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Western Air Lines, Inc. 1965 Annual Report

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Our cover—Representing the progress that has been made in airline service during Western's 40 years of operation are six aircraft that played important roles in the company's growth: the Douglas M-2, Fokker F-10, Douglas DC-3, Douglas DC-6B, Lockheed Electra, and Boeing 720B fanjet.

Highlights of 1965

	1965	1964
OPERATING		
Seat miles produced	3,616,702,000	3,388,541,000
Seat miles sold	2,045,158,000	1,964,512,000
Passengers carried	3,574,793	3,532,978
Passenger load factor—actual %	56.5	58.0
—breakeven point %	46.3	44.6
FINANCIAL		
Total operating revenues	\$123,599,314	\$117,644,586
Operating income	\$ 22,991,955	\$ 26,898,495
Net earnings	\$ 12,130,688	\$ 13,351,027
Cash dividends paid	\$ 3,433,752	\$ 2,789,923
Common stock outstanding	4,292,190	4,292,190
Earnings per share	\$ 2.83	\$ 3.11
Cash dividends per share	\$ 0.80*	\$ 0.65
Total shareholders' equity	\$ 62,710,025	\$ 54,013,089
Shareholders' equity per share	\$ 14.61	\$ 12.58
Cash and short-term securities	\$ 14,731,294	\$ 22,421,395
Working capital	\$ 11,502,712	\$ 8,826,579
Properties and equipment at cost	\$171,541,844	\$142,382,008
Long-term debt	\$ 41,640,000	\$ 26,970,000
Number of employees at year end	4,420	4,092
Wages and salaries paid	\$ 32,902,116	\$ 29,039,955

*Increased to an annual rate of \$1.00 in 1966.

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To Shareholders, Employees, Customers and Friends:

Pictured on the adjoining page is Mrs. Maude Campbell of Los Angeles. In June 1926, she borrowed a flying suit, helmet and goggles and, with the help of a ladder, climbed into the open cockpit of Western's first airplane for a flight from Salt Lake City to Los Angeles and became the first woman passenger to fly on Western. Still a Western customer after almost four decades, she is typical of the loyal WAL passengers to whom we owe a debt of gratitude.

Inserted in the inside back cover of this report is a booklet which describes other important "firsts" in the history of the company. It was written by Bill Henry, leading *Los Angeles Times* columnist, who was one of the driving forces behind the formation of Western and one of its original stockholders.

As Western nears the completion of 40 years of service, which will be celebrated on April 17, all of us who are now associated with the company — its officers, directors and employees — do so with a sincere appreciation for the contributions to air transportation that were made by the Maude Campbells, Bill Henrys and countless thousands of other passengers, investors and employees who sustained the growth of a struggling infant through its most difficult days.

Western's 40th year of operation was a successful one in which the company had excellent earnings, achieved record revenues and carried more passengers than ever before.

As forecast in the 1964 report to shareholders, 1965 was a year of transition in which the company increased the size of its jet fleet substantially, retired a majority of its piston planes, expanded its maintenance facilities and improved many of its

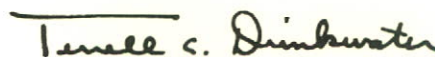
terminal, ticket office, reservations and other passenger service areas.

These changes, while vital to the long-range growth and future performance of the airline, produced only a small increase in seat mile production. At the same time, Western faced intensified competition on some of its most heavily traveled routes. As a result, our earnings did not match those of 1964, an unusually good year in which Western led the airline industry by almost every yardstick of performance.

We are optimistic about the future. The company is financially strong and well-equipped. Its route system has been strengthened by the addition of Acapulco, Yellowstone Park and additional flights to Mexico City. During the year, we vigorously pursued route applications which we hope will provide expansion of the company's system in the near future.

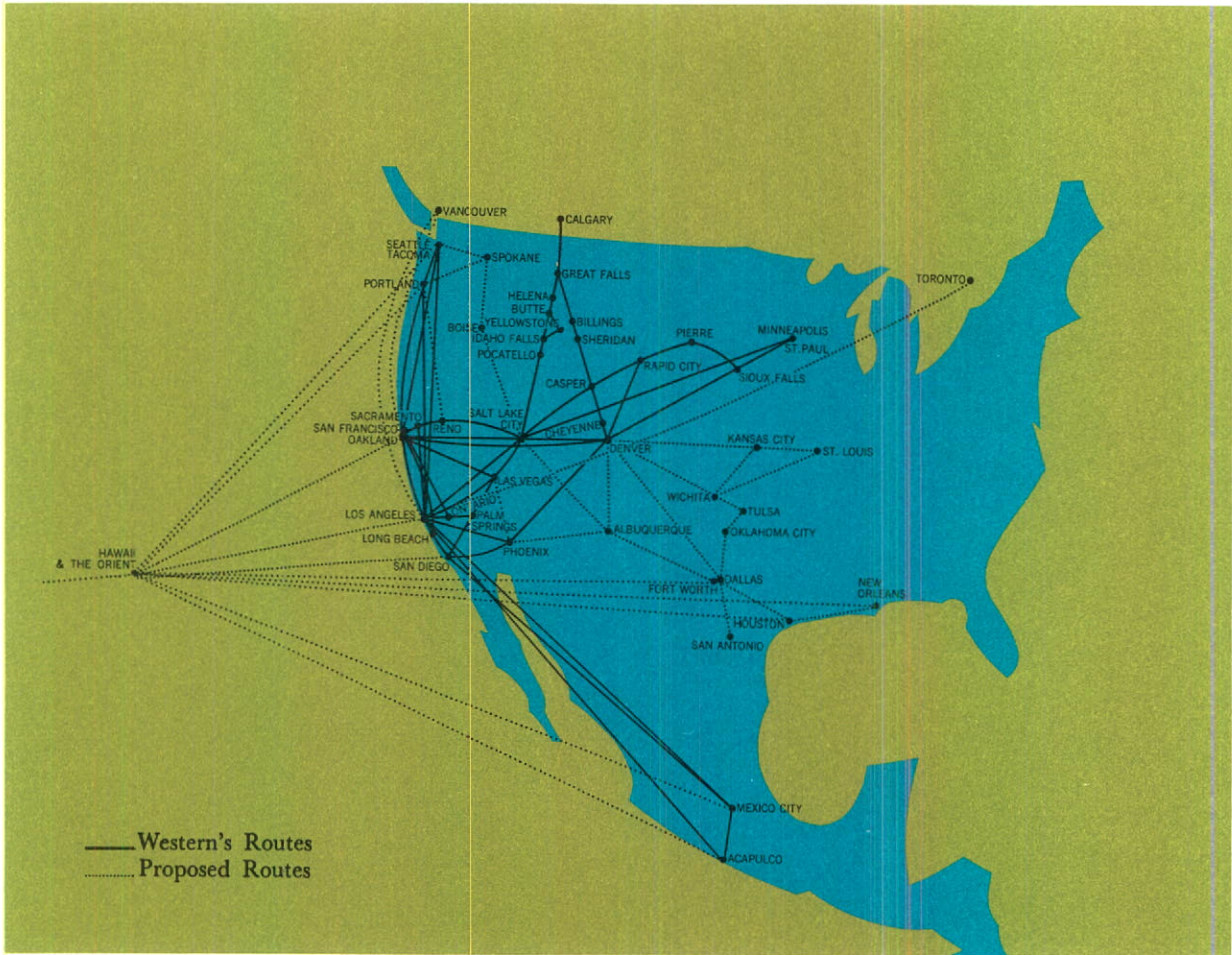
In the first half of 1966, we will increase our seat mile production by 15 percent over the same period of 1965 and offer to the traveling public the finest product available in air travel today. We believe it will be a good year for Western.

Your continued support and patronage will assist us in making it so.



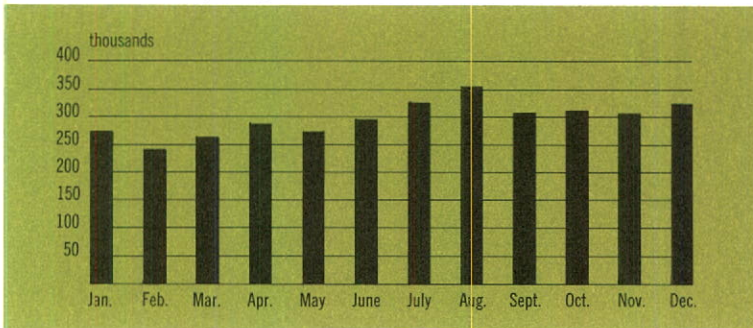
PRESIDENT

February 28, 1966

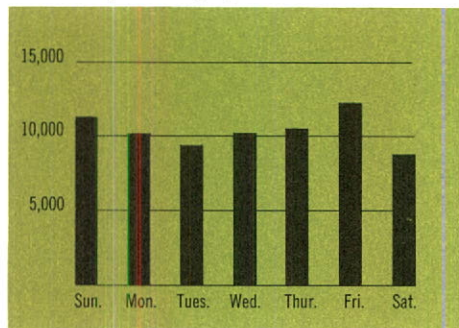


Passenger boardings on Western flights fluctuate

... by the month of the year



... and by the day of the week



Earnings

Western Air Lines earned \$12,130,688, or \$2.83 a share, in 1965, second highest earnings in the company's 40-year history. It was the 17th consecutive year in which the airline has reported a profit.

