NORTH CENTRAL AIRLINES

ANNUAL REPORT 1969

NORTH CENTRAL AIRLINES

GENERAL OFFICES: 7500 Northliner Drive, Minneapolis, Minnesota 55450

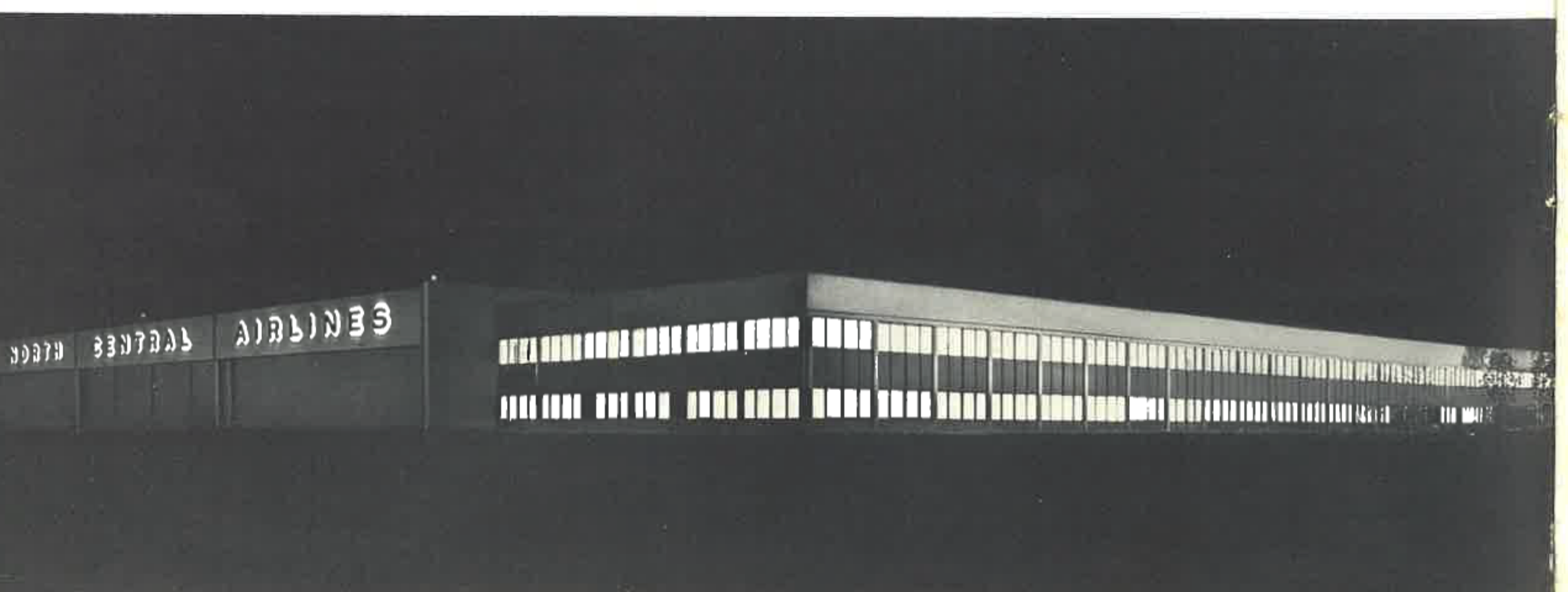
BOARD OF DIRECTORS

MANAGEMENT

- Hal N. Carr .... *Chairman of the Board and Chief Executive Officer*
- Bernard Sweet .... *President*
- John P. Dow .... *Vice President and Secretary*
- Leslie J. Keely .... *Vice President-Maintenance and Engineering*
- Daniel F. May .... *Vice President and Treasurer*
- David E. Moran .... *Vice President-Traffic and Sales*
- T. M. Needham .... *Vice President-Ground Operations*
- Arthur E. Schwandt .... *Vice President-Industrial Relations*
- G. F. Wallis .... *Vice President-Flight Operations*
- Gowan J. Miller .... *Assistant Secretary*
- Charlotte G. Westberg .... *Assistant Secretary*

