

NORTH CENTRAL AIRLINES



Annual Report
1959



NORTH CENTRAL AIRLINES, INC.

AMERICA'S LEADING LOCAL AIRLINE

GENERAL OFFICES: 6201 Thirty-Fourth Avenue South, Wold-Chamberlain Field, Minneapolis 50, Minnesota

DIRECTORS:

H. N. CARR*	CHARLES R. HOOD	A. L. WHEELER
WERNER L. CHRISTENSEN	ARTHUR E. A. MUELLER*	K. B. WILLETT
G. F. DECOURSIN*		*Executive Committee

OFFICERS:

ARTHUR E. A. MUELLER.....	Chairman of the Board
H. N. CARR.....	President and General Manager
FRANK N. BUTTOMER.....	Vice President, Traffic and Sales
R. H. BENDIO, SR.....	Vice President, Maintenance and Engineering
ALVIN D. NIEMEYER.....	Vice President, Flight Operations
ARTHUR E. SCHWANDT.....	Vice President, Industrial Relations
BERNARD SWEET.....	Vice President, Secretary-Treasurer
A. L. WHEELER.....	Vice President and Counsel
JOHN P. DOW.....	Assistant Secretary

REGISTRAR AND STOCK TRANSFER AGENT:

NORTHWESTERN NATIONAL BANK OF MINNEAPOLIS, MINNEAPOLIS, MINNESOTA

NORTH CENTRAL AIRLINES, INC.

6201-34 AVENUE SOUTH
WOLD-CHAMBERLAIN FIELD
MINNEAPOLIS 50, MINNESOTA

To Our Stockholders,
Employees and Friends:

March 16, 1960

North Central has completed another year of progress—the greatest growth year in the company's history.

During 1959, record revenues of \$18,500,000 were attained with the addition of over 2,000 route miles and the inauguration of service with new, larger Convair 340 Super Northliners.

The five Convairs were added to the fleet of 32 Douglas DC-3's in April, increasing the company's earnings capacity as well as the number of seats available to the traveling public. During the past 12 months, North Central offered its airline patrons nearly 350,000,000 seat miles, a 35 per cent increase over 1958. A record 958,000 revenue passengers were carried over the Route of the Northliners.

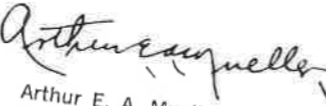
North Central also continued to lead the local airline industry in volume of air mail and express. In June, the company began air freight operations. By the end of 1959, 14,000,000 pounds of cargo had been carried, including freight, air mail, express and expedited surface mail. Air freight volume alone was more than 2,000,000 pounds for the seven-month period.

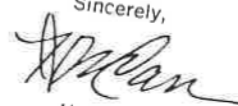
Service was inaugurated during 1959 to 16 cities certificated by the Civil Aeronautics Board to North Central in the Seven States Area case. More than 2,000 route miles, the largest award in the company's history, were added to the system by this decision. It extended North Central's service in Minnesota, Wisconsin, Illinois, Nebraska, North Dakota and South Dakota.

North Central issued and paid its first dividend this year. A five per cent stock dividend was authorized by the Board of Directors on November 20.

Management expresses its sincere appreciation to North Central's nearly 2,000 employees for their enthusiastic contribution to the company's greatest year of progress; the traveling public for its loyalty and patronage; and its stockholders and other friends for their confidence, suggestions and continued support.

We look to 1960 as another outstanding year. The anticipated addition of more Convair equipment, expansion of routes in Michigan, and inauguration of international service to Canada will assure our company's continued position as America's leading local airline.


Arthur E. A. Mueller
Chairman of the Board

Sincerely,

H. N. Carr
President

NORTH CENTRAL AIRLINES

1959: OUR GREATEST YEAR OF GROWTH

NORTH CENTRAL AIRLINES in 1959 experienced the greatest growth in its 12-year history, attaining record revenues with the addition of more than 2,000 route miles to its nine state system and the inauguration of Convair Super Northliner service.

Revenues for the year rose to a high of \$18,501,121, a 41 per cent increase over 1958. The company's expanded route network and the new, larger aircraft generated substantial increases in all classes of traffic—passengers, mail, and cargo.

Operating expenses were \$18,099,083, resulting in an operating profit of \$402,038 and a net profit of \$150,641. However, a non-recurring expense item of \$134,673, recorded in 1959, reduced the figure to a net profit of \$15,968, after depreciation charges of \$859,102. This item consisted of route development costs in processing the Lake Central Acquisition case and the Chicago-Twin Cities case, both of which were settled in 1959. Some \$104,834 in expenses were incurred from 1952 to 1959 in the Lake Central Acquisition case, while the balance of \$29,839 is a write-off of costs during the past five years in the Chicago-Twin Cities case.

North Central's aggressive route development program has more than doubled the airline's system since 1954. The company's system included only 2,399 miles in 1954, while today it has grown to 5,366 miles. Still pending before the Civil Aeronautics Board are applications which would add another 3,442 route miles.

North Central has been operating under a temporary mail rate since November 23, 1956 and, as a result, the

amount of air mail revenue reported is somewhat less than the company's claim with the United States government. The permanent rate set by the Board in 1954 did not anticipate adequately the vast expansion of the company's route system, and a petition for a new permanent rate was necessary. When the final rate is established, it will be retroactive to November 23, 1956.

