



Republic Airlines

Financial Report

***For the Second Quarter
Ended June 30, 1986***

To our stockholders:

Republic Airlines earned \$35 million in the second quarter, equal to 72 cents primary earnings per share. It is our second best financial performance for a quarter ending June 30 and the third best quarter in our history.

The \$35 million net profit included \$3 million, or six cents per share, in tax loss carryforwards.

We achieved a quarterly operating profit of \$55.3 million on operating revenues of \$464.2 million and operating expenses of \$408.9 million. Seat mile costs were down to 7.68 cents from 8.44 cents a year earlier.

A year ago, our second-quarter net earnings of \$120.1 million, or \$3.26 per share, included extraordinary items totaling \$80.2 million or \$2.19 per share.

Republic continued to strengthen its balance sheet by improving its debt-to-equity ratio from 3.7 to 1 at year end to 1.2 to 1 currently, through retirement of bank debt, conversion of debentures and exercise of warrants.

Our share of the nation's passenger traffic continued to grow during the quarter. Revenue passenger miles increased 12.6 percent to 3.21 billion in the quarter with available seat miles growing 15.3 percent. This double-digit improvement in traffic is particularly significant because figures for the second quarter last year were inflated by passengers gained from a strike at United Airlines.

For the first half of 1986, Republic and only one other major airline recorded traffic increases that outpaced growth in capacity. From January through June, our revenue passenger miles increased 21.5 percent to 6.09 billion while capacity was up 17.8 percent to 10.19 billion. This resulted in nearly a 2 point increase in load factor to 59.7 percent.

The growth in capacity can be traced to the delivery in May of three more Boeing 757 jetliners, completing our purchase of six of these quiet, fuel efficient, 190-passenger aircraft. The new B-757s now are in use at each of Republic's main traffic centers in Detroit, Minneapolis/St. Paul and Memphis and fly high demand routes, principally among the hubs and from the hubs to the West Coast.

Despite the traffic increases during the quarter, profits were moderated at Republic and industrywide by declining revenue per passenger mile. Our second-quarter yield decreased 9.2 percent to 13.49 cents from the same period in 1985. Nevertheless, careful cost control, effective marketing, declining fuel prices and employee support continued to be the basis for a profitable operation.

A major highlight of the quarter was a June 27 recommendation from a

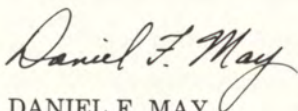
Transportation Department judge that our merger with Northwest Airlines be approved. A final decision on the \$884 million transaction, which you approved at our April 23 stockholders' meeting, is expected before the end of July.

Considerable planning is underway at both airlines to ensure a smooth integration of Republic into Northwest. The new airline will continue our growth at Detroit, Minneapolis/St. Paul and Memphis, and will emphasize quality service, convenient flying schedules and affordable fares. Routes will span 38 states and 19 countries.

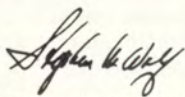
Your support of Republic as stockholders will be rewarded when Northwest purchases Republic stock at \$17 per share once the anticipated merger receives government approval. Your support of Republic as a passenger also will be rewarded in your new association with Northwest. Northwest will acquire and expand Republic's domestic strength and at the same time will offer you attentive service to a broad range of international destinations.

Your support has not gone unnoticed as it has made possible our accomplishments to date. We urge you to transfer your allegiance to the new Northwest Airlines when the merger is completed.

Sincerely,



DANIEL F. MAY
Chairman of the Board



STEPHEN M. WOLF
*President and
Chief Executive Officer*

July 28, 1986

Consolidated Balance Sheets

(unaudited—in thousands)

ASSETS	June 30,	December 31,
	1986	1985
CURRENT ASSETS		
Cash and short-term cash investments	\$ 218,833	\$ 300,085
Accounts receivable—less allowances	189,116	158,108
Parts and supplies—less reserves	44,863	35,657
Prepaid expenses and other	27,819	34,435
	<u>480,631</u>	<u>528,285</u>
PROPERTY AND EQUIPMENT		
Flight equipment owned	940,435	924,199
Flight equipment leased	153,893	153,828
Ground property and equipment owned	133,475	130,067
Ground property and equipment leased	12,694	12,468
	<u>1,240,497</u>	<u>1,220,562</u>
Less accumulated depreciation, amortization	517,016	482,230
	<u>723,481</u>	<u>738,332</u>
DEFERRED CHARGES, OTHER ASSETS	13,032	19,680
	<u>\$1,217,144</u>	<u>\$1,286,297</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 17,094	\$ 83,802
Current obligations under capital leases	8,368	9,207
Air traffic liability	159,153	128,647
Accounts payable	81,864	76,776
Accrued compensation and vacation benefits	55,555	58,230
Other accrued expenses	73,274	59,039
	<u>395,308</u>	<u>415,701</u>
LONG-TERM OBLIGATIONS		
Long-term debt—less current maturities	293,438	509,434
Noncurrent obligations under capital leases	120,841	124,225
Long-term pension liability and other	54,916	40,856
	<u>469,195</u>	<u>674,515</u>
STOCKHOLDERS' EQUITY		
15% participating non-cumulative junior preferred stock, \$.01 par value; 10,000 shares authorized, 7,199 shares outstanding in 1986	-	-
Common stock, \$.20 par value; 60,000,000 shares authorized, 47,413,315 shares outstanding in 1986	9,483	6,713
Additional paid-in capital	257,989	129,097
Retained earnings	84,245	55,076
Employee stock to be issued	6,408	15,699
Unearned compensation for stock to be issued	(5,484)	(10,504)
	<u>352,641</u>	<u>196,081</u>
	<u>\$1,217,144</u>	<u>\$1,286,297</u>

