



NORTH CENTRAL AIRLINES

1963 *Annual Report*

DIRECTORS

HAL N. CARR*
WERNER L. CHRISTENSEN
D. E. CROOKER
G. F. DeCOURSIN*
ARTHUR E. A. MUELLER*
A. JAMES MUELLER
K. B. WILLETT

*Executive Committee

MANAGEMENT

ARTHUR E. A. MUELLER
Chairman of the Board

HAL N. CARR
President and General Manager

R. H. BENDIO
Vice President, Maintenance and Engineering

FRANK N. BUTTOMER
Vice President, Traffic and Sales

A. D. NIEMEYER
Vice President, Flight Operations

ARTHUR E. SCHWANDT
Vice President, Industrial Relations

BERNARD SWEET
Vice President, Finance

JOHN P. DOW
Secretary

CHARLOTTE G. WESTBERG
Assistant Secretary

D. F. MAY
Treasurer

L. J. KEELY
Director, Maintenance and Engineering

T. M. NEEDHAM
Director, Ground Operations

G. F. WALLIS
Director, Flight Operations

GENERAL OFFICES:

6201 Thirty-Fourth Avenue South,
Minneapolis, Minnesota 55450

Registrar and Stock Transfer Agent
Northwestern National Bank of Minneapolis;
Minneapolis, Minnesota

To our stockholders, employees and friends:

March 12, 1964

THE YEAR 1963 marked the completion of 16 years in scheduled air transportation for North Central Airlines—America's Leading Regional Airline. We are pleased to report that it was a year of significant growth. The company attained new heights in traffic and revenues and also set the industry pace in operating performance.

WHILE NORTH CENTRAL carried a record 1,214,532 passengers in 1963, each month during the year broke its own all-time passenger boarding mark. The 27,800,000 pounds of cargo—including air express, freight, and mail—was 10 per cent over 1962, the company's previous best year.

THIS INCREASED TRAFFIC produced record revenues of \$28,101,000 for the year, in spite of a substantial reduction in public service payments. These revenues, coupled with the company's intensive cost control program, resulted in a net profit after taxes of \$506,000. With \$1,521,000 of depreciation, the cash flow reached an all-time high of \$2,027,000. This is 18 per cent—or \$302,000—more than in 1962.

THE COMPANY also took great strides in operating excellence. It completed over 99 per cent of its 14,500,000 scheduled miles for 1963. Of the 175,000 scheduled arrivals, 86 per cent were on time. North Central is proud of this outstanding operating record. While attaining this enviable industry-leading status, the airline continued to maintain its perfect 16-year safety record.

A NEW SOURCE OF REVENUE was added with the award of a two-year contract to North Central by the United States Agency for International Development. Under this project, the company will provide managerial and technical assistance to Lloyd Aereo Boliviano, S. A., the national airline of Bolivia.

THE CIVIL AERONAUTICS BOARD's announced program of strengthening the regional airlines holds the key to future growth. We are most optimistic that further advances in our route development program, coupled with the vigorous traffic promotion, will result in continued progress in the coming year.

AS WE LOOK to record revenues and profits in 1964, we again want to acknowledge the loyal support of our employees, stockholders, and many friends who fly along the "Route of the Northliners."

Sincerely,



ARTHUR E. A. MUELLER
Chairman of the Board



HAL N. CARR
President



Annual Report, 1963

Financial Review

NORTH CENTRAL AIRLINES attained record revenues of \$28,101,209 in 1963, compared with \$27,159,551 for 1962.

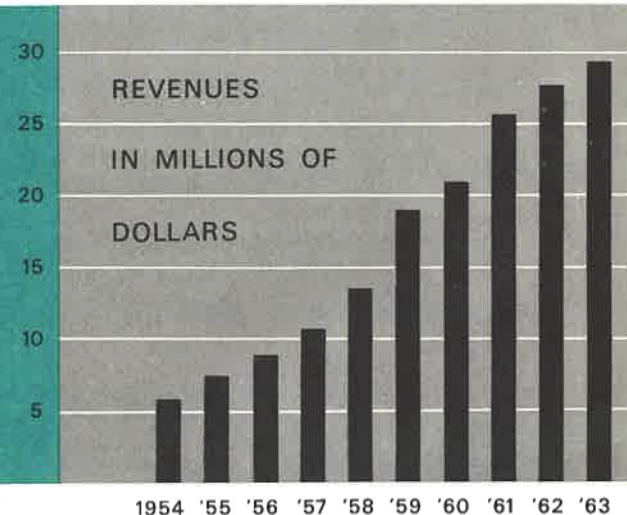
Operating expenses were \$26,427,466 and included \$1,521,376 in depreciation charges. As a result, the company had an operating profit of \$1,673,743 and a net profit of \$505,711, after income taxes of \$775,662. These net earnings, together with the \$1,521,376 of depreciation, resulted in cash flow of \$2,027,087 in 1963.

North Central earned a profit of \$505,711 although its public service revenues were reduced by \$658,026. These earnings were achieved by efficiencies of operation and the continuation of an intensified cost control program. In addition, for the third consecutive year the company returned excess profits to the Federal Government under the class mail rate.

During 1963 North Central sold \$851,500 of 5½ per cent subordinated convertible debentures due June 1, 1978. The sale of these securities was completed on favorable terms, without an underwriting because of the company's strong financial position.



