

north central airlines

ANNUAL REPORT 1967



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Northwestern National Bank of Minneapolis; Minneapolis, Minnesota
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To our stockholders, employees, and friends:

North Central Airlines has just celebrated its 20th Anniversary of scheduled airline service with the greatest passenger and cargo traffic in its history, highest earnings, and a perfect safety record. From modest beginnings in 1948 with three nine-passenger planes serving 19 cities, the airline now operates a fleet of 52 aircraft, including 100-passenger DC-9 fan jets, and provides service to 90 cities.

This tremendous progress has only been possible by the devoted efforts of the company's personnel and the loyal support of its stockholders and passengers. It is with great pride that we submit this summary of North Central's achievements in 1967.

The company had record revenues of \$42,850,000, which were \$3,238,000 ahead of 1966. Net earnings reached a new high of \$1,520,000 including gains from the sale of flight equipment of \$924,000. Cash flow from earnings, depreciation, and deferred taxes was \$5,392,000.

Some 2,347,000 passengers flew the Route of the Northliners during 1967—14 per cent over 1966. Besides this new yearly record, monthly and daily passenger marks were set. Cargo also gained substantially when 56,670,000 pounds of air freight, express, and mail were flown. While carrying this record traffic and introducing two new types of jet aircraft, North Central achieved an outstanding operating performance with 98.5 per cent of its 19,109,000 scheduled miles completed.


Highlight of the year was North Central's entry into the jet age. On April 1, the first Convair 580 prop-jets joined the Northliner fleet, and DC-9 fan jet service started in September. By the end of 1967, eight Convair 580's and three DC-9's were in scheduled operation. North Central will have an all jet-powered fleet late in 1968. The 10 DC-9's ordered by the company will be operating by July. Five more of the fan jets are on option.

During 1967, the company completed a \$62-million financing of its flight equipment program with a group of banks and insurance companies. No equity financing was required, and the favorable terms of the agreement indicated North Central's strong financial position.

Construction began last summer on the airline's new \$15-million headquarters at the Minneapolis-St. Paul International Airport. The main operations base will be finished by December 1968; and the general office building, the following March.

The company received two major route awards in 1967. New service was inaugurated to Toronto and Kansas City, and nonstop flights between Sioux Falls and Minneapolis/St. Paul were added. North Central's extensive route development program includes applications to the Civil Aeronautics Board for 9,800 more miles, which would add 13 new cities and six states to the airline's system.

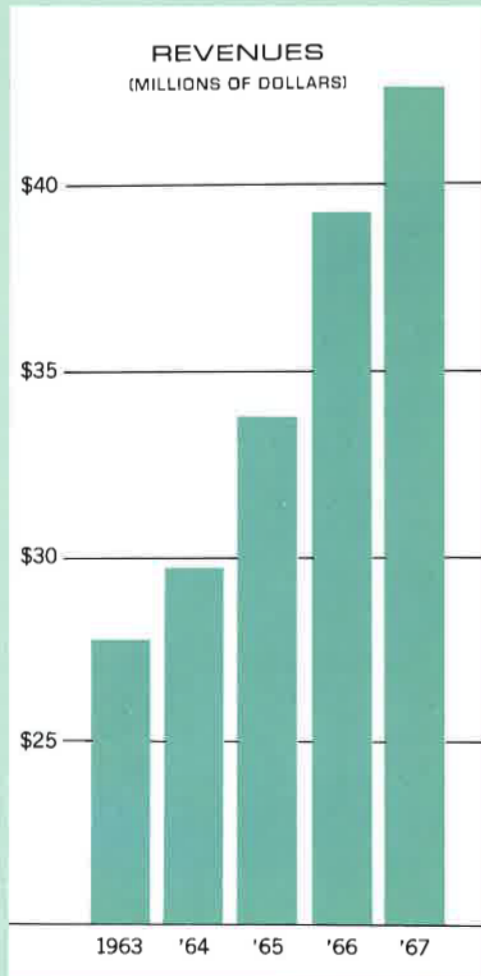
Management looks forward to increased traffic and revenues in 1968, together with a reduction in unit operating costs, as the efficiencies of more jet aircraft are realized. North Central enters its 21st year with confidence in the future and the assurance that 1968 will be another record year.

Sincerely,


HAL N. CARR
Chairman of the Board and President



FINANCIAL REVIEW



Revenues in 1967 reached an all-time high of \$42,850,477 for North Central Airlines. The 8 per cent increase over the previous year amounted to \$3,237,806, one of the largest gains in the company's 20-year history.

With operating expenses for 1967 of \$41,961,948, of which \$2,626,251 were depreciation charges, the company realized operating income of \$888,529. Net income, including \$924,316 from the sale of aircraft, totaled \$1,520,124, a record high for North Central. Earnings per share were \$.17 in 1967.

The growth in earnings during the past several years has been a very significant factor in the company's ability to complete a \$62-million financing for its flight equipment program. This re-equipment plan involves the purchase of ten Douglas DC-9 fan jets, the conversion of the airline's Convairs to 580 prop-jets, and spare parts for both aircraft which will give North Central an all jet-powered fleet by the end of 1968. The financing agreement covers the sale of notes to a group of banks and insurance companies, including some refunding of existing debt. No equity financing was required.

The balance of the funds for the aircraft purchases and conversions will be provided by cash flow. During 1967, internal cash generated from earnings, depreciation, and deferred taxes amounted to \$5,391,727.

With the successful introduction of jet-powered aircraft into its operation and the completion of the financing of the jets on favorable terms, North Central begins its third decade of service to the traveling public in the best financial condition in its history.

TRAFFIC GROWTH

In 1967, North Central established new yearly, monthly, and daily traffic records.

The airline carried 2,347,371 passengers last year, the greatest number in its 20-year history and a 14 per cent increase over the high of 2,056,209 in 1966. The company flew 384,669,138 passenger miles—30,036,161 ahead of the previous year.

In addition, North Central also set a monthly record in August when 239,281 passengers were enplaned and a single-day mark on December 22, with 10,021 passengers. This is particularly impressive when compared with the 11,398 passengers carried by North Central in 1948, its first year of operation.

Much of the traffic increase is attributed to the addition of the Convair 580 prop-jet and DC-9 fan jet aircraft, introduced in 1967, which offer greater carrying capacity and speed.

During the year, to further stimulate traffic and provide wider passenger appeal, the airline offered new youth fares and the "Discover America" reduced rate. Already in effect were the family plan, military reduced fares, and "Visit USA" rates.

To provide additional service to the traveling public in peak traffic periods, North Central operated 861 "extra sections" of regular flights. These carried 14,248 passengers, and 139,976 miles were flown. Also supplementing the scheduled operation were 235 charters and 154 scenic flights, which added another 207,859 miles. North Central's 12,652 charter passengers traveled to 25 states and three Canadian provinces. Some 5,292 persons took scenic flights aboard company aircraft.

Substantial gains in cargo were also achieved by the company in 1967 as a record 56,670,189 pounds of air freight, express, and mail were carried.

Total cargo ton miles flown were 5,157,765. Air freight ton miles reached 2,901,586—12 per cent ahead of 1966, and mail increased 11 per cent during 1967, with 1,147,537 ton miles flown.

While carrying a record number of passengers in 1967 and the largest volume

of cargo in the airline's history, North Central maintained its perfect 20-year safety record. Since inaugurating service in 1948, the company has flown over 16 million passengers, 2,657,000,000 passenger miles without a single fatality or injury to passengers or crew members.