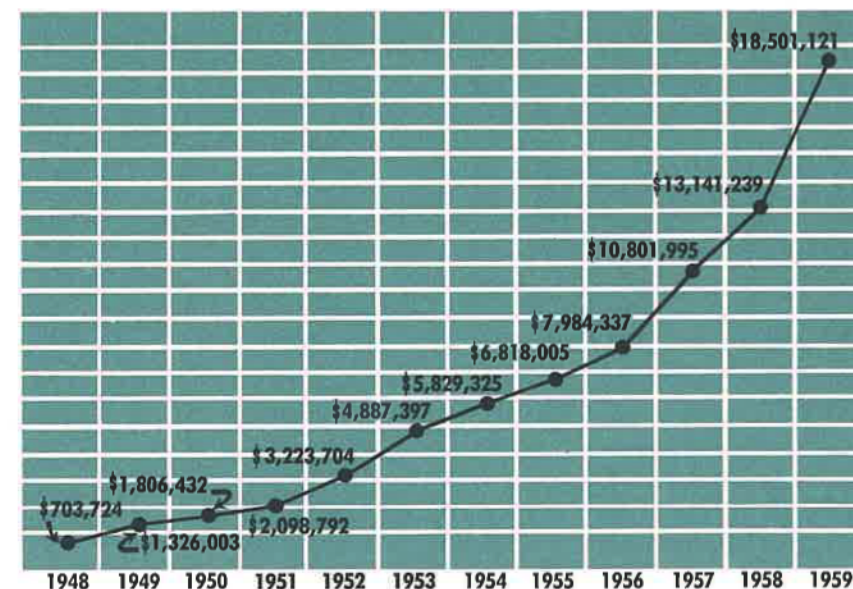
On December 10, 1956, the Civil Aeronautics Board instituted an investigation to determine whether or not the rate of return—or profit element—for the local airlines was fair and reasonable. On July 13, 1959, the C.A.B. examiner in the Rate of Return case found that the "rate of return heretofore used to fix the profit element . . . has not been sufficient," and recommended a rate of 12.25 per cent for future periods. This compares with 9.5 per cent which the Board is now using during the investigation. A final decision in the case will probably be reached this year.

The company's Board of Directors on November 20, 1959 declared a five per cent stock dividend to be issued December 21 to holders of record on December 7. This was the first dividend paid by North Central.

SYSTEM GROWTH

The highlight in North Central's fast-paced route development program came March 1, 1959 when new Northliner service was extended to 12 of the 18 cities certificated to the airline under the Civil Aeronautics Board's vast Seven States Area decision. More than 2,000 miles were added to the system by the order which extended the company's routes in Minnesota,

REVENUES



Wisconsin, Illinois, Nebraska, North Dakota, and South Dakota.

Cities included in the March 1 inaugural were: Minot, Devils Lake, and Bismarck/Mandan, North Dakota; Aberdeen, Huron, Mitchell, Rapid City, Pierre, and Spearfish, South Dakota; and Mankato and Worthington, Minnesota.

Added to the Route of the Northliners under the same order were Appleton and Ashland, Wisconsin; and Rockford, Illinois. Operations to these cities were inaugurated July 1.

Fairmont, Minnesota, received new North Central service beginning December 1, following completion of an airport development project.

Still pending before the C.A.B. is another important case, the Great Lakes Area Investigation, which covers extensive service in Michigan. Other applications under consideration include routes from Detroit to Cincinnati, Omaha to Kansas City, Kansas, and to five Canadian provinces. A summary of the latest developments in these cases follows:

Great Lakes Area Investigation

An initial decision September 29 by Civil Aeronautics Board Examiner Barron Fredericks would increase North Central's system by approximately 1,200 route miles, extend service to 19 additional cities in Michigan, and add 11 new airports to the company's operation.

The decision would provide a route between Sault

Ste. Marie, Michigan, and Chicago via Cheboygan/Petosky/Pelston/Harbor Springs, Traverse City, Manistee/Ludington, Cadillac/Reed City, Grand Rapids, and Benton Harbor/St. Joseph, Michigan. The C.A.B., in October, authorized North Central to provide interim air service to Benton Harbor/St. Joseph on a Grand Rapids-Chicago route until 90 days after a final decision in the Great Lakes case. Service was inaugurated January 1, 1960.

The examiner recommended two routes between Cheboygan and Detroit. One would run via Alpena, Saginaw/Bay City/Midland, and Port Huron, Michigan; the other by way of Saginaw/Bay City/Midland, Flint, and Pontiac, Michigan.

Examiner Fredericks said that North Central service is needed between Green Bay, Wisconsin, and Muskegon and Grand Rapids, Michigan, and between Milwaukee and Muskegon with the additional requirement that any Milwaukee-Detroit service include at least two intermediate stops.

The initial decision also called for a North Central segment between Escanaba and Saginaw, Michigan, via Traverse City.

The examiner recommended that the Board grant North Central permanent authority to operate non-stop between Oshkosh, Wisconsin, and Chicago. The company has been operating nonstop flights between these points on a temporary interim basis.

Oral arguments in the case were held early in February 1960, in Washington, D. C. The C.A.B.'s final order is expected later this year.

YEAR	APPLIED FOR	AWARDED	PENDING
1954	2,441	232	2,209
1955	7,837	30	10,016
1956	2,087	0	12,103
1957	0	993	11,110
1958	808	239	11,679
1959	169	2,041	3,442

ROUTE DEVELOPMENT PROGRAM

Omaha—Kansas City Application

On October 5, 1959, the company filed an application with the Board for a route between Omaha, Nebraska, and Kansas City, Kansas, with two intermediate stops at Falls City, Nebraska, and Atchison, Kansas.

The route would add 169 route miles and three new cities to the North Central system.

A hearing date has not yet been set in the case. Preliminary action is expected late in 1960.

Canadian Applications

During 1959 North Central moved closer to becoming the first local airline to operate international routes.

On October 21, Civil Aeronautics Board Examiner Herbert K. Bryan issued his initial decision recommending that North Central be certificated to provide service to Regina, Saskatchewan, Canada, from Minot, North Dakota, with an intermediate stop at Williston, North Dakota. The company also has applied for a nonstop segment between Minot and Regina.

Bryan's decision was followed by a recommendation from Examiner Ferdinand D. Moran that the company be authorized to provide service to Fort William/Port Arthur, Ontario, on two new routes. One would operate from Duluth, Minnesota/Superior, Wisconsin; the other, from Houghton/Hancock, Michigan.