RIGHT, North Central's 1963 record revenue caps a decade of solid financial growth. LEFT, a large number of civic leaders and aviation enthusiasts were present for the inauguration of Convair 440 Super Northliner service at La Crosse, Wisconsin.



IN 1963, North Central continued to advance its route development program by applications to the Civil Aeronautics Board for new routes, lifting of operating restrictions, and acquisition of segments and cities now served by trunk airlines.

During the year North Central participated in several C.A.B. route proceedings which will significantly affect its future operations. The company presently serves 91 cities in 10 Midwest states and Canada over its 7,000-mile system.

North Central is currently involved in the following route proceedings:

SIoux CITY-NORFOLK-DENVER—Still pending is the company's application for a 480-mile route segment between the co-terminals of Sioux City, Iowa and Norfolk, Nebraska; and the terminal point of Denver, Colorado. The addition would strengthen the entire western portion of the airline and add a major city—Denver—to the system.

OMAHA-ST. LOUIS—North Central has applied for a 400-mile segment from Omaha to St. Louis, via intermediate cities of Chillicothe and Moberly, Missouri. Besides adding another major terminal—St. Louis—the route would be North Central's first entry into Missouri.

OMAHA-KANSAS CITY—Service to three new cities is proposed in the company's application for a 169-mile segment south of Omaha. They are: Falls City, Nebraska; Atchison, and Kansas City, Kansas. This would add the State of Kansas to the airline's system.

RAPID CITY-OMAHA—Still pending is the company's amendment to the Omaha-Kansas City application to include a route between Norfolk, Nebraska and Rapid City, South Dakota, with nonstop authority between Rapid City and Omaha.

DETROIT-BALTIMORE—North Central has applied for authority to operate between Detroit and Baltimore, with intermediate cities of Cleveland and Pittsburgh. The 415-mile segment would greatly strengthen the entire eastern portion of the system by adding these two major cities, Pittsburgh and Baltimore.

DETROIT-TORONTO—Awaiting the reopening of the Bilateral Treaty between the United States and Canada is the company's application for a nonstop route between Detroit and Toronto, Ontario, Canada.

MONTANA-NORTH DAKOTA-SOUTH DAKOTA ROUTES—1,376 route miles and 12 cities would be added to North Central's system in the application involving Montana, North Dakota, and South Dakota.

TRANSFER INVESTIGATIONS—In keeping with the C.A.B.'s plan to strengthen the regional airlines by the transfer of segments and cities from the trunk airlines to the regional carriers, North Central has requested suspension of United Air Lines' authority to serve Saginaw/Bay City/Midland, Flint, Lansing, and Muskegon, Michigan. North Central has also applied for suspension

Route Development

of Western Airlines at Pierre and Huron, South Dakota, and for a direct route between Pierre and Huron.

OPERATING FLEXIBILITY APPLICATIONS—Also in the C.A.B.'s program to strengthen the regional carriers is the relaxation of operating restrictions on existing segments to permit nonstop and skip-stop authority.

The company seeks authorization between Minneapolis/St. Paul and Chicago for (1) nonstop service; (2) one-stop via Milwaukee, Wisconsin; (3) one-stop via Madison, Wisconsin; and (4) three-stop via LaCrosse, Madison, and Milwaukee.

North Central also seeks authority to provide nonstop service between Chicago and Cleveland.

"USE IT OR LOSE IT" PROCEEDINGS—A C.A.B. hearing was held in October 1963 investigating service to four Michigan cities under the Board's "use it or lose it" policy. Cities involved are Pontiac, Cadillac/Reed City, and Port Huron. The Examiner's recommendation to the C.A.B. and a final decision by the Board are expected later in 1964.

REGIONAL AIRPORT INVESTIGATIONS—In the North Central Area Airport Investigation a hearing was held in



Four Convair Northliners prepare for passenger boardings at Chicago's O'Hare International Airport.

July 1963 to determine whether or not eight combinations of cities should be served through regional airports.

The following combinations of cities were included: (1) Ashland, Wisconsin-Ironwood, Michigan; (2) Appleton-Oshkosh, Wisconsin; (3) Clintonville-Green Bay, Wisconsin; (4) LaCrosse, Wisconsin-Winona, Minnesota; (5) Land O'Lakes-Rhineland, Wisconsin; (6) Marshfield-Wausau, Wisconsin; (7) Marshfield-Wisconsin Rapids/Stevens Point, Wisconsin; (8) Wausau-Wisconsin Rapids/Stevens Point.

A Board decision in the case is expected in 1964.

In the Michigan Area Airline Service Airport Investigation, the Board will consider whether or not Battle Creek and Kalamazoo should receive service through an area airport.

Traffic Growth



New, smartly-styled uniforms for ticket counter personnel were introduced in 1963.

Northliner cargo compartments carried a record 10,720,700 pounds of air freight.



NORTH CENTRAL achieved traffic gains in 1963 as 1,214,532 passengers and 27,815,119 pounds of cargo were flown; greatest in the airline's 16-year history.

The record passenger boardings exceeded 1962—the previous best year—by eight per cent. Each month during the year surpassed its own previous boarding record and December 20 was the airline's greatest single day when 4,818 passengers were enplaned. A new mark was set with 203,828,672 passenger miles flown, an increase of seven per cent over 1962. Much of this growth can be attributed to the traveling public's enthusiasm for North Central's pace-setting operating performance.