Consolidated Statements of Earnings

(unaudited—in thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	1986	1985	1986	1985
OPERATING REVENUES				
Passenger	\$432,636	\$422,668	\$819,809	\$767,423
Cargo	19,485	20,787	38,557	41,848
Other	12,064	12,136	24,563	27,225
	<u>464,185</u>	<u>455,591</u>	<u>882,929</u>	<u>836,496</u>
OPERATING EXPENSES				
Salaries and benefits	142,479	133,613	283,312	259,302
Aircraft fuel	72,923	91,212	167,467	175,152
Agency commissions	35,350	35,028	70,230	61,656
Rentals and landing fees	25,713	20,095	49,813	38,263
Maintenance materials and repairs	22,523	16,505	43,718	34,480
Depreciation and amortization	20,361	18,995	40,168	37,927
Other	89,567	74,386	175,967	145,948
	<u>408,916</u>	<u>389,834</u>	<u>830,675</u>	<u>752,728</u>
Operating profit	55,269	65,757	52,254	83,768
OTHER EXPENSES (INCOME)				
Interest expense	16,250	23,211	36,054	45,907
Interest income	(3,949)	(4,016)	(9,010)	(6,567)
Gain on disposition of property, equipment and lease rights	(198)	(10,773)	(10,005)	(16,791)
Other—net	(1,463)	(889)	(2,721)	(2,298)
	<u>10,640</u>	<u>7,533</u>	<u>14,318</u>	<u>20,251</u>
Earnings before income taxes and extraordinary items	44,629	58,224	37,936	63,517
INCOME TAXES	12,637	18,232	11,787	21,119
Earnings before extraordinary items	31,992	39,992	26,149	42,398
EXTRAORDINARY ITEMS				
Effect of utilization of tax loss carryforwards	3,020	17,980	3,020	20,827
Gain on pension plan termination	-	62,175	-	62,175
NET EARNINGS	<u>\$ 35,012</u>	<u>\$120,147</u>	<u>\$ 29,169</u>	<u>\$125,400</u>
EARNINGS PER COMMON SHARE—PRIMARY				
Before extraordinary items	\$.66	\$1.07	\$.57	\$1.11
Extraordinary items	.06	2.19	.07	2.27
Net earnings	<u>\$.72</u>	<u>\$3.26</u>	<u>\$.64</u>	<u>\$3.38</u>
EARNINGS PER COMMON SHARE—FULLY DILUTED				
Before extraordinary items	\$.66	\$.90	\$.56	\$.96
Extraordinary items	.06	1.78	.06	1.86
Net earnings	<u>\$.72</u>	<u>\$2.68</u>	<u>\$.62</u>	<u>\$2.82</u>

Operating Statistics

(in thousands, except rates)

	Three Months Ended	
	June 30	
	1986	1985
Passengers	5,049	4,661
Revenue passenger miles	3,207,198	2,847,717
Available seat miles	5,326,615	4,619,802
Passenger load factor	60.2%	61.6%
Yield	13.49c	14.86c
Cargo ton miles	26,998	29,182
Six Months Ended		
June 30		
	1986	1985
Passengers	9,514	8,301
Revenue passenger miles	6,086,015	5,008,227
Available seat miles	10,191,990	8,654,706
Passenger load factor	59.7%	57.9%
Yield	13.47c	15.40c
Cargo ton miles	53,354	60,749

Highlights of the quarter:

- Distributing \$6.9 million in 1985 profit-sharing checks to Republic employees.
- Adding three more Boeing 757s to Republic's fleet.
- Enhancing passenger comfort through installation of new seats on all 64 of Republic's DC-9-30 aircraft.
- Inaugurating service at Moline, Ill., Peoria, Ill., and Allentown/Bethlehem/Easton, Pa.
- Commencing nonstop flights from Memphis to San Diego, John F. Kennedy International Airport in New York, Orange County/Santa Ana/Anaheim and Grand Rapids; from Minneapolis/St. Paul to Sacramento and Rapid City; and from Detroit to Louisville.
- Celebrating the first anniversary of Republic Express regional airline feeder service at the Detroit and Memphis hubs.
- Opening a 24,000-square-foot flight kitchen in Detroit.
- Earning an American Marketing Association award for Republic's "Perks" advertising campaign.
- Accepting national airline sponsor status for "Hands Across America," the fund-raising campaign for the nation's homeless.
- Improving passenger service by accepting advance seat assignment and advance boarding passes prepared by travel agencies.

Republic Airlines

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