This compares with profits of \$13,351,027, or \$3.11 a share, in 1964.

Per-share earnings for both years are based on the 4,292,190 shares of stock outstanding.

The 1965 earnings were realized mainly from operations, totaling \$11,247,272, or \$2.62 per share. Gain on disposition of property produced \$883,416, or 21 cents a share.

Operating income totaled \$22,991,955, equal to 18.6 percent of operating revenues, compared to \$26,898,495, or 22.9 percent of revenues, in 1964.

Earnings from operations before taxes were \$21,147,272, or \$4.93 a share. Provision for taxes on income, both current and deferred, totaled \$9,900,000, or \$2.31 a share.

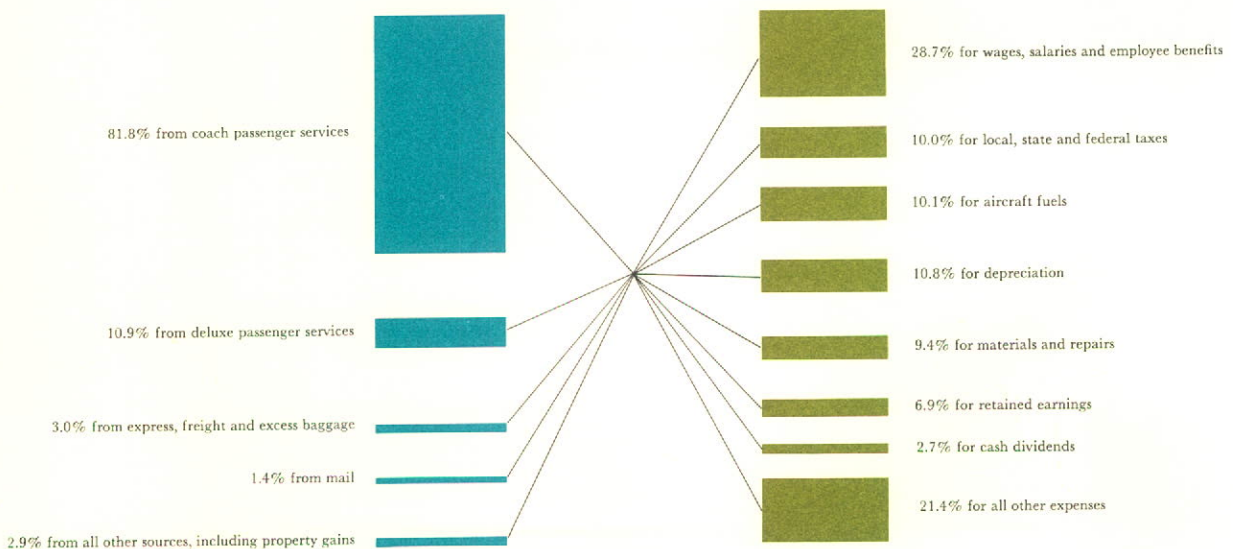
As disclosed previously, Western has elected to amortize the investment credits to earnings over a period corresponding to the productive life of the related property. Included in 1965 earnings was

\$580,000 arising from the investment credit. Deferred for credit to future years has been an additional \$4,337,000, which is \$1,548,000 in excess of the amount deferred at the close of 1964.

Much discussion in financial circles has been directed toward the rate of return on investment being earned by the airline industry. Because airline earnings improved significantly during 1965, much of the discussion has centered on possible action the Civil Aeronautics Board might take to hold down airline earnings through fare reductions or other action. Western remains hopeful that the CAB will evaluate the industry's earnings position over a period of time and with an awareness of the industry's continuing need for investment capital rather than take a short-range or "keyhole" view of the industry's financial position.

Western's rate of return for 1965 approximated 14.9 percent exclusive of the earnings flowing from the investment credit, compared with 18.7 percent for 1964. (The investment credit is excludable for rate purposes in accordance with the related law which created the provision.)

Western's Income & Outgo



Dividends

For the 15th consecutive year, shareholders of Western Air Lines received cash dividends in 1965. Quarterly dividends of 20 cents a share were paid on March 1, May 31, August 16, and November 29 for a total payment of 80 cents a share.

At the first regular board meeting of 1966, held in San Francisco on January 31, the quarterly dividend rate was increased to 25 cents a share (or \$1 a year) effective with the dividend payable on March 7 to stockholders of record on February 16.

Annual Meeting

The 1966 meeting of shareholders will be held at the Beverly Hilton Hotel, Beverly Hills, on April 28. On or about March 18, stockholders will receive a formal notice of the meeting and proxy material.

Revenues

Operating revenues for 1965 established a record high for the company, totaling \$123,599,314, compared to \$117,644,586 in 1964.

The 5.1 percent increase during 1965 was below the growth rate experienced in recent years largely for two reasons: intensified competition along the Pacific Coast and lower than usual increases in seat mile production.

In both cases, the effect was more pronounced in the first quarter of the year. During that period, seat mile production increased only 2.3 percent as the company began to withdraw from service a number of its piston-powered DC-6B's which were scheduled for retirement and which could not compete favorably with jet aircraft flying the same routes at reduced fares.

As the company added six new Boeing 720B fanjets to its schedule pattern and phased out a number of DC-6B piston planes, seat mile production grew—from the 2.3 percent increase in the first quarter to five percent for the second quarter,

9.1 percent for the third quarter and 10.1 in the fourth quarter for an overall increase of 6.7 percent for the year.

Seat miles sold, 2.6 percent below 1964 in the first quarter of 1965, were up 2.8 percent in the second quarter, 5.3 percent in the third quarter and 10.4 percent in the fourth quarter for an overall increase of 4.1 percent for the year.

Although the yield per seat mile sold declined slightly on most of the company's routes because of the increased number of promotional fares, the substitution of Boeing 720B Fanjet Commuter fares for the lower DC-6B Thriftair fares on Los Angeles-San Francisco/Oakland and Los Angeles-Las Vegas routes resulted in an overall systemwide increase in yield from 5.67 cents in 1964 to 5.71 cents in 1965.

Of Western's income dollar, 92.7 percent was derived from passenger traffic (81.8 percent from coach and 10.9 percent from deluxe). Express, freight and excess baggage accounted for 3 percent, mail for 1.4 percent and all other sources for 2.9 percent.

Expenses

Total operating expenses for 1965 amounted to \$100,607,359, up 10.9 percent over 1964. Costs other than depreciation were up 10.1 percent and depreciation increased 16 percent.

The increase in depreciation costs during the year from \$11,718,062 to \$13,596,263, was incurred largely through the addition of six Boeing 720B fanjets, allied ground equipment and machinery installed in the company's new jet overhaul shops and expanded main maintenance base at Los Angeles.

The increase in expenses other than depreciation resulted from the costs incurred in the production of additional seat miles, introduction of jet engine overhaul facilities and from the continuing upward spiral of labor, materials, services, airport landing fees and terminal rentals, and local taxes.

The cost of seat miles produced increased during the year, from 2.68 cents per mile in 1964 to 2.78 cents in 1965.

The breakeven load factor (percentage of seats produced which must be sold to produce a breakeven of expenses and income) increased from 44.6 percent in 1964 to 46.3 percent in 1965.

Finances

Western closed the year 1965 in strong financial condition. Current assets at year end were equivalent to \$1.70 for every \$1 of current liabilities, compared to a ratio of \$1.35 to \$1 at the end of 1964.