Substantial gains in air freight and express were also achieved with 1,240,482 freight ton miles flown, up 21 per cent from 1962, and 776,535 express ton miles carried, a 12 per cent gain over the previous year. Air freight volume reached a record 10,720,700 pounds, an increase of 17 per cent over the previous high in 1962. Some 10,403,273 pounds of air express were carried, for a 10 per cent gain over last year.

In 1963, North Central's charter flights increased 72 per cent over the previous year. Some 229 charters were operated, compared to 133 in 1962. In 1963 over 5,000 passengers flew on Northliner charters.

While carrying a record number of passengers and the greatest volume of cargo in its history, the company also maintained its perfect 16-year safety record. The National Safety Council again this year presented the airline its highest citation, the Award of Honor. Since inaugurating scheduled service in 1948, North Central has carried 8,700,000 passengers and flown 1,400,000,000 passenger miles without fatality or injury to passengers or crew members.

Operating Performance



Perpetual and exacting maintenance has aided North Central in attaining an industry-leading position for operating performance.

NORTH CENTRAL established new records for operating performance during 1963. Competing with the nation's 11 trunk airlines and 12 other regional carriers, as well as combating some unfavorable weather, the airline achieved one of the most outstanding records in commercial aviation for scheduled miles completed. Of its 14,549,105 scheduled miles in 1963, the airline completed over 99 per cent.

At the same time, the company maintained one of the best on-time records in the entire airline industry. Of North Central's 174,918 flight arrivals, 86 per cent were on time. This compares with an 81 per cent on-time record in 1962.

This enviable operating performance can be attributed, in part, to North Central's aggressive cold weather program, "Operation Cold Front." Long before the start of the winter season, all station, maintenance, and supervisory personnel begin a comprehensive preparatory program to convert ground support equipment to winter operating condition. Extensive training classes on cold weather operational techniques are conducted at each of the 50 overnighting and refueling stations. Equipment at other stations is also completely winterized.

Another factor contributing to the company's operating reliability is the increased use of the data collection system which links the airline's Minneapolis, Chicago, and Detroit maintenance bases. The system permits analytical evaluation of daily work progress. It is now possible to plan work schedules for the greatest efficiency and speed. As a result, phase overhaul and periodic check times on Convair Northliners have been reduced by 30 per cent and DC-3 overhaul time cut by 35 per cent.



North Central's "Operation Cold Front" assures that personnel are properly trained and that all ground equipment is in a ready condition for winter operations.

Improved Services



BELOW, The new consolidated reservations control center in Milwaukee, Wisconsin, provides the traveling public with a faster and more efficient information service.

ONE OF THE MAJOR IMPROVEMENTS in passenger service was accomplished early in the year when the company moved its Chicago reservations office and central reservations-control facilities to Milwaukee. The new center with its more efficient working conditions and improved equipment permits North Central to provide even better service to the traveling public while effecting substantial savings. The consolidated reservations center, occupying 5,500 square feet, includes over 120 employees.

Confirmation information on North Central flights can be obtained immediately since the space-control section is in the same location. Since additional direct phone lines to connecting carriers have been installed, interline information requested by the passenger has also been speeded up. In addition, a special line between the center and New York was acquired. A trunk airline reservationist in New York can now be automatically connected with North Central's reservations center and obtain immediate seat-availability information.

Early in 1964 the Minneapolis/St. Paul reservations office will be transferred to the consolidated center in Milwaukee.

Another improved service was inaugurated in October 1963. North Central then became the nation's first regional airline to be connected to the Collins Radio Electronic Switching System, established for "instant" exchange of teletype messages



on interline reservations. The nationwide hookup of all the scheduled airlines is expected late in 1964. The system will permit reservations messages to flash between the central data processor in Chicago and the airlines at 100 words per minute over special teletype lines. Automatically, the data processor will read the address of each message and relay it to the correct airline. The company is expecting that substantial savings will be realized when the project reaches its full utilization.

Four new airport terminal buildings were added in 1963 by communities that North Central serves. Muskegon and Grand Rapids, Michigan; and Devils Lake and Grand Forks, North Dakota, all completed new terminal facilities. Under construction or in the planning stage are new terminal buildings at Manitowoc, Madison, Green Bay, and Appleton, Wisconsin; Detroit and Saginaw, Michigan; Bismarck, North Dakota; and Hibbing, Minnesota.

To further promote its services, the company prepared a new 23-minute color movie, "Northliner", for showing to community groups. It covers North Central's daily operations and points out the advantages and safety of scheduled air transportation.

During 1963, more than 18,000 personal sales calls were made on North Central customers by company District Traffic and Sales Managers and Representatives. The calls were in addition to the regular traffic and public relations responsibilities.

The Bolivian Project



IN OCTOBER 1963, North Central was awarded an \$800,000 contract by the United States Agency for International Development to provide managerial and technical assistance to Lloyd Aereo Boliviano, S.A. (LAB) the national airline of Bolivia. The contract covers a two-year period.

North Central's general objective in the project is to develop LAB into a safe, reliable, self-supporting airline operation which will provide the maximum public transportation benefits, both domestic and international, to Bolivia.

In administering the contract, the company will send 20 airline specialists to Bolivia. Key department heads of LAB will also visit North Central's general office and main operations base for on-the-job training. President Hal N. Carr will travel to Bolivia periodically to direct the project.

