

# MESABA

Mesaba Holdings, Inc.

Second Quarter Report: September 30, 1996



We are pleased to report that the second quarter of fiscal 1997 was another period of strong financial and operational performance for Mesaba Airlines:

- Net earnings totaled \$3.9 million or \$0.30 per share which represents a 51.1% increase over the previous year's second quarter net earnings of \$2.6 million (which excludes the \$49.3 million nontaxable gain resulting from the spin-off of the company's jet subsidiary, Airways Corporation).
- Operating income rose 41.5% to \$6.5 million resulting in an operating margin of 13.9% compared to 9.8% for the same period last year.
- Operating revenues decreased marginally 0.6% to \$46.7 million due to the spin-off of Airways Corporation. Excluding revenue from our former jet subsidiary, operating revenues actually increased 23.7% in the second quarter.

Mesaba continues to enjoy strong traffic growth. Passenger enplanements for the quarter were up 32.8% fueled by our improving working relationship with Northwest Airlines and the strength of our dual hub regional system. Revenue passenger miles were up 37.4% for the second quarter while capacity only increased 17.8%. The airline's load factor rose 7.7 points to 54.3%.

During the quarter the airline took delivery of six Saab 340A aircraft, all of which entered revenue service in our Detroit hub. Initial surveys indicate that the Saab 340 enjoys wide appeal among our passengers; they rate the Saab 340 superior to our other types of aircraft for comfort and convenience. Mesaba Airlines began its phase-out of the Metro III fleet during the quarter with four aircraft returned to their lessors. The airline will continue to take delivery of Saab aircraft at the rate of approximately two per month through September of 1998 by which time we will have phased out our entire fleet of Fairchild Metro III's and deHavilland Dash 8 aircraft.

On October 28th, Mesaba Airlines announced that it had signed an agreement with Northwest Airlines to fly twelve Avro RJ85 regional jets under a new Northwest regional jet agreement. This is a significant step in the development of our business and represents the accomplishment of one of our major goals for fiscal 1997. The term of the new regional jet

agreement is for ten years; with an early termination right on the sixth anniversary of the program. The aircraft will seat 69 passengers in a two class configuration. Mesaba will lease the regional jets from Northwest Aircraft Inc. who ordered twelve of the aircraft from Aero International (Regional) along with options for an additional 24 aircraft. Mesaba will begin taking delivery of the RJ85's in April of 1997 when it will begin service replacing current Northwest Airlines DC9-10 flights. The unique performance characteristics of the RJ85 will allow Northwest Airlines and Mesaba to deploy the aircraft in a variety of new and complementary markets outside our current scope of operation.

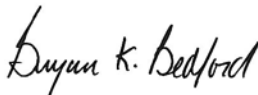
By way of update, we continue the negotiating process with Northwest Airlines for a long-term extension of our Airlink agreement. It is our goal to conclude an extended Airlink agreement by the end of fiscal 1997. Also, with the exception of November, advance bookings remain strong. Our recent performance and longer term prospects solidify our belief that we have made the correct fleet choice in the Saab 340, and that we are squarely on track to meet the challenging goals we set for fiscal 1997.

We couldn't have made such significant progress without the hard work and dedication of all 1,600 people that comprise Mesaba Airlines. It's fashionable to talk about teamwork, but every day our people deliver safe, reliable and economical transportation for the eastern and midwestern communities we serve. We wish to recognize their efforts and commitment and thank them for making our continued success possible. We also wish to thank our marketing partner Northwest Airlines for their continued support and confidence, especially in light of their recent decision to further strengthen their ties to Mesaba with the regional jet opportunity. And we sincerely appreciate your continued support as we work towards another year of achievement for Mesaba Holdings, Inc.

Sincerely,



Carl R. Pohlad  
Chairman of the Board



Bryan K. Bedford  
President and Chief Executive Officer

November 11, 1996

# Consolidated Statements of Operations

MESABA HOLDINGS, INC. (unaudited)

(in thousands, except share information)

