MESABA

Mesaba Holdings, Inc.

1996 Annual Report

Financial Highlights

Financial Highlights – Consolidated

(in thousands, except share information) Fiscal years ended March 31,

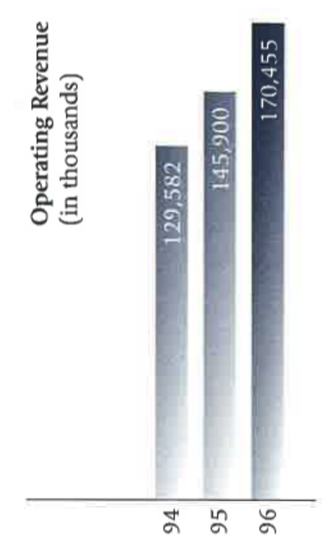
Financial Highlights – Consolidated	1996	1995	1994
Operating Revenues	$ 170,455	$ 145,900	$ 129,582
Operating Expenses	158,148	141,541	122,983
Operating Income	12,307	4,359	6,599
Net Income	6,972*	2,606	3,663
Net Income Per Share	.60*	.29	.40

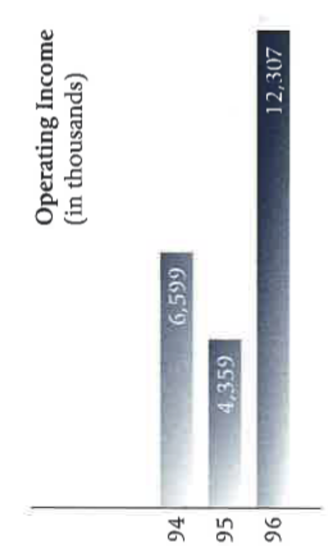
*Excludes $49,303 gain on the distribution of Airways Corporation

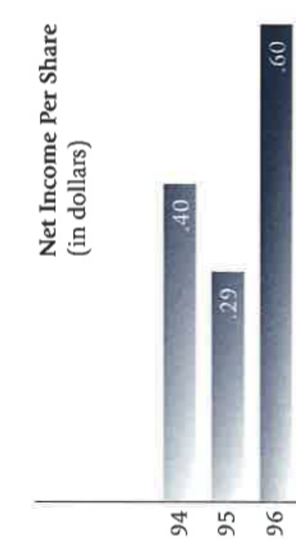
Statistical Highlights – Mesaba Aviation, Inc. Only

(in thousands, except percentages and unit data) Fiscal years ended March 31,

Statistical Highlights – Mesaba Aviation, Inc. Only	1996	1995	1994
Revenue Passengers	1,572	1,434	1,430
Revenue Passenger Miles	344,592	314,636	299,267
Available Seat Miles	732,018	705,182	663,578
Passenger Load Factor	47.1%	44.6%	45.1%
Yield Per Revenue Passenger Mile	43.4¢	42.8¢	42.7¢
Operating Cost Per Available Seat Mile	19.0¢	17.8¢	18.5¢



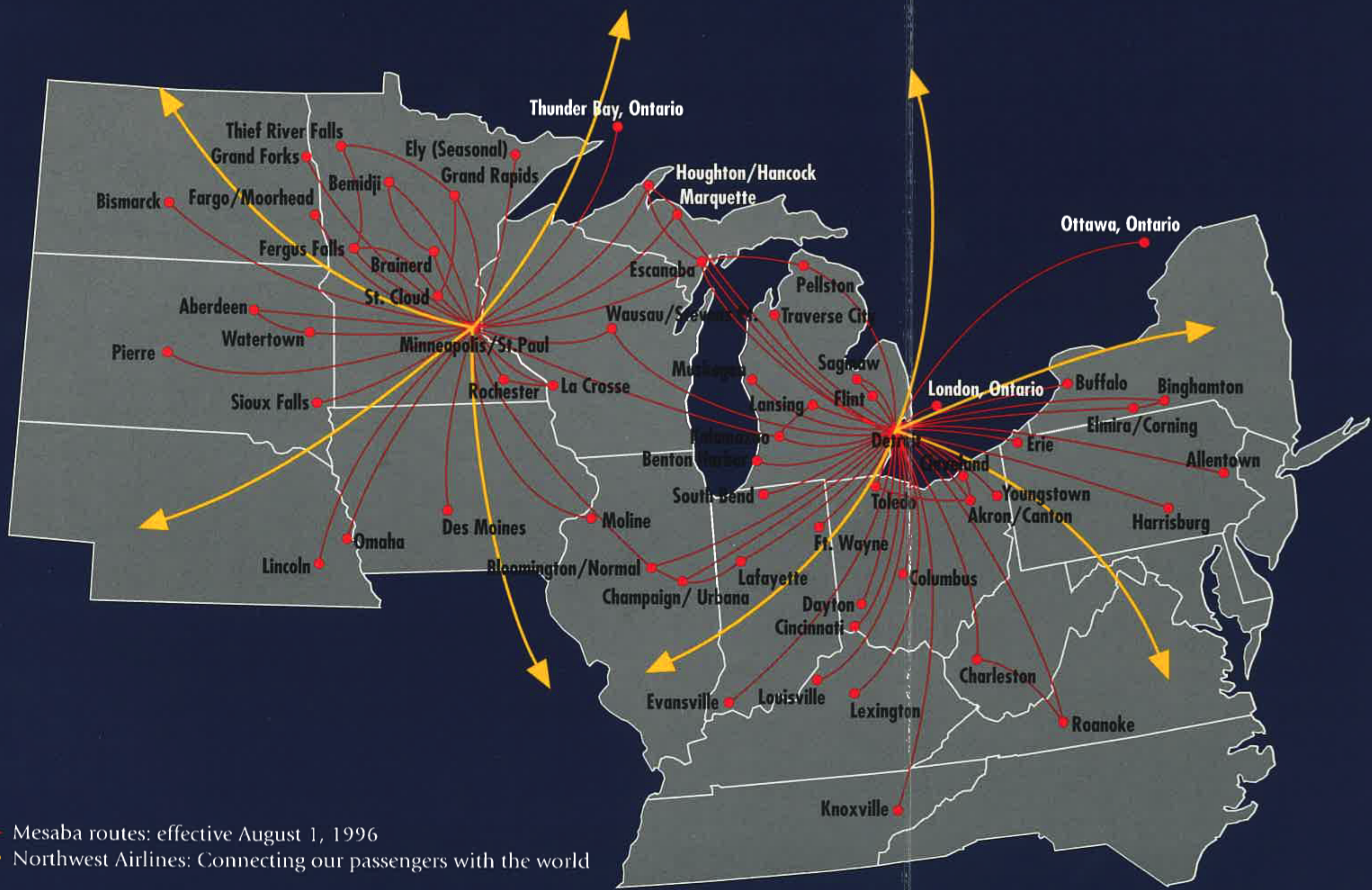




About Mesaba Holdings, Inc.

Mesaba Holdings, Inc. is the parent company of Mesaba Airlines, a U.S. Domestic Air Carrier and one of the nation's largest regional carriers. Serving the hub airports of Minneapolis/St. Paul and Detroit, Mesaba Airlines has operated as Northwest Airlink since 1984 under a marketing relationship with Northwest Airlines. As of August 1996, Mesaba was flying more than 400 daily departures to 60 cities in 16 states and Canada with a fleet of 55 turboprop aircraft.

Mesaba Holdings is headquartered at the Minneapolis/St. Paul International Airport, and its common stock is traded on the Nasdaq National Market under the symbol MAIR.



Mesaba routes: effective August 1, 1996
Northwest Airlines: Connecting our passengers with the world

Major Developments in Fiscal 1996

- Our jet carrier subsidiary was spun-off in September to existing shareholders as an independent, publicly-traded company.
- Mesaba's senior management team was streamlined and strengthened.
- We opened a new terminal facility at our Detroit hub designed specially for Mesaba's regional operations.
- Net income rose 168% to $6,972,000, reversing a two-year earnings decline.
- Mesaba placed a firm order in the fourth quarter for 50 34-seat Saab 340 turboprops, with options for 22 additional aircraft. The initial order will replace our entire existing fleet within two and one-half years.
- We enhanced our Northwest relationship by signing an amended marketing agreement that forms the basis for a long-term extension of our Airlink contract.
- We concluded negotiations with our pilots on a new four-year labor contract that will help Mesaba and its pilots remain competitive in the regional airline industry.

To Our Shareholders:

In last year's annual report to shareholders, we stated fiscal 1996 would mark "an important turning point" for Mesaba, because the September 1995 spin-off of our jet subsidiary gave us "the opportunity to revitalize Mesaba by refocusing on what we do best: providing high volumes of passenger traffic... efficiently and safely...for connection with Northwest Airlines, our Airlink marketing partner."

Capitalizing on Spin-Off Opportunity

To capitalize upon that opportunity, the work of Mesaba's new management team and board of directors has concentrated on building upon our many strengths...correcting certain weaknesses...and positioning this airline for a resumption of highly profitable growth and market leadership. Reflecting our progress on these fronts, we are gratified to report that fiscal 1996 did, in fact, mark an important turning point for your company.

- We reversed a two-year decline in Mesaba's profitability. Paced by the increase in our operating margin to 7.2% from 3.0% last year, net earnings rose 168% to $6,972,000 in fiscal 1996. This excludes a one-time spin-off gain of $49,303,000 that is included in our financial statements for accounting purposes only. Our results, which include Mesaba's former jet subsidiary for the first five months of fiscal 1996, were attained without applying any of the $7.6 million pretax income guarantee provided by Northwest as part of the divestiture.