The program for the revitalization and development of LAB calls for: (1) Reorganization of the airline into four operating departments; (2) Gradual expansion of domestic and international service and acquisition of additional aircraft; (3) Improve-

Bolivia's President, Victor Paz Estenssoro, left, meets with North Central's President Hal N. Carr, second from left, and members of the company's field staff in Bolivia.

BELOW, left, North Central's 20 specialists in Bolivia will provide managerial and technical assistance to that country's airline.

ment of the airline's schedule completion, on-time performance, and safety record; (4) Development of a favorable corporate image; (5) Establishment of an effective accounting system; and (6) Acquisition of additional working capital.

LAB has approximately 1,000 employees and operates DC-6B aircraft, C-47/DC-3's, and B-17's, modified for cargo. At present, the airline serves 30 Bolivian cities and operates international routes to Arica, Chile; Lima, Peru; Corumba, Brazil; and Salta and Buenos Aires, Argentina.

Aviation is essential to the economic development of Bolivia, as the country is land-locked and possesses some of the world's highest mountains. Because of this vital need for air service in Bolivia, North Central is optimistic about the tremendous potential which LAB has. With efficient planning and utilization of personnel and equipment, along with an aggressive sales and route development program, LAB should be able to contribute to Bolivian progress by providing increased services, while attaining a profitable operation.



Looking to the future



NORTH CENTRAL LOOKS FORWARD to 1964 with enthusiasm following a year of solid growth and improvement in passenger and cargo traffic, as well as operating performance. With revenues of \$28,101,000, the company has attained the strongest financial position in its 16-year history.

Future traffic growth, new routes, additions to the Convair fleet, and a continuing, intensive cost control program will result in further gains for the airline.

Management will continue to support the Civil Aeronautics Board's program aimed at strengthening the regional airlines. This includes: (1) Regional airport concept which encourages use of a single airport to serve adjacent communities; (2) Transfer of segments and cities from trunk airlines to the regional carriers; (3) Relaxation of operating restrictions to permit nonstop and skip-stop authority on existing routes; and (4) The "use it or lose it" policy aimed at eliminating unprofitable cities and marginal routes. North Central has, therefore, filed

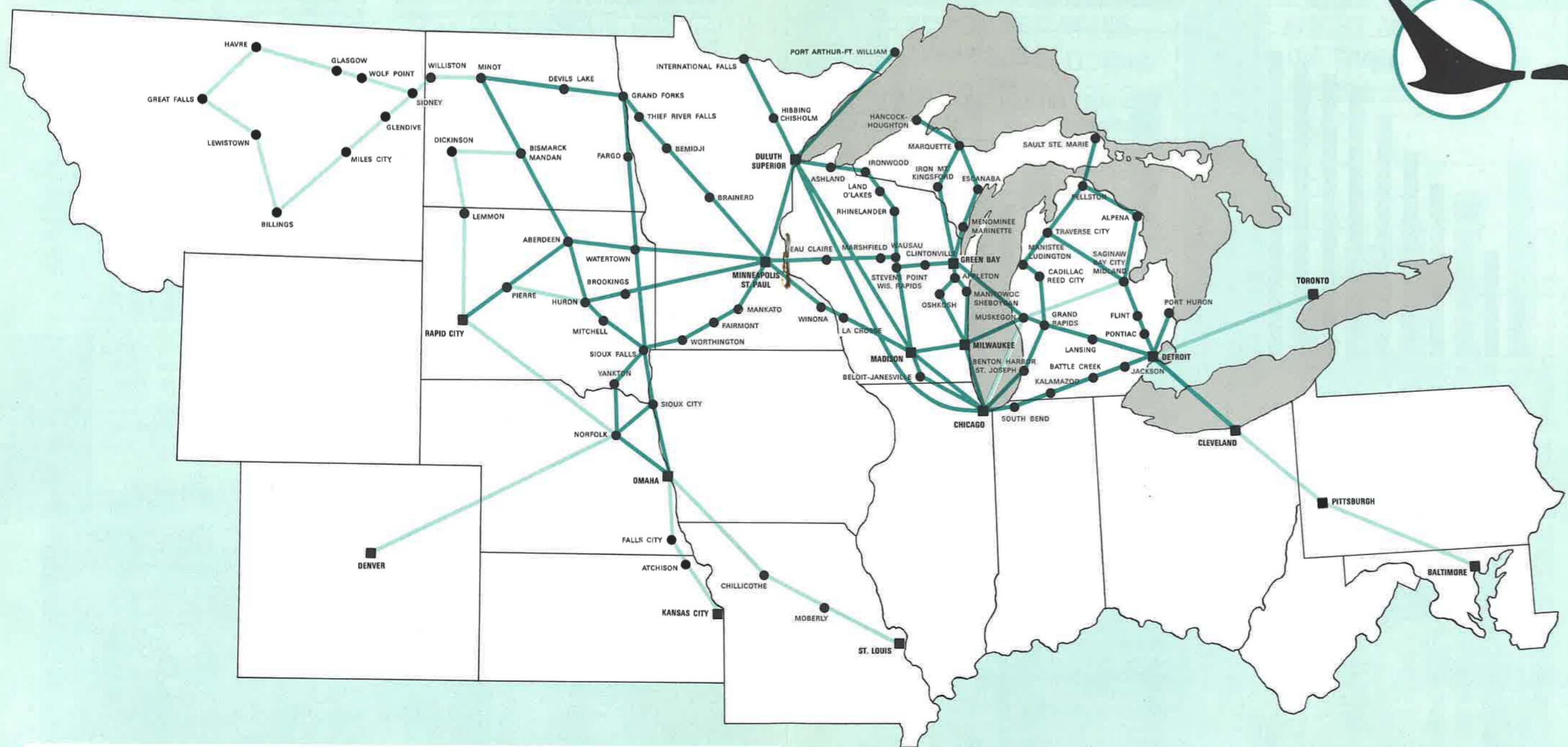
applications with the Board in accordance with this program.