REGISTRARS AND STOCK TRANSFER AGENTS

Northwestern National Bank of Minneapolis; Minneapolis, Minnesota
First National City Bank; New York, New York



March 6, 1970

TO OUR STOCKHOLDERS, EMPLOYEES AND FRIENDS:

North Central Airlines has completed another year of progress and a decade of impressive growth. Revenues for 1969 increased by a record $13,202,000 to reach $68,428,000—a 24 percent gain over 1968. For the second consecutive year, the company carried more than three million passengers, up 229,003 to 3,242,819. Revenue passenger miles advanced 18 percent to 609,973,000. Daily and monthly traffic highs were also established as 13,619 passengers flew August 1, and 353,907 were carried in August.

With operating expenses of $68,035,000, including depreciation of $5,606,000, the airline achieved a $393,000 operating profit in 1969. The company's extensive equipment modernization program caused the substantial increase in depreciation, as well as the rise in interest expense of 56 percent to $4,830,000. After income tax credits, the net loss for 1969 was $2,378,000. However, no capital gain was recorded in 1969, while the net income of $70,000 in 1968 included a $1,184,000 gain on disposition of equipment.

In perspective, the year was one of the most difficult the airline industry has yet experienced. During the second half of 1969, all the carriers suffered from an unanticipated slowdown in their traffic growth. This was attributed largely to the influence of anti-inflationary measures enacted by the Federal Government. The result of the softening of traffic was magnified by the continued rising costs of labor and material. All nine of the regional airlines incurred losses in 1969, and the total loss mounted to approximately $60 million.

Despite the present adverse economic conditions, the 1970 outlook is encouraging for North Central. The full 12-month effect of fare increases granted by the Civil Aeronautics Board in February and October 1969 has not yet been realized, and will generate greater revenues in 1970. Besides this, two recent actions by the Board will strengthen the 1970 earnings picture even more—the distribution of a larger share of interline fares to the regional carriers and the elimination of public service revenue reductions with new routes.

During 1969, North Central was awarded 1,760 additional route miles. The C.A.B. approved a Minneapolis/St. Paul-Denver route, and nonstop fan jet service was inaugurated in June. The company also received authority for Twin Cities-Chicago nonstop flights. In November 1969, North Central was granted Milwaukee-Ohio service to Cincinnati, Columbus, and Dayton. Flights started March 1, 1970.

The airline has applied for over 16,000 new route miles to serve another 22 communities in nine states, the District of Columbia and two Canadian provinces. A C.A.B. Examiner has recommended North Central for nonstop authority from both Minneapolis/St. Paul and Milwaukee to New York/Newark. The Board's final decision is expected in 1970.

At a special meeting in September, the company's stockholders approved an increase in the authorized shares of common stock from 10,000,000 to 16,000,000. A portion of the additional shares were offered to the general public in October through a group of underwriters.

The airline's new $15-million general office and main operations base at the Minneapolis-St. Paul airport was finished during 1969, and the dedication program was held in October.

The era of introducing jet service to all North Central communities represents an investment of $93 million over the past 30 months. The company's fleet now consists of thirteen 100-passenger DC-9 fan jets and 34 Convair 580 prop-jets. Two more DC-9's are available for use during the year.

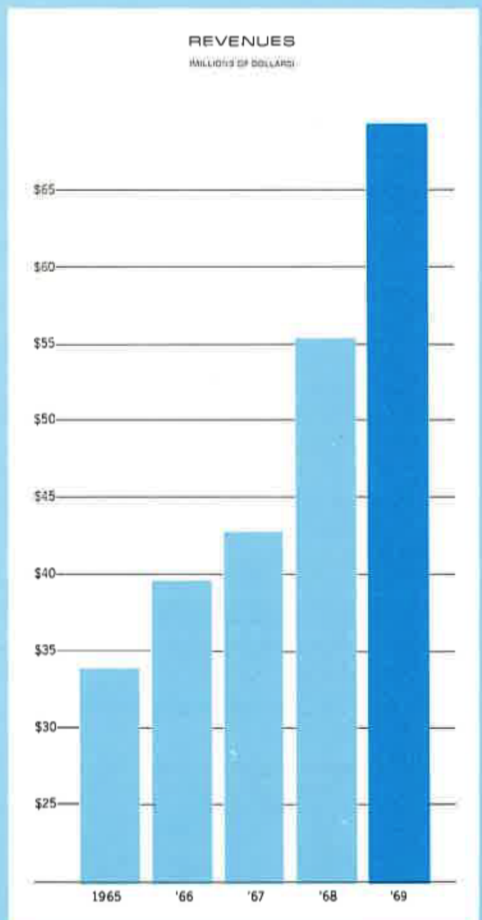
The 1970's will be a decade of challenge for North Central. The company's effective cost control program will continue, major investments required for jet equipment and new facilities have been completed, and increased revenues are anticipated from new routes, fare increases, and a more favorable allocation of interline fares. Management believes that these developments will produce a substantial improvement in earnings for 1970. North Central looks forward to a rewarding year supported by the efforts of its dedicated employees and its loyal stockholders and passengers.