North Central is unopposed in both Canadian applications. The decisions require approval of the President of the United States before becoming final.

The recommendations of Examiners Bryan and Moran would add nearly 750 route miles and four new cities to the company's system.

Other Canadian applications on file by North Central include nonstop service linking Minneapolis/St. Paul and Winnipeg, Manitoba; International Falls, Minnesota, and Winnipeg; and Detroit and Toronto, Ontario. No action to reopen the Bilateral Treaty between the United States and Canada is anticipated during 1960.

Detroit—Cincinnati

Early in 1959, the Civil Aeronautics Board made North Central a party to the Detroit-Cincinnati Suspension Investigation case which originated as an application by a trunk airline to transfer the route to another trunkline. Intermediates on the segment are Toledo, Dayton, and Columbus, Ohio.

Examiner Paul Pfeiffer issued his initial decision in November 1959, recommending that a local airline be certificated to serve the segment.

Briefs have been submitted subsequent to Pfeiffer's decision, and the Board is expected to set an early spring date for the oral argument.

Twin Cities—Quad Cities

In this proceeding, North Central appealed to the United States District Court of Appeals the C.A.B.'s order in the Seven States Case awarding two routes in Iowa, Illinois and Minnesota to another airline in the Seven States decision. These consist of a route from Minneapolis/St. Paul to Davenport, Iowa/Rock Island/Moline/East Moline, Illinois, via Rochester, Minnesota, and Cedar Rapids, Iowa; and from Madison, Wisconsin, to Omaha, Nebraska, via Des Moines, Cedar Rapids and Dubuque, Iowa.

The Court of Appeals has heard the case, and a decision is expected in the spring of this year.

TRAFFIC GROWTH

North Central again led the nation's local airline industry in 1959 by setting new records in passenger, mail, and cargo volume for the greatest growth in the company's 12-year history.

The 957,751 revenue passengers enplaned in 1959 was the largest number ever carried by a local airline and nearly one-fifth the total transported by the entire

local industry during the year. It was a 23 per cent increase over North Central's own passenger traffic record of 1958, and exceeded the passenger volume on the second-ranking local airline by 61 per cent.

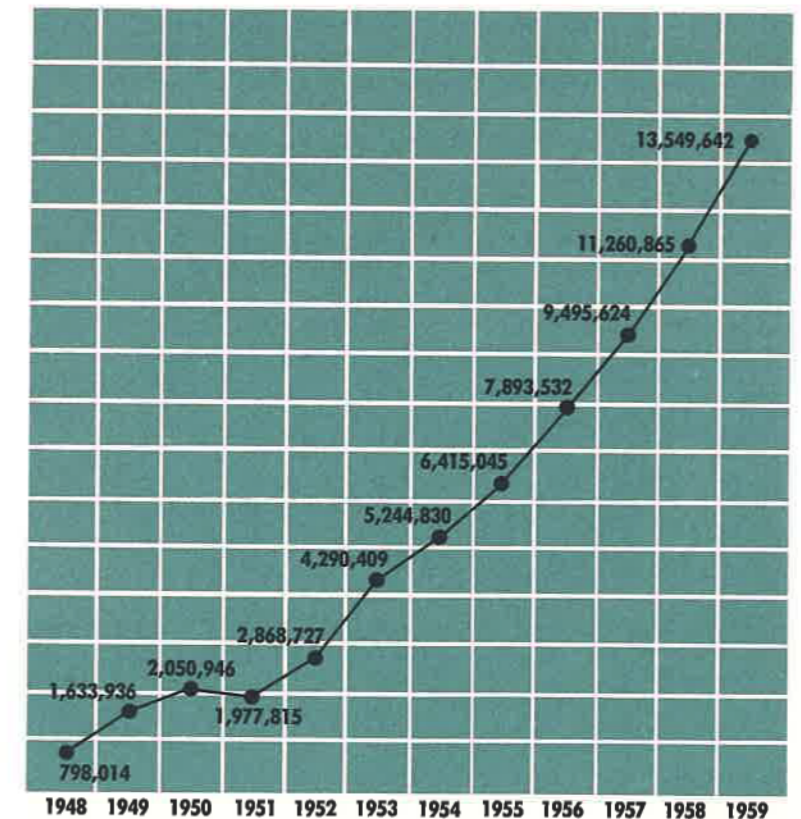
Northliners carried 4,856,740 pounds of mail during 1959, an increase of 29 per cent over 1958, and which was 137 per cent ahead of the second-place local carrier. This includes the expedited surface mail carried by the airline.

Cargo volume reached a record 9,195,960 pounds. This was 18 per cent ahead of the second-ranking local airline. Air freight service was inaugurated on June 1, 1959 and in September, North Central ranked third among the local airlines. By the end of the year, the company had carried 2,112,294 pounds of air freight.

August was North Central's best traffic month. The company enplaned 95,409 revenue passengers, setting a new monthly high for the local airline industry.

The company held this traffic leadership and also maintained its perfect safety record. Since inaugurating service in 1948, the airline has flown 662,648,213 passenger miles without a fatality to passengers or crew members.

REVENUE MILES FLOWN



INCREASED FACILITIES

North Central added to its physical plant facilities, created a new operating department, improved passenger handling procedures at busy Chicago Midway Airport, streamlined its system of interline reservations requests, and increased its sales staff during 1959.

Three buildings were added to the company's physical layout in the General Office area of Wold-Chamberlain field, Minneapolis/St. Paul. A new \$350,000 Convair maintenance hangar and office building was completed in March. Located here are Convair line maintenance, inspection dispatch, the automotive shop, overhaul maintenance, and the welding, fabric and paint shops. The second floor houses offices for the Maintenance and Engineering department, and the Industrial Relations department.

