



Republic Airlines

FINANCIAL REPORT

**FOR THE FIRST QUARTER
ENDED MARCH 31, 1986**

To our stockholders:

Republic Airlines stockholders, at their annual meeting in Wausau, Wisconsin, April 23, voted in favor of the planned merger with NWA Inc., parent company of Northwest Airlines, Inc. A hearing is being held and an Administrative Law Judge will make a recommendation to the Department of Transportation, which then will make its decision. We expect this decision to be favorable.

The procedure being used by the Department of Transportation will offer further evidence of the contribution this merger will make to improved service for travelers, to the stability of the economy of Republic's and Northwest's home state, Minnesota, and to a more secure future for Republic's employees as a result of the opportunities offered by the combined carrier.

Republic's stockholders will be paid \$17 per share by NWA Inc. when the merger is consummated. The management of Republic is pleased that the stockholders, many of whom have supported Republic for decades, will benefit appreciably as a result of the merger.

Republic, in the meantime, continues to offer quality, competitive service.

During the first quarter of 1986, when the nation's major airlines incurred substantially reduced profits compared with last year's level, Republic experienced a first-quarter loss, which was anticipated, totaling \$5.8 million, or 14 cents per share (primary). A year ago, Republic earned \$5.3 million, or 12 cents per share. First-quarter traffic increased more than 33 percent over the similar period last year, but yield (revenue per passenger mile) was affected by industry-wide fare discounting and was reduced to 13.45 cents from 16.13 cents a year ago.

Operating revenues for the first quarter reached \$418.7 million compared with \$380.9 million for the similar 1985 period. Operating expenses totaled \$421.8 million versus \$362.9 million a year ago.

Republic's 33 percent first-quarter revenue passenger mile increase was the largest among the major carriers. The first-quarter load factor, up six points over the previous year, also led the major airlines.

Republic continues to strengthen its financial position. Most notable, during the first quarter of 1986, was the reduction in the amount of debt relative to stockholders' equity. During January, the Company called for the redemption of all of its outstanding convertible subordinated debentures. As a result, over \$85 million of debt was eliminated when the debentures were converted into common stock.

New service was inaugurated to Cancun, Mexico, in January and to Dayton, Ohio, and Cedar Rapids, Iowa, in February. Planning was completed for the May 18 inauguration of service to Allentown/Bethlehem/Easton, Penn., and to the Quad Cities of Davenport/Bettendorf/Rock Island/Moline. Peoria, Ill., will join the Republic route system June 1.

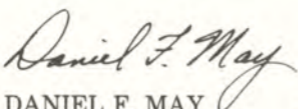
Memphis-based Republic Express continued to be the fastest growing regional carrier in the nation. The airline began service last June and now is boarding 50,000 passengers monthly. More than 80 percent of these passengers connect with Republic flights at Memphis and Minneapolis/St. Paul.

In January, Republic announced the addition of Western Airlines and Radisson Hotels to its Frequent Flyer program. They join Pan American World Airways, Hertz and National Car Rental making Republic's Frequent Flyer program even more attractive to air travelers. Republic now has more than one million Frequent Flyers with several thousand new members signing up every week. With the new airline partners, Frequent Flyers are able to fly to new destinations such as Hawaii and Alaska. It is part of the new "Pick-a-Perk" program enabling passengers to exchange their free Republic tickets for free travel on Pan Am and Western. Frequent Flyers also can earn a free Hertz car on weekends, a luxury upgrade with National and free weekend nights at any Radisson Hotel, Inn or Resort.

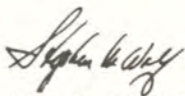
Three new Boeing 757s will be added to Republic's fleet this month joining the three that entered service in December. The 190-passenger 757s, with quiet, fuel-efficient Rolls-Royce engines, have won immediate passenger acceptance.

Traffic will strengthen as the peak summer travel season approaches. With the continued support of Republic's employees, the sustained effectiveness of innovative marketing programs and further improvements at the three main hubs, Republic expects to continue its strong financial performance. This positions the company well for the merger with NWA Inc.

Sincerely,



DANIEL F. MAY
Chairman of the Board



STEPHEN M. WOLF
*President and
Chief Executive Officer*

May 1, 1986

Consolidated Balance Sheets

(unaudited—in thousands)