OPERATING PERFORMANCE

North Central achieved an outstanding record of operating performance in 1967, which ranked among the highest in the industry, with 98.5 per cent of its 19,109,452 scheduled miles flown.

This completion factor was attained while the airline handled the largest passenger and cargo traffic in its 20-year history, began service with two new types of jet-powered aircraft, and battled unusually severe and prolonged winter weather.

The company's extensive jet training program, developed by the Flight Operations, Ground Operations, and Maintenance and Engineering Departments, made the transition to new equipment an efficient one. This advance planning helped the airline maintain its record of excellent performance.

Continuous and exacting maintenance was the major reason for the high performance. In 1967, only 135 of North Central's 205,745 actual departures were cancelled for mechanical irregularities, or less than one-tenth of one per cent; and just one per cent of the departures were delayed for mechanicals.

Again this year, the company's winterization program, "Operation Cold Front", assured that personnel were properly trained and all ground equipment ready for winter. Operational techniques were reviewed so performance would continue to be significant despite the sub-zero conditions which exist over much of the system. In fact, representatives from Lufthansa-German Airlines and All Nippon Airways of Japan visited the airline's headquarters in Minneapolis/St. Paul and studied winter operating procedures.

The company's impressive performance record is a tribute to all North Central personnel and their dedication to the task of keeping the Northliners flying.

In 1967, North Central set new yearly, monthly, and daily passenger records.



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JET PROGRAM

The highlight of North Central's 20th year was its entry into the jet age.

This major equipment change was even more significant since two types of jet-powered aircraft—the Convair 580 and Douglas DC-9—were introduced in a five-month period. The transition was accomplished smoothly, efficiently, and safely by the conscientious efforts of all North Central personnel, with thorough advance planning and concentrated training programs.

The airline's "New Look" program was inaugurated April 1 when two Convair 580 prop-jets started flying the Route of the Northliners. Six more 580's were added in 1967. During the year, 82 per cent of North Central's cities received prop-jet flights. By the end of 1968, all Convairs in scheduled service will be jet-powered.

On September 8, the first two 100-passenger DC-9 fan

CONVAIR 580 PROP-JETS

The company's jet program includes converting its 33 Convair 440 aircraft to Allison-powered 580 prop-jets. In 1967, the first Convair 580's joined the North Central fleet and were introduced into scheduled service on April 1.

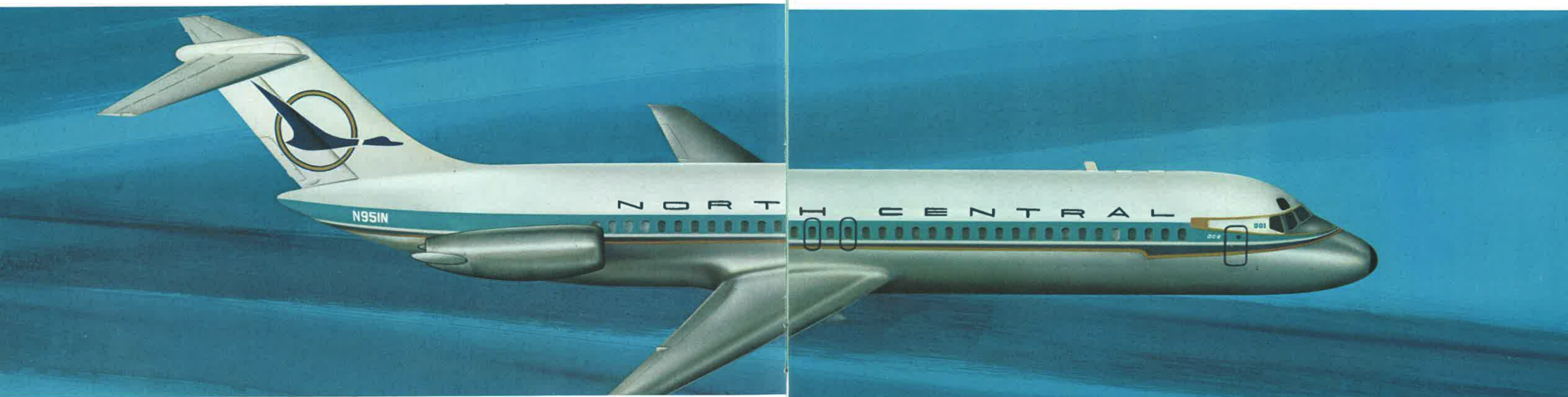
The Convair prop-jet has two turbine engines of 3,750 horsepower each, flies 100 miles an hour faster than the 440, and reaches a comfortable cruising altitude in a shorter time.

The extensive cabin remodeling of the 580's was accomplished by North Central's own maintenance people. New interiors were completed to match the DC-9 fan jet, featuring alternating blue and gold seats, beige-colored walls and ceiling, with patterned blue and gold carpeting. The exteriors were painted in the jet "New Look" design of the DC-9. In addition, company personnel installed the latest solid state communications and navigational equipment in each aircraft, along with a complete automatic pilot system.

The eight Convair 580's which were added in 1967 established a high performance record during the year and enabled North Central to offer increased service over its system.



North Central's new jet program was introduced in April 1967 with the Convair 580 prop-jet.



The Douglas DC-9 Series 30 fan jet joins the Northliner fleet.

jets entered service, bringing pure jet flights to many cities on North Central's system, and a third joined the fleet in October. With the introduction of the DC-9's, North Central substantially increased its available seats and cargo capacity which produced additional traffic in 1967. At the same time, jet operating efficiencies reduced unit costs.

The fourth and fifth jets were delivered during January 1968 and are scheduled for service in February and March. All 10 of the DC-9's ordered by the company will be operating in July. Five more jets are on option.

The airline will have a jet-powered fleet of DC-9's and Convair 580's for 1969.

DC-9 FAN JETS

July 28 was a memorable day for the airline as its first Douglas DC-9 fan jet taxied up to the hangar ramp of the main operations base at Minneapolis/St. Paul. The DC-9's arrival marked the beginning of a new era in North Central's history.

Powered by two Pratt & Whitney fan-jet engines, each producing 14,000 pounds of thrust, the DC-9 climbs to 10,000 feet in four minutes and has a cruising speed of 560 miles an hour. The sleek, 100-passenger aircraft introduced jet-age speed and comfort to Northliner passengers.

On September 8, the first two DC-9 Series 30 fan jets entered scheduled operation. The third jet was added in October.

North Central's "New Look" was apparent when the fan jets appeared at airports on its system. In addition to the distinctive high-level T-tail and rear-mounted engines, the DC-9 has the airline's corporate aqua, blue, and gold color design. All first-class service is provided, with two stewardesses in attendance. The spacious cabin features "big jet" roominess, with unexcelled lighting, window view, and climate control.

Passenger response to the quick and quiet DC-9 fan jet has been enthusiastic. Also, the aircraft has demonstrated excellent traffic-generating capabilities during its first four months of operation in 1967, as 21 cities on North Central's system received pure jet service.

IMPROVED SERVICES

With the inauguration of new Convair 580 prop-jet and DC-9 fan jet equipment, North Central substantially increased its service to the traveling and shipping public during 1967. Passengers on the Route of the Northliners experienced the improved benefits of jet air travel as these new aircraft joined the company's fleet.

Some 840,964,760 seat miles were flown this year—14 per cent over 1966, while available ton miles jumped to 90,066,176 for a 23 per cent gain.

On April 1, two Convair 580's entered scheduled operations. Jet-prop service was begun to 22 cities, and passenger reaction was very favorable. Since then, 580 prop-jets have been added at the rate of about one a month, with eight in operation by the end of 1967. Some 71 cities received Convair 580 service during the year.