In 1964, increased revenues will be realized from the company's Bolivian contract. North Central expects this project to contribute to substantial profits in the coming year.

The company plans to purchase additional Convair 440 aircraft early in 1964. This is in accordance with the airline's program to phase out the entire DC-3 fleet.

Investigations into merger possibilities with other regional airlines will continue. North Central's financial strength and industry-leading position assure the airline of substantial gain in any merger agreement.

As to the future, management is most optimistic. With the C.A.B.'s announced program for strengthening the regional carriers, coupled with expected increases in company revenues and the application of sound management techniques, record earnings for North Central are anticipated in 1964.

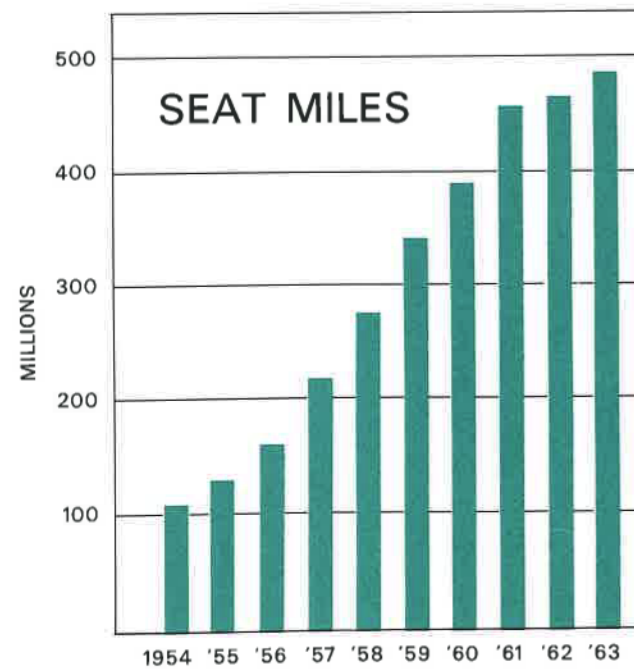
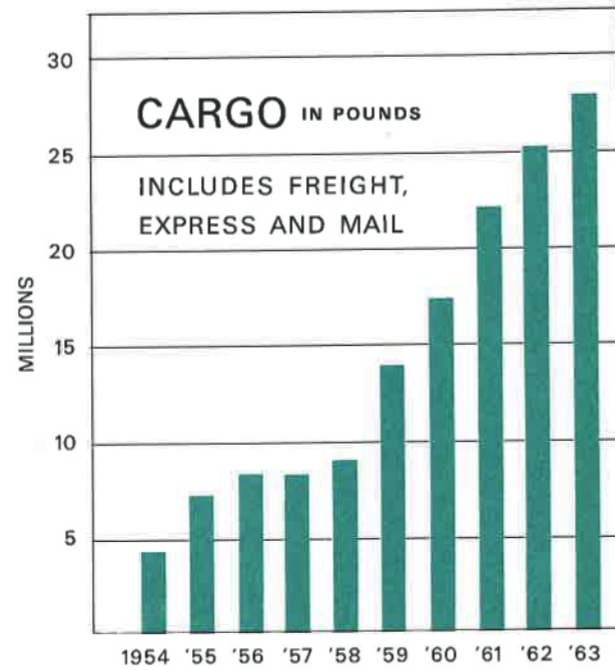
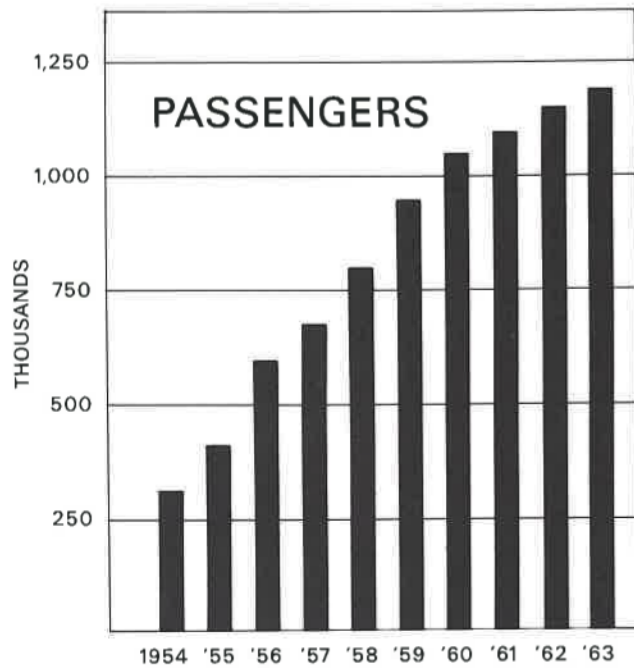


ROUTES OF THE NORTHLINERS

PRESENT ROUTES . . .  PROPOSED ROUTES . . . 