- On a per share basis, Mesaba's earnings climbed from $.29 to $.60 in fiscal 1996, the third highest level in our history despite a 28% increase in the number of shares outstanding due to the spin-off.

- Operating revenues grew 17% in fiscal 1996 to $170,455,000.

Strongly Higher Share Price

Mesaba's performance has not gone unnoticed by financial markets. Our share price rose 80% from the spin-off high of $6.25 to $11.25 at the end of the year. As a result of this price increase and the greater number of shares outstanding, Mesaba's market capitalization climbed 104% to $142.9 million at March 31, 1996, from $69.9 million at the end of fiscal 1995. We eliminated the minimal quarterly dividend of $.03 per share in November, freeing those funds to support our aggressive growth initiatives. Through these efforts, we hope to continue generating solid investment value for our shareholders.

Enhanced Relationship with Northwest

Our sharply improved operating results were fueled by the record passenger traffic posted every month since last September. Mesaba's traffic growth reflects our enhanced working relationship with Northwest. As an expression of our shared vision with our Airlink partner, Mesaba has participated in every Northwest fare promotion since the jet spin-off. We have also benefited from the improved pricing and inventory control initiatives implemented by our partner in all of our markets.

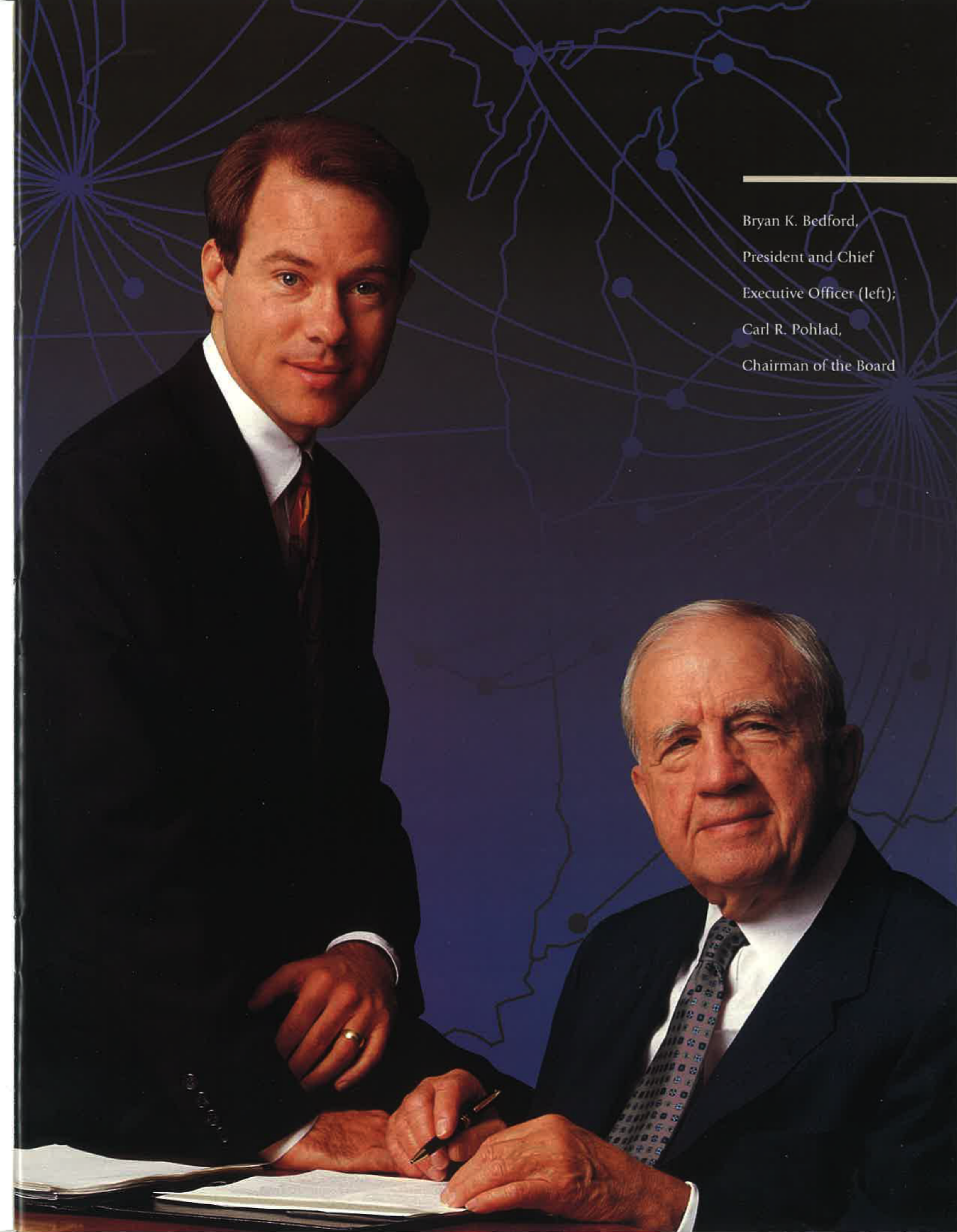
Strengthened Operating Reliability

Mesaba's fiscal 1996 performance also reflects our strengthened operating reliability, which has reached its highest level in recent years. Under Mesaba's new management team, we completed an average of 99% of all scheduled flights (excluding the impact of weather and other uncontrollable factors) between September and our fiscal year-end. This compares to 95.4% in fiscal 1995. In other words, the number of flights canceled due to factors within Mesaba's control has declined significantly.

Operational Progress

Fiscal 1996 was also an important year due to the progress we made on key operational fronts:

To standardize our fleet, we ordered 50 34-seat Saab 340 turboprops, with options for an additional 22 aircraft. Our first two Saabs entered Detroit service in June, and we will continue receiving approximately two aircraft per month through September 1998. During this period, we will phase out our entire fleet of Fairchild Metro IIIs, followed by our deHavilland Dash 8 aircraft. This major fleet transition will provide Mesaba with the additional capacity and operating efficiencies required for taking optimum advantage of growth opportunities on our dual-hub system.



Bryan K. Bedford, President and Chief Executive Officer (left); Carl R. Pohlad, Chairman of the Board

We have upgraded our gate facilities at our Minneapolis/St. Paul hub to make Mesaba's service even more passenger-friendly and convenient. Enhancements include the installation of work stations with modem connections.

We further strengthened Mesaba's relationship with Northwest by amending our Airlink agreement. By enabling both parties to enhance their profitability through more efficient operating practices at Mesaba, this amended agreement forms the basis for a long-term extension of our Airlink relationship.

Mesaba's management team was streamlined and strengthened. Our new organization allows us to respond quickly to market opportunities and plan more effectively for Mesaba's future. We have also assembled what we believe is one of the most capable management teams in the regional airline industry.

We started operating from a new 32,000-square-foot regional airline terminal at our Detroit hub. Designed specifically for regional airline operations, this terminal has improved passenger service and convenience, in addition to providing us room for expansion at Northwest's fastest-growing domestic gateway.

Commitment to Safety

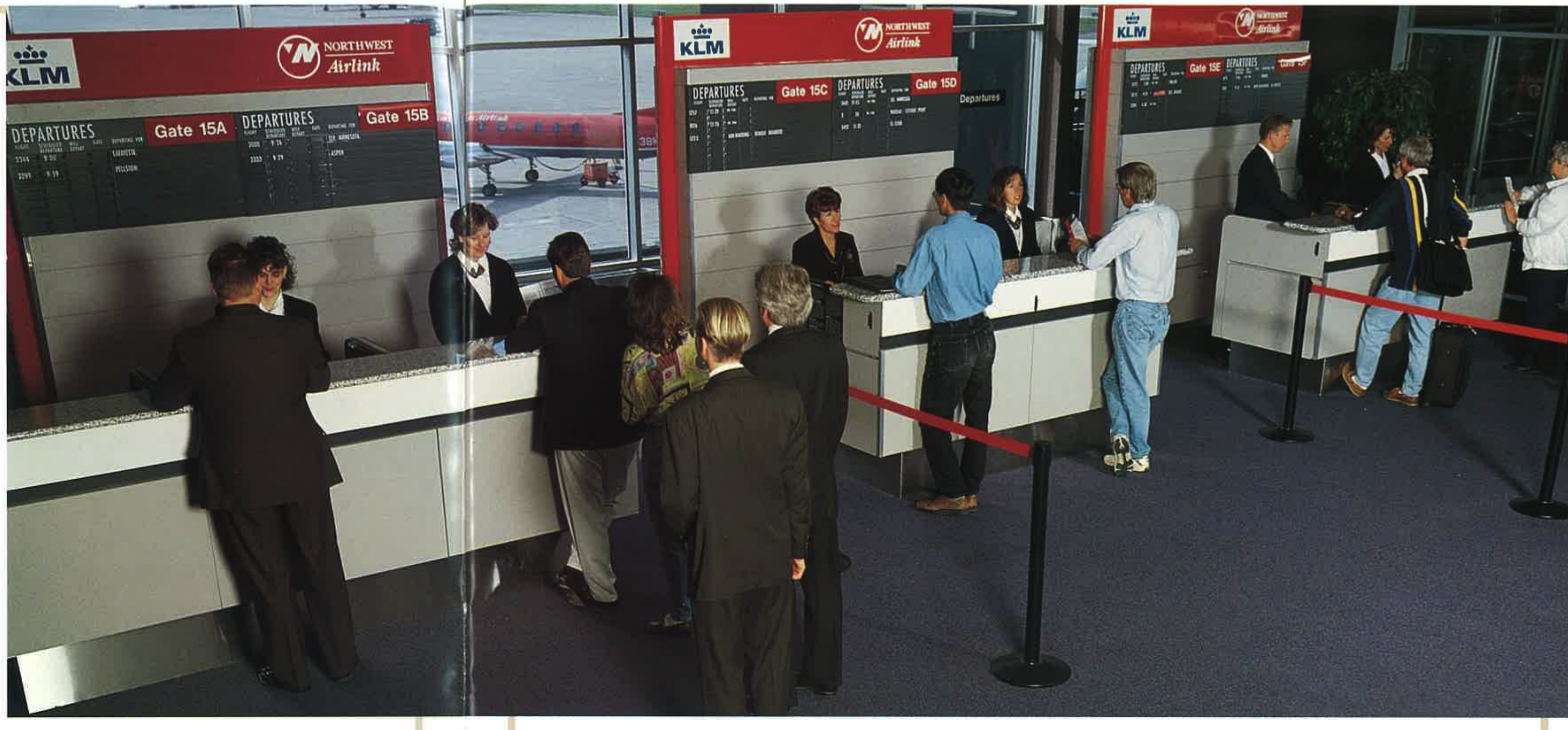
Mesaba maintained its long, unblemished record of passenger safety in fiscal 1996. Safety is our number one commitment to every Mesaba passenger, and toward this end, we voluntarily follow the same rigorous safety standards and procedures that the federal government mandates for major airlines.