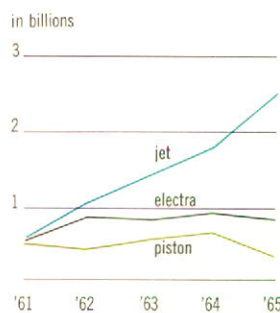
Brief Statement of Earnings

	1965	1964
WESTERN'S REVENUES CAME FROM:		
Passengers		
Coach	\$102,848,440	\$ 97,885,129
Deluxe	13,716,879	13,546,912
	<u>116,565,319</u>	<u>111,432,041</u>
Express, freight and baggage	3,808,555	3,718,470
Mail	1,730,084	1,560,611
Other income	1,877,533	1,786,920
Gain on disposition of property	1,693,416	—
	<u>125,674,907</u>	<u>118,498,042</u>
WESTERN'S EXPENSES WERE:		
Wages and salaries	32,902,116	29,039,955
Social security, group insurance and retirement plans	3,082,234	2,871,590
Taxes	12,610,384	14,412,402
Aircraft fuels	12,742,437	11,916,955
Depreciation and amortization	13,596,263	11,718,062
Materials and repairs	11,777,987	11,410,040
Utilities and services	7,924,603	6,503,793
Service to passengers	4,740,378	4,023,212
Rentals and landing fees	3,599,210	3,313,110
Advertising and publicity	3,741,207	3,243,993
Insurance	2,430,247	2,721,579
Interest	2,105,096	1,946,968
Other costs	2,292,057	2,025,356
	<u>113,544,219</u>	<u>105,147,015</u>
NET EARNINGS	<u>\$ 12,130,688</u>	<u>\$ 13,351,027</u>

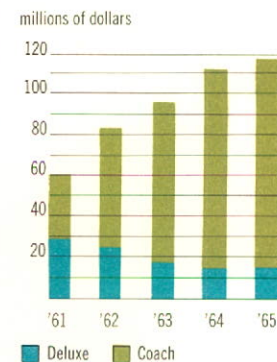
Brief Balance Sheet

	1965	1964
WESTERN OWNS:		
Cash and short-term securities	\$ 14,731,294	\$ 22,421,395
Owed by others	8,827,891	9,017,038
Expendable parts and supplies	2,641,137	1,687,777
Buildings, construction and improvements, net	8,050,048	7,566,885
Flight and other equipment, net	99,753,352	72,386,562
Deposits on new equipment	5,923,190	9,673,244
Prepaid expenses	1,787,114	1,020,101
Deferred charges and other	609,723	398,819
	<u>142,323,749</u>	<u>124,171,821</u>
WESTERN OWES:		
Owed to vendors and others	12,465,974	11,588,798
Federal income taxes—current and deferred	19,225,584	20,900,771
Deferred investment credits	4,337,000	2,789,000
Tickets sold but not yet used	1,945,166	1,940,163
Notes payable—current and long-term	41,640,000	32,940,000
	<u>79,613,724</u>	<u>70,158,732</u>
EXCESS OF WHAT IS OWNED OVER WHAT IS OWED, OR SHAREHOLDERS' EQUITY	<u>\$ 62,710,025</u>	<u>\$ 54,013,089</u>

Seat Miles Produced by Aircraft Type



Passenger Revenues by Class of Service



Below: Pilots in ground school typify increasing emphasis Western places on training of employees.

In order to provide the additional funds required for the acquisition of aircraft and equipment ordered during the year, Western, late in 1965, negotiated a new agreement with the bank and insurance companies to whom the company owed \$41,640,000 at December 31, 1965.

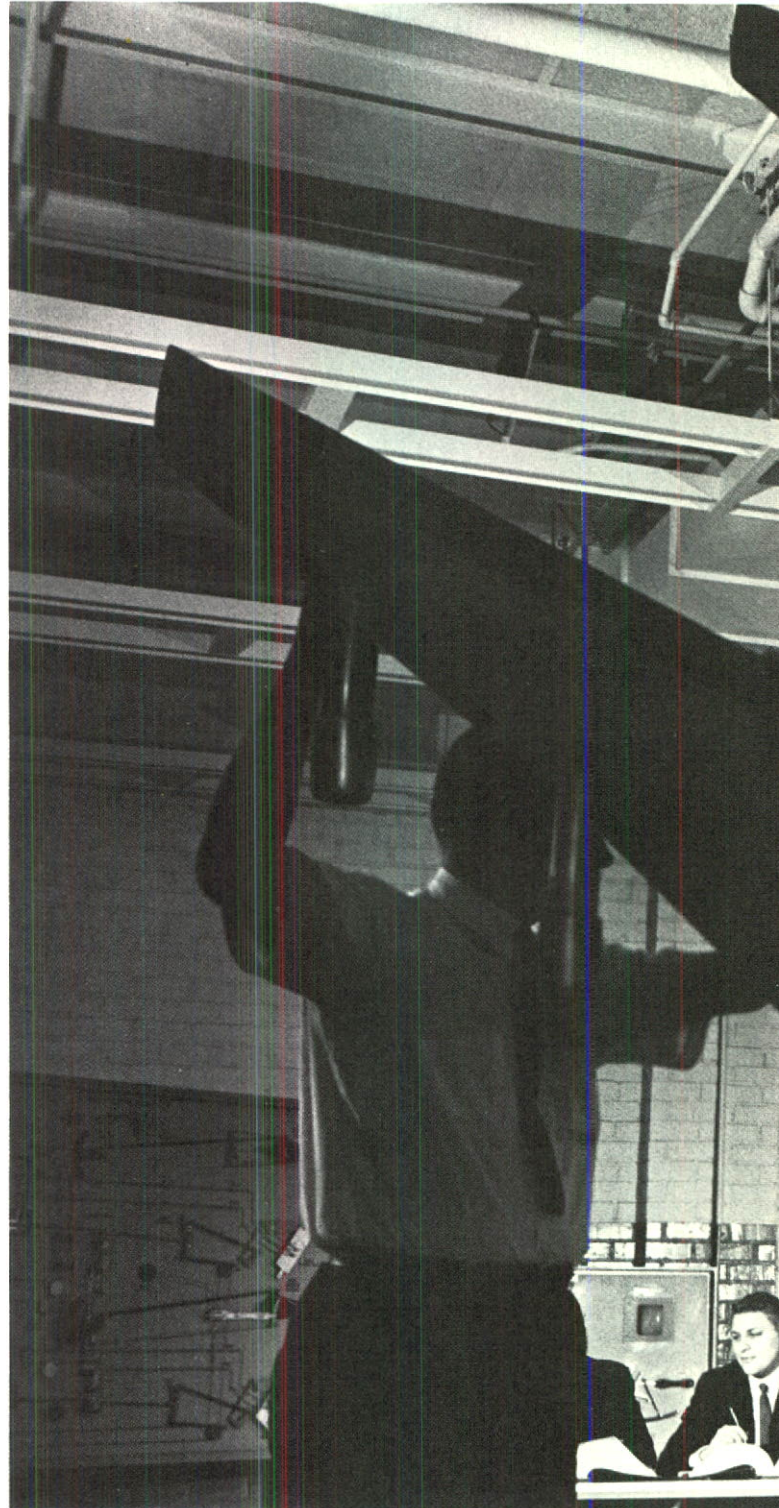
The new credit agreements will consolidate the outstanding loans into the new agreements, and provide for a \$55,000,000 aggregate line of credit which will permit Western to borrow an additional \$13,360,000 as required. The bank portion of the credit, which amounts to \$25,000,000, is in the form of a revolving fund credit until March 31, 1969. During this period, the interest rate on the revolving credit is $\frac{1}{4}$ percent in excess of the prime commercial rate but in no event to be less than $4\frac{1}{4}$ percent or more than $5\frac{1}{4}$ percent. On March 31, 1969, the balance then owing to the bank will become a term loan repayable over a five-year period with an interest rate of 5 percent.

The new credit agreements with the insurance companies provide for \$30,000,000 of long-term funds repayable between 1970 and 1980 and carrying an interest rate of $5\frac{1}{4}$ percent. The terms of these credit agreements are explained in more detail in Footnote 2 of the Notes to the Financial Statements.

The additional funds provided by the new credit agreements, plus anticipated internal funds to be generated, will, in the opinion of the company, provide adequate financing for all aircraft and equipment now on order.

The removal of the provisions for current payments of the long-term debt is a prime reason for the increase in working capital from \$8,826,579 to \$11,502,712 at the close of 1965. The Statement of Source and Application of Funds for 1965 (with comparative figures for 1964) further explains both the sources of \$45,410,523 in funds and the usage thereof totaling \$42,734,390.

Cash and short-term securities declined from \$22,421,395 at the end of 1964 to \$14,731,294 at December 31, 1965, and total current assets





Below: WAL's all-jet fleet of the future will include short-range Boeing 737, ordered in 1965.

decreased from \$34,146,311 to \$27,987,436 at the close of 1965. These decreases were accomplished by the revisions made to the loan agreements during 1965 and 1966 to permit the company to lower both working capital and the related level of long-term debt.

Shareholders and Stock

At the close of 1965, there were 4,292,190 shares of Western Air Lines common stock issued and outstanding.

The stock was held by approximately 20,000 stockholders residing in each of the 50 states and several foreign countries, almost triple the number who held stock prior to the May 1964 three-for-one stock split.

At the 1965 annual meeting of shareholders held in Los Angeles in April, 91.8 percent of all shares were voted in person or by proxy.