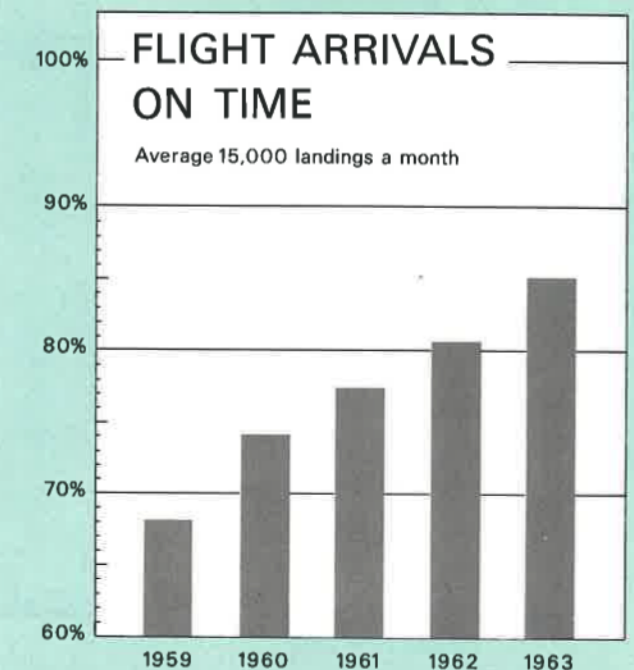
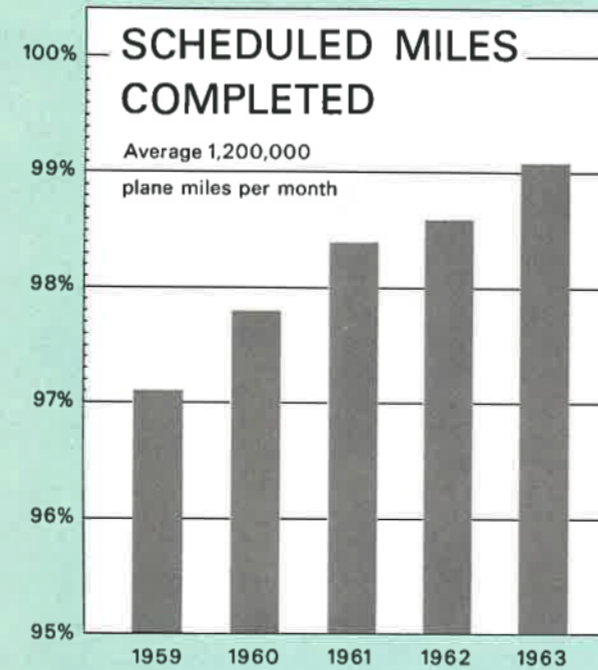
NON STOP
ROUTE

APPLICATIONS . . .  Minneapolis to Chicago
Minneapolis to Milwaukee
Chicago to Cleveland



America's Leading
Regional Airline continues its
record growth and progress...

For the fourth consecutive year, boardings have exceeded the million mark as 1,214,532 passengers flew the "Route of the Northliners." Greater emphasis on air cargo resulted in a traffic increase of 11 per cent for the year. The expanding fleet of Convair Super Northliners provided the traveling public with a record 493,058,136 seat miles. Additional Convairs will be added early in 1964. North Central maintained its position as an industry leader in operating performance. In addition, the airline's on-time reliability is also considered one of the most outstanding in commercial aviation.



SCHEDULED AIRLINES COMPLETION RECORD* FOR YEAR 1963

RANK	AIRLINE	COMPLETION FACTOR	RANK	AIRLINE	COMPLETION FACTOR
1	Trans World	99.3%	13	Western	97.7%
2	Bonanza	99.3	14	Trans-Texas	97.5
3	North Central	99.1	15	National	97.2
4	Northwest	99.0	16	Delta	97.1
5	Central	98.7	17	Lake Central	96.6
6	Frontier	98.6	18	Eastern	96.6
7	Braniff	98.6	19	Allegheny	96.6
8	Continental	98.4	20	United	96.6
9	American	98.3	21	Southern	96.4
10	Ozark	98.0	22	Mohawk	96.0
11	Pacific	97.9	23	West Coast	93.6
12	Piedmont	97.9	24	Northeast	91.3

*Source: Civil Aeronautics Board Form 41



NORTH CENTRAL AIRLINES, INC.

ASSETS

CURRENT ASSETS

Cash		\$ 996,975	
Accounts receivable			
Mail (Note 1)	\$ 667,764		
Traffic	2,240,477		
Other	<u>543,396</u>	3,451,637	
Flight equipment parts, at average cost (less deterioration reserves of \$186,753)		1,016,748	
Maintenance and operating supplies		254,659	
Prepaid expenses and sundry deposits		<u>620,043</u>	
Total current assets			<u>6,340,062</u>

OPERATING PROPERTY AND EQUIPMENT—at cost

Flight equipment (Note 2)	12,309,517		
Ground equipment	1,230,614		
Hangar buildings and improvements to leased property	590,202		
Furniture and fixtures	<u>328,494</u>		
		14,458,827	
Less accumulated depreciation	<u>6,460,891</u>	7,997,936	

DEFERRED CHARGES

Route development and aircraft preoperating costs	* 181,918		
Rentals	162,338		
Unamortized discount and expense on debt	76,884		
Other	<u>34,838</u>	455,978	
			<u>\$14,793,976</u>

The accompanying notes are an integral part of this statement.