Fiscal 1997 Agenda

Our business agenda for fiscal 1997 is just as aggressive as the plan we executed during the past year:

- We plan to negotiate a long-term extension of our Airlink relationship with Northwest.

- We are developing business plans which we hope will result in the consolidation, under Mesaba, of all Airlink turboprop service at the Minneapolis/St. Paul hub. This service is now handled by Mesaba and one other regional carrier. If approved by Northwest, this consolidation would yield significant operating efficiencies, benefiting both Mesaba and Northwest. Let us be absolutely clear that no such agreement has been reached yet, and we will have to work extremely hard to make our plans a reality.



- We are evaluating the addition of regional jet aircraft to Mesaba's fleet. A regional jet in the 50-seat range would permit us to capitalize upon growth opportunities that cannot be filled by either conventional turboprop or Northwest DC-9 aircraft. While no agreement with Northwest has been reached regarding the use of smaller jet aircraft, we believe regional jet service within Northwest's route network represents another potential growth opportunity for the future.

- We are committed to further improving Mesaba's operating performance and overall level of customer service. To attain this goal, we must focus on the needs of our people, ensuring that we provide them with a secure and positive work environment and that we aggressively act upon their recommendations for improving our business.

Positive Fiscal 1997 Outlook

We are genuinely enthusiastic about the future of your company, and we see fiscal 1997 shaping up as another year of improved operating revenues and earnings. As a result, we do not expect to utilize any of Northwest's pre-tax income guarantee of $10 million during the coming year. All in all, our plans for transforming Mesaba into a growth-oriented, stable and profitable market leader in the regional airline industry are proceeding squarely on schedule.

A Sincere Word of Thanks

We offer a sincere word of thanks to Mesaba's outstanding employees, whose skill and commitment have made Mesaba's progress a reality. As a service enterprise, we can only be as good as the quality of our people, and Mesaba is fortunate to have some of the best people in the regional airline industry. We also appreciate the continued support and confidence of our shareholders, customers and especially our partner, Northwest Airlines.

Sincerely,

Carl R. Pohlad
Chairman of the Board

Bryan K. Bedford
President and Chief Executive Officer

July 3, 1996

New Saab Fleet

In a major fleet transition development, Mesaba placed a firm order in the fourth quarter of fiscal 1996 for 50 Saab 340 turboprops. These comfortable, efficient 34-seat aircraft will initially replace our entire fleet of 26, 19-seat Fairchild Metro IIIs, followed by our 25 37-seat deHavilland Dash 8 aircraft. Mesaba holds options for an additional 22 Saabs.

Our initial order for 30 new Saab 340BPlus and 20 pre-owned Saab 340A aircraft is being delivered at a rate of approximately two aircraft per month through September 1998. Mesaba's first two Saabs entered service at our Detroit hub in early June, and based on our experience thus far, we can say these aircraft are meeting our expectations.

The Saab 340 is an ideal choice for Mesaba's growth plans, since it enjoys widespread passenger acceptance due to its high level of cabin comfort and amenities. The world's best-selling regional aircraft, the Saab features stand-up headroom, a lavatory, inflight service, low interior noise levels and generous space for carry-on luggage. As a result, Mesaba will provide passengers with outstanding cabin class service on all of our flights, which is a vitally important competitive consideration due to the rising service expectations of regional airline customers.

Establishing a standardized fleet of proven, reliable Saab turboprops will also yield substantial savings in maintenance, training and parts inventories. Equally important, the Saab 340 is significantly more efficient to operate than either the Metro III or Dash 8. These factors, coupled with the Saab's 34-seat capacity, will enable our new fleet to profitably serve all of Mesaba's existing markets.

Adding this new fleet capacity was both prudent and essential in view of rapidly expanding passenger traffic throughout our system. By enabling us to take optimum advantage of growing traffic in a cost-effective manner, our Saab capacity will strengthen Mesaba's competitive position at our Minneapolis/St. Paul and Detroit hubs.

To standardize Mesaba's fleet, we ordered 50 34-seat Saab 340 turboprops and hold options for an additional 22 aircraft. Our first two Saabs entered Detroit service in June.

Fleet Composition

As of:	August 1 1996	Mar 31, 1995	Mar 31, 1994
Saab 340A	6	0	0
deHavilland Dash 8	25	25	25
Fairchild Metro III	24	26	24
Fokker 27	0	1	8
Total	55	52	57

Passenger Service

Mesaba is judged every day by the quality of our passenger service...which is why we treat our passengers like guests. Our people really do care about your comfort, convenience and safety. We also know that if you feel like a guest on a Mesaba flight, you will be more likely to fly with us on a repeat basis.

Mesaba's commitment to offering the finest passenger service available is supported by three key initiatives: our Northwest Airlink relationship, investments in aircraft and facilities, and employee training.

Northwest Airlink Convenience

We offer our passengers a seamless travel experience through our partnership with Northwest. Airlink passengers can make convenient connections with Northwest and its alliance partners to nearly 400 cities in 80 countries on six continents. Our passengers also benefit from one-stop check-in, advance seat assignments, automatic baggage check-through, competitive joint fares and participation in Northwest's WorldPerks frequent flyer program.

Investments

Treating our passengers like guests also requires the appropriate aircraft and terminal facilities. This was a major reason behind our decision to upgrade Mesaba's entire fleet to the cabin class Saab 340 turboprop. We also opened a brand new Detroit terminal, designed and built specially as a regional airline facility. Located near Northwest's concourses, our new Detroit terminal makes it quicker and easier to catch connecting flights. In addition, we upgraded Mesaba's gate facilities at Minneapolis/St. Paul, including the installation of work stations with telephones and modem hookups for our business travelers.

Training

Reflecting our commitment to ongoing service improvements, we have launched an important new training initiative for all customer-contact employees. Called "Customer Care," this intensive program focuses our people on treating passengers as valued guests in all conceivable situations, including such stressful events as a delayed or canceled flight. This comprehensive passenger service training will take Mesaba a long way toward our goal of market leadership within the regional airline industry.

Mesaba's new passenger terminal in Detroit...designed specially for regional airline operations...has improved passenger service and convenience, while providing us ample room for growth at Northwest's fastest-growing domestic gateway.

The Mesaba Team

The Mesaba Team consists of over 1,500 highly trained and dedicated employees, working together to set the regional airline standard for safe, reliable, comfortable and friendly service. We are united behind a shared vision of goals and guiding principles that shapes our daily actions and decisions.

The Mesaba Team is committed to:

Passenger Safety. We place the safety of our passengers above everything else we do.

Service. We are committed to providing passenger service unparalleled in the regional airline industry.

Market Leadership. We are striving to be a market leader by offering superior service, a convenient schedule and competitive fares.

Our Northwest Airlink Partnership. We are committed to further strengthening our close working relationship with Northwest Airlines by making it a win-win situation for our partner and us.

A Sustainable Return For Our Shareholders. We realize that consistently outstanding service and attaining a position of market leadership will generate solid returns for Mesaba's investors.