North Central's first two 100-passenger DC-9's brought pure jet service to 17 communities in the Midwest on September 8. The planes are flown on the company's high density, long-haul routes, and all first-class service is provided. A third DC-9 went into operation on October 29, with four more cities receiving jet service. The public's response to the new aircraft has been overwhelming.

North Central achieved a "first" for the regional carriers serving Chicago's O'Hare International Airport when it opened new second-level boarding facilities there in April. The five new gate and holding areas provide enlarged facilities to accommodate the growing number of Northliner passengers at O'Hare. Each of the five areas is also equipped with a passenger "speedway" for use with North Central's DC-9 jets. The covered ramp extends from the gate to the aircraft and protects passengers from the weather as they enter and leave the jets.

Introduced this year to complement North Central's jet "New Look" were colorful, high fashion ensembles for its stewardesses. The basic uniform and pillbox hat feature the company's corporate color of aqua. A new gold, classic raincoat completes the outfit. Also added to the stewardess attire is a gold wrap-around serving smock.

During 1967, in-flight services were tailored to fit the new jet operation, and include a greater variety of foods and beverages. Cocktail service was added on all DC-9 fan jets and selected Convair flights. In the summer months, complimentary beer was served on other Convair trips.

A new terminal building was finished in 1967 at the airport serving Saginaw / Bay City / Midland, Michigan. Remodeling of airport accommodations was accomplished at Rapid City and Watertown, South Dakota; International Falls, Bemidji, and Brainerd, Minnesota; and Stevens Point, Wisconsin. In addition, approval was granted to begin work on the new Central Wisconsin Regional Airport near Mosinee, Wisconsin, which will serve the combined communities of Wausau, Marshfield, Stevens Point, and Wisconsin Rapids.



During the year, over 22,000 personal sales calls were made on North Central customers by the company's Traffic and Sales representatives. In addition, more than 200 speeches and group tours were given to further promote North Central to the traveling and shipping public. A special five-day "sales blitz" was conducted in both Detroit and Toronto to announce North Central's new nonstop service between these metropolitan centers. In Kansas City and selected cities in the Dakotas, a similar sales campaign heralded the new Kansas City route on December 1.

In March 1967, the company installed a closed-circuit television system at the Minneapolis-St. Paul International Airport to provide its passengers and employees with up-to-the-minute flight information. North Central was the first airline in the Twin Cities to offer this service. Four television screens, conveniently located in the gate areas and passenger service counters, display the latest flight arrival and departure times and gate assignments. The airline also operates TV-monitors for its passengers at Chicago, Milwaukee, Detroit, and Green Bay terminals.

Construction of North Central's new \$15-million general office and main operations base at the Minneapolis-St. Paul Airport began in July. The airline's phenomenal growth in past years and its projected future requirements necessitated the new headquarters facilities. The complex will have over 470,000 square feet of floor space and is designed for expansion. With the new DC-9 fan jets now in operation, and more scheduled for delivery in 1968, the main base project has taken priority over all other construction at the site. The schedule calls for completion of the base by December 1968 and the two-story general office building by the following March.

In 1968, the company will move ahead in the jet age with improved equipment and facilities, providing the finest type of regional airline service.

Left, top to bottom:

North Central's jet "New Look"
Kansas City service inaugurated
New terminal serving Saginaw / Bay City / Midland

Right, top to bottom:

TV-monitor shows flight information
Spacious DC-9 interior features corporate colors
First DC-9 charter flight



ROUTE DEVELOPMENT

The inauguration of new service to Toronto and Kansas City highlighted North Central's route development program in 1967.

The Civil Aeronautics Board granted the company nonstop authority to operate between Detroit and Toronto, and service was begun on August 1. The Kansas City award marked the airline's first entry into Missouri, and new nonstop flights between Sioux City, Iowa, and Kansas City started December 1. At the same time, the company offered new nonstops between Sioux Falls, South Dakota, and the Twin Cities. This service was authorized when the Board selected North Central to replace Braniff International at Sioux City and Sioux Falls.

Other changes in operating flexibility granted by the C.A.B. were one-stop instead of two-stop service from the Twin Cities to Madison, and two rather than four-stops to Chicago. North Central exercised the two-stop authority on the Twin Cities-Chicago route in 1967, and one-stop service to Madison has been scheduled for February 1, 1968.

One of the most significant developments during the year was the shortened hearing procedure proposed by the C.A.B. on regional airline nonstop applications. Under the Board's rule modification, nonstop authority is possible between any points already served by the carrier, and the Board approved and established the new procedure in January 1968. This will result in expeditious handling of North Central's requests for nonstop service.

In 1967, the C.A.B. instituted an investigation into the need for increased long-haul service to the Twin Cities and Milwaukee. In this case, North Central has applied for new nonstop routes from Minneapolis/St. Paul and Milwaukee to New York/Newark, Washington/Baltimore, Boston, and Philadelphia.

The company's extensive route development program includes applications for 9,798 additional miles which would bring Northliner service to 13 new cities, six more states, and one Canadian province.

Presently, North Central serves 90 cities in 11 Midwest states and Canada over a 7,000-mile route system.

NORTH CENTRAL IS CURRENTLY INVOLVED IN THE FOLLOWING ROUTE PROCEEDINGS:

OPERATING FLEXIBILITY APPLICATIONS

North Central will benefit by the shortened hearing procedure before the Civil Aeronautics Board under the Board's recently proposed rule modification. The change affects the regional airlines' applications for nonstop authority between any two points on their systems. With the new provision, North Central could apply to operate nonstop flights between cities it now serves, such as Milwaukee-Detroit, Minneapolis/St. Paul-Chicago or Milwaukee, Twin Cities-Omaha, and Chicago-Detroit. Also, these proceedings would probably be concluded in as short a time as 90 days, instead of the two years or more typical of route cases.

In January 1968, the Board issued its order approving and establishing this nonstop procedural authority. This policy will not only strengthen the position of the nation's regional carriers but also mean increased and improved service for the passenger.

TWIN CITIES-MILWAUKEE LONG-HAUL INVESTIGATION

The C.A.B. has ordered an investigation into airline service for the Twin Cities and Milwaukee. North Central has several applications on file to provide improved service to these cities. Included are proposals to operate nonstop between Minneapolis/St. Paul and New York/Newark and between Milwaukee and New York/Newark. These two markets are among the largest in the country without competitive nonstop service. If awarded to North Central, the route would add 1,028 miles to the airline's system.

Also filed in the long-haul investigation are company applications from the Twin Cities and Milwaukee to Washington/Baltimore, Boston, and Philadelphia for a total of 2,913 additional route miles. A definite need exists for increased nonstop flights in these markets. In most cases, the routes are now being operated without competition.

With these long-haul routes from the Twin Cities and Milwaukee, single-plane service to the East would then be possible for many cities on North Central's system.

DENVER-TWIN CITIES

The C.A.B.'s expedited investigation into increased service between Denver and Minneapolis/St. Paul is in progress. North Central has requested nonstop authority to serve the 694-mile route, which is a monopoly market. The hearing has been scheduled for February 20, 1968.

MILWAUKEE-KANSAS CITY AND MILWAUKEE-OMAHA

In the route realignment case of another regional airline, North Central has proposed nonstop service from Milwaukee to both Kansas City and Omaha, for a total of 865 new miles. The hearing has been completed, and the company is awaiting the initial decision of the C.A.B. Examiner.