Sincerely,

HAL N. CARR
Chairman of the Board and Chief Executive Officer

BERNARD SWEET
President

ANNUAL REPORT 1969



FINANCIAL REVIEW

North Central Airline's 1969 revenues reached a record high of $68,427,923. The company closed the decade of the 1960's with a $13,201,997 increase over 1968, the largest revenue gain in its 22-year history.

Operating expenses, including depreciation, advanced 26 percent to $68,035,034 in 1969, and the company achieved an operating profit of $392,889, compared with $1,025,833 the previous year.

Depreciation and amortization expense continued to rise in 1969—from $4,356,893 to $5,605,500—due largely to the acquisition of DC-9 fan jets and the completion of the Convair 580 conversion program. Related interest expense increased sharply to $4,829,814, up 56 percent compared with $3,092,015 in 1968. The resulting net loss for 1969 was $2,378,395 after income tax credits of $1,934,888. In 1968 the company's net income of $70,216 included a $1,183,588 gain from disposition of equipment, while no capital gain was realized in 1969.

The actions taken by the Federal Government to combat inflation reduced the rate of traffic growth which the airlines have experienced in recent years. The downward trend in the economy for the last six months of 1969 had a double effect on the industry because traffic did not meet anticipated forecasts while inflation boosted the rising cost of labor, material, fuel, insurance, and interest.

To improve the financial condition of the company, $9,760,832 was raised in October through a public offering of North Central stock and warrants, the additional shares required having been authorized at a special stockholders' meeting in September. Revenues from traffic growth, new routes, recent fare increases, and a greater share of interline fares will also strengthen the airline's ability to emerge from the present period of economic weakness, when coupled with the company's expanded cost control program.

North Central enters the 1970's with a strong potential for increased growth and improved earnings.

TRAFFIC GROWTH

North Central Airlines continued its record traffic growth in 1969 as 609,972,627 revenue passenger miles were flown for an increase of 18 percent over 1968. Some 3,242,819 passengers were carried during the year, a gain of eight percent compared with 1968.

This was the second consecutive year the company boarded over three million passengers, and the passenger total was the highest in the airline's 22-year history.

In addition, a monthly record was set in August with 353,907 passengers carried, 13 percent ahead of the same month of 1968. On August 1, 1969, a new single-day mark was reached as 13,619 passengers flew on the "Route of the Northliners."

The conversion to an all jet-powered fleet early in 1969 contributed significantly to traffic increases as North Central's 100-passenger DC-9 fan jets and Convair 580 prop-jets provided greater capacity, speed and comfort to the traveling public.

During peak periods, North Central added 1,018 "extra sections" to its regular flights. These carried 31,552 passengers and flew 250,553 miles. The airline also operated 168 charters to 32 states and Canada, covering 246,921 miles and accommodating 18,302 passengers. To promote North Central service in the local communities, the company's 202 scenic flights introduced the advantages of jet-powered transportation to 11,625 people.

North Central flew 1,543,706,426 seat miles in 1969, an 18 percent increase over the previous year, and available ton miles reached 209,475,981, up 32 percent.