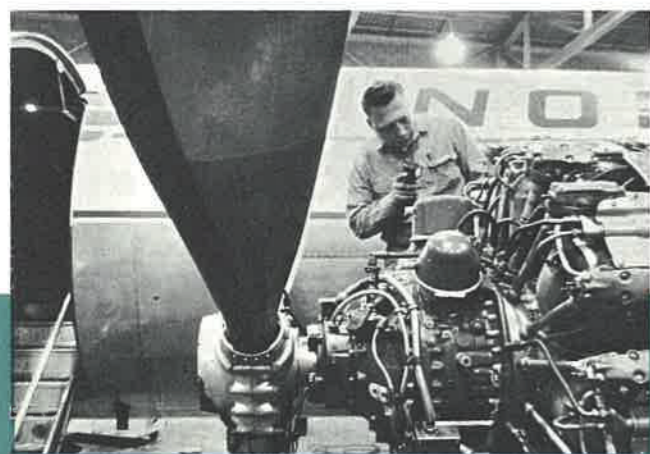
Across from the Convair hangar is a new one-story building which provides office space for the chief engineer and his staff.

The third addition was that of the Training Center. This building is located near the airport and is leased from the Minneapolis-St. Paul Metropolitan Airports Commission.

The facility was required for the extensive Convair training program which the company instituted early in 1959. At that time, all training activities for stewardesses, pilots, maintenance and station personnel were centralized in this building. More than 750 North Central employees spent 20,500 ground school man-hours and 1,500 in-flight man-hours of Convair training before the new aircraft went into service in April.

A management training program has also been established covering such subjects as personnel supervision, administration, and human relations.

In June, a new company department — Ground Operations — was established to provide broader, more direct supervision of stations, fleet service, telecommunications, and such ground services as security, lost



North Central's careful inspection and maintenance of flight equipment resulted in remarkably few maintenance delays and cancellations.

and found, and claims. These functions formerly were included in the Traffic and Sales and Flight Operations departments. The new department is headquartered in the Training Center and headed by T. M. Needham as Director of Ground Operations.

The growing volume of passenger traffic at Chicago Midway airport has made it necessary to increase the company's ticket counter staff by about 40 per cent to insure more efficient handling of air travelers. In addition, North Central instituted an intensive on-the-job training program for all Midway ticket agents covering schedules, tariffs, and ticketing procedures.

The company has also introduced a new, streamlined check-in system for the convenience of Chicago-boarded passengers. Agents can now check in passengers with confirmed reservations at about 60 per minute, providing more time for the customer with an unusual travel problem.

"White-glove" treatment of passengers was inaugurated by North Central at Midway in 1959 when three specially-trained passenger relations agents were placed in front of the ticket counter to handle unconfirmed reservations, standbys, elderly or incapacitated persons, and travelers with small children. This system allows the company to give individual attention to such persons and alleviates confusion at the counter.

The company has centralized control of all communications (local phones and leased facilities) under a Telecommunications section in the Ground Operations department. One of the major improvements in handling interline reservations requests has been the installation of a "Z" circuit teletype at the Chicago reservations center. This has resulted in faster, more efficient processing of interline reservations. In addition to other improvements in communications and telephone procedures, North Central plans to expand its private line teletype system to handle interline reservations exclusively at certain larger cities.

Downtown ticket offices were opened at Green Bay and Madison, Wisconsin, during the year. City ticket offices also are maintained at Minneapolis and Duluth and shared with other airlines at Milwaukee, Chicago, Detroit, and St. Paul. During the year, district sales offices were opened at Chicago and Sioux Falls, South Dakota.

The company established the positions of Military Sales Representative and Agency and Interline Sales Representative in 1959. Both are located in the Minneapolis District Sales office.

During 1959, North Central's staff of traffic and sales representatives made nearly 16,000 personal sales calls in addition to their other duties.

SERVICE INCREASED

North Central continued to provide more service to the traveling public than any of the 13 other local

airlines. The company offered airline patrons nearly 350,000,000 seat miles, a 35 per cent increase over 1958. This increase was due largely to the addition of Convair equipment.

North Central flew 153,893,721 passenger miles in 1959, a 22 per cent increase. Of the 167,922 scheduled arrivals during the year, more than 68 per cent were on time, a remarkable achievement considering the addition of new equipment and the short-haul nature of the operation.

In February, the company established a fleet service section in the newly-created Ground Operations department. Meal service and snacks were added on certain long-haul, Convair segments.

Last year, North Central's customer correspondence section answered more than 3,450 customer letters from the nearly 1,000,000 passengers carried over the Route of the Northliners.

Every passenger letter goes first to President Hal N. Carr and then to the Traffic and Sales department for investigation and reply by the customer correspondence section.

Compliments are acknowledged and forwarded to the employee or station mentioned. Complaints are investigated, and the passenger is advised of the results.

EQUIPMENT PROGRAM

North Central launched its third major equipment change April 26 with the inauguration of service with Convair Super Northliners, bringing the fleet to 37 aircraft, including five Convair 340's and 32 Douglas DC-3's.

Delivery of the 44-passenger, radar-equipped Convairs began in January 1959, after the Civil Aeronautics Board approved a government guarantee of 90 per cent of the \$2,340,000 equipment loan for purchase of the five aircraft and related spare parts.

During the remaining eight months, the Convairs were integrated into the operation with speed and efficiency. Average daily aircraft utilization for the year was 6 hours, 32 minutes. The company's DC-3 utilization rate of 7 hours, 20 minutes a day is the highest in the local airline industry.

The Convairs flew 95.6 per cent of their 1,659,183 scheduled miles in 1959. The company's DC-3's operated 97.4 per cent of their 11,963,522 miles to produce a system performance factor for the year of 97.2 per cent.