MILWAUKEE-CINCINNATI-COLUMBUS

In June 1967, the company filed an application to provide service between Milwaukee and Cincinnati and Columbus, Ohio. This segment would add 450 miles to North Cen-

tral's system. Presently, no single-plane or nonstop flights operate between Milwaukee and Cincinnati or Columbus.

CLEVELAND-BALTIMORE

No action has been taken by the C.A.B. on North Central's 1966 application for a 316-mile route between Cleveland and Baltimore, via Pittsburgh. The addition of two new major terminals would improve the Eastern portion of the company's system.

SIOUX FALLS-ROCHESTER-CHICAGO

An expedited hearing has been held on North Central's application for service between Sioux Falls and Chicago with an intermediate stop at Rochester, Minnesota. North Central has also filed to extend this segment to Pierre and replace Western Air Lines on the Pierre-Sioux Falls portion. This new route of 669 miles would permit direct air travel from the Dakotas to Rochester and Chicago by providing single-plane service to five cities in North and South Dakota and single-carrier service to 10 more cities. Rochester would then be added to North Central's system. The decision of the Board's Examiner, issued January 29, 1968, recommended the company be awarded this route.

SERVICE TO OMAHA

In 1967, the C.A.B. instituted an extensive investigation into the need for increased service to Omaha, and North Central filed for nonstop authority from Omaha to Chicago, the Twin Cities, and Denver. As the company had previously applied for nonstop routes from Omaha to Kansas City and to St. Louis, all five routes were consolidated into the Service to Omaha Case. The investigation is now in progress. If granted, the routes would add 1,691 miles to the company's system.

RAPID CITY-OMAHA

North Central has an application on file to operate direct flights between Rapid City and Omaha. Although both cities are now served by the company, the airline does not have nonstop authority.

SERVICE TO WINNIPEG

North Central has applied to the C.A.B. for nonstop service to Winnipeg, Canada, from Minot, North Dakota, and Duluth, Minnesota/Superior, Wisconsin. The application was filed under terms of the 1966 Bilateral Air Transport Agreement between the United States and Canada. The new nonstops would provide the first direct, single-carrier service between Winnipeg and 40 cities in eight states on North Central's system. Winnipeg would be the airline's fourth Canadian city, and the routes would add 534 miles.

TRANSFER INVESTIGATIONS

In 1967, the C.A.B. continued its program to strengthen the regional airlines by transferring segments and cities from the trunk carriers to the regionals. North Central refiled its application for a new 229-mile segment between Saginaw/Bay City/Midland, Michigan, and Chicago via Muskegon, Michigan. Also, the company requested that United Air Lines be suspended at Flint, Saginaw/Bay City/Midland, Lansing, and Muskegon. If the Board acts favorably on this application, North Central will offer improved replacement service.

MANAGEMENT DEVELOPMENT

At its April meeting, North Central's Board of Directors elected Bernard Sweet to the position of Executive Vice President. Sweet, who joined North Central in 1948, was formerly Vice President-Finance and is now in charge of the day-to-day operation of the airline.

During 1967, the company continued its program of developing, within the organization, managerial personnel qualified to meet the airline's future growth demands. In line with this plan, two North Central department heads were made Vice Presidents by the Board of Directors in September. David E. Moran was elected Vice President-Traffic and Sales, and Daniel F. May was named a Vice President, in addition to his position of Treasurer. At the same time, John P. Dow, Manager of Properties and Secretary, was promoted to Vice President and Secretary.

In the Flight Operations Department, a new section of Flight Training was established during 1967. The manager supervises the company's entire flight training program, which was tremendously expanded with the introduction of Convair 580 prop-jet and DC-9 fan jet aircraft to the fleet.

R. H. Bendio, North Central Vice President, retired in September 1967 following 15 years of service with the airline as head of the Maintenance and Engineering Department and the company's Bolivian project.

TOWARD THE FUTURE

North Central looks forward to an all jet-powered fleet, new route awards, and substantially increased service to the traveling public as it enters its 21st year of operation.

The airline's aggressive route development program, which was considerably expanded during 1967, includes applications for 9,800 additional miles and service to 13 new cities and six more states. The company expects to receive favorable decisions on some



Ground-breaking ceremonies for North Central's new \$15-million headquarters complex.

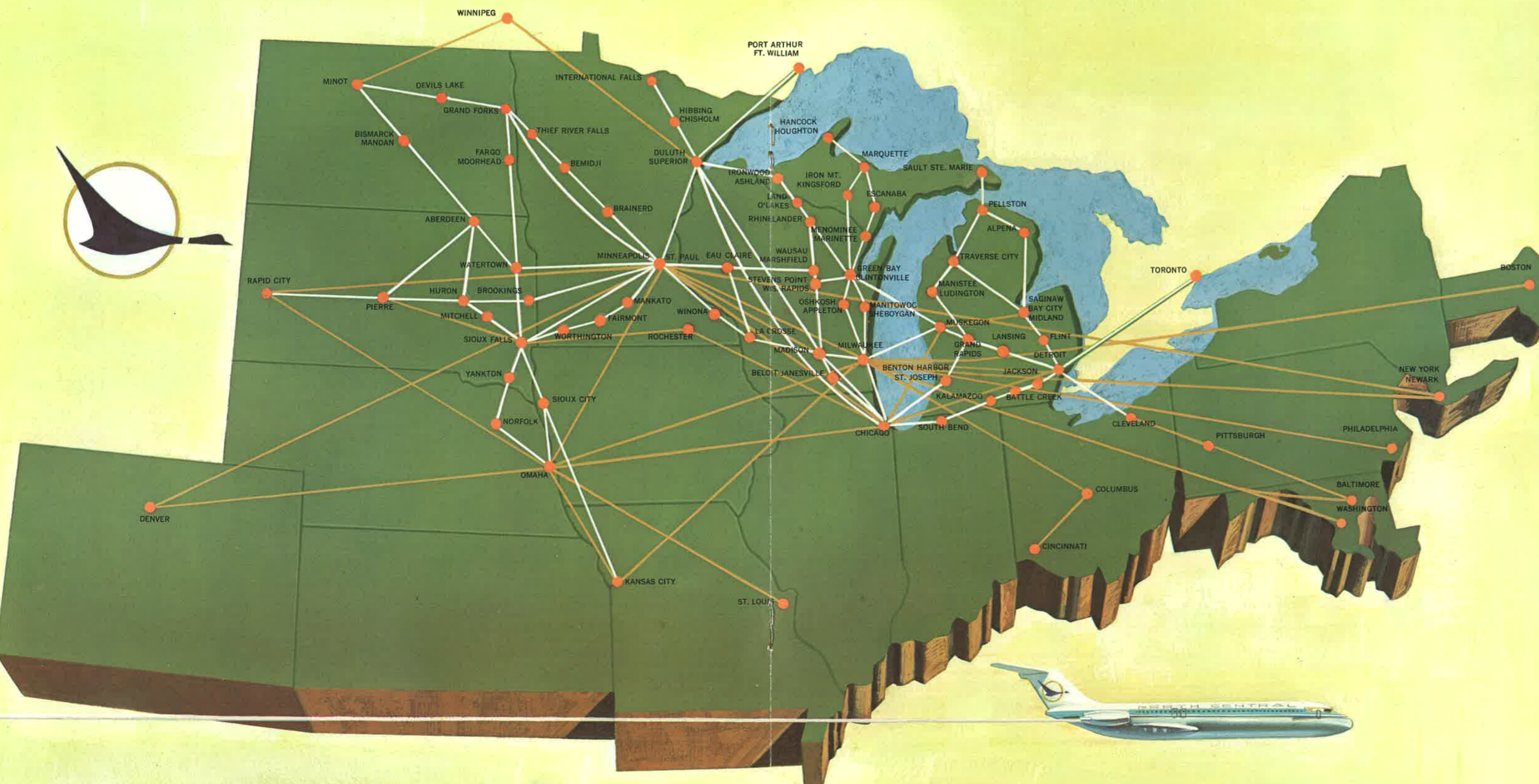
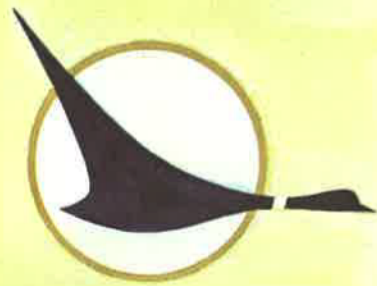
of these in 1968. Of particular significance to North Central and the other regional carriers was a decision by the Civil Aeronautics Board which established a shortened hearing procedure on applications for nonstop service between cities on the airlines' existing systems. With the increased operating authority on present routes and awards of long-haul new routes, more efficient use can be made of North Central's new jet equipment.