Shareholders' equity in 1965 increased to a record \$62,710,025, or \$14.61 a share, compared to 1964 equity of \$54,013,089, or \$12.58 a share.

In April, the symbol for Western's stock was changed from "WSX" to "WAL" on the New York and Pacific Coast stock exchanges.

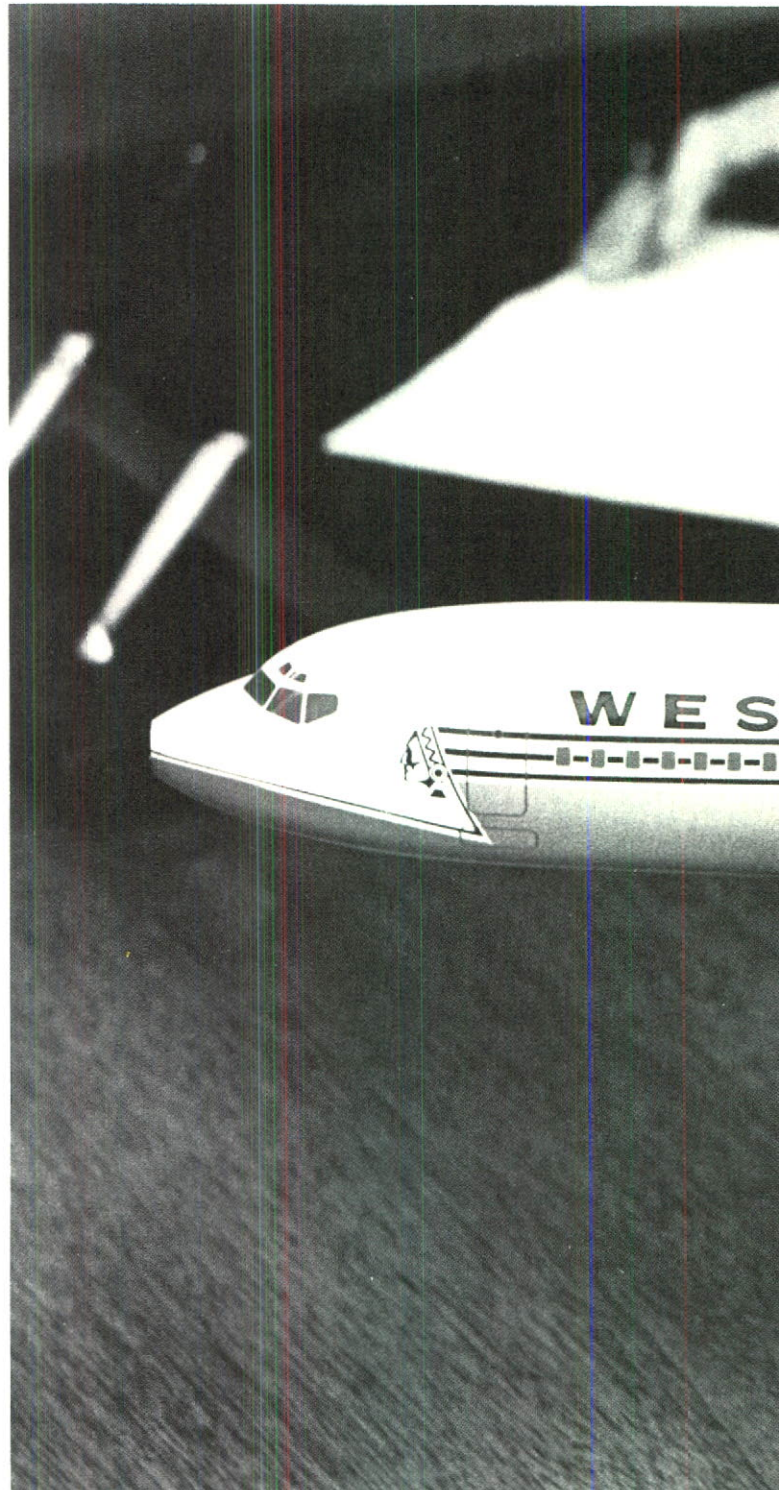
Equipment

Western moved closer to an all-jet fleet during 1965, taking delivery on six Boeing 720B fanjets and ordering for future delivery additional 720B's and a fleet of new twin-jet Boeing 737s.

Delivery of the 720B's during 1965 (January, March, May, June [2] and July) increased the company's fleet of the four-engine jets to 18.

Addition of four others in 1966 will increase the fleet to 22 720B's by July and permit the company to complete the phase-out of its Douglas DC-6B piston planes in the latter part of the year.

After long and careful study, Western ordered as the eventual successor to its Electras a fleet of 16 short-range Boeing 737s for delivery in 1968 and 1969 and took options for nine additional 737s.





Below: Modern jets and traditional mariachis make Acapulco popular addition to WAL system.

To facilitate training for the twin-jet fleet, the company also ordered for delivery in 1967 a 737 simulator which will electronically duplicate the actual airplane in a ground trainer and permit company pilots to be trained on the new Boeing plane even before the first aircraft is delivered.

Early in 1966, the company ordered two additional 720B's and obtained an option for two more, all for delivery in 1967.

During 1965, the company sold eight

DC-6B's and leased one and, at year's end, operated 18 Boeing 720B's, 12 Lockheed Electra prop-jets and five DC-6B's.

Facilities

In addition to completing the move into its new headquarters and expanded main maintenance base at Los Angeles International Airport, Western continued to improve and expand its passenger and cargo service facilities at a number of points



on the system during 1965 and participated in the planning of airport terminal improvements for the future at other locations.

To provide improved reservations services in the company's No. 1 traffic-generating city, Los Angeles reservations offices were moved from their downtown location to the refurbished building which formerly housed company headquarters.

At Denver, the company moved its arrival and departure activities to a new concourse which

provides all-weather passenger loading bridges and comfortable waiting areas. A new main terminal building is scheduled for completion in April.

Passenger loading bridges were completed at Portland and increased at Los Angeles and Seattle; construction was begun on a new Western boarding facility at San Francisco, new terminals at Acapulco, Palm Springs, Sacramento and San Diego, additional aircraft gate positions at Phoenix and loading bridges at Minneapolis/St. Paul.



Below: "Fanjet Commuter" service, introduced in 1965, offers four-engine jets at low fares.



Sales and Service

The best on-time record in the domestic airline industry, improvements in the product for the comfort and convenience of the business traveler and continued development of tour packages and low-cost services to stimulate greater vacation and pleasure travel were the goals and accomplishments of Western's 1965 marketing program.

Western's excellent on-time record proved to

be a valuable sales tool throughout the year. According to figures supplied to the Civil Aeronautics Board by domestic airlines for the top passenger markets of the U.S., Western moved into the No. 1 on-time position in February and through November (latest figures available) led the industry for the year.

Western boarded 3,574,793 passengers during the year, greatest number in company history.

Passenger revenues also established a new record of \$116,565,319, compared to \$111,432,041 in 1964, the previous high.

Although remaining among the highest in the industry, the company's overall load factor decreased from 58 percent in 1964 to 56.5 percent in 1965.

Revenues from air cargo shipments (freight, express, excess baggage, air mail and regular first class mail) increased to \$5,538,639 for 1965 from \$5,279,081 in 1964.

The Civil Aeronautics Board established a new mail rate effective June 19, 1965, which reduced the rate of compensation for all the domestic trunklines, including Western. The line haul charge was reduced from 30.17 cents per mail ton mile to 27.15 cents per mail ton mile. This reduction results in a decrease in the total rate of mail compensation for Western of approximately 7.4 percent. However, revenues from mail increased from \$1,560,611 in 1964 to \$1,730,084 in 1965.

At the same time, the CAB instituted an investigation to determine the proper rate of compensation to be paid beginning January 1, 1967, either on the same basis now in effect, or on the basis of a new priority mail plan to be formulated by the Post Office Department for the consolidation of air mail and first class mail into a single class of priority mail to be moved by whatever transportation means are most appropriate to attain overnight delivery of 95 percent of all priority mail.

Highlighting Western's campaign to obtain a larger share of the huge business travel market, which continues to represent the major share of all air travel, was the inauguration on April 1 of Western's "Fanjet Commuter" service between Los Angeles and San Francisco/Oakland. Operated with 720B fanjets at a fare of \$13.50—lowest per-mile jet fare in the U.S.—the service was extended into the pleasure travel field in July when it was established on the Los Angeles-Las Vegas and Las Vegas-San Francisco routes, providing a "triangle"

of low fare jet commuter services between the three cities.

Speeded-up baggage handling, improved reservations service and continued emphasis on streamlined ticketing procedures also were stressed for the convenience of the air traveler.