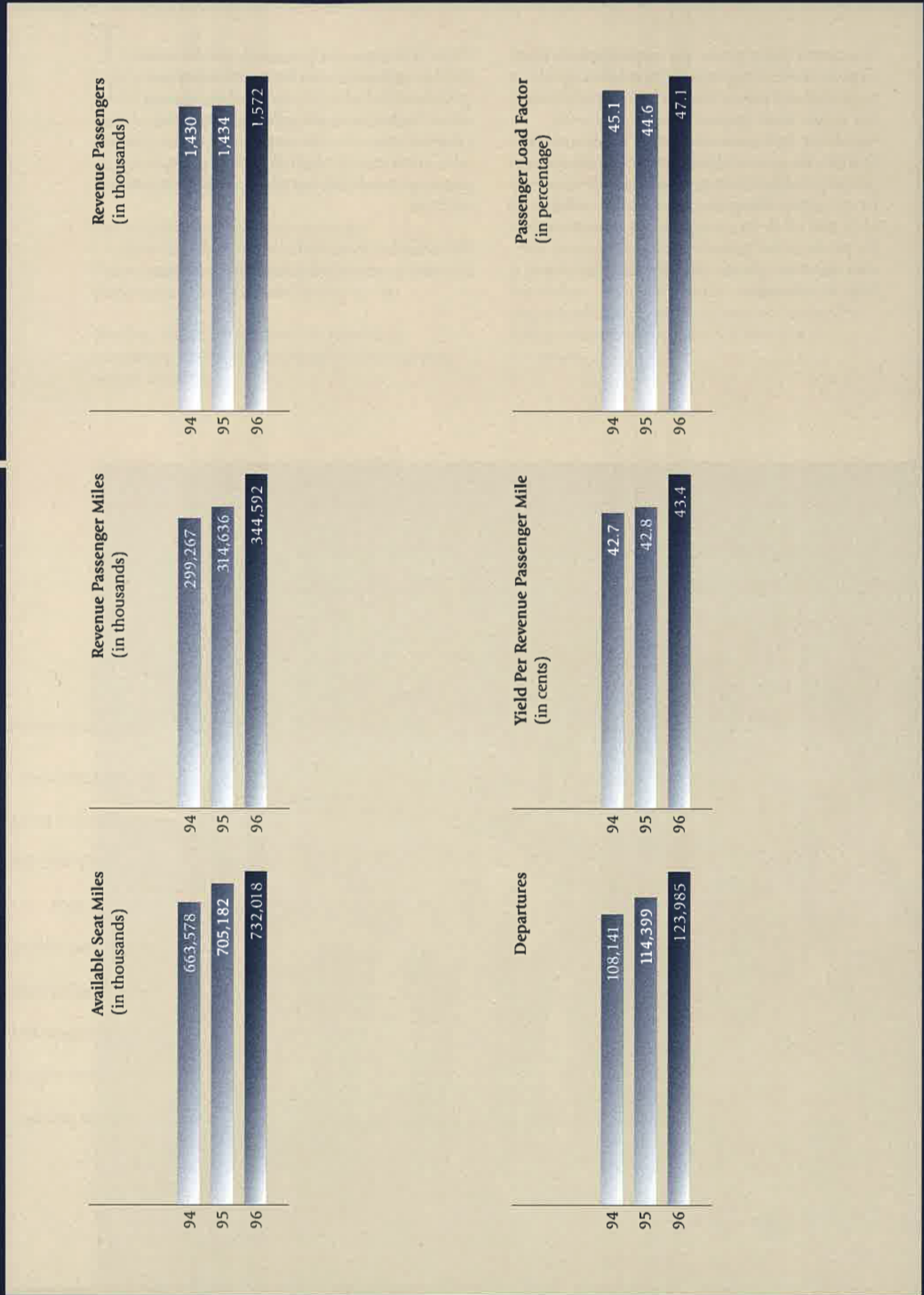
Teamwork and support are earned, which is why we are striving to build a rewarding corporate culture…one that values people as our single most important asset. We want Mesaba to be known for a work environment that instills trust and respect among all of our people…that encourages and rewards excellence in everything we do…and that offers each and every employee ample opportunity for professional growth and development. We also want our people to enjoy their work and have fun doing it.

These are some of the ways in which we are nurturing the Mesaba Team. We are about people who really like their jobs and each other…who are tearing down barriers to cooperation and open communications…and who are united in their efforts to make our passengers feel like guests every time they fly with us.

The Mesaba Team really is the best and most talented group of people in the industry.

The Mesaba Team is composed of people who really like their jobs and each other…and who are committed to making our passengers feel like guests every time they board our planes.

Year in Review



Management's Discussion and Analysis

Earnings Summary

Mesaba Holdings, Inc. (the "Company"), parent company of Mesaba Aviation, Inc. ("Mesaba"), reported net income of $56.3 million or $4.81 per share for the fiscal year ended March 31, 1996 compared to $2.6 million or $.29 per share in fiscal 1995 and $3.7 million or $.40 per share in fiscal 1994. The increase in fiscal 1996 net earnings included a non-cash $49.3 million gain resulting from the spin-off of Airways Corporation ("Airways"). Net income per share without the gain was $.60 on 11.7 million fully diluted weighted average shares outstanding, including a $.02 contribution from Airways. The $.29 per share earnings in the prior year on 9.1 million fully diluted weighted average shares outstanding included a $.38 per share loss from Airways. The increase in the average number of shares outstanding was primarily due to the issuance of shares to Northwest Aircraft in lieu of Airways shares, Northwest exercising pre-existing warrants, and the exercise of stock options by current and former employees.

Results of Operations

Operating Revenues. Operating revenues rose 16.9% to $170.5 million in fiscal 1996 from $145.9 million in fiscal 1995 and $129.6 million in fiscal 1994. Operating revenues for fiscal 1996 and 1995 included revenues from Airways of $18.7 million and $9.6 million, respectively. Mesaba's revenues increased 11.4% in 1996 to $151.8 million from $136.3 million in 1995. This increase is attributable to a 9.5% increase in revenue passenger miles to 344.6 million and a 1.4% increase in yield per revenue passenger mile to $.434. Mesaba's average passenger load factor was 47.1% in 1996, up from 44.6% in 1995 and 45.1% in 1994.

Operating Expenses. Total operating expenses increased 11.7% to $158.1 million in 1996 from $141.5 million in 1995 and $123.0 million in 1994. Operating expenses for 1996 and 1995 included expenses from Airways of $18.7 million and $16.0 million, respectively. Mesaba's operating expenses increased 11.1% in 1996 to $139.4 million from $125.5 million and 2.0% in 1995. Mesaba experienced a 6.7% increase in the cost per available seat mile (ASM) to 19.0 cents compared with 17.8 cents in 1995. Seat capacity (measured in ASMs) increased 3.8% in 1996 to 732.0 million. During fiscal 1996, Mesaba eliminated its F27 fleet which consisted of one aircraft, and increased the utilization of its remaining fleet of Dash 8 and Metro III aircraft to compensate for the decreased F27 capacity. The following table compares components of Mesaba's operating cost per ASM for the years ended March 31, 1996, 1995 and 1994:

	1996	1995	1994
Labor and related	6.0¢	5.4¢	5.3¢
Fuel	2.0	2.0	2.2
Direct maintenance	2.4	1.5	1.5
Passenger related	2.0	1.8	1.9
Depreciation, amortization and aircraft rentals	4.7	5.2	6.1
Administrative and other	1.9	1.9	1.5
Total	19.0¢	17.8¢	18.5¢

Labor and related costs increased to $47.0 million in fiscal 1996 compared to $41.0 million in fiscal 1995 and $35.5 million in 1994. Labor and related costs for 1996 and 1995 included expenses of Airways of $3.1 million and $2.8 million, respectively. Mesaba's labor and related costs increased 14.9% to $43.9 million from $38.2 million in fiscal 1995. Approximately 33% of the increase was attributable to flight crew labor and maintenance labor cost increases due primarily to the 10% increase in block hours flown. Additionally, severance expense, paid primarily to former executives, accounted for approximately 19% of Mesaba's total increase in labor costs. Overall, personnel levels (measured on a full time equivalent basis at the fiscal year end) increased 4.5% to approximately 1,458 from 1,395 with the remaining increase due to normal wage and benefit increases.

Total fuel costs was $17.7 million in fiscal 1996, $16.0 million in fiscal 1995 and $14.4 million in fiscal 1994. Airways total fuel expense was $2.9 million in 1996 and $2.2 million in 1995. Mesaba's fuel costs increased 7.7% to $14.8 million. Fuel consumption increased 5% in 1996 and was flat in 1995. The average price per gallon, including taxes and into plane fees, was 80 cents in fiscal 1996 compared to 78 cents in fiscal 1995 and 82 cents in fiscal 1994. Until October 1995, airlines were exempt from a 4.3 cents per gallon federal tax on aviation fuel. The additional taxes increased Mesaba's fuel costs by $.4

million in fiscal 1996. Certain provisions of the Side Letter to the Airlink Agreement protect Mesaba from future increases in fuel prices.

Direct maintenance expense, excluding labor and related costs, increased to $20.0 million in fiscal 1996 from $11.5 million in fiscal 1995 and $10.2 million in fiscal 1994. Airways direct maintenance expense was $2.2 million in 1996 and $1.0 million in 1995. Mesaba's direct maintenance cost increased 69.5% to $17.8 million from $10.5 million. This increase was attributable to increased fleet utilization of the Metro III's and Dash 8 aircraft, a substantial reduction of the number of Dash 8 aircraft under warranty and an increase in heavy airframe inspections of the Dash 8 fleet. Also, under the terms of the Side Letter agreement, effective January 1, 1996 Mesaba became solely responsible for the costs of all major overhauls and repairs on the Dash 8 fleet. Prior to that date, those expenses were paid directly by Northwest.

Passenger related expenses increased to $18.3 million in fiscal 1996 from $15.5 million in fiscal 1995 and $12.4 million in fiscal 1994. Airways passenger related expense totaled $3.4 million in 1996 and $2.6 million in 1995. Mesaba's passenger related expense increased 15.2% to in 1996 to $14.9 million. Higher traffic volume and increased passenger liability insurance, combined with increased airport user charges, accounted for the increase.