Substantial progress will be made in the coming year on the construction of the airline's new \$15-million headquarters complex at the Minneapolis-St. Paul International Airport. The main operations base is scheduled for completion on December 1, 1968, so that maintenance and engineering personnel can begin their move before severe weather arrives. The general office section of the facility will be finished the following March.



Construction is on schedule.

In 1968, the full impact of the advantages of a "jet airline" will be realized, as greater operating efficiencies and capacity are possible. Improved and increased passenger and cargo service can then be provided, resulting in record revenues for the company. North Central begins its third decade of progress with an even brighter outlook for the future.



PRESENT ROUTES
PROPOSED ROUTES

ROUTE OF THE NORTHLINERS

north central airlines, inc.



ASSETS

CURRENT ASSETS

Cash	\$ 2,805,304	\$ 1,479,809
Accounts receivable		
United States Government (Notes 1 and 4)	2,282,556	1,174,220
Traffic	3,361,710	2,888,877
Other	832,918	418,210
	<u>6,477,184</u>	<u>4,481,307</u>
Flight equipment parts, at average cost (less deterioration reserves of \$473,493 and \$408,577)	1,539,505	1,213,486
Maintenance and operating supplies	433,710	308,532
Prepaid expenses and sundry deposits	1,838,491	977,152
Total current assets	<u>13,094,194</u>	<u>8,460,286</u>

OPERATING PROPERTY AND EQUIPMENT—at cost

Flight equipment (Notes 2 and 3)	38,975,904	18,970,282
Ground equipment	4,530,332	2,587,820
Hangar buildings and improvements to leased property	991,421	2,590,410
Furniture and office equipment	484,294	1,040,482
	<u>44,981,951</u>	<u>25,188,994</u>
Less accumulated depreciation	9,857,492	9,732,414
	<u>35,124,459</u>	<u>15,456,580</u>
Advance payments on flight equipment (Note 3)	6,454,617	8,483,793
	<u>41,579,076</u>	<u>23,940,373</u>

DEFERRED CHARGES

Unamortized development and preoperating costs	1,666,093	218,139
Unamortized discount and expense on debt	176,475	104,275
Rentals and other	277,947	222,572
	<u>2,120,515</u>	<u>544,986</u>
	<u>\$56,793,785</u>	<u>\$32,945,645</u>

The accompanying notes are an integral part of this statement.

Comparative Balance Sheet-December 31, 1967 and 1966

LIABILITIES

CURRENT LIABILITIES

Short-term borrowing	\$ 475,000	\$ 400,000
Current maturities of long-term debt (Note 2)	600,565	2,497,153
Accounts payable	6,069,137	4,784,136
Tickets outstanding	178,797	232,018
Taxes withheld or collected as agents	435,794	309,321
Income taxes (Notes 4 and 5)	—	(73,683)
Accrued liabilities		
Salaries and wages	1,134,387	928,054
Payroll and property taxes	163,873	160,177
Other	909,343	622,942
Total current liabilities	<u>9,966,896</u>	<u>9,860,118</u>

LONG-TERM DEBT (Note 2)

37,726,617 16,811,773

DEFERRED FEDERAL INCOME TAXES (Notes 4 and 5)

1,245,352 —

STOCKHOLDERS' EQUITY

Common stock—authorized, 10,000,000 shares of \$.20 par value; issued and outstanding, 8,775,513 and 8,755,513 shares respectively (Notes 2 and 7)	1,755,103	1,751,103
Paid-in capital (Note 7)	467,489	410,447
	<u>2,222,592</u>	<u>2,161,550</u>
Retained earnings (Note 2)	5,632,328	4,112,204
	<u>7,854,920</u>	<u>6,273,754</u>
COMMITMENTS (Notes 3, 6, and 8)	—	—

\$56,793,785 \$32,945,645



Comparative Statement of Income

Years ended December 31, 1967 and 1966

	1967	1966
OPERATING REVENUES		
Passenger	\$33,482,371	\$30,261,479
Freight and express	2,648,883	2,215,862
Mail	781,501	743,075
Public service revenue (Note 1)	5,249,563	5,767,888
Non-scheduled transport service	327,224	432,842
Other	360,935	191,525
Total operating revenues	42,850,477	39,612,671
OPERATING EXPENSES		
Flying operations	11,061,431	9,868,343
Maintenance	8,750,455	8,112,192
Passenger service	2,325,151	2,130,920
Aircraft and traffic servicing	11,294,923	9,790,463
Promotion and sales	3,871,818	3,304,216
General and administrative	2,031,919	1,836,944
Depreciation and amortization	2,626,251	2,253,361
Total operating expenses	41,961,948	37,296,439
Operating profit	888,529	2,316,232
OTHER EXPENSE (INCOME)		
Interest expense (less capitalized interest for advances on flight equipment and pre-operating costs of \$840,223 in 1967 and \$267,000 in 1966)	680,134	485,671
Other (Net)	(51,403)	(20,697)
Total other expense	628,731	464,974
Income before income taxes	259,798	1,851,258
INCOME TAXES (Notes 4 and 5)		
Current	—	887,855
Deferred	134,000	—
Investment credits (including amounts carried back to prior years)	(470,010)	(167,208)
Net income before gain on disposition of aircraft	595,808	1,130,611
GAIN ON DISPOSITION OF AIRCRAFT NET OF TAXES (Note 5)	924,316	24,000
NET INCOME	\$ 1,520,124	\$ 1,154,611

The accompanying notes are an integral part of this statement

COMPARATIVE STATEMENTS OF RETAINED EARNINGS AND PAID-IN CAPITAL

Years ended December 31, 1967 and 1966

	1967	1966
RETAINED EARNINGS		
Retained earnings—beginning of year (Note 2)	\$ 4,112,204	\$ 2,957,593
Net income for the year	1,520,124	1,154,611
Retained earnings—end of year (Note 2)	\$ 5,632,328	\$ 4,112,204
PAID-IN CAPITAL		
Paid-in capital—beginning of year	\$ 410,447	\$ 295,246
Excess of proceeds over par value of common stock issued upon conversion of debentures (Note 2)	—	86,680
Excess of proceeds over par value of common stock issued under option (Note 7)	57,042	28,521
Paid-in capital—end of year	467,489	410,447

The accompanying notes are an integral part of this statement

NOTES TO FINANCIAL STATEMENTS

1. PUBLIC SERVICE REVENUE—Public service revenue received from the Federal Government is subject to review by the Civil Aeronautics Board. Settlement has been made through 1964. Provision has been made for all known adjustments for subsequent years.