Balance Sheet December 31, 1963



LIABILITIES

CURRENT LIABILITIES

Current maturities of long-term debt		\$ 1,274,778	
Accounts payable			
Trade	\$ 953,330		
Traffic	<u>1,642,581</u>	2,595,911	
Unearned transportation revenue		171,725	
Taxes withheld or collected as agents		364,842	
Income taxes		701,381	
Accrued liabilities			
Salaries and wages	678,487		
Payroll and property taxes	105,698		
Other	<u>307,451</u>	1,091,636	
Total current liabilities			<u>6,200,273</u>

LONG-TERM DEBT (Note 2)

Notes payable to banks	5,571,000		
Other notes payable, collateralized in part by pledge of certain equipment, payable in monthly installments	159,070		
5½% subordinated debentures	<u>851,500</u>	6,581,570	
Less current maturities	<u>1,274,778</u>	5,306,792	

DEFERRED CREDIT

Deferred Federal investment tax credit		43,775	
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STOCKHOLDERS' EQUITY

Common stock—authorized, 10,000,000 shares of \$.20 par value; issued and outstanding, 8,732,038 shares	1,746,408		
Paid-in capital	<u>295,246</u>	2,041,654	
Retained earnings	<u>1,201,482</u>	3,243,136	
			<u>\$14,793,976</u>

NORTH CENTRAL AIRLINES, INC.



STATEMENT OF EARNINGS *Year ended December 31, 1963*

TRANSPORTATION REVENUE			
Passenger		\$18,064,524	
Mail		466,750	
Public Service Revenue (after excluding \$100,000 profit-sharing to Government) (Note 1)		7,868,585	
Freight and express		1,157,917	
Excess baggage		132,074	
Non-scheduled transport service		258,217	
Other		153,142	
		<u>28,101,209</u>	
OPERATING EXPENSES			
Flying operations	\$ 7,088,430		
Maintenance	6,011,879		
Passenger service	1,318,058		
Aircraft and traffic servicing	7,248,906		
Promotion and sales	2,209,514		
General and administrative	1,029,303		
Depreciation and amortization (including \$97,814 of extension and development expenses)	1,521,376	26,427,466	
Operating profit		<u>1,673,743</u>	
OTHER (INCOME) AND DEDUCTIONS			
Interest	410,776		
Sundry—net	(18,396)	392,380	
Earnings before income taxes		<u>1,281,363</u>	
INCOME TAXES (Note 5)			
States	45,000		
Federal, less current year amortization of investment credit—\$7,251	730,652	775,652	
NET EARNINGS		<u>\$ 505,711</u>	

The accompanying notes are an integral part of this statement.



STATEMENTS OF RETAINED EARNINGS AND PAID-IN CAPITAL

Year ended December 31, 1963

RETAINED EARNINGS		
Retained earnings—December 31, 1962	\$ 695,771	
Net earnings for the year	505,711	
Retained earnings—December 31, 1963	<u>\$1,201,482</u>	
PAID-IN CAPITAL		
Paid-in capital—December 31, 1962	\$ 298,548	
Expenses in connection with sale of common stock in 1962	3,302	
Paid-in capital—December 31, 1963	<u>\$ 295,246</u>	

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

December 31, 1963

1. PUBLIC SERVICE REVENUE

Operating results for the years 1961, 1962 and 1963 are open to review by the Civil Aeronautics Board which administers the program under which subsidy payments are made to local service carriers. Provision has been made in the accounts for estimated profit sharing refunds in the aggregate amount of \$100,000.

2. LONG-TERM DEBT

Flight equipment and related spare parts are pledged as security to two banks under a loan agreement dated September 15, 1961, with subsequent supplemental agreements. The unpaid balance of \$5,571,000 consists of two 6% notes with unpaid balances of \$3,341,000 and a 5½% note having an unpaid balance of \$2,230,000. Final payment under the loan agreement is \$460,000 due on March 15, 1968.

Interest on all notes is payable monthly and principal in varying monthly installments. Among other provisions, the company is required to maintain current assets in excess of current liabilities of at least \$1,000,000, exclusive of the amount due noteholders.

During the year, the company issued \$851,500 of 5½% subordinated convertible debentures due June 1, 1978. These bonds are subject to redemption in whole or in part at the election of the company at any time prior to maturity. The holders have the option to convert the principal into common stock at stipulated conversion prices during the same period. These debentures are subordinate as to principal and interest payments to the notes due the two banks.

3. LONG-TERM LEASES

The company has a forty-year lease covering hangar and terminal facilities at Chicago's O'Hare International Airport. A lease at Detroit's Willow Run Airport expires in 1967, and the leases for terminal and hangar facilities at Minneapolis-St. Paul are being negotiated. Management anticipates the cost of leased facilities at these three major locations, including landing fees, where a long-term contingency exists, to approximate \$600,000 annually.

4. PENSION PLAN

The company contributes annually to a Pilots' Retirement Plan which was established in 1956. The company contribution charged against income for the year 1963 amounted to \$199,882 and at December 31, 1963, all unfunded past service liability had been paid.

5. INCOME TAXES

Federal, Wisconsin and Minnesota income tax returns have been examined through the year 1959 by the respective taxing authorities. There exist no unpaid assessments resulting from any examination.