Initially, Super Northliner service has been reserved for the long-haul, high density segments. Future equipment plans call for the addition of five more Convairs during 1960. Service with the larger, faster airliners will then be extended to other segments and additional cities as rapidly as traffic demands and airport developments permit.



Deliciously-prepared meals are served on selected Super Northliner flights.

Experience during the first eight months of Convair operation indicates that the new equipment not only improves service to the traveling public but also generates new business. The Convairs are more efficient than the relatively high-cost DC-3 because of a lower seat-mile cost.

FORECAST

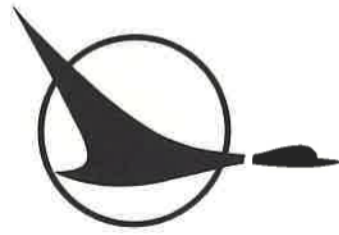
North Central looks forward to the new decade as a period which will bring unprecedented opportunity and progress. The dynamic record of the local airlines and the company's emergence as the leader in this important segment of the nation's transportation system will be reflected in North Central's continued growth during 1960.

The next year will see North Central become the first local airline to operate international routes when the final approval is given to the company's applications to serve points in Ontario and Saskatchewan, Canada. The system also will be expanded to include new cities in Michigan.

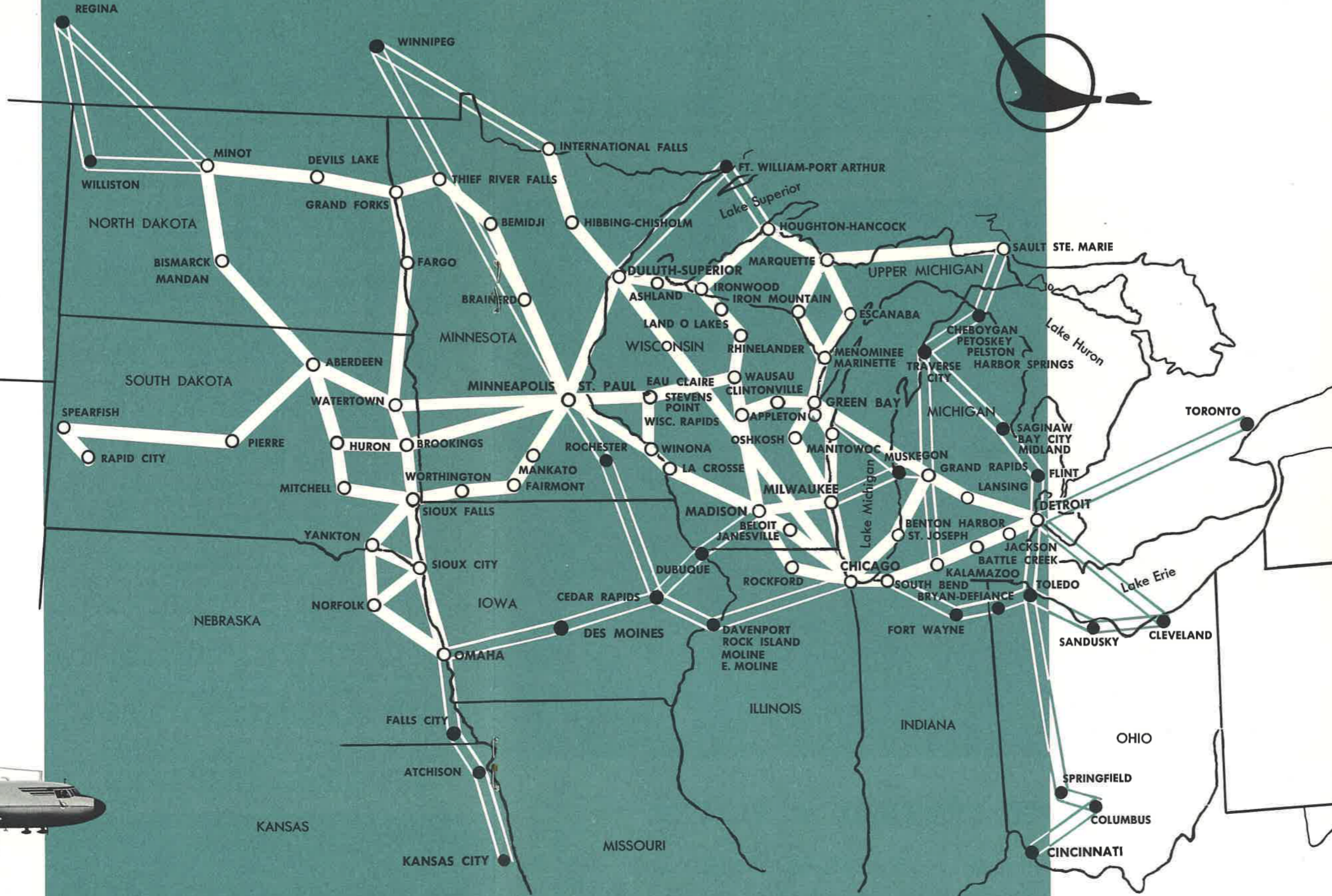
This strengthened route structure in the midwest and Canada will be augmented by the addition of more Convair equipment to serve the growing air transportation needs of this vital section of the nation. The company has for some time been evaluating available turbo-prop engines with a view toward converting its Convair aircraft within the next three to five years.

More than a million passengers will board North Central airliners in 1960, and the new air freight service will be further developed to match the company's leadership in mail and express volume.

The increased traffic potential, new equipment, and an expanded route system will result in record revenues to North Central during the coming years.