Depreciation and amortization totaled $5.1 million in fiscal 1996 compared to $6.1 million in fiscal 1995 and $7.5 million in fiscal 1994. Airways depreciation and amortization totaled $.9 million in 1996 and $.5 million is 1995. Mesaba's depreciation and amortization decreased 23.8% to $4.2 million due to decreased equipment purchases and capitalized overhauls as part of the phase out of the F27 fleet. In April 1992, Mesaba paid a contract rights fee in the form of amended stock purchase warrants to Northwest as part of the extension of the Airlink Agreement. Contract rights are being amortized on a straight-line basis over the extended term of the Airlink Agreement through March 31, 1997.

Aircraft rentals were $31.3 million is fiscal 1996, $32.3 million in fiscal 1995 and $32.9 million in fiscal 1994. Airways aircraft rentals were $1.5 million in fiscal 1996 and $1.0 million in fiscal 1995. Mesaba's aircraft rentals decreased 4.8% to $29.8 million from $31.3 million. The 1996 decrease in aircraft rentals reflects the turnback of the F27 aircraft and renegotiation of several Metro III leases resulting in lower lease payments.

Administrative and other costs totaled $18.7 million in fiscal 1996, $18.6 million in fiscal 1995 and $9.9 million in fiscal 1994. Airways administrative and other costs were $4.8 million in 1996 and $5.2 million in 1995. Mesaba's administrative and other costs increased 3.7% in 1996 to $13.9 million from $13.4 million. This increase was due to higher aircraft hull insurance rates, increased spending for flight crew hotel and per diems and increased legal and professional fees associated with the spin-off of Airways.

Operating Income. The Company's operating income was $12.3 million in fiscal 1996, $4.4 million in fiscal 1995 and $6.6 million in fiscal 1994. Mesaba Aviation's operating income increase 14.8% to $12.4 million in 1996 from $10.8 million in 1995. Mesaba's operating margins were 8.2% in 1996, 7.9% in 1995 and 5.1% in 1994.

Provision for Income Taxes. The provision for income taxes was $5.7 million in fiscal 1996, $2.5 million in fiscal 1995 and $3.0 million in fiscal 1994. The effective tax rate decreased to 45% in 1996 from 49% in 1995 and 45% 1994. This decrease is due primarily to the lower level of nondeductible expenses as a percentage of taxable income.

Liquidity and Capital Resources

The Company's working capital decreased to $27.1 million with a current ratio of 2.6 at March 31, 1996 compared to $29.1 million and 2.7 at March 31, 1995. Cash and short-term investments increased by $2.6 million to $29.4 million at March 31, 1996. Net cash flows provided by operating activities totaled $16.1 million in fiscal 1996 compared to $6.6 million in fiscal 1995. Net cash flows used for financing activities amounted to $9.4 million in fiscal 1996 and consisted of $8.7 million of proceeds from the issuance of common stock, less dividends and principal payments of $.8 million. Funds used for the distribution of Airways totaled $21.4 million, offset by a $3.8 million decrease of restricted cash related to Airway's air traffic liability. Funds used to acquire a subsidiary (in 1995) and to purchase spare parts, equipment and other assets totaled $4.1 million in fiscal 1996, compared to $7.3 million in 1995.

The Company has a $5.0 million revolving line of credit at prime plus one-half of 1%. This credit line was not utilized during fiscal 1996. In addition, a letter of credit facility totaling $.2 million secures a lease commitment to the County of Wayne, Michigan, for the Company's Detroit hangar. All borrowings under the revolving line of credit are collateralized by inventory and accounts receivable.

Long term debt, net of current maturities, totaled $5.7 million at March 31, 1996 and 1995. Long term debt consists principally of capitalized lease financing for the Minneapolis/St. Paul and Detroit hangar facilities. The ratio of long term debt to stockholders' equity was .16 at March 31, 1996 compared to .14 at the end of fiscal 1995.

FAA directives required Mesaba to equip its Metro III fleet with traffic alert and collision avoidance systems (TCAS) by December 31, 1995. Mesaba Aviation spent $1.0 million in fiscal 1996 modifying the Metro III fleet to meet these FAA directives. The FAA enacted rules effective March 31, 1997 that require all airlines operating aircraft with 30 passenger seats or less, which are presently operated under FAR Part 135, to begin operating those aircraft under FAR Part 121 regulations, the same regulatory requirements applied to major airlines. Mesaba currently operates all its aircraft under FAR Part 121. Accordingly, the new regulations are not expected to have any material impact on Mesaba's financial position.

At March 31, 1996, Mesaba's fleet consisted of fifty-one aircraft covered under operating leases with remaining terms of three months to three years and aggregate monthly lease payments of approximately $2.5 million. Operating leases have been the Company's primary method for acquiring aircraft, and management expects to continue relying on this method to meet most of its future aircraft financing needs.

Approximately 71% of Mesaba's passengers connected with Northwest in fiscal 1996, 79% in 1995 and 81% in 1994. Approximately 84% of the Company's accounts receivable balance at March 31, 1996 is due from Northwest. Loss of the Company's affiliation with Northwest or Northwest's failure to make timely payment of amounts owed to the Company or to otherwise materially perform under the Airlink Agreement for any reason would have a material adverse effect on the Company's operations and financial results.

The Company has historically relied upon cash reserves, internally generated funds and borrowings to support its working capital requirements. Management believes that funds from operations and existing credit lines will provide adequate resources for meeting non-aircraft capital needs in fiscal 1997.

Prior to the spin-off, the Company contributed to Airways, cash and property having a book value of approximately $20.25 million, which resulted in a corresponding decrease in the cash and other assets of the Company.

Expenses associated with the spin-off were expensed for financial reporting purposes and charged pursuant to the Distribution Agreement to the party for whose benefit the expenses were incurred. Any expenses which were not allocated on such a basis were split equally between the Company and Airways.

Other Information

On November 10, 1995, the Company announced that it would discontinue payment of quarterly dividends. The last dividend of $0.03 per share was paid for the quarter ended June 30, 1995.

On March 7, 1996, Mesaba entered into an agreement to acquire 20 used Saab 340A aircraft and 30 new Saab 340BPlus aircraft, for a total firm order of 50 aircraft. These aircraft will replace the current fleet of Metro III and Dash 8 aircraft. In addition, Mesaba has options to acquire up to 12 additional used Saab 340A and up to 10 additional new Saab 340BPlus aircraft, for a total of 22 option aircraft. Mesaba has also negotiated a financing agreement with the airframe manufacturer whereby operating lease financing for both the used and new aircraft are committed to the Company on competitive rates and terms.

Consolidated Balance Sheets

MESABA HOLDINGS, INC. AND SUBSIDIARY

(in thousands, except share information)	At March 31	
ASSETS	1996	1995
CURRENT ASSETS:		
Cash and short-term investments	$ 29,428	$ 26,851
Restricted cash	–	3,765
Accounts receivable, net	9,254	8,844
Inventories	1,666	4,072
Prepaid expenses and deposits	2,774	962
Deferred income taxes	1,343	1,660
Total current assets	44,465	46,154
PROPERTY AND EQUIPMENT:		
Facilities under capital lease	9,147	9,147
Flight equipment	10,439	10,416
Other property and equipment	9,644	10,029
Accumulated depreciation and amortization	(16,842)	(14,661)
Net property and equipment	12,388	14,931
DEFERRED INCOME TAXES	312	288
OTHER ASSETS, net	1,039	5,511
	$ 58,204	$ 66,884
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of capital lease obligations	$ 399	$ 307
Accounts payable	7,323	7,020
Air traffic liability	–	3,628
Accrued liabilities-		
Payroll	3,871	2,661
Maintenance	3,341	2,015
Other	2,389	1,421
Total current liabilities	17,323	17,052
CAPITAL LEASE OBLIGATIONS, net of current maturities	5,654	5,732
OTHER NONCURRENT LIABILITIES, principally accrued maintenance	812	1,656
COMMITMENTS AND CONTINGENCIES (Note 7)		
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value, 15,000,000 shares authorized; 12,744,046 and 8,625,373 shares issued and outstanding, respectively	127	86
Paid-in capital	39,822	13,199
Warrants issued for 1,499,078 common shares, exercised in August 1995	–	5,089
Retained earnings (deficit)	(5,534)	24,070
Total shareholders' equity	34,415	42,444
	$ 58,204	$ 66,884

The accompanying notes are an integral part of these consolidated balance sheets.

