,014.13</u>	<u>\$1,503,587.66</u>
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### LIABILITIES

#### CURRENT LIABILITIES:

Accounts payable.....  
Taxes collected or withheld from others.....  
Accrued expenses.....  
Transportation sold, not yet used or refunded.....  
Federal taxes on income (estimated).....

	December 31	
	1951	1950
Accounts payable.....	\$ 274,456.04	\$ 196,825.63
Taxes collected or withheld from others.....	47,523.27	37,424.94
Accrued expenses.....	60,137.64	41,966.09
Transportation sold, not yet used or refunded.....	9,058.54	13,305.27
Federal taxes on income (estimated).....	22,400.00	94,013.51
	<u>\$ 413,575.49</u>	<u>\$ 383,535.44</u>

RESERVE FOR AIRCRAFT ENGINE OVERHAUL....

	<u>\$ 42,743.07</u>	<u>\$ 49,099.94</u>
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#### CAPITAL STOCK AND SURPLUS:

Common stock:  
Authorized, 10,000,000 shares of 50c par  
value per share (Note B)

Issued:  
    December 31, 1950—651,610 shares.....  
    December 31, 1951—655,985 shares.....

Paid-in surplus (Note B).....

Earnings retained for use in the business,  
per accompanying statement.....

		\$ 325,805.00
	\$ 327,992.50	
	234,600.50	231,275.50
	587,102.57	513,871.78
	<u>\$1,149,695.57</u>	<u>\$1,070,952.28</u>

	<u>\$1,606,014.13</u>	<u>\$1,503,587.66</u>
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# Statement of INCOME and EARNINGS

## RETAINED FOR USE in the BUSINESS

	Year ended December 31	
	1951	1950
<b>Operating revenues:</b>		
Passenger.....	\$1,452,522.93	\$1,139,969.14
Mail.....	789,131.36	943,888.17
Express.....	16,857.02	18,876.53
Freight.....	47,802.59	43,925.17
Charter.....	55,828.51	41,897.99
Excess baggage.....	5,671.23	4,056.36
Other.....	23,149.98	21,132.04
Total operating revenue.....	\$2,390,963.62	\$2,213,745.40
<b>Operating expense:</b>		
Flying operations.....	\$ 735,296.34	\$ 609,883.90
Flight equipment maintenance—direct.....	198,509.33	173,418.87
Depreciation—flight equipment.....	78,776.99	56,928.45
	\$1,012,582.66	\$ 840,231.22
Ground operations.....	\$ 429,086.70	\$ 333,900.90
Ground and indirect maintenance.....	165,655.26	142,953.25
Passenger service.....	107,868.49	90,807.50
Traffic and sales.....	314,708.48	261,842.13
Advertising and publicity.....	70,742.23	86,954.44
General and administrative.....	226,670.67	186,866.23
Depreciation—ground equipment.....	24,949.95	25,327.30
	\$1,339,681.78	\$1,128,651.75
Total operating expense.....	\$2,352,264.44	\$1,968,882.97
Operating profit.....	\$ 38,699.18	\$ 244,862.43
<b>Other income:</b>		
Discounts earned.....	\$ 1,682.02	\$ 1,603.14
Interest.....	7,287.76	3,612.44
Net gain on disposition of equipment.....	84,998.48	1,562.67
Other.....		5,429.31
	\$ 93,968.26	\$ 12,207.56
<b>Other deductions:</b>		
Interest.....	\$ 1,645.37	\$ 1,272.82
Extension and development.....	29,384.35	21,932.32
Other.....	6,006.93	5,859.30
	\$ 37,036.65	\$ 29,064.44
	\$ 95,630.79	\$ 228,005.55
Provision for estimated federal taxes on income.....	22,400.00	92,532.50
	\$ 73,230.79	\$ 135,473.05
Net income for year.....	\$ 73,230.79	\$ 135,473.05
Earnings retained for use in the business, beginning of year.....	513,871.78	378,398.73
	\$ 587,102.57	\$ 513,871.78
Earnings retained for use in the business, end of year.....		

# Notes

## TO FINANCIAL STATEMENTS

**NOTE A** On January 29, 1952, the Company's certificate of public convenience and necessity, issued by the Civil Aeronautics Board, was amended so as to continue in effect up to and including September 30, 1954. Also, on January 29, 1952, the Civil Aeronautics Board suspended the certificate of United Air Lines, Inc., up to and including September 30, 1954, in so far as it authorizes service to Santa Barbara, Monterey, Eureka and Red Bluff, California; this would result in Southwest Airways Company having the exclusive right to furnish air transportation service to these points. United Air Lines, Inc., has filed an appeal in the 7th Circuit Court of Appeals to prevent the Civil Aeronautics Board from suspending United's authority to serve these points.

**NOTE B** Stock options have been granted to certain officers and employees of the Company; these options, which entitle the holders to purchase 15,425 shares of unissued common stock of the Company at \$1.26 per share, expire on December 31, 1952. Similar options on 4,375 shares were exercised during 1951 and the proceeds of \$5,512.50 was credited \$2,187.50 to capital stock account and \$3,325 to paid-in surplus.

PRICE, WATERHOUSE & CO.

351 CALIFORNIA STREET  
SAN FRANCISCO 4

March 14, 1952.

To the Board of Directors of  
Southwest Airways Company

In our opinion, the accompanying financial statements, together with the explanatory notes thereto, present fairly the position of Southwest Airways Company as of December 31, 1951, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of such financial statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price, Waterhouse & Co.

*Price Waterhouse*

**NOTE C** Because of increased operating costs, the Company has petitioned the Civil Aeronautics Board for an increase in mail pay, effective February 1, 1952.



ROUTE MAP OF  
**Southwest Airways**