In order to provide even greater speed and accuracy in handling its rapidly growing number of passenger reservations, Western has ordered for introduction in 1968 an electronic reservations and communications system which will use IBM's most advanced computing equipment. Using television-like devices at ticket counters and reservations offices throughout the system, more than 500 agents at a time will be able to "talk" with the computers to obtain all information pertinent to a passenger's travel plans. Capable of storing more than 300 million characters of information and of displaying information on the agent set screens at a rate of more than 3,000 words per minute, the system will provide a new dimension in service to Western's passengers. The computer also will be used for electronic switching of messages from point to point on the company's route system and for processing payrolls, accounting reports, maintenance records and other data needed for management decisions.

Two of the most famous vacation areas on the North American continent—Yellowstone Park and Acapulco, Mexico—were added to the company's route system during the year.

Western resumed flights to Yellowstone in June after a 17-year absence, upon completion of a new airport. Working with tour operators, travel agents and other airlines throughout the U.S., the company made Yellowstone a focal point of its major summertime promotion, "North Country Adventures," which annually promotes vacation travel to the Pacific Northwest, Canada, Alaska, Montana, Wyoming, South Dakota and Minnesota.

Already boasting some of the finest winter

resort areas in the West, the company added still another in Acapulco, the sun-and-sea resort on the west coast of Mexico. Twelve special weekend flights were operated between Los Angeles and Acapulco in December and regular daily service was inaugurated to Acapulco in the first month of the new year. Also added to Western's Mexico service for 1966 was an additional daily nonstop flight between Los Angeles and Mexico City, resulting in an overall increase of 50 percent in Mexico service, from 14 flights a week to 21 flights a week.

Many of the factors which have contributed to Western's growth in the past again received emphasis during 1965: Cooperation with travel agents, who produced approximately 38 percent of the company's passenger revenues, through educational seminars, familiarization trips and the marketing of numerous tour packages; expansion of the use of non-airline credit cards, which Western pioneered among airlines in 1959; increased attention to group travel and convention sales, which increased 20 percent during the year; and expanded sales effort in military and government travel, which increased 27 percent on WAL's system during the year.

Promotion of winter vacation travel, which has contributed to the growth of traffic to "Sun Country" resorts, continues to be Western's largest single advertising and sales campaign of the year. Highlighting the 1965 program was the preparation and distribution of a full-color, eight-page Sunday newspaper supplement—first of its kind to be used to develop travel in the West—which described to more than four million subscribers in northern cities the many attractions of "Sunbreak" areas on the company system.

Western also joined with government and resort organizations in Utah to promote new family skiing centers in that state. In 1966, these efforts are being expanded to include other popular winter sports areas on the company's system, including those in Colorado, California, Nevada, Montana,

South Dakota, Idaho, the Pacific Northwest and Canada.

Route Development

On February 7, 1966, the company received the disappointing news that the U.S. Court of Appeals for the District of Columbia had affirmed an order by the Civil Aeronautics Board, issued on December 14, 1965, denying Western's application to serve Hawaii.

On three separate occasions during 1965 the Court had returned to the CAB its decisions on Western's application for California-Hawaii route authority and right up until the Court's final decision in February 1966 the company had remained hopeful that the Hawaii route that was first given to Western in December 1960 would finally be implemented by a favorable court decision.

As a result of this final verdict, the company has filed a new application for service to Hawaii and beyond to the Orient for inclusion in the new route proceeding that will be held to again review the air service needs of the vast Pacific area.

Extensive hearings were held in 1965 in the Pacific Northwest-Southwest Service Investigation, an examination of the need for new and improved air service from the Pacific Northwest, through Utah and Colorado, to the Texas-Oklahoma-Louisiana area and the Kansas-Missouri area. In addition to Western, nine domestic trunklines and several local service carriers are seeking authority to serve these routes.

The Bureau of Operating Rights, a part of the CAB's staff, recommended to the CAB that it grant Western authority to provide service between Salt Lake City and Denver, on the one hand, and Dallas, Fort Worth, Houston, and San Antonio, on the other hand. This would permit Western to link these major Texas cities with the Northern Rocky Mountain area, including Colorado, Utah, Wyoming, Idaho, Montana, and Alberta, Canada. Western is the only applicant in the proceeding that

could provide this service, of particular benefit to the oil industry—an important segment of the Southwest and the Northern Rocky Mountain area economy. Briefs to the Examiner were filed December 20, and in addition to the Texas-Utah, Colorado, Wyoming, Idaho, Montana, Alberta, Canada area, Western is pressing for the routes to the Pacific Northwest which the BOR recommended for two of the other trunkline applicants. An examiner's decision is expected in the spring of 1966, with a CAB decision by the end of 1966.

In 1965, the United States Government concluded negotiations with Mexico and Canada which provide for new air service by U.S. carriers to those countries. The Air Transport Agreement between the United States and Mexico was extended to June 30, 1970, and Acapulco was added to Western's Los Angeles-San Diego-Mexico City route. The Civil Aeronautics Board granted Western an interim exemption to serve Acapulco as a co-terminal with Mexico City pending completion of a normal certificate proceeding in 1966.

The new Air Transport Agreement between the United States and Canada authorizes for U.S. carriers, among other things, several routes of interest to Western, including a Los Angeles/San Francisco-Vancouver route and a Los Angeles-Toronto route. Western and several other carriers are applicants for this new authority. In addition, the new Canadian bilateral agreement establishes Denver as a co-terminal with Great Falls on Western's present Calgary route. Hearings on applications for the new U.S.-Canada routes will be held in 1966.

Personnel

Ten years ago, when Western operated only piston aircraft and carried fewer than a million passengers a year, the company employed 69 men and women for each airplane it flew. Average annual salary per employee was \$5,500 and the company's total assets were equivalent to \$11,000 per employee.

In 1965, Western provided jobs for 126 employees for each airplane in its fleet; wages and salaries totaled \$32,902,116, an average of \$7,700. There were 4,420 employees on the employment roster as of December 31, and Western's assets were equal to \$32,200 per employee.

Western is justifiably proud of the contributions its employees, among the most experienced in the airline industry, have made to the development of air transportation. Their ability to comprehend and put to practical use the increasingly complex technologies of the Jet Age has produced an upsurge of public and investor confidence that is unmatched in the history of the industry.

Eighty-nine percent of Western's employees are represented by five labor unions. Contracts were signed during the year with the pilots and dispatchers. Agreements which cover the company's mechanics, stewardesses and clerks will be open for negotiation in 1966.

Six Western vice presidents were elevated to the newly created position of senior vice president and eight assistant vice presidents elected vice president by the company's board of directors.

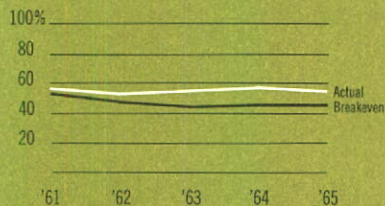
The new senior vice presidents are Stanley R. Shatto, operations; Marvin W. Landes, service; Arthur F. Kelly, sales; J. Judson Taylor, treasury; Dominic P. Renda, legal; and G. G. Brooder.

Elevated to vice presidents were Richard B. Ault, engineering; Harold W. Caward, flight operations; Charles J. J. Cox, controller; Richard P. Ensign, in-flight services; Anton B. Favero, maintenance; Bert D. Lynn, advertising and sales promotion; Philip E. Peirce, ground services; and Terrell S. Shrader, industrial relations.

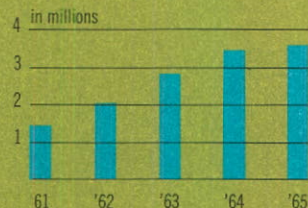
Elected assistant vice presidents were Charles S. Fisher, flight schedules; James L. Mitchell, research; and Peter P. Wolf, communications. Eugene D. Olson, former assistant controller, was elected assistant treasurer.