ROUTE OF THE NORTHLINERS



AMERICA'S LEADING LOCAL AIRLINE



PASSENGERS

MAIL* IN POUNDS

CARGO** IN POUNDS

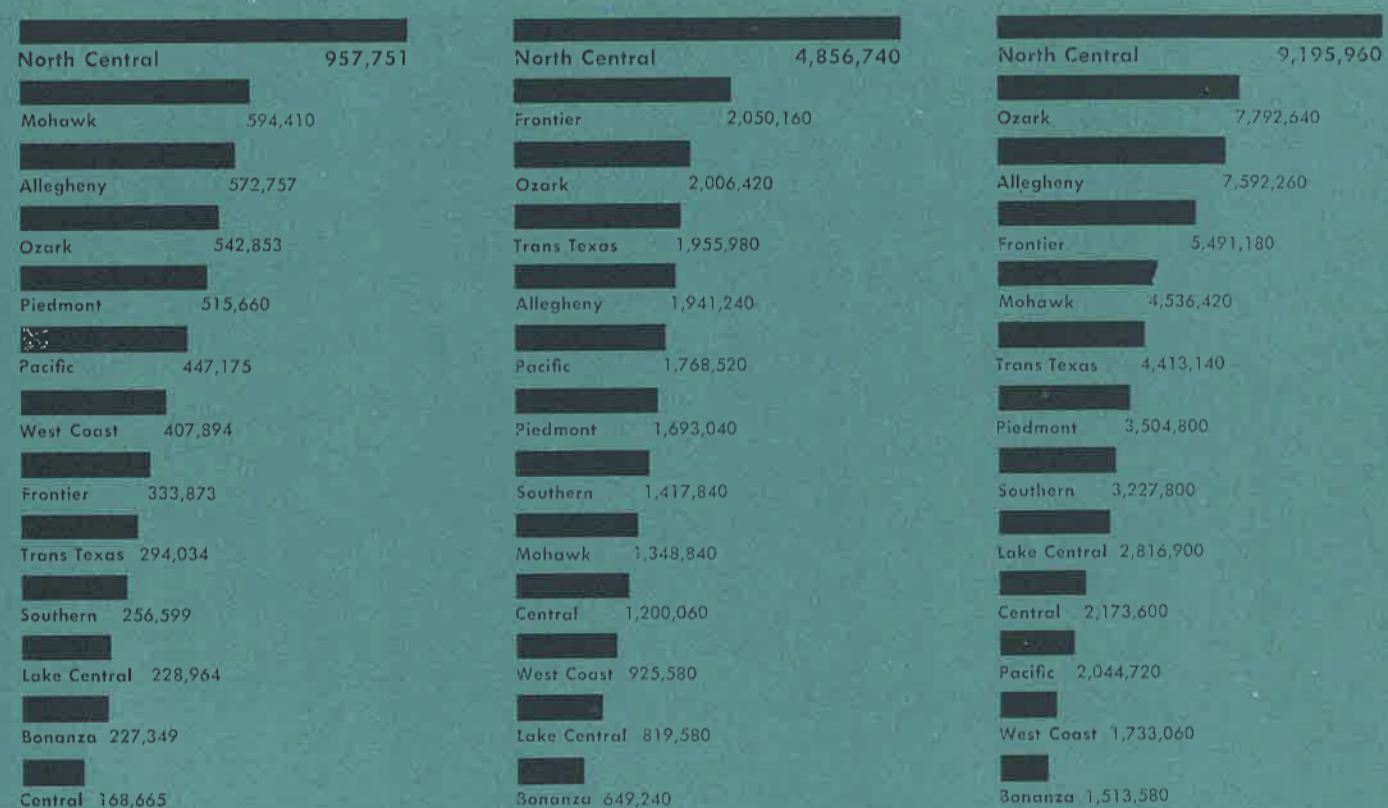


*Includes Air Mail, Surface Mail
**Includes Air Express, Air Freight

PASSENGERS

MAIL* IN POUNDS

CARGO** IN POUNDS



*Includes Air Mail, Surface Mail
**Includes Air Express, Air Freight

12 YEARS OF CONTINUOUS PROGRESS
1959: GREATEST YEAR OF GROWTH

NORTH CENTRAL AIRLINES



FIRST IN PASSENGERS, 1959

FIRST IN MAIL, 1959

FIRST IN CARGO, 1959

NORTH CENTRAL AIRLINES, INC.



BALANCE SHEET

December 31, 1959

ASSETS

CURRENT ASSETS		
Cash		\$ 545,845
Accounts receivable		
Mail	\$1,594,512	
Mail — additional claim (Note 1)	635,994	
Traffic	1,589,133	
Other	175,622	3,995,261
Maintenance and operating supplies — at the lower of cost (determined by the first-in, first-out method) or market		611,434
Prepaid expenses and sundry deposits		365,188
Total current assets		5,517,728
INVESTMENTS — at cost		10,821
OPERATING PROPERTY AND EQUIPMENT (at cost)		
Flight equipment (Notes 2 and 3)	6,382,742	
Ground equipment	730,661	
Hangar buildings and improvements to leased property	227,965	
Furniture and fixtures	211,984	
Total	7,553,352	
Less depreciation to date	3,633,485	3,919,867
DEFERRED CHARGES		
Route development expense	252,317	
Other	83,171	335,488
		<u>\$9,783,904</u>

LIABILITIES

CURRENT LIABILITIES		
Current maturities of long-term notes		\$ 875,613
Accounts payable		
Trade	\$2,078,567	
Traffic	1,108,820	3,187,387
Unearned transportation revenue		151,060
Income taxes withheld and other employee payroll deductions ..		133,973
Accrued liabilities		
Salary and wages	525,004	
Taxes (including \$4,542 of income taxes)	282,051	
All other	225,692	1,032,747
Total current liabilities		5,380,780
NONCURRENT LIABILITIES		
5½% notes payable to bank, due in monthly or semi-annual installments to January 1, 1966 (Notes 2 and 3)	3,692,000	
Other notes payable, partially secured by pledge of certain equipment, due in monthly installments	105,255	
	3,797,255	
Less current maturities	875,613	
	2,921,642	
Deferred rental	5,000	
Total noncurrent liabilities		2,926,642
CAPITAL		
Common stock — authorized, 3,750,000 shares of \$20 par value; issued and outstanding, 2,113,724 shares	422,745	
Paid-in in excess of par value of stock issued	894,975	
	1,317,720	
Retained earnings	158,762	1,476,482
		<u>\$9,783,904</u>

The accompanying notes are an integral part of the financial statements.