Consolidated Statements of Operations

MESABA HOLDINGS, INC. AND SUBSIDIARY

(in thousands, except share and per share information)	For the Years Ended March 31		
	1996	1995	1994
OPERATING REVENUES:			
Passenger	$ 166,900	$ 142,470	$ 127,900
General aviation, freight and other	3,555	3,430	1,682
Total operating revenues	170,455	145,900	129,582
OPERATING EXPENSES:			
Flight operations	73,442	71,099	64,189
Maintenance	34,037	25,510	20,839
Aircraft and traffic servicing	32,536	28,416	23,724
Depreciation and amortization	4,854	6,086	7,459
Reservations, sales and marketing	3,546	2,193	334
General and administrative	9,733	8,237	6,438
Total operating expenses	158,148	141,541	122,983
Operating income	12,307	4,359	6,599
NONOPERATING (EXPENSE) INCOME:			
Interest expense	(1,441)	(562)	(649)
Interest income and other	1,761	1,332	709
Gain on distribution of subsidiary	49,303	–	–
Income before income taxes	$ 61,930	$ 5,129	6,659
PROVISION FOR INCOME TAXES	5,655	2,523	2,996
Net income	$ 56,275	$ 2,606	$ 3,663
NET INCOME PER SHARE	$ 4.81	$ .29	$ .40
WEIGHTED AVERAGE SHARES OUTSTANDING	11,689	9,113	9,069

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Shareholders' Equity

MESABA HOLDINGS, INC. AND SUBSIDIARY

(in thousands, except per share information) For the years ended March 31,

	Common Stock Shares	Common Stock Amount	Paid-In Capital	Warrants Shares	Warrants Amount	Retained Earnings	Total Shareholders' Equity
BALANCE, MARCH 31, 1993	6,881,227	$ 69	$ 1,348	1,529,862	$ 5,194	$ 19,754	$ 26,365
Issuance and sale of common stock	1,379,310	14	9,986	—	—	—	10,000
Exercise of stock options, net of related tax effects	176,152	1	1,024	—	—	—	1,025
Dividends paid on common stock ($.12 per common share)	—	—	—	—	—	(928)	(928)
Net income	—	—	—	—	—	3,663	3,663
BALANCE, MARCH 31, 1994	8,436,689	84	12,358	1,529,862	5,194	22,489	40,125
Exercise of stock options, net of related tax effects	157,900	2	647	—	—	—	649
Exercise of warrants	30,784	—	194	(30,784)	(105)	—	89
Dividends paid on common stock ($.12 per common share)	—	—	—	—	—	(1,025)	(1,025)
Net income	—	—	—	—	—	2,606	2,606
BALANCE, MARCH 31, 1995	8,625,373	86	13,199	1,499,078	5,089	24,070	42,444
Stock dividend	2,052,275	21	12,806	—	—	(12,827)	—
Exercise of stock options, net of related tax effects	567,320	5	4,265	—	—	—	4,270
Exercise of warrants	1,499,078	15	9,552	(1,499,078)	(5,089)	—	4,478
Distribution of subsidiary	—	—	—	—	—	(72,531)	(72,531)
Dividends paid on common stock ($.06 per common share)	—	—	—	—	—	(521)	(521)
Net income	—	—	—	—	—	56,275	56,275
BALANCE, MARCH 31, 1996	12,744,046	$127	$39,822	—	—	($ 5,534)	$ 34,415

The accompanying notes are an integral part of these consolidated statements.

Consolidated Statements of Cash Flows

MESABA HOLDINGS, INC. AND SUBSIDIARY

(in thousands) For the Years Ended March 31

	1996	1995	1994
OPERATING ACTIVITIES:			
Net income	$ 56,275	$ 2,606	$ 3,663
Adjustments to reconcile net income to net cash provided by operating activities-			
Gain on distribution of subsidiary	(49,303)	-	-
Depreciation and amortization	5,129	6,086	7,459
Accrued maintenance, long-term	(701)	(531)	785
Deferred income taxes	293	(139)	(187)
Change in current operating items:			
Accounts receivable, net	(1,310)	(2,455)	(16)
Restricted cash	-	(3,765)	-
Inventories	164	(180)	350
Prepaid expenses and deposits	(4,174)	(599)	6
Accounts payable and accrued liabilities	9,737	1,925	(4,272)
Air Traffic liability	-	3,628	-
Net cash flows provided by operating activities	16,110	6,576	7,788
INVESTING ACTIVITIES:			
Acquisition of jet operation	-	(2,500)	-
Purchases of property and equipment, net	(4,127)	(3,564)	(1,006)
(Increase) decrease in other assets	-	(1,266)	113
Decrease in other liabilities	(4)	(17)	(17)
Net cash flows used for investing activities	(4,131)	(7,347)	(910)
FINANCING ACTIVITIES:			
Proceeds from issuance of debt	300	-	-
Distribution of subsidiary	(21,372)	-	-
Distribution of restricted cash of subsidiary	3,765	-	-
Repayment of capital lease obligations	(322)	(503)	(1,349)
Proceeds from issuance of common stock	8,748	738	11,025
Dividends paid	(521)	(1,025)	(928)
Net cash flows provided by (used for) financing activities	(9,402)	(790)	8,748
NET INCREASE (DECREASE) IN CASH AND SHORT TERM INVESTMENTS	2,577	(1,561)	15,626
CASH AND SHORT TERM INVESTMENTS:			
Beginning of year	26,851	28,412	12,786
End of year	$ 29,428	$ 26,851	$ 28,412
SUPPLEMENTARY CASH FLOW INFORMATION:			
Cash paid during the year for-			
Interest	$ 1,455	$ 576	$ 638
Income taxes	$ 5,296	$ 2,759	$ 3,351

The accompanying notes are an integral part of these consolidated statements.

Notes to Consolidated Financial Statements

MESABA HOLDINGS, INC. AND SUBSIDIARY
(in thousands, except share and per share information)

1. Corporate Organization and Business:

Corporate Organization
The consolidated financial statements include the accounts of Mesaba Holdings, Inc. (the "Company") and its subsidiary, Mesaba Aviation, Inc. ("Mesaba"). The statements also include the results of operations of Airways Corporation ("Airways") and its subsidiary Airtran Airways, Inc. ("Airtran Airways") prior to the distribution of 100% of the outstanding common stock of Airways to the Company's shareholders in September 1995 (see Note 8). All significant intercompany balances have been eliminated in consolidation.

Business
Mesaba operates a regional air carrier providing scheduled passenger and air freight service as Mesaba Airlines/Northwest Airlink under an Airline Services Agreement (the Airlink Agreement) with Northwest Airlines, Inc. (Northwest) to 60 cities in the Upper Midwest from Northwest's hub airports, Minneapolis/Saint Paul and Detroit. The Airlink Agreement provides for exclusive rights to designated service areas and runs through March 31, 1997, automatically renewing indefinitely thereafter. Either party may terminate the Airlink Agreement on eight months notice any time after July 31, 1996. Under the Airlink Agreement, all Mesaba flights appear in Northwest's timetables and Mesaba receives ticketing and certain check-in, baggage and freight-handling services from Northwest at certain airports. In addition, at certain airports Mesaba purchases fuel from Northwest. The Company paid $7,526 to Northwest for fuel, reservation systems, ground handling and other services in fiscal 1996, $3,166 in 1995 and $720 in 1994. The Airlink Agreement provides for certain incentive payments from Northwest to Mesaba based on achievement of certain operational or financial goals, as defined. Such incentives totaled $1,643 in 1996, $1,192 in 1995, and $66 in 1994. Mesaba also benefits from its relationship with Northwest through prorated fare arrangements and advertising and marketing programs. (See note 8 for additional arrangements with Northwest).

Approximately 71% of Mesaba's passengers connected with Northwest in fiscal 1996, 79% in 1995 and 81% in 1994. Approximately 84% of the March 31, 1996 accounts receivable balances in the accompanying consolidated balance sheet are due from Northwest. The Company believes that Northwest's Minneapolis and Detroit hubs will continue to serve as key air traffic centers. Although Mesaba maintains an expanding air system serving those traffic centers, loss of Mesaba's affiliation with Northwest or Northwest's failure to make timely payment of amounts owed to the Company or to otherwise materially perform under the Airlink Agreement would have a material adverse effect on the Company's operations, financial position and cash flows. Northwest and the Company review contract compliance on a periodic basis.

2. Summary of Significant Accounting Policies:

Cash and Short-Term Investments
Short-term investments, which consist primarily of U.S. government securities and interest-bearing deposits with maturities of less than 90 days, are stated at cost, which approximates market. These investments are considered cash equivalents for statement of cash flows purposes. In 1995, restricted cash represented amounts escrowed relating to the Company's air traffic liability associated with Airtran Airways.

Inventories
Inventories are stated at the lower of average cost or market and consist of expendable aircraft service parts, and fuel. Expendable part are charged to maintenance as used.

Property and Equipment
Property and equipment are stated at cost and depreciated on a straight-line basis for financial reporting purposes over estimated useful lives of 5–10 years for aircraft engines, flight equipment and rotable parts; 2-10 years for all other equipment; 5-36 years for buildings and improvements; and over the lease term for facilities under capital lease. Leasehold improvements are amortized over the shorter of the life of the lease or the life of the asset. Accelerated cost recovery methods of depreciation are applied for tax reporting purposes.

Airlink Contract Rights
In connection with the Airlink Agreement, the Company paid a contract rights fee in the form of a stock purchase warrant to Northwest. In addition, the Company agreed to fund certain costs related to the transition of Airlink operations in the Detroit and Milwaukee service areas. Such transition costs and fees are included as contract rights and are fully recoverable under the terms of the Airlink Agreement. Contract rights and related other assets totaled $5,769 and related accumulated amortization totaled $4,731 at March 31, 1996. Contract rights are amortized on a straight-line basis over five years to coincide with the minimum term of the Airlink Agreement.

Revenue Recognition
Passenger revenues are recorded as income when the respective services are rendered.

Frequent Flyer Awards
As a Northwest Airlink carrier, Mesaba participates in Northwest's frequent flyer program (WorldPerks), and passengers may use mileage accumulated in that program to obtain discounted or free trips that might include a flight segment on one of Mesaba's flights. However, under the Airlink Agreement, Northwest is responsible for the administration of WorldPerks, and Mesaba receives revenue from Northwest for WorldPerks travel awards redeemed on Mesaba flight segments.