Ten Years of Growth

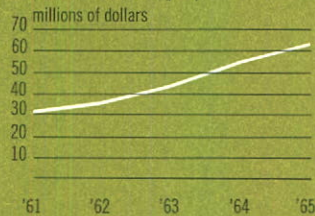
Breakeven and Actual Load Factors



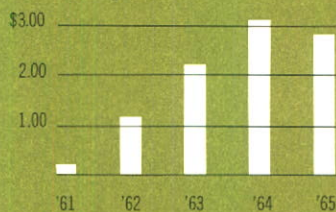
Total Passengers Carried



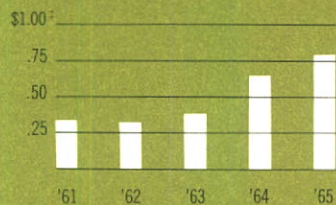
Shareholders' Equity



Earnings Per Share



Dividends Paid



Financial

	1965
Revenues:**	
Passenger	\$ 116,565
Express, freight and excess baggage	3,808
Mail	1,730
Other	1,496
Total Revenues	<u>123,599</u>
Operating Expenses:**	
Depreciation and amortization	13,596
Payroll	32,902
Other	54,109
Total Operating Expenses	<u>100,607</u>
Operating Income**	22,992
Interest**	(2,105)
Other Income and Expenses—Net**	260
	<u>21,147</u>
Provision for Taxes on Income**	9,900
Net Earnings from Operations**	<u>11,247</u>
Extraordinary Items (Less Applicable Income Taxes):**	
Gain on disposition of property	883
Write-down of aircraft	—
Net Earnings**	<u>\$ 12,130</u>

Shareholders

Net earnings from operations per share†	\$ 2.62
Extraordinary items per share†	0.21
Total	<u>\$ 2.83</u>
Dividends paid per share:	
Cash†	\$ 0.80‡
Stock	—
Shares outstanding—actual**	4,292
—adjusted**†	4,292
Shareholders' equity—total**	\$ 62,710
Shareholders' equity—a share†	14.61
Working capital**	\$ 11,503
Long-term debt**	41,640
Properties and equipment—net**	107,803
Total assets**	142,324

Operations

Route miles at end of year	9,687
Airplanes at end of year:	
Boeing 720-B	18
Boeing 707—leased	—
Lockheed Electra II	12
Douglas DC-6B	5
Other aircraft—piston powered	—
Airplane miles flown**	32,343
Ton miles produced**	434,881
Ton miles sold**	212,818
Seat miles produced**	3,616,702
Seat miles sold**	2,045,158
Express, freight & mail ton miles sold**	16,099
Passengers carried	3,574,793
Express, freight & mail tons carried	21,898
Passenger load factor—actual %	56.5
—breakeven point %	46.3
Average length in miles per passenger trip	572
Average revenue per passenger mile	\$.0571
Employees at end of year	4,420

†Based on shares outstanding at close of respective periods adjusted to give retroactive effect to stock dividends and to the May 1964 three-for-one stock split.

*Operations were adversely affected by strike. **000 omitted.

‡Increased to an annual rate of \$1.00 in 1966.

1964	1963	1962	1961*	1960	1959	1958*	1957	1956*
111,432	93,913	81,170	59,737	64,356	59,194	31,459	39,243	26,249
3,718	3,248	2,964	2,271	2,473	2,256	1,305	1,596	954
1,561	1,320	1,427	1,231	1,393	1,295	732	1,067	775
934	946	809	1,013	855	508	474	313	210
<u>117,645</u>	<u>99,427</u>	<u>86,370</u>	<u>64,252</u>	<u>69,077</u>	<u>63,253</u>	<u>33,970</u>	<u>42,219</u>	<u>28,188</u>
11,718	9,762	11,895	11,211	10,000	6,643	4,136	3,011	2,294
29,040	24,749	21,840	17,987	19,478	17,704	11,947	14,335	10,283
49,988	43,598	41,254	32,864	33,323	27,696	16,831	20,076	13,009
<u>90,746</u>	<u>78,109</u>	<u>74,989</u>	<u>62,062</u>	<u>62,801</u>	<u>52,043</u>	<u>32,914</u>	<u>37,422</u>	<u>25,586</u>
26,899	21,318	11,381	2,190	6,276	11,210	1,056	4,797	2,602
(1,947)	(2,322)	(2,286)	(1,889)	(1,330)	(1,127)	(1,023)	(780)	(394)
799	621	483	(119)	438	180	74	.90	31
<u>25,751</u>	<u>19,617</u>	<u>9,578</u>	<u>182</u>	<u>5,384</u>	<u>10,263</u>	<u>107</u>	<u>4,107</u>	<u>2,239</u>
12,400	9,800	4,875	125	3,050	5,456	227	2,233	1,205
<u>13,351</u>	<u>9,817</u>	<u>4,703</u>	<u>57</u>	<u>2,334</u>	<u>4,807</u>	<u>(120)</u>	<u>1,874</u>	<u>1,034</u>
—	191	889	807	105	210	1,522	528	2,010
—	(583)	(578)	—	—	—	—	—	—
<u>13,351</u>	<u>9,425</u>	<u>5,014</u>	<u>864</u>	<u>2,439</u>	<u>5,017</u>	<u>1,402</u>	<u>2,402</u>	<u>3,044</u>
3.11	2.29	1.10	0.01	0.54	1.47	(0.04)	0.65	0.38
—	(0.09)	0.07	0.19	0.03	0.06	0.50	0.18	0.73
<u>3.11</u>	<u>2.20</u>	<u>1.17</u>	<u>0.20</u>	<u>0.57</u>	<u>1.53</u>	<u>0.46</u>	<u>0.83</u>	<u>1.11</u>
0.65	0.37	0.33	0.33	0.33	0.27	0.24	0.23	0.22
—	—	—	—	5%	4%	4%	4%	4%
4,292	1,431	1,431	1,431	1,431	1,041	928	849	779
4,292	4,292	4,292	4,292	4,292	3,273	3,034	2,886	2,751
54,013	43,452	35,601	32,017	32,584	24,545	18,996	17,469	14,991
12.58	10.12	8.29	7.46	7.59	7.50	6.26	6.05	5.45
8,827	6,580	12,364	5,505	16,841	11,518	5,320	4,688	4,600
26,970	32,940	39,488	36,097	24,790	25,272	19,748	16,827	9,677
79,953	71,162	62,859	58,493	33,302	37,546	31,035	24,652	17,216
124,172	111,202	98,830	85,697	72,433	67,223	49,596	44,017	32,075
9,474	9,474	9,545	8,827	8,827	8,827	9,153	8,799	6,350
12	10	7	4	—	—	—	—	—
—	—	—	2	2	—	—	—	—
12	12	12	12	6	5	—	—	—
14	14	16	19	27	27	27	21	14
—	—	—	—	4	5	8	14	16
32,442	29,035	25,262	20,624	25,996	25,689	16,449	21,986	14,851
401,999	352,038	307,570	224,819	207,554	196,178	123,416	137,640	86,196
203,539	168,002	137,492	101,232	109,316	103,741	56,710	74,468	48,481
3,388,541	2,929,673	2,402,344	1,718,854	1,776,076	1,623,007	981,740	1,175,071	740,174
1,964,512	1,615,189	1,307,173	957,560	1,034,481	982,010	533,443	702,727	458,131
14,136	12,291	11,574	8,987	9,538	8,899	5,309	7,118	4,667
3,532,978	2,812,640	2,128,225	1,529,137	1,721,619	1,689,278	970,498	1,379,653	928,746
18,992	16,250	16,037	12,364	13,354	12,792	8,010	11,537	8,200
58.0	55.1	54.4	55.7	58.2	60.5	54.3	59.8	61.9
44.6	43.6	48.0	55.5	53.3	50.0	54.1	53.5	56.6
556	574	614	626	601	581	550	509	493
.0567	.0582	.0623	.0632	.0626	.0605	.0595	.0558	.0573
4,092	3,513	3,078	2,794	2,730	2,962	2,547	2,773	2,343

Western Air Lines Inc. Balance Sheet

Assets	<u>December 31 1965</u>	<u>December 31 1964</u>
CURRENT ASSETS:		
Cash	\$ 3,226,341	\$ 4,338,795
Short-term securities (approximating market)	<u>11,504,953</u>	<u>18,082,600</u>
Receivables:		
Traffic balances (net of allowance for doubtful accounts \$125,000)	7,568,715	7,466,941
U.S. and State Government Departments	1,094,514	876,649
Other	<u>164,662</u>	<u>673,448</u>
	<u>8,827,891</u>	<u>9,017,038</u>
Expendable parts and supplies	<u>2,641,137</u>	<u>1,687,777</u>
Prepaid expenses	<u>1,787,114</u>	<u>1,020,101</u>
TOTAL CURRENT ASSETS	<u>27,987,436</u>	<u>34,146,311</u>
Deposits on equipment purchase contracts (<i>Note 3</i>)	<u>5,923,190</u>	<u>9,673,244</u>
Properties and equipment at cost:		
Flight equipment	145,650,100	119,191,490
Buildings on and improvements to leased property	10,857,005	4,736,322
Other property and equipment (including construction in progress)	<u>15,034,739</u>	<u>18,454,196</u>
	<u>171,541,844</u>	<u>142,382,008</u>
Less allowance for depreciation and maintenance	<u>63,738,444</u>	<u>62,428,561</u>
	<u>107,803,400</u>	<u>79,953,447</u>
Deferred charges and other assets	609,723	398,819
	<u>\$142,323,749</u>	<u>\$124,171,821</u>