	Three months ended		Six months ended	
	September 30,		September 30,	
	1996	1995	1996	1995
<b>OPERATING REVENUES:</b>				
Passenger	\$ 46,230	\$ 45,949	\$ 88,160	\$ 89,034
General aviation, freight and other	445	1,031	936	2,593
Total operating revenues	<u>46,675</u>	<u>46,980</u>	<u>89,096</u>	<u>91,627</u>
<b>OPERATING EXPENSES:</b>				
Wages and benefits	12,623	11,934	24,521	24,506
Aircraft fuel	4,341	4,914	8,257	9,637
Aircraft maintenance	6,032	5,283	11,389	9,386
Aircraft rents	7,725	8,224	15,151	16,503
Landing fees	1,253	960	2,382	2,203
Insurance and taxes	1,321	1,681	2,493	3,486
Depreciation and amortization	1,022	1,390	2,002	2,859
Administrative and other costs	5,858	8,001	11,332	16,078
Total operating expenses	<u>40,175</u>	<u>42,387</u>	<u>77,527</u>	<u>84,658</u>
Operating income	6,500	4,593	11,569	6,969
<b>NONOPERATING INCOME (EXPENSE):</b>				
Interest expense	(128)	(142)	(261)	(268)
Other, net	297	49,738	543	50,221
Other Income, net	<u>169</u>	<u>49,596</u>	<u>282</u>	<u>49,953</u>
Income before income taxes	6,669	54,189	11,851	56,922
PROVISION FOR INCOME TAXES	2,809	2,332	4,990	3,657
NET INCOME	<u>\$ 3,860</u>	<u>\$ 51,857</u>	<u>\$ 6,861</u>	<u>\$ 53,265</u>
<b>NET INCOME PER SHARE:</b>				
Fully Diluted	<u>\$ 0.30</u>	<u>\$ 4.71</u>	<u>\$ 0.53</u>	<u>\$ 5.06</u>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>				
Fully Diluted	<u>12,962</u>	<u>11,016</u>	<u>12,970</u>	<u>10,519</u>

## Operating Statistics

(MESABA AIRLINES)

	Three months ended		Six months ended	
	September 30,		September 30,	
	1996	1995	1996	1995
Revenue passengers carried	525,700	396,000	996,000	764,000
Revenue passenger miles (000)	118,714	86,400	222,926	166,958
Available seat miles (000)	218,472	185,460	413,490	360,181
Passenger load factor	54.3%	46.6%	53.9%	46.4%
Passenger revenue per available seat mile	21.2¢	20.0¢	21.3¢	19.9¢
Cost per available seat mile	18.4¢	18.2¢	18.7¢	18.4¢
Departures	38,033	31,293	72,143	60,381
Aircraft in service	56	51	55	52

# Consolidated Balance Sheets

MESABA HOLDINGS, INC.

(in thousands, except share information)

	September 30, 1996 (Unaudited)	March 31, 1996
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and short-term investments	\$ 46,708	\$ 29,428
Accounts receivable, net	7,235	9,254
Inventories	2,581	1,666
Prepaid expenses and deposits	3,445	2,774
Deferred tax asset	1,901	1,343
Total current assets	<u>61,870</u>	<u>44,465</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Facilities under capital lease	9,147	9,147
Flight equipment	12,985	10,439
Other property and equipment	10,602	9,644
Accumulated depreciation and amortization	(18,308)	(16,842)
Net property and equipment	<u>14,426</u>	<u>12,388</u>
<b>DEFERRED INCOME TAXES</b>	284	312
<b>OTHER ASSETS AND DEFERRED COSTS</b>	<u>16,012</u>	<u>1,039</u>
	<u>\$ 92,592</u>	<u>\$ 58,204</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of capital lease obligations	\$ 413	\$ 399
Accounts payable	10,402	7,323
Accrued liabilities		
Payroll	5,838	3,871
Maintenance	6,126	3,341
Other	5,340	2,389
Total current liabilities	<u>28,119</u>	<u>17,323</u>
<b>LONG-TERM OBLIGATIONS, net of current maturities</b>	5,409	5,654
<b>OTHER LIABILITIES AND DEFERRED CREDITS</b>	17,623	812
<b>SHAREHOLDERS' EQUITY:</b>		
Common stock, \$.01 par value; 15,000,000 shares authorized, 12,763,796 and 12,744,046 shares issued and outstanding respectively	128	127
Paid-in capital	39,985	39,822
Retained earnings (deficit)	1,328	(5,534)
Total shareholders' equity	<u>41,441</u>	<u>34,415</u>
	<u>\$ 92,592</u>	<u>\$ 58,204</u>

# Mesaba Route Map



Mesaba Holdings, Inc.  
7501 26th Avenue South  
Minneapolis, MN 55450  
612/726-5151

— Mesaba routes: effective October, 1996

— Northwest Airlines: Connecting our passengers with the world