NORTH CENTRAL AIRLINES, INC.



STATEMENT OF EARNINGS

Year ended December 31, 1959

TRANSPORTATION REVENUE			
Passenger	\$11,388,135		
Mail	6,322,896		
Express	216,725		
Excess baggage	95,039		
Non-scheduled transport service	310,382		
Freight	116,667		
Other	51,277	\$18,501,121	
OPERATING EXPENSES			
Flying operations	5,561,764		
Flight equipment maintenance	2,362,266		
Other maintenance	1,208,030		
Passenger service	956,850		
Aircraft and traffic servicing	5,065,347		
Promotion and sales	1,376,895		
General and administrative	708,829		
Depreciation (Note 5)	859,102	18,099,083	
Operating profit			402,038
OTHER DEDUCTIONS			
Interest	183,364		
Extension and development	63,491		
Income taxes (Note 4)	4,542	251,397	
Net earnings before special charge			150,641
SPECIAL CHARGE			
Prior years extension and development costs (Note 6)			134,673
NET EARNINGS			\$ 15,968

The accompanying notes are an integral part of the financial statements.

STATEMENTS

OF

RETAINED EARNINGS AND PAID-IN CAPITAL

Year ended December 31, 1959

RETAINED EARNINGS			
Retained earnings -- December 31, 1958		\$142,794	
Net earnings for the year		15,968	
RETAINED EARNINGS, DECEMBER 31, 1959			\$158,762
PAID-IN CAPITAL			
Paid-in capital, December 31, 1958		\$817,518	
Excess of proceeds from sale of common stock over par value thereof --			
Treasury stock	\$92,150		
Previously unissued stock	5,438	97,588	
			915,106
Stock dividend -- 100,654 shares (1 share for each 20 outstanding)		20,131	
PAID-IN CAPITAL, DECEMBER 31, 1959			\$894,975

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

- It is the policy of the Civil Aeronautics Board to provide a scheduled airline on a temporary mail rate (the company has been on such rate since November 23, 1956) with sufficient mail pay on settlement of its final rate to meet its break-even need and also to provide for a reasonable return on recognized investment. In accordance with this policy the company has determined that for 1959 an amount of \$160,762 of additional mail pay will be applicable under these two categories. An amount of \$635,994 is shown as an account receivable at December 31, 1959, which amount includes the 1959 item and \$475,232 which is the unpaid portion of the 1956-1958 break-even need and return on investment.
- On January 9, 1959 the company borrowed \$2,000,000 from two banks for a working capital loan. It is repayable, with interest at 5 1/2% on the unpaid balance, in monthly installments totaling \$480,000 per year, with a final payment of \$370,000 due on June 15, 1962. As security for the loan the company has pledged twenty-three DC-3 aircraft including related flight equipment. Among other things, the loan agreement provides that the company maintain current assets (excluding unapproved mail pay claims) that are at least equal to current liabilities, excluding any liability to the banks under this working capital loan or the equipment loan mentioned in Note 3.
- The company has also borrowed \$2,340,000 from the same two banks in order to complete the transactions relative to the purchase of five Convair-340 aircraft, spare engines and parts. The loan is secured by the Convair

aircraft, engines and parts as described above and is to be repaid, together with interest at 5 1/2% on the unpaid balance, in semi-annual installments of \$167,000 to January 1, 1966. The U.S. Government has guaranteed 90% of the loan, with such guarantee not to exceed \$2,106,000.

- A net operating loss carry-over from prior years is sufficient to absorb taxable income for 1959 and accordingly no provision has been made for Federal and State income taxes. During 1959 the United States Treasury and the Wisconsin Department of Taxation reviewed the company's tax returns through the year 1958. The examinations resulted in additional State of Wisconsin assessments totaling \$4,542 but no additional Federal tax.
- Depreciation deductions included in the accompanying statement of earnings are approximately \$28,000 more than the related amount allowable for tax purposes because of a redetermination of useful lives of aircraft and engines made by taxing authorities.
- In 1959 the United States Supreme Court refused to review a decision of the Circuit Court of Appeals, which denied the company the right to purchase 96% of the outstanding stock of Lake Central Airlines, Inc. As a result the company has charged off against current earnings the accumulated costs applicable to this application. These costs were incurred from 1952 to 1959.

CHICAGO
NEW YORK
LOS ANGELES

ALEXANDER GRANT & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
312 EAST WISCONSIN AVENUE
MILWAUKEE 2, WISCONSIN

OTHER
PRINCIPAL
CITIES

Board of Directors
North Central Airlines, Inc.

We have examined the balance sheet of NORTH CENTRAL AIRLINES, INC. (a Wisconsin corporation) as of December 31, 1959 and the related statements of earnings and retained earnings and paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of earnings and retained earnings and paid-in capital present fairly the financial position of North Central Airlines, Inc. at December 31, 1959 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Milwaukee, Wisconsin
February 15, 1960