See accompanying notes to financial statements

Liabilities	<u>December 31 1965</u>	<u>December 31 1964</u>
CURRENT LIABILITIES :		
Accounts payable	\$ 7,074,014	\$ 7,006,248
Accrued salaries and wages	3,075,472	2,642,393
Other accrued liabilities	2,034,713	1,646,482
Air travel plan deposits	281,775	293,675
Unused transportation	1,945,166	1,940,163
Federal taxes on income (<i>Note 1</i>)	2,073,584	5,820,771
Current maturities of long-term debt	—	5,970,000
TOTAL CURRENT LIABILITIES	<u>16,484,724</u>	<u>25,319,732</u>
Long-term debt (<i>Note 2</i>)	<u>41,640,000</u>	<u>26,970,000</u>
Deferred federal taxes on income (<i>Note 1</i>)	<u>17,152,000</u>	<u>15,080,000</u>
Deferred investment credits (<i>Note 1</i>)	<u>4,337,000</u>	<u>2,789,000</u>
SHAREHOLDERS' EQUITY (<i>Notes 2 and 5</i>):		
Common stock—\$1.00 par value per share		
Authorized 10,000,000 shares		
Issued 4,292,190 shares	4,292,190	4,292,190
Capital in excess of par value	16,500,126	16,500,126
Retained earnings	41,917,709	33,220,773
	<u>62,710,025</u>	<u>54,013,089</u>
	<u>\$142,323,749</u>	<u>\$124,171,821</u>

Western Air Lines Inc. Statement of Earnings and Retained Earnings

	<u>December 31 1965</u>	<u>December 31 1964</u>
OPERATING REVENUES:		
Passenger	\$116,565,319	\$111,432,041
Express, freight and excess baggage	3,808,555	3,718,470
Charter and other transport service	579,589	152,190
Mail	1,730,084	1,560,611
Incidental revenue—net	915,767	781,274
	<u>123,599,314</u>	<u>117,644,586</u>
OPERATING EXPENSES:		
Flying operations	24,368,243	22,957,569
Maintenance	17,701,842	16,301,799
Passenger service	8,809,333	7,835,866
Aircraft and traffic servicing	16,055,632	14,245,901
Promotion and sales	14,942,638	13,086,494
General and administrative	5,133,408	4,600,400
Depreciation and amortization (Note 6)	13,596,263	11,718,062
	<u>100,607,359</u>	<u>90,746,091</u>
Operating Income	22,991,955	26,898,495
OTHER INCOME (EXPENSES):		
Interest expense	(2,105,096)	(1,946,968)
Interest income	382,177	853,456
Other expense—net	(121,764)	(53,956)
Earnings before Taxes on Income	21,147,272	25,751,027
PROVISION FOR TAXES ON INCOME (Note 1)	9,900,000	12,400,000
NET EARNINGS FROM OPERATIONS	11,247,272	13,351,027
GAIN ON DISPOSITION OF PROPERTY (Less		
Applicable Income Taxes)	883,416	—
NET EARNINGS	12,130,688	13,351,027
RETAINED EARNINGS AT BEGINNING OF YEAR	33,220,773	22,659,669
	45,351,461	36,010,696
CASH DIVIDENDS PAID		
\$0.80 per share in 1965 and \$0.65 in 1964	3,433,752	2,789,923
RETAINED EARNINGS AT END OF YEAR (Note 2)	<u>\$ 41,917,709</u>	<u>\$ 33,220,773</u>

See accompanying notes to financial statements

Western Air Lines Inc. Statement of Source and Application of Funds

	<i>December 31</i> 1965	<i>December 31</i> 1964
FUNDS PROVIDED:		
Net earnings	\$12,130,688	\$13,351,027
Less gain on disposition of property	883,416	—
Net earnings from operations	11,247,272	13,351,027
Add back		
Depreciation and maintenance reserve provision	13,979,818	12,326,276
Deferred income taxes	2,072,000	3,040,000
Charge equivalent to investment credit	1,548,000	1,826,000
Total from operations	<u>28,847,090</u>	<u>30,543,303</u>
Increase in long-term debt	14,670,000	—
Proceeds from disposition of property, net of taxes	1,893,433	88,617
Flight equipment lease/sale contracts	—	182,509
	<u>16,563,433</u>	<u>271,126</u>
Total	<u><u>45,410,523</u></u>	<u><u>30,814,429</u></u>
FUNDS APPLIED:		
Purchase of airplanes and other property, buildings and equipment	39,223,742	19,798,803
Payment of cash dividends	3,433,752	2,789,923
Reduction of long-term debt	—	5,970,000
Other items	76,896	9,572
	<u>42,734,390</u>	<u>28,568,298</u>
Increase in working capital	2,676,133	2,246,131
Total	<u><u>\$45,410,523</u></u>	<u><u>\$30,814,429</u></u>

Notes to Financial Statements

Note 1. Taxes on Income. Federal income tax returns have been examined by the U. S. Treasury Department through 1963. The 1965 provision for income taxes is summarized as follows:

Charged to Operations:	
Current income taxes	\$ 6,280,000
Deferred income taxes	2,072,000
Charge equivalent to investment credits, net of amortization of \$580,000	1,548,000
	<u>9,900,000</u>
Applicable to Gain on Disposition	
of Property	810,000
	<u>\$10,710,000</u>

Investment credits are being amortized to income over the lives of the related equipment.

Note 2. Long-Term Debt (Unsecured). On December 31, 1965, long-term notes payable of \$20,970,000 to a bank and \$20,670,000 to insurance companies were outstanding. New loan agreements signed in January 1966 provide for the exchange of these notes for new notes and will permit additional borrowings of \$13,360,000 as required. The aggregate loans (including amounts not yet borrowed) are summarized as follows:

Bank Loans:

\$25,000,000 in a revolving fund credit until March 31, 1969 at interest not to exceed 5¼%. Notes outstanding on March 31, 1969 will be converted into a 5% term note due in 1974, with equal monthly payments commencing in July 1969.

Insurance Company Loans:

\$30,000,000 in 5¼% notes due in 1981, with payments of \$1,000,000 per year starting in 1970 and increasing to \$4,000,000 a year in 1976.

The related agreements with the bank and insurance companies provide among other things (including restrictions on additional borrowings) conditions and requirements which at December 31, 1965 operated to restrict retained earnings from cash dividend distribution in the amount of \$37,073,048, leaving \$4,844,661 not so restricted.

Note 3. Commitments and Contingent Liabilities. Jet aircraft and other major items on order at December 31, 1965 represented purchase commitments of approximately \$96,000,000 in excess of related deposits.

The estimated minimum annual rentals under long-term leases, with expiration dates ranging to 1991, were approximately \$1,000,000 at December 31, 1965.

Note 4. Retirement Plans. The costs of retirement plans charged to operating expense in 1965 totaled \$1,513,414, including \$73,164 for past-service costs, thereby leaving approximately \$587,000 unfunded at December 31, 1965.

Note 5. Options to Purchase Common Stock. On April 23, 1965, options for 6,000 shares were granted at \$33.33 a share under the company's stock option plan for officers which reserved 210,000 shares of the corporation's authorized and unissued stock for the purposes of the plan. As of December 31, 1965, options were outstanding to purchase a total of 133,500 shares at option prices aggregating \$5,236,230 (approximate fair market value on days of grant). The options are generally exercisable in equal annual increments over a five-year period.

Note 6. Depreciation. The six Boeing 720B fanjet aircraft acquired in 1965 are being depreciated over useful lives estimated to end December 31, 1975, with residual values of \$100,000 per aircraft.

The estimated useful lives on the 12 Boeing 720B fanjet aircraft owned on January 1, 1965, were accordingly extended to December 31, 1975, and residual values reduced to \$100,000 per aircraft, thereby reducing depreciation expense for 1965 by approximately \$575,000 and increasing net earnings for the year by approximately \$300,000.

PEAT MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
929 SOUTH SPRING STREET
LOS ANGELES, CALIF. 90014

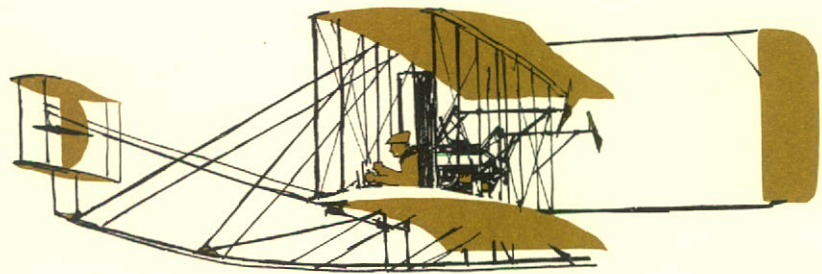
The Board of Directors
Western Air Lines, Inc.:

We have examined the balance sheet of Western Air Lines, Inc. as of December 31, 1965 and the related statement of earnings and retained earnings for the year then ended. Our examination 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. We previously made a similar examination of the financial statements for 1964.