ALEXANDER GRANT & COMPANY

Certified Public Accountants
811 East Wisconsin Avenue
Milwaukee 2, Wisconsin

Stockholders and Directors
North Central Airlines, Inc.

We have examined the balance sheet of NORTH CENTRAL AIRLINES, INC. (a Wisconsin corporation) as of December 31, 1963, and the related statements of earnings, 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. Since it was not practicable to confirm receivables from United States Government departments and agencies, we satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, the accompanying balance sheet and statements of earnings, retained earnings and paid-in capital present fairly the financial position of North Central Airlines, Inc. at December 31, 1963, 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.

Alexander Grant & Company

Milwaukee, Wisconsin
February 27, 1964

10-YEAR FINANCIAL SUMMARY

	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954
OPERATING REVENUES										
Passenger	\$18,064,524	\$16,799,514	\$15,631,735	\$12,660,869	\$11,388,135	\$ 8,702,455	\$ 7,372,333	\$6,137,216	\$4,933,487	\$3,351,782
Mail and Public Service Revenue	8,335,335	8,466,678	8,054,111	8,054,111	6,239,756	3,698,395	2,839,163	1,538,215	1,689,890	2,328,921
Other	1,701,350	1,367,944	1,112,046	886,554	790,090	657,961	504,017	324,910	194,628	148,622
TOTAL	\$28,101,209	\$27,159,551	\$25,210,459	\$21,601,534	\$18,417,981	\$13,058,811	\$10,715,513	\$8,000,341	\$6,818,005	\$5,829,325
OPERATING EXPENSES										
Direct Expenses	\$13,100,309	\$12,873,796	\$12,405,644	\$10,815,675	\$ 7,924,030	\$ 5,849,305	\$ 4,811,661	\$3,538,274	\$2,853,134	\$2,448,640
Indirect Expenses	11,805,781	11,570,053	10,766,044	9,653,514	9,315,951	6,550,910	5,426,616	4,020,375	3,271,207	2,702,111
Depreciation	1,423,562	1,098,060	1,021,474	787,177	859,102	583,174	452,993	301,161	470,169	535,557
TOTAL	\$26,329,652	\$25,541,909	\$24,193,162	\$21,256,366	\$18,099,083	\$12,983,389	\$10,691,270	\$7,859,810	\$6,594,510	\$5,686,308
Net Operating Profit	\$ 1,771,557	\$ 1,617,642	\$ 1,017,297	\$ 345,168	\$ 318,898	\$ 75,422	\$ 24,243	\$ 140,531	\$ 223,495	\$ 143,017
Amortization of Route Development Expense	(97,814)	(92,570)	(88,924)	(100,866)	(98,295)	(16,869)	(17,124)	(48,055)	(57,540)	(7,665)
Non-operating Income and Expenses, Net	(392,380)	(335,014)	(269,483)	(229,282)	(183,364)	(43,472)	(54,709)	(36,085)	(50,051)	(55,130)
Net Profit (or Loss) Before Taxes	\$ 1,281,363	\$ 1,190,058	\$ 658,890	\$ 15,020	\$ 37,239	\$ 15,081	\$ (47,590)	\$ 56,391	\$ 115,904	\$ 80,222
Income Taxes	775,652	655,725	305,776	—	4,542	—	(60,193)	45,700	18,000	—
Net Profit After Taxes	\$ 505,711	\$ 534,333	\$ 353,114	\$ 15,020	\$ 32,697	\$ 15,081	\$ 12,513	\$ 10,691	\$ 97,904	\$ 80,222



● North Central's stewardess training center in Minneapolis features a mock-up of an aircraft cabin and buffet. Extensive training in passenger service makes North Central's stewardess corps among the nation's finest.



● Stewardess candidates gain a thorough knowledge of aircraft galley equipment under the supervision of the airline's chief stewardess.



● The modern data processing center, located at the general offices in Minneapolis/St. Paul, provides management with up-to-the-minute progress reports on every phase of its operations.



Sixteen years of continuous service to the midwest...

NORTH CENTRAL, in sixteen years of scheduled air transportation, has truly earned the title—America's Leading Regional Airline. Inaugurating service in 1948, the company operated in Wisconsin, Minnesota, and northern Illinois with three small nine-passenger Lockheed 10-A's and had 112 employees. In 1963, the famed mallard duck, "Herman," was seen on a fleet of 18 Convair Northliners and 29 Douglas DC-3's serving 91 cities in 10 midwest states and Canada. The employee force now numbers 2,000. Technological progress, refined training programs to keep pace with those advances, cost control, and sound management all hold promise for even greater growth in future years.

● The hangar area shown below is one of three such facilities at North Central's main operations base in the Twin Cities. The Company's other Main Bases are located at Chicago, Detroit, and Omaha.

● All North Central flights en route are under the constant monitoring of the airline's flight control center in Minneapolis. Direct communications with the control center provide Northliner pilots with the latest weather advisories for computing the most time-saving and smooth-flying routes between cities.



● Long before the winter season, North Central's "Operation Cold Front" has begun its comprehensive program of converting ground equipment to a winter operating condition.



AWARD OF HONOR

NORTH CENTRAL has maintained a perfect 16-year safety record and, every year of its operation, has been awarded a citation by the National Safety Council. Since starting scheduled service in 1948, the airline has carried 8,700,000 passengers and flown 1,400,000,000 passenger miles without a single fatality or injury to passengers or crew members.





**NORTH CENTRAL
AIRLINES, INC.**

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