2. LONG-TERM DEBT—Long term debt of \$38,327,182, including current maturities of \$600,565 consists of the following:

Amount	Terms	Purpose
\$26,000,000(a)	Due in quarterly installments from January 1969 through April 1973; interest at ½ per cent above prime rate	Retire existing bank loans
7,867,806(b)	Due in 1968; interest at 6%	Conversion of Convair aircraft
2,207,870(b)	Due in 1968; interest at 6½%	Deposit on DC-9 aircraft
850,706(b)	Due in 1968	Various Equipment
637,800	Various	Various Equipment
763,000(c)	5½% convertible subordinated debentures due in 1978	General

(a) The loan agreement with certain banks and insurance companies provides for an additional \$36,000,000 of financing in 1968 for the purchase of aircraft described in Note 3 and to replace present short-term financing. This additional financing has an interest rate of 7% and will be payable in quarterly installments from July 1973 through October 1978. The total \$62,000,000 loan is collateralized by substantially all flight equipment owned or to be owned by the company. Two equipment manufacturers are partially guaranteeing these loans. Among other things, the loan agreement contains certain restrictions on the payment of dividends, capital expenditures, and additional borrowings and requirements regarding working capital and net worth.

(b) To be refinanced in 1968 from the proceeds of long-term financing referred to in (a) above.

(c) Convertible into common shares at \$8.00 a share to 1971 and \$10.00 a share thereafter to maturity. Subject to redemption by the company at any time prior to maturity.

3. COMMITMENTS—The Company has purchase commitments of approximately \$38,000,000 for seven Douglas DC-9 aircraft for delivery in 1968 and for the conversion of seventeen Convair 440 aircraft to Allison 580 turbo-prop configuration. These commitments are covered under the Company's long-term note agreements. The Company has arranged to finance up to six additional 580 turbo-prop conversions through leases.

The Company will occupy new office and operational facilities now under construction at the Minneapolis-St. Paul Metropolitan Airport late in 1968 and early 1969 under a 30 year lease with annual rental of approximately \$1,100,000. Other major lease commitments are:

Facility	Annual Rent	Lease Terms
Chicago, Milwaukee, Detroit and Minneapolis-St. Paul terminals (including landing fees)	\$1,325,000	Various
Data Processing Equipment and Aircraft	800,000	Up to 10 Years
	\$2,125,000	

4. INVESTMENT TAX CREDIT—The Company follows the immediate flow-through method of accounting for income taxes. The investment tax credit for 1967 of \$1,515,000 has been used in part to eliminate any Federal income tax provision for 1967 through applications to deferred taxes and a carryback to years 1964 through 1966. The unused investment tax credit available for future years is \$837,000.

5. INCOME TAXES—The Company's use of different methods of reporting depreciation and certain deferred expenses for book and income tax purposes resulted in a tax receivable of \$1,547,000 due to net operating loss and investment credit carryback. Deferred Federal and state income taxes of \$1,245,352 may become payable in future years when expenses for tax purposes are less than for financial reporting purposes.

6. VACATION PAY—The company records vacation pay as a period charge. The unrecorded obligation at December 31, 1967 approximated \$400,000, net of income tax credits.

7. STOCK OPTIONS—A total of 250,000 shares of unissued common shares were reserved for officers and key employees under a qualified plan. Options for 220,000 shares were granted in 1965 at \$3.05208 and for 5,000 shares in 1967 at \$6.80769.

Options were exercised on 20,000 shares in 1967 and 10,000 shares in prior years. The excess of proceeds over the par value of common stock amounting to \$57,042 was credited to paid-in capital. Options for 190,000 shares expire in 1970 and for 5,000 shares in 1972.

8. PENSION PLANS—The company has non-contributing pension plans covering substantially all of its employees. The total expense for this year was \$818,747 as compared with \$920,000 for 1966. Current year expense includes interest on past service cost which is not being funded. Current year expense was reduced \$108,000, net of taxes, due to a change in actuarial interest assumptions and adjustments of prior year's overaccrual.

AUDITOR'S OPINION

ALEXANDER GRANT & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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, 1967 and the related statements of income, 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. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and statements of income, retained earnings and paid-in capital present fairly the financial position of North Central Airlines, Inc. at December 31, 1967 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 9, 1968

FIVE-YEAR EARNINGS SUMMARY

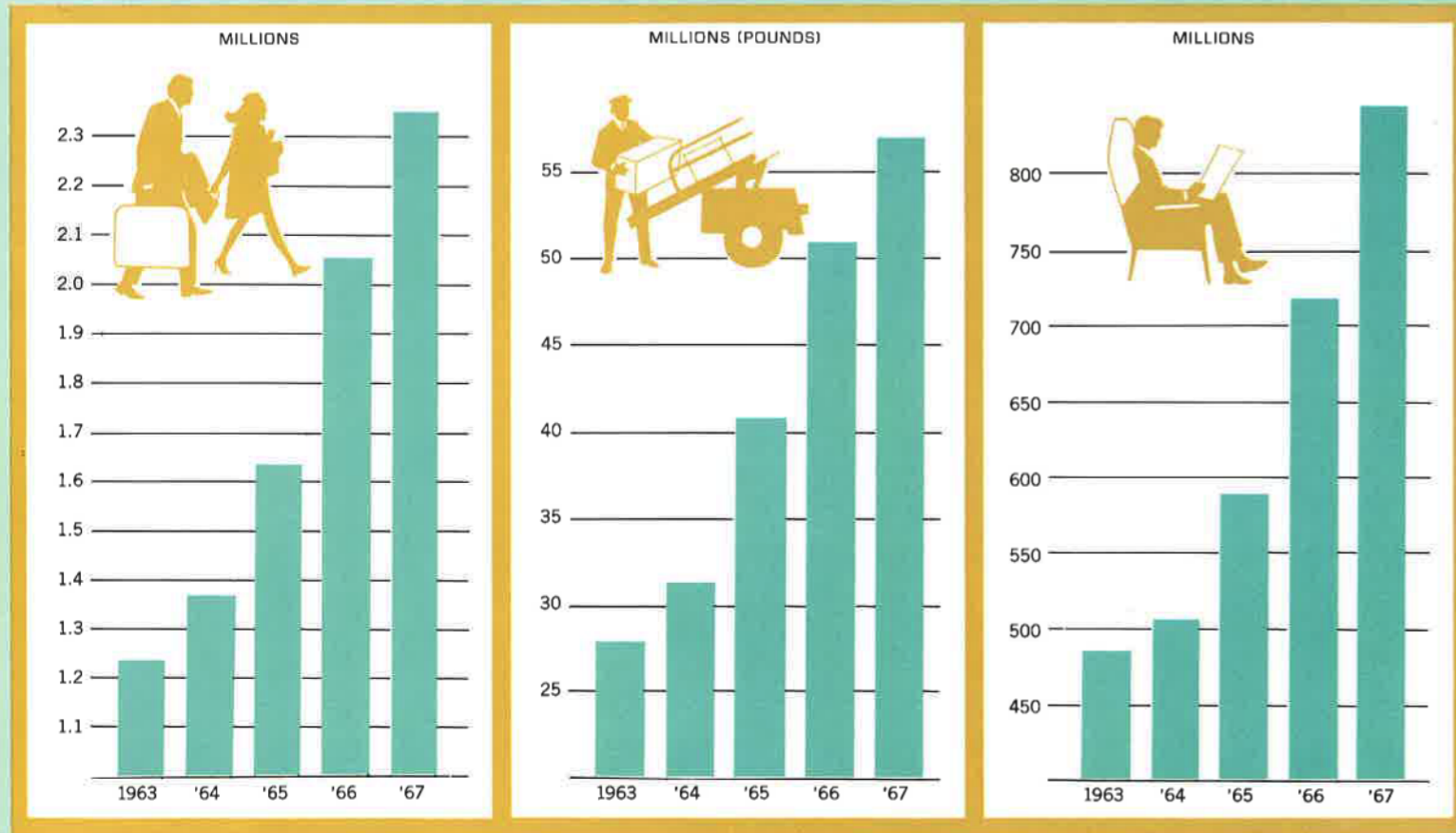
	1967	1966	1965	1964	1963
OPERATING REVENUES					
Passenger	\$33,482,371	\$30,261,479	\$23,720,203	\$20,002,281	\$18,064,524
Public Service Revenue	5,249,563	5,767,888	7,199,418	7,274,370	7,644,080
Other	4,118,543	3,583,304	2,971,410	2,438,126	2,168,100
TOTAL	\$42,850,477	\$39,612,671	\$33,891,031	\$29,714,777	\$27,876,704
OPERATING EXPENSES					
Direct Expenses	\$19,811,886	\$17,980,535	\$15,356,876	\$13,666,142	\$13,076,180
Indirect Expenses	19,523,811	17,062,543	13,970,237	12,303,601	11,812,690
Depreciation and Amortization	2,626,251	2,253,361	1,997,488	1,712,800	1,541,857
TOTAL	\$41,961,948	\$37,296,439	\$31,324,601	\$27,682,543	\$26,430,727
Operating Profit	888,529	2,316,232	2,566,430	2,032,234	1,445,977
Non-operating Income and (Expenses), Net	(628,731)	(464,974)	(442,894)	(348,305)	(428,423)
Earnings Before Taxes	\$ 259,798	\$ 1,851,258	\$ 2,123,536	\$ 1,683,929	\$ 1,017,554
Income Taxes	(336,010)	720,647	1,006,520	873,304	514,497
Net Earnings Before Gain on Disposition of Aircraft	\$ 595,808	\$ 1,130,611	\$ 1,117,016	\$ 810,625	\$ 503,057
Gain on Disposition of Aircraft, Less Income Taxes	924,316	24,000	21,736	33,939	18,656
Net Earnings	\$ 1,520,124	\$ 1,154,611	\$ 1,138,752	\$ 844,564	\$ 521,713