In our opinion, the accompanying balance sheet and statement of earnings and retained earnings present fairly the financial position of Western Air Lines, Inc. at December 31, 1965 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. Also, in our opinion, the accompanying statement of source and application of funds for the year ended December 31, 1965 presents fairly the information shown therein.

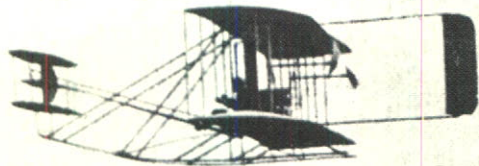
Peat Marwick Mitchell & Co.

February 9, 1966



A Pioneering Spirit

By Bill Henry



The Wright plane in flight, September 1908. Opposite: 18 years later, crowd at Vail Field watches Western begin Los Angeles-Salt Lake City service. Lower Right: First stop on eastbound flights was Las Vegas.

Forty years can seem like a long, long time or of no more consequence than the blink of an eye, depending on your measuring stick. In the life of commercial aviation, forty years is the whole bit.

So Western Air Lines, sole survivor of the handful of pioneer private contractors to carry United States mail starting in 1926, is more than just the oldest U.S. airline—its history encompasses the entire lifetime of the business.

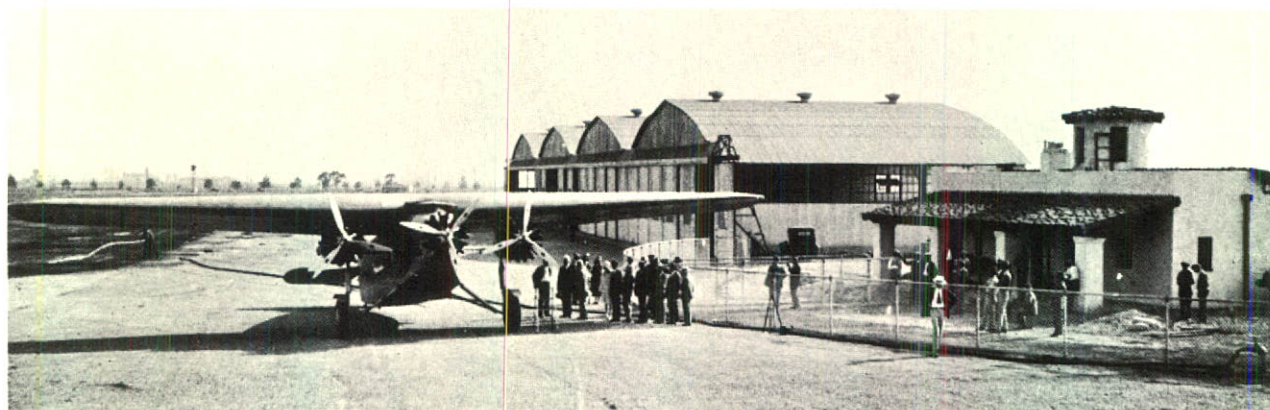
It would be in the best tradition of historians, looking back to those beginnings, to tell how the men who chipped in to organize Western were far-sighted geniuses who foresaw that in 1966 commercial aviation would be what it is today, a financial and technical colossus which is the major means of passenger and mail transportation in the world.

It wouldn't be true.

Western Air actually came into being in April 1926 largely because businessmen in Los Angeles felt that they had been side-tracked by the government-operated transcontinental airline which flew from New York to San Francisco. Few of them had ever flown. Most of them were inclined to regard aviators as a brave but unbusinesslike breed, but they were determined that Los Angeles should no longer remain one day farther away from New York than San Francisco.

But, being businessmen, and successful in their own fields, they made up their minds to apply the





Left: Early Western stewardess provides "latest" in-flight service. Lower Left: Tri-motor Fokker F-10 was used on Los Angeles-San Francisco "model airway". Right: Luxury aloft in a Western four-engine Fokker F-32.

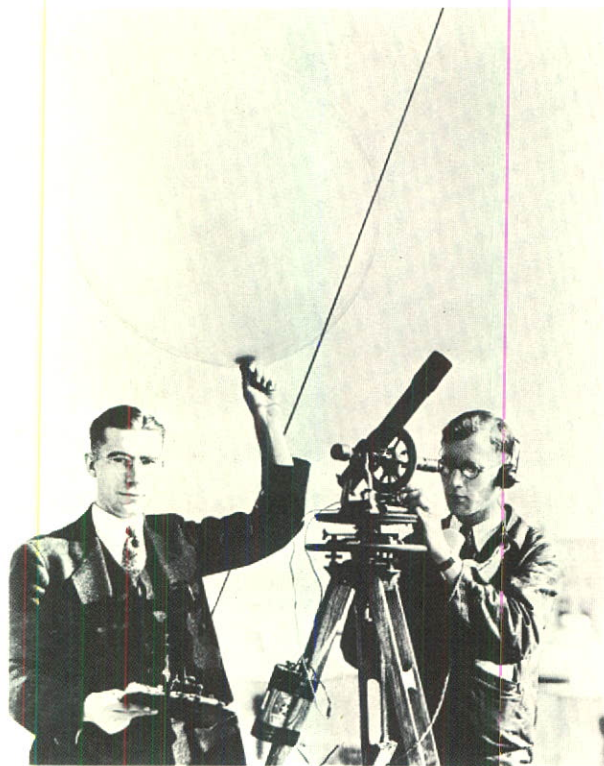
same resourcefulness to their pioneer airline. Behind the skill and daring of their pilots they threw the full weight of sound business judgment.

When the uncertainties of single-engine aircraft became apparent, they branched out to pioneer the tri-motor Fokker. When the need for better communication developed, Western's Herbert Hoover Jr. helped develop the air-ground two-way radio. The radio compass, the forerunner of many of today's radio navigation systems, was invented and perfected by Western's engineers. As passenger traffic increased, the first in-flight meal service was provided in 1928; four-engine aircraft were added in 1930. The uncertainties of weather were reduced through application of the "air mass analysis" system of weather forecasting to Western's operations by Irving Krick.

This introduction of free enterprise type methods to what previously had been a rather haphazard operation brought safety and success to Western Air during its first half-dozen years and enabled it to survive while all of the other pioneering commercial airlines were passing out of the picture, having failed or been absorbed.

Western's successful operation brought national attention. It was selected by the Guggenheim Fund for the Promotion of Aeronautics to operate a "model airway" between Los Angeles and San Francisco in 1928 and this route today is not only the most heavily traveled in the world but provides commuter flights at the lowest per-mile jet fares in the United States.





Left: Western's "model airway" also included the most extensive weather reporting system ever attempted. Lower Left: Passengers prepare to go ashore at Catalina Island after flight on Western's Sikorsky flying boat. Opposite: Pilots Jimmy James (left) and Fred Kelly with Herbert Hoover Jr., the company's superintendent of communications.



Those were stirring days, when aviation was young. The first air passengers thought of themselves, with some reason, as hardy daredevils. The first stockholders thought of themselves as contributors to a civic enterprise rather than as investors in a going business, but their combination of skilled operation and sound business management made Western the first airline ever to pay its stockholders a dividend.

As Western progressed, it expanded. The company had its ups and downs, less by its own fault than through the uncertainties of politics. Cancellation of all private air mail contracts by President Roosevelt in 1934, following charges of collusion between airline officials, rocked the industry to its foundations. Western was forced to pull back from its expanding routes and had a struggle to survive.

But survive it did. And today's passengers who step aboard a Western airliner to enjoy a "Hunt Breakfast" or a "Champagne Flight," secure in the proven fact that they're safer and more comfortable than they could be in their own automobile, may not be aware of it but they are luxuriating in the comfort and safety which was established as Western's policy in those pioneer days of the Roaring Twenties.





About the author:

Bill Henry, *Los Angeles Times* columnist, is a veteran newsman who has gained international recognition as a war correspondent, radio and television news analyst, presidential appointee to various committees and a longtime participant in U.S. Olympic Committee activities. He is the author of *An Approved History of the Olympic Games*. He received the National

Headliners Award twice, as an outstanding columnist and for radio reporting, and has received a number of other major awards for outstanding service to journalism. He also was honored by the International Olympic Committee and by the Freedoms Foundation. A native Californian, he was one of the original stockholders of Western Air Express and has followed the company's growth throughout its 40 years. Western Air Lines is indebted to him for writing these recollections of the company's early days.

Western Air Lines, Inc. 40 years of continuous operation in the west

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1 Chase Manhattan Plaza
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20 Pine Street
New York, New York 10015*

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Pacific Coast Stock Exchange*

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Annual Meeting

Fourth Thursday in April