Income Taxes
The Company accounts for income taxes in accordance with the liability method of accounting. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities. These differences will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

Income Per Share
Net income per share has been computed based upon the weighted average number of common and dilutive common equivalent shares outstanding during each year.

Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

3. Flight Equipment:

The Company's airline fleet consisted of the following aircraft held under operating leases as of March 31, 1996:

Number of Aircraft	Type of Aircraft	Seating Capacity
25	de Havilland Dash 8 (Dash 8)	37
26	Fairchild Metro III (Metro III)	19

Under terms of the Airlink Agreement, the Company subleases its Dash 8 aircraft from Northwest under operating leases with original terms of up to five years. The Airlink Agreement allows the Company to return aircraft to Northwest upon the occurrence of certain events, including termination or breach of the Airlink Agreement. These leases require rental payments of approximately $863 per year for each aircraft.

Until January 1, 1996 the Airlink Agreement required Northwest to provide for all major maintenance and overhauls for Dash 8 aircraft. Pursuant to an amendment to the Airlink Agreement, along with revenue enhancements, the responsibility for certain Dash 8 maintenance costs up to a specified level were transferred to Mesaba effective January 1, 1996.

Aircraft maintenance and repairs on Metro III aircraft are charged to expense when incurred, except for the cost of major airframe and engine overhauls, for which the estimated cost is accrued and charged to maintenance expense based upon hours flown pursuant to the specific lease agreements, thus providing for the overhaul cost when it occurs.

The aircraft operating leases require future minimum rental payments as follows at March 31, 1996:

1997	$26,586
1998	13,998
1999	2,035
2000	396

Rent expense under aircraft operating leases totaled approximately $31,330 in 1996, $31,262 in 1995 and $32,914 in 1994 (including $21,564, $21,626 and $21,088 paid to Northwest in 1996, 1995 and 1994, respectively) and is included in flight operations in the accompanying consolidated statements of operations.

On March 7, 1996, the Company entered into an agreement with Saab Aircraft AB to acquire up to 72 Saab 340 aircraft (50 firm orders, 22 options). The thirty to thirty-four passenger Saab regional airliner will replace Mesaba's current fleet of 51 aircraft within the next three years.

4. Revolving Credit Agreement:

The Company has an unsecured credit agreement with a bank providing for borrowings of up to $5,000 and a letter-of-credit agreement of up to $200. No amounts were outstanding under the credit agreement during the three years ended March 31, 1996. Compensating balances in an amount equal to 5% of the available revolving line-of-credit facility are required to be maintained ($250 as of March 31, 1996). The credit agreement requires the Company to maintain minimum levels of tangible net worth, net working capital and certain other financial ratios. The Company was in compliance with these requirements at March 31, 1996.

5. Income Taxes:

The provision for income taxes for the three years ended March 31 is comprised of the following elements:

	1996	1995	1994
Current:			
Federal	$4,130	$2,131	$2,536
State	1,232	531	647
Deferred	293	(139)	(187)
Total provision for income taxes	$5,655	$2,523	$2,996

The actual income tax expense differs from the expected tax expense for 1996, 1995 and 1994 (computed by applying the U.S. federal corporate tax rate of 35 percent in 1996 and 1995 and 34 percent in 1994 to earnings before income taxes) as follows in thousands:

	1996	1995	1994
Computed tax expense at statutory rate	21,675	1,795	2,264
Increase (decrease) in income taxes resulting from:			
Tax-free distribution of subsidiary	(17,256)	–	–
State taxes, net of federal benefit	933	343	400
Non-deductible flight crew expenses	251	262	230
Other, net	52	123	102
Total income tax expense	5,655	2,523	2,996

Deferred tax assets and liabilities are comprised of the following as of March 31:

	1996	1995
Deferred tax assets:		
Maintenance	$1,660	$1,240
Accrued vacation	594	483
Property taxes	236	181
Prepaid rent	166	176
Workers' compensation insurance	154	118
Other	26	186
Gross deferred tax assets	2,836	2,384
Deferred tax liabilities:		
Property and equipment	1,009	192
Preoperating costs	71	128
Integration funds	101	116
Gross deferred tax liabilities	1,181	436
Net deferred tax assets	$1,655	$1,948

6. Shareholders' Equity:

Stock Option Plans
The Company has stock option plans for key employees and directors which authorize the issuance of shares of common stock for such options. Under the plans, options are granted by the compensation committee of the board of directors and are exercisable for five years commencing one year after the date of grant. The purchase price of the stock is 110% of the fair market value of the stock at the date of grant for participants owning 10% or more of the outstanding common stock and 100% of the fair market value for all other participants. In connection with the spin-off outstanding options were repriced in relation to the fair market value of the Company, post-spin-off (see Note 8).

Stock option transactions for the three years ended March 31 were as follows:

	Shares	Price Per Share
Options outstanding, March 31, 1993	823,920	$1.75-$8.00
Granted	442,000	$8.75-$10.25
Exercised	(178,200)	$1.75-$6.75
Canceled	(2,000)	$6.75
Options outstanding, March 31, 1994	1,085,720	$2.13-$10.25
Granted	239,000	$6.76-$7.75
Exercised	(157,900)	$2.13-$6.75
Canceled	(29,200)	$9.50
Options outstanding, March 31, 1995	1,137,620	$2.13-$10.25
Granted	461,000	$4.38-$7.88
Exercised	(567,320)	$2.13-$9.50
Canceled	(403,800)	$6.75-$10.25
Options outstanding, March 31, 1996	627,500	$4.13-$7.88
Exercisable at March 31, 1996	170,500	–
Available for grant at March 31, 1996	521,500	–

Stock Purchase Plan
The Company has an employee stock purchase plan which allows all full-time personnel employed for more than six months the opportunity to purchase shares of stock in the Company at the market price through payroll deductions. All administrative costs of this plan are paid by the Company.

Common Stock Transactions
On October 19, 1993, the Company issued and sold 1,379,310 shares of its common stock to an investor in a private placement at the price of $7.25 per share. The proceeds of the sale totaled $10,000.

7. Commitments and Contingencies:

Lease Commitments
In addition to the aircraft described in Note 3, the Company leases land, office and hangar facilities and certain terminal facilities under capitalized and operating leases which provide for approximate future minimum rental payments as follows at March 31, 1996:

	Capitalized Leases	Operating Leases
1997	$ 783	$ 267
1998	783	250
1999	783	250
2000	783	250
2001	783	250
Thereafter	5,286	2,113
	9,201	$3,380
Less- Amount representing interest	3,148	
	6,053	
Less- Current maturities	399	
Total long-term capital lease obligations	$5,654	

Rent expense under all facility operating leases totaled approximately $2,405 in 1996, $1,928 in 1995 and $1,875 in 1994.

Benefit Plan
The Company maintains a 401(k) benefit plan for eligible employees whereby the Company will match 25% of employee contributions to the plan, up to 6% of each employee's compensation. The Company's contribution to the plan totaled $303 to the plan in 1996, $291 in 1995 and $235 in 1994.

Litigation
The Company is a party to ongoing legal and tax proceedings arising in the ordinary course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or its cash flows.

8. Spin-Off:

In June 1994, the Company acquired the common stock of Conquest Sun Airlines, Inc. (Conquest) for $2,500. The acquisition was recorded under the purchase method of accounting. Subsequent to the transaction the Company's name was changed to Airtran Airways.

In March 1995, the Company and Northwest entered into an agreement to spin off Airtran Airways and Mesaba's fixed base operation (FBO) in Grand Rapids, Minnesota. Under the terms of the spin-off, the Company established a new subsidiary (Airways Corporation) and consolidated Airtran Airways and the FBO, in order to facilitate the distribution of Airways Corporation's common stock to the Company's shareholders. In addition, The Company made a $20,250 contribution in cash and certain assets to Airways Corporation prior to the spin-off date.

Also in connection with the spin-off, Northwest waived its right to receive a distribution of Airways Corporation common stock, in exchange for 2,052,275 shares of Mesaba Holdings, Inc. common stock. Northwest exercised its warrants to purchase 1,499,078 shares of the Company's common stock at their stated exercise price. Subsequent to these transactions, Northwest owns approximately 29.7% of the outstanding shares of the Company's common stock. In addition, Northwest assumed responsibility for setting Mesaba's flight schedules and aircraft routings. Northwest and Mesaba also entered into a good faith agreement to extend the Airlink Agreement for a minimum of ten years. Northwest agreed to make quarterly payments to Mesaba which, together with payments under the Airlink Agreement, guarantees that Mesaba's pretax income will be not less than $7.6 million for the last three quarters of fiscal 1996 and $10.0 million for fiscal 1997. Revenues do not include any payments made to Mesaba pursuant to the income guarantee as the Company's internally generated profits exceeded the guarantee amount.

Concurrent with the spin-off date, outstanding Company stock options were repriced (lowered by $2.00 per share) in relation to the fair market value of the Company post-spin-off of Airtran Airways. Unexercised options previously granted to certain directors and officers who became affiliated with Airways Corporation were canceled.

At a special meeting held on August 29, 1995, the Company's shareholders ratified the distribution of 100% of the outstanding common stock of its wholly owned subsidiary, Airways, to the Company's shareholders. The shareholders also approved a proposal to change the Company's name to Mesaba Holdings, Inc. from Airtran Corporation. Following the distribution of the Airways stock on September 7, 1995, the sole business of the Company has consisted of the regional airline operations of Mesaba.