Five years of record progress for **north central**

PASSENGERS

CARGO

SEAT MILES



DYNAMIC GROWTH PATTERN

During the last five years, North Central has consistently achieved new highs in passengers, cargo, and seat miles. With 2,347,371 passengers carried in 1967, the gain over 1966 was 14 per cent, or 291,162 more than the previous year. The passenger increase for the last five years was 1,223,978—a jump of 109 per cent. Passenger records have been set by the airline every year since scheduled operations began in 1948. Air cargo, which includes mail, freight, and express, also increased in 1967 when the company carried 56,670,189 pounds of cargo—up 124 per cent compared with five years ago.

The phase-out of DC-3 and Convair 440 aircraft and their replacement by larger, faster Convair 580 prop-jets and DC-9 fan jets have made possible greatly increased passenger and cargo traffic. The company's available seat miles have risen 80 per cent in this five-year period, while the 840,964,760 seat miles in 1967 were 14 per cent over 1966. This achievement is of major importance in North Central's efforts to provide improved service to the traveling public. With the transition to jet-powered equipment completed in 1968, North Central can look forward to even greater progress in the next five years.

SAFETY AWARDS AND SPECIAL CITATIONS

North Central Airlines has maintained a perfect safety record during its 20 years of scheduled operation. In addition to carrying its greatest passenger and cargo traffic and introducing two new types of jet aircraft in 1967, the company received several safety awards and special citations.

The National Safety Council once again cited the airline for having no fatal accidents during the previous year. In addition, the Michigan Aeronautics and Space Association presented its 1967 Aerospace Award to the company "for outstanding achievement in flight safety".

The Air Force Association Citation of Aviation Service was awarded to North Central, "for services to Minnesota airline passengers during the summer of 1966 by providing extra trips and schedules to the traveling public with additional crews and equipment in the interest of public service as a Minnesota air carrier. This was above and beyond normal operational requirements".

For encouraging its personnel to participate in Military Reserve activities, recognition was also given to North Central. President Hal Carr accepted the Air Force's Special Award Citation for Outstanding Support of the Air Reserve Forces, presented in behalf of Secretary of the Air Force Harold Brown, and a Certificate of Appreciation from Minnesota's Department of Military Affairs, given by Governor Harold LeVander, for "patriotic services" to the Minnesota National Guard.

An "Award of Appreciation" from the Menominee Ambassadors of Michigan was received by the company in 1967 for its airline service to the Menominee area.

A "Citation of Merit" for distinction in the field of shareholder and financial communications was awarded to the airline by the National Security Traders Association of New York.

As North Central completes its 20th Anniversary Year in 1968, the company and its personnel are proudest of the safety record which has been attained. Since inaugurating scheduled service on February 24, 1948, the airline has carried 16,081,957 passengers and flown 2,657,037,378 passenger miles without a single fatality or injury to passengers or crew members.

This outstanding achievement dramatically emphasizes the dedication of the company's employees to performing their daily work efficiently and their conscientious efforts to assure passenger safety and comfort.

North Central again received a National Safety Council Award as the airline extended its perfect safety record to 20 years. Other special citations were also presented to the company in 1967.



JET TRAINING PROGRAM

Long before the arrival of North Central's first Convair 580 prop-jet and Douglas DC-9 fan jet, the company launched its intensive training program for the efficient transition to jet-powered aircraft.

Over 96,000 manhours have been devoted to the airline's jet training program. This dramatic figure represents the energetic efforts of North Central's personnel to make the company's entry into the jet age a safe and successful one.

JET FAMILIARIZATION

The project was principally for Maintenance and Engineering, Flight Operations, and Ground Operations people. The first stage included jet familiarization training of management, supervisory, and instructor personnel on the DC-9 at Douglas Aircraft Company in California and at Allison's Indianapolis Service School, for the Convair 580. Also, to gain from the experience of airlines already operating these two types of jet-powered aircraft, key employees took the complete ground school, simulator, and flight training made available by these carriers.

With this nucleus of jet-qualified personnel, the three operating departments developed their own specialized programs which consisted of classroom and on-the-job instruction at the company's Training Center, its Chicago, Detroit, and Twin Cities maintenance bases, and all the stations.

Much of the overall planning of the curriculum, instruction, and manual writing was under the direction of the airline's expanded Technical Training Department. The preparation of manuals alone represented over 10,000 manhours of work by the three operating departments.

TRAINING CENTER

The Training Center at Minneapolis/St. Paul became the headquarters for the classroom phase of the company's program, and the most modern training equipment was acquired. Of major importance are the \$50,000 DC-9 and Convair 580 cockpit procedures trainers used to teach pilots procedures for operating the aircraft. In addition, the Transdyne navigational trainer permits instrument flight procedures to be demonstrated for both aircraft.

A versatile new piece of equipment is the \$55,000 DC-9 cabin mock-up. This duplicates sections of the jet cabin—including the entrance doorway, windows, two complete rows of seats, and the buffet—so that passenger in-flight service features can be demonstrated to stewardesses.