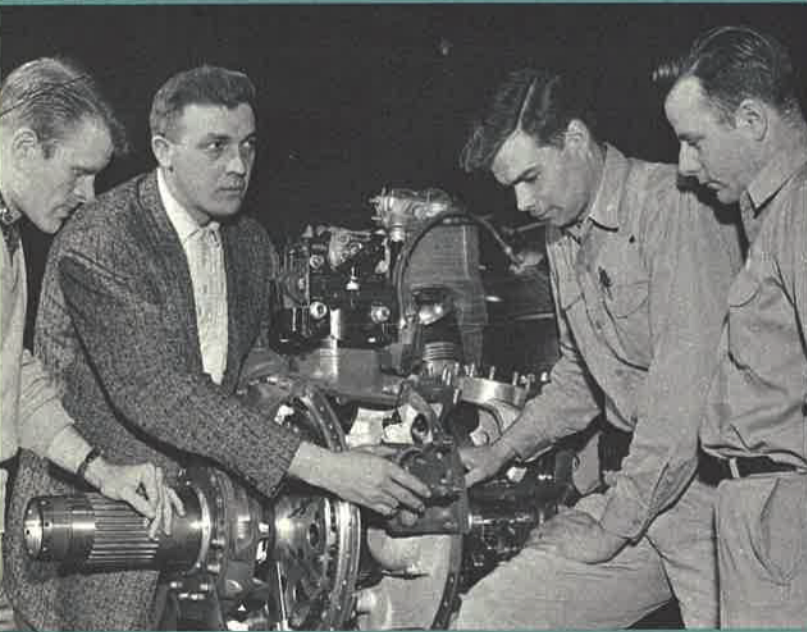
Alexander Grant & Company

COMPARATIVE FINANCIAL SUMMARY

	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948
Operating Revenues	\$11,388,135	\$ 8,702,455	\$ 7,372,333	\$ 6,137,216	\$ 4,933,487	\$ 3,351,782	\$ 2,303,738	\$ 1,470,536	\$ 860,599	\$ 427,278	\$ 271,576	\$ 113,648
Passenger	6,322,896	3,780,823	2,925,645	1,522,211	1,689,890	2,328,921	2,468,685	1,681,542	1,181,596	1,355,145	1,036,243	580,968
Mail	216,725	164,615	146,287	149,640	126,476	75,630	68,117	55,861	45,173	18,637	8,364	5,963
Express	95,039	78,455	54,986	40,506	30,477	20,975	15,739	12,783	5,643	2,419	1,519	1,012
Excess Baggage	310,382	384,957	273,077	119,419	28,711	46,734	25,436	-	-	-	-	-
Non-scheduled Transport Service	116,667	-	-	-	-	-	-	-	-	-	-	-
Freight	51,277	34,934	29,667	15,345	8,964	5,283	5,682	2,982	5,781	2,953	8,301	2,133
Other Revenue	\$18,501,121	\$13,141,239	\$10,801,995	\$7,984,337	\$6,818,005	\$5,829,325	\$4,887,397	\$3,223,704	\$2,098,792	\$1,806,432	\$1,326,003	\$ 703,724
TOTAL												
Operating Expenses	\$ 5,561,764	\$ 4,191,826	\$ 3,455,867	\$ 2,578,253	\$ 2,007,381	\$ 1,695,384	\$ 1,413,489	\$ 939,931	\$ 612,060	\$ 476,572	\$ 361,254	\$ 200,030
Flying Operations	2,362,266	1,657,479	1,384,841	960,021	845,753	724,209	690,589	483,292	275,469	267,105	229,946	127,966
Flight Equipment Maintenance	1,208,030	815,676	644,693	287,978	342,276	373,222	368,406	293,682	157,014	136,205	111,736	51,164
Indirect Maintenance	956,850	703,598	560,934	443,243	325,669	256,872	211,520	140,983	82,967	16,096	6,791	3,294
Passenger Service	5,065,347	3,623,142	3,095,105	2,400,946	1,866,574	1,485,796	1,320,671	898,372	575,368	458,618	347,628	218,162
Aircraft and Traffic Servicing	1,376,895	839,866	621,829	456,537	369,452	270,129	228,028	122,724	101,881	37,697	25,896	19,033
Promotion and Sales	708,829	562,628	504,055	431,671	316,092	270,391	223,500	159,580	129,794	120,850	80,919	54,645
General and Administrative	859,102	583,174	452,993	301,161	470,169	535,557	428,308	205,192	143,722	120,329	99,599	54,645
Depreciation												
TOTAL	\$18,099,083	\$12,983,389	\$10,720,317	\$7,859,810	\$6,594,510	\$5,657,261	\$4,931,402	\$3,307,676	\$2,108,061	\$1,642,416	\$1,303,500	\$ 755,213
Net Operating Profit (or Loss)	402,038	157,850	81,678	124,527	223,495	172,064	(44,005)	(83,972)	(9,269)	164,016	22,503	(51,489)
Amortization of Route Development Expense	(198,164)	(6,194)	(6,281)	(8,566)	(26,995)	(5,227)	(10,618)	-	-	(65,015)	(86,292)	(73,525)
Non-operating Income and Expenses, Net	(183,364)	(43,472)	(54,709)	(36,085)	(50,551)	(55,130)	(59,965)	(39,421)	15,536	(6,888)	(12,094)	(3,030)
Net Profit (or Loss) before Taxes	20,510	108,184	20,688	79,876	146,449	111,707	(114,588)	(123,393)	6,267	92,113	(75,883)	(128,044)
Income Taxes	4,542	-	(60,103)	45,700	18,000	-	-	-	-	-	-	-
Net Profit (or Loss)	\$ 15,968	\$ 108,184	\$ 80,791	\$ 34,176	\$ 128,449	\$ 111,707	\$ (114,588)	\$ (123,393)	\$ 6,267	\$ 92,113	\$ (75,883)	\$ (128,044)

1959

OUR GREATEST YEAR OF GROWTH



1959—A busy year for North Central. During the first few months, the company's entire training program was geared to the introduction of the Convair 340's . . .



. . . and on April 26 five of these 44-passenger, radar-equipped Convairs were added to the fleet's 32 DC-3's to bring the best in air service to the Northliner system.

New service was started to 16 cities in North Dakota, South Dakota, Illinois, Wisconsin and Minnesota. The 2,000 additional route miles constituted the largest award in the company's history.

Throughout the year new employees were added to meet these rapid developments of the airline. At the year's end, employment figures approached the 2,000 mark.