The Company recorded a one-time gain of $49,303 in the second quarter as a result of the tax-free distribution of Airways to the Company's shareholders. The gain reflects the difference between the book value of the Airways stock distributed in the spin-off and the actual market value of such stock on September 8, 1995.

9. Quarterly Financial Data (Unaudited):

Quarters of Fiscal Year Ended March 31, 1996

	June 30, 1995	September 30, 1995	December 31, 1995	March 31, 1996	Fiscal Year 1996
Total operating revenues	$ 44,647	$ 46,980	$ 37,554	$ 41,274	$ 170,455
Operating income	$ 2,375	$ 4,593	$ 2,820	$ 2,519	$ 12,307
Net income	$ 1,408	$ 51,857	$ 1,641	$ 1,369	$ 56,275
Net income per share	$ .14	$ 4.71	$ .13	$ .11	$ 4.81
Dividends per share	$ .03	$ –	$ –	$ –	$ .03
Weighted average shares outstanding (000)	10,021	11,016	12,765	12,953	11,689

Quarters of Fiscal Year Ended March 31, 1995

	June 30, 1994	September 30, 1994	December 31, 1994	March 31, 1995	Fiscal Year 1995
Total operating revenues	$ 33,815	$ 36,090	$ 35,807	$ 40,188	$ 145,900
Operating income (loss)	$ 2,402	$ 2,811	$ (475)	$ (379)	$ 4,359
Net income (loss)	$ 1,337	$ 1,677	$ (126)	$ (282)	$ 2,606
Net income (loss) per share	$ .14	$ .18	$ (.01)	$ (.03)	$ .29
Dividends per share	$ .03	$ .03	$ .03	$ .03	$ .12
Weighted average shares outstanding (000)	9,696	9,554	8,589	8,611	9,113

10. New Accounting Standard

Financial Accounting Standards Board has issued Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 121 imposes criteria for evaluating the realizability of long-lived assets by requiring that such assets be probable of future recovery at each balance sheet date. The Company adopted SFAS 121 during fiscal 1996 and the effect of the adoption did not have a material effect on the Company's financial position or results of operations.

Report of Independent Public Accountants

To Mesaba Holdings, Inc.:

We have audited the accompanying consolidated balance sheets of Mesaba Holdings, Inc. (a Minnesota corporation) and Subsidiary as of March 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mesaba Holdings, Inc. and Subsidiary as of March 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Minneapolis, Minnesota,
May 3, 1996

Five-Year Selected Financial and Statistical Data

MESABA HOLDINGS, INC. AND SUBSIDIARY

(CONSOLIDATED, in thousands, except per share information)

	1996	1995	1994	1993	1992
Statement of Operations Data:					
Operating revenues	$ 170,455	$ 145,900	$ 129,582	$ 124,331	$ 102,389
Operating expenses	158,148	141,541	122,983	112,028	92,204
Operating income	$ 12,307	$ 4,359	$ 6,599	$ 12,303	$ 10,185
Net income	$ 56,275	$ 2,606	$ 3,663	$ 6,740	$ 5,822
Net income per share	4.81	0.29	0.40	0.75	0.66
Weighted average shares outstanding	11,689	9,113	9,069	8,990	8,778

(CONSOLIDATED, in thousands)

	1996	1995	1994	1993	1992
Balance Sheet Data:					
Current assets	$ 44,465	$ 46,154	$ 42,942	$ 25,724	$ 21,456
Net property and equipment	12,388	14,931	13,863	21,319	25,865
Other assets, net	1,351	5,799	3,258	5,055	2,187
Total assets	$ 58,204	$ 66,884	$ 60,063	$ 52,098	$ 49,508
Current liabilities	$ 17,323	$ 17,052	$ 11,674	$ 16,695	$ 17,298
Long-term liabilities	6,466	7,388	8,264	9,038	9,839
Shareholder's equity	34,415	42,444	40,125	26,365	22,371
Total liabilities and shareholder's equity	58,204	66,884	60,063	52,098	49,508

(Mesaba Aviation, Inc. only)

	1996	1995	1994	1993	1992
Selected Operating Data:					
Revenue passengers carried	1,572,401	1,433,605	1,429,836	1,306,750	1,067,230
Revenue passenger miles (000)	344,592	314,636	299,267	270,137	216,082
Available seat miles (000)	732,018	705,182	663,578	536,216	419,903
Passenger revenue per available seat mile	$ 0.204	$ 0.191	$ 0.198	$ 0.232	$ 0.244
Cost per available seat mile	$ 0.190	$ 0.178	$ 0.185	$ 0.208	$ 0.219
Passenger load factor	47.1%	44.6%	45.1%	50.4%	51.5%
Break even load factor	43.3%	40.9%	42.8%	45.6%	46.6%
Yield per revenue passenger mile	$ 0.434	$ 0.428	$ 0.427	$ 0.455	$ 0.468
Departures	123,985	114,399	108,141	89,001	74,672

Stock Price and Dividend Information

MESABA HOLDINGS, INC. AND SUBSIDIARY

	High	Low	Dividends per share
FISCAL 1995			
First Quarter	$ 9½	$ 7	$ 0.03
Second Quarter	7¾	5¾	0.03
Third Quarter	8	6	0.03
Fourth Quarter	8½	6⅛	0.03
FISCAL 1996			
First Quarter	$ 11	$ 7½	$ 0.03
Second Quarter	14	4⅞	
Third Quarter	8⅞	4⅞	
Fourth Quarter	11¼	7	

Corporate Information

MESABA HOLDINGS, INC. AND SUBSIDIARY

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

Transfer Agent
Norwest Bank Minnesota, N.A.

Corporate Counsel
Briggs and Morgan, Minneapolis, Minnesota

Auditors
Arthur Andersen LLP, Minneapolis, Minnesota

Form 10-K
A copy of the Company's Form 10-K annual report will be provided free of charge to any shareholder upon written request to: Finance Department, Mesaba Holdings, Inc., 7501 26th Avenue South, Minneapolis, Minnesota 55450

Annual Meeting
The annual meeting of shareholders will be held at 3:30 p.m. Wednesday, August 28, 1996, at the Radisson Plaza Hotel, 35 South 7th Street, Minneapolis, Minnesota.

Directors and Senior Management

Board of Directors

Carl R. Pohlad
Chairman of the Board
Mesaba Holdings, Inc.

Bryan K. Bedford
President and
Chief Executive Officer
Mesaba Holdings, Inc.

Donald E. Benson
Executive Vice President
Marquette Bancshares, Inc.

Christopher E. Clouser
Senior Vice President
Communications,
Advertising and
Human Resources
Northwest Airlines, Inc.

Richard B. Hirst
Senior Vice President
Corporate Affairs
Northwest Airlines, Inc.

Robert C. Pohlad
President
Pohlad Companies

Donald A. Washburn
Executive Vice President
Customer Service and
Operations
Northwest Airlines, Inc.

Raymond W. Zehr, Jr.
Vice President
Pohlad Companies

Corporate Officers

Carl R. Pohlad
Chairman of the Board
Mesaba Holdings, Inc.

Bryan K. Bedford
President and
Chief Executive Officer
Mesaba Holdings, Inc.

John S. Fredericksen
Vice President
Administration and
General Counsel
Mesaba Holdings, Inc.

F. Darrell Richardson
Vice President
Operations and
Chief Operating Officer

Managing Directors

James R. Arble
Director
Customer Service - Eastern
Region

Scott R. Bussell
Director
Maintenance Operations

Robert H. Cooper
Director
Finance and Treasurer

Klaus Goersch
Director
Corporate Training and
Standards

Wayne C. Heller
Director
Dispatch and
Crew Scheduling

Jeffrey B. Jones
Director
Market Planning

Richard A. Lawrence
Director
Flight Operations

Carl R. Millican
Director
Technical Services

Dennis J. Ofstedahl
Director
Customer Service - Western
Region

Jeffrey C. Olander
Director
Information Systems

Barton H. Schmidt
Director
Safety and Compliance

Dan F. Sheehan
Director
Administration and Human
Resources

Sandy K. Sturm
Director
Purchasing and Materials

Warren R. Wilkinson
Director
Marketing and Corporate
Communications

Our Vision

By keeping our focus firmly on serving our guests' needs, we will provide safe, reliable, convenient and comfortable air transportation that will set the standard for all regional airlines, while providing a secure and positive work environment for our associates, and a market-driven return on investment for our shareholders.

- **Guests** We consider our passengers guests rather than customers since we realize they have a choice in travel. We invite our guests to board our aircraft and experience our hospitality.

- **Safe** means that our guests should be confident in our training, professionalism and state of the art equipment. Safety should never be a concern of our guests.

- **Reliable** means that our guests can depend on us every day to get them to their final destination safely and on time. And when we experience a service failure we will respond in a timely manner and convey a sense of empathy and urgency to our guests.

- **Convenient** means that we will attempt to make it easy for guests to access our partners' worldwide route system, and that we will strive to offer the most "hassle free" travel experience possible.

- **Comfortable** means that the environment that we provide our guests, both in the airport and onboard our aircraft, is clean and "stress free."

- **Secure** means that our associates feel safe and confident in the company's direction, and that they receive fair wages and benefits for the services they provide.

- **Positive** means that we recognize our associates are our most valuable asset, and that the company must reward its people for their efforts and their commitment to excellence in performance.

- **Market-Driven** means that in our effort toward constant improvement, we will benchmark ourselves against the best in our industry and strive to exceed those benchmarks.

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