To allow the simulated operation of the aircraft's electrical, hydraulic, and pneumatic systems, three electronically-powered training boards were purchased. These \$10,000 units reproduce aircraft conditions that could be encountered in flight or on the ground, and are used by both maintenance and flight personnel.

Another training device is the set of eight "panel boards" which illustrate the detailed mechanical operation of the DC-9's major systems and sub-systems.

Concentrated instruction took place at the Training Center in 1967. Classrooms were used all day, and frequently at night and on weekends for the hundreds of North Central people from over the system who came to the Twin Cities for jet training sessions.

AIRCRAFT ORIENTATION

With the arrival of North Central's first Convair 580 prop-jets and DC-9's, intensive instruction was again scheduled around the clock on both types of aircraft.

The in-flight training phase of the program began for pilots and stewardesses. At the same time, flight dispatchers took their route familiarization trips. On the ground, maintenance people received actual experience in ramp and taxi procedures with the new aircraft at their Chicago, Detroit, and Minneapolis/St. Paul bases and on-the-job maintenance training.

Classroom sessions for Ground Operations personnel were then conducted at all stations. When the training flights were made with the new jet-powered aircraft, station people examined the planes and secured their practical training in ground operational procedures. Over 5,000 manhours were spent on this department's orientation.

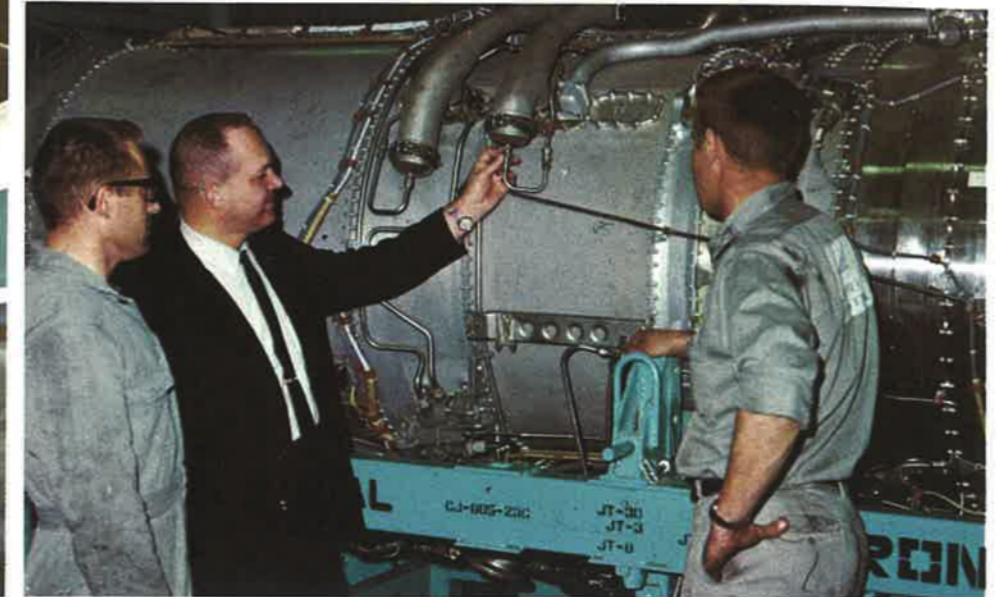
The entire jet training program for Flight Operations and Maintenance and Engineering personnel has already consumed over 81,000 manhours.

In addition, three special meetings have been held to acquaint the company's sales staff, passenger service managers, and station managers with the cargo and passenger capabilities of the Convair 580 and DC-9. This indoctrination program provided technical data on the aircraft and emphasized the improved quality of North Central's service with the new jets.

The airline's comprehensive training program has played a vital role in the major transition of North Central from piston to jet operations. In 1968, as more jet equipment arrives, refresher and recurrent instruction will be given, as well as initial orientation. North Central's high operating performance record testifies to the success of its jet training program.



A fan jet engine change is supervised.



Mechanics received on-the-job training at North Central's maintenance bases.



New DC-9 cockpit procedures trainer allows instructor to simulate aircraft conditions for flight crew's action.



On-the-job training for ground operations personnel took place at stations across the system when the new jet aircraft made familiarization trips prior to starting scheduled service.



Transdyne navigational trainer permits demonstration of instrument flight procedures.



Intensive classroom instruction was conducted for pilots and mechanics at the company's Training Center.



DC-9 cabin mock-up duplicates sections of jet interior for stewardess training.

ADVERTISING AND PROMOTION

ADVERTISING

The company's advertising theme for 1967, "Take a new look at North Central", was designed to promote the airline's entry into the jet age through newspapers, magazines, radio, television, and billboards.

The campaign presented the company's extensive equipment modernization program and featured the Convair 580 prop-jet and DC-9 fan jet. The public was encouraged to "Travel the Jet-Smooth Skyways of North Central".

Advertisements and commercials described the benefits of speed and comfort which the jets are bringing and emphasized, "We're flying a new kind of plane now, and

we've added a bright new spirit to match".

Prior to the inauguration of Convair 580 service, newspaper ads announced, "New Jet Power Comes to North Central" in cities which were to receive the 580's.

The major advertising effort in 1967 centered on the DC-9. Full-page newspaper ads launched an intensive campaign at each city receiving the jets. A series of smaller ads, radio commercials, and billboards carried the "Take a new look at North Central" theme and repeatedly reminded the traveling public of the new jet service.

To publicize the company's route awards in 1967, advertisements ran in Sioux City with full-page ads and billboards in Kansas City about the new service to Sioux City and the Dakotas. In addition, billboards and newspapers announced the coming nonstop flights between Sioux Falls and the Twin Cities. The new Detroit-Toronto route also received concentrated attention in newspapers, radio, and billboards.

Magazine advertising was used extensively in 1967 to project the "jet airline" image of

North Central. A distinctive four-color, four-page advertisement to dramatize the introduction of the DC-9 was created. It ran in two national trade publications and was also used as a separate brochure for promotional purposes. Full-page black and white ads appeared in other magazines.

The "New Look" advertising campaign of 1967 contributed greatly to the enthusiastic acceptance by the traveling public of North Central's jet service.

PROMOTIONS

Special promotional activities in 1967 acquainted the traveling public with North Central's new jet service.

At key cities over the system, public relations flights introduced the Convair 580 prop-jet and DC-9 fan jet to civic officials, business leaders, and representatives of news media. Souvenir kits, with photographs and informative material about the aircraft, were distributed. The airline received enthusiastic response from its passengers on the flights and excellent news coverage.

Two special color-editions of the company publication, "The Northliner", were produced about the Convair 580 and DC-9 to highlight the benefits which the two jet-powered aircraft are bringing to North Central passengers.

In the last week of March, 20 pre-inaugural flights promoted the new Convair 580 prop-jet. Some 16 similar trips in August announced the coming DC-9 fan jets, and more preview flights operated prior to the addition of the third DC-9 in October.

Of major importance to North Central in 1967 was the inauguration of new service to Toronto in August and Kansas City in December. Following the inaugural flights, special ceremonies and receptions were held. Government officials and members of the business community from cities on the routes participated in welcoming North Central to these new metropolitan centers.

To promote the company's overall activities and the jet "New Look", 65 special news releases and 181 scenic flights publicized the North Central story in 1967.



north central airlines, inc.

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MINNEAPOLIS, MINNESOTA 55450



north central airlines

ANNUAL REPORT 1967