	Three Months Ended	
	March 31, 1986	December 31, 1985
ASSETS		
CURRENT ASSETS		
Cash and short-term cash investments	\$ 276,919	\$ 300,085
Accounts receivable—less allowances	185,456	158,108
Parts and supplies—less reserves	41,493	35,657
Prepaid expenses and other	30,670	34,435
	<u>534,538</u>	<u>528,285</u>
PROPERTY AND EQUIPMENT		
Flight equipment owned	931,401	924,199
Flight equipment leased	153,828	153,828
Ground property and equipment owned	128,283	130,067
Ground property and equipment leased	12,468	12,468
	<u>1,225,980</u>	<u>1,220,562</u>
Less accumulated depreciation, amortization	<u>496,926</u>	<u>482,230</u>
	729,054	738,332
DEFERRED CHARGES, OTHER ASSETS	<u>13,967</u>	<u>19,680</u>
	<u>\$1,277,559</u>	<u>\$1,286,297</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 76,295	\$ 83,802
Current obligations under capital leases	8,982	9,207
Air traffic liability	133,785	128,647
Accounts payable	79,940	76,776
Accrued compensation and vacation benefits	61,204	58,230
Other accrued expenses	58,590	59,039
	<u>418,796</u>	<u>415,701</u>
LONG-TERM OBLIGATIONS		
Long-term debt—less current maturities	419,989	509,434
Noncurrent obligations under capital leases	119,762	124,225
Long-term pension liability and other	40,588	40,856
	<u>580,339</u>	<u>674,515</u>
STOCKHOLDERS' EQUITY		
Preferred stock, \$.01 par value	—	—
Common stock, \$.20 par value; 43,557,376 shares outstanding	8,711	6,713
Additional paid-in capital	218,038	129,097
Retained earnings	49,233	55,076
Employee stock to be issued	10,435	15,699
Unearned compensation for stock to be issued	(7,993)	(10,504)
	<u>278,424</u>	<u>196,081</u>
	<u>\$1,277,559</u>	<u>\$1,286,297</u>

Consolidated Statements of Operations

(unaudited—in thousands, except per share amounts)

	Three Months Ended	
	1986	1985
OPERATING REVENUES		
Passenger	\$387,173	\$344,755
Cargo	19,072	21,061
Other	12,499	15,089
	<u>418,744</u>	<u>380,905</u>
OPERATING EXPENSES		
Salaries and benefits	140,833	125,689
Aircraft fuel	94,544	83,940
Agency commissions	34,880	26,628
Rentals and landing fees	24,100	18,168
Maintenance materials and repairs	21,195	17,975
Depreciation and amortization	19,807	18,932
Other	86,400	71,562
	<u>421,759</u>	<u>362,894</u>
Operating profit (loss)	(3,015)	18,011
OTHER EXPENSES (INCOME)		
Interest expense	19,804	22,696
Interest income	(5,061)	(2,551)
Gain on disposition of property, equipment and lease rights	(9,807)	(6,018)
Other—net	(1,258)	(1,409)
	<u>3,678</u>	<u>12,718</u>
Earnings (loss) before income taxes and extraordinary item	(6,693)	5,293
INCOME TAXES (CREDIT)	<u>(850)</u>	<u>2,887</u>
Earnings (loss) before extraordinary item	(5,843)	2,406
EXTRAORDINARY ITEM		
Effect of utilization of tax loss carryforwards	—	2,847
NET EARNINGS (LOSS)	<u>\$ (5,843)</u>	<u>\$ 5,253</u>
EARNINGS (LOSS) PER COMMON SHARE—PRIMARY		
Before extraordinary item	\$(.14)	\$.04
Extraordinary item	—	.08
Net earnings (loss)	<u>\$(.14)</u>	<u>\$.12</u>
EARNINGS (LOSS) PER COMMON SHARE—FULLY DILUTED		
Before extraordinary item	\$(.10)	\$.04
Extraordinary item	—	.08
Net earnings (loss)	<u>\$(.10)</u>	<u>\$.12</u>

Operating Statistics

(in thousands, except rates)

	Three Months Ended	
	1986	1985
Passengers	4,465	3,640
Revenue passenger miles	2,878,817	2,160,510
Available seat miles	4,865,375	4,034,904
Passenger load factor	59.2%	53.5%
Yield	13.45¢	16.13¢
Cargo ton miles	26,356	31,567

Annual stockholders' meeting highlights

At the annual stockholders' meeting, held at Wausau, Wis., Stephen M. Wolf, president and chief executive officer, reviewed the accomplishments of the airline:

- Unveiled January 23 a proposed merger with NWA Inc., the parent of Northwest Airlines.
- Increased revenue passenger miles 33 percent in the first quarter compared with the first quarter of 1985.
- Recorded a first-quarter passenger load factor of 59.2 percent — a 5.7 point increase over the first quarter of 1985 and the best load factor increase among the major airlines.
- Inaugurated air service from Memphis to Cancun, Mexico.
- Added Dayton, Ohio, and Cedar Rapids, Iowa, to the route system.
- Announced plans to begin flights May 18 at Allentown/Bethlehem/Easton, Penn., and the Quad Cities of Moline/Davenport/Rock Island/Bettendorf, along the Iowa-Illinois border.
- Decided to begin serving Peoria, Ill., effective June 1.
- Began First Class front-cabin service Feb. 14.
- Enrolled Western Airlines and Radisson Hotels as partners in Republic's Frequent Flyer program, joining Pan American World Airways, Hertz and National Car Rental.
- Undertook a project to improve passenger seating comfort on 64 McDonnell Douglas DC-9s through installation of new Trimline seats.

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