A record 82,744,459 pounds of cargo (air freight, express, and mail) were carried on the airline's 90-city system in 1969. Total cargo ton miles rose to 8,293,640, an increase of 14 percent compared to 1968. Air freight was up a substantial 18 percent to 4,599,580 ton miles —and mail increased 15 percent to 2,466,849 ton miles flown.

Since inaugurating service in 1948, the airline has carried 22,338,592 passengers and flown 3,785,433,524 passenger miles.

OPERATING PERFORMANCE

North Central's operating performance for 1969 was one of the most outstanding records in the airline industry. In spite of an unusually severe and prolonged Midwest winter, the company achieved a completion factor of over 98 percent. Of its 23,018,925 scheduled miles, 22,577,216 were flown.

One of the major reasons for this impressive performance was the airline's exacting and continuous maintenance program. In 1969, less than one-tenth of one percent of North Central's 209,755 actual departures were cancelled for mechanical reasons, and less than one and one-half percent were delayed for mechanicals.

North Central's "Operation Cold Front" again emphasized winter operating techniques. This regular seasonal program covers refresher training of personnel and the preparation of ground equipment for adverse winter weather.

The excellent 1969 performance record is the result of the dedicated efforts of all North Central employees to their job of keeping the Northliners flying.

North Central Airlines opened its new second-level passenger boarding gates at Minneapolis-St. Paul International Airport in 1969. Passengers can now board and deplane jet aircraft completely sheltered from the weather. Additional upper-level facilities were also installed at Milwaukee and Green Bay during the year.

ROUTE DEVELOPMENT

In 1969, the Civil Aeronautics Board awarded North Central Airlines 1,760 additional miles which increased its route system by 24 percent.

In April, the Board authorized the company to operate Denver-Minneapolis/St. Paul nonstop service. This is the airline's longest nonstop route. Daily prime-time DC-9 flights were inaugurated June 15. Already Denver has become the eighth most important revenue-generating station on North Central's system.

The C.A.B. lifted its operating restrictions on the Twin Cities-Chicago route in August, and nonstop fan jet flights started October 26. The direct service with 100-passenger DC-9's is in addition to the multi-stop flights North Central operates between these two metropolitan communities. The company also received permanent authority to provide nonstop service between Sioux Falls and the Twin Cities, and Sioux City-Kansas City.

A decision in the Milwaukee Short Haul route case was made in November. North Central was certificated to serve three new cities in Ohio—Columbus, Dayton, and Cincinnati. The Milwaukee-Ohio flights are starting March 1, 1970. North Central will provide improved new service to this important market area.

In the Twin Cities-Milwaukee Long Haul Investigation, the C.A.B. Examiner recommended North Central to operate nonstop service to New York/Newark. A final decision in this case is expected in 1970.

North Central currently has applications pending before the C.A.B. for 16,327 additional route miles to serve 22 new communities in nine states, the District of Columbia, and the Provinces of Manitoba and Quebec, Canada. If approved, these new routes would more than double the airline's present system and extend its service area as far north as Winnipeg, south to Dallas/Ft. Worth, Houston, San Antonio, Atlanta, Miami, Tampa, and east to Montreal, Boston, New York/Newark, Philadelphia, Washington/Baltimore, and several North Carolina cities.

The company is continuing to pursue this ambitious route development program in the 1970's. The airline presently serves 90 communities in 12 states and Canada over a 9,200-mile route system.

STATUS OF NORTH CENTRAL'S ROUTE DEVELOPMENT PROGRAM

1969 AWARDS:

Denver-Twin Cities nonstop (694 miles)

Milwaukee-Columbus one-stop via Dayton, and nonstop (355 miles)

Milwaukee-Cincinnati one-stop via Dayton, and nonstop (348 miles)

Milwaukee-Dayton nonstop (284 miles)

Minneapolis/St. Paul-Chicago nonstop (334 miles)

Sioux Falls-Minneapolis/St. Paul nonstop (permanent authority)

Sioux City-Kansas City nonstop (permanent authority)

AWAITING CAB DECISION:

Twin Cities-Milwaukee Long Haul Investigation—New routes from the Twin Cities and Milwaukee to Boston, New York/Newark, Philadelphia, and Washington/ Baltimore (3,941 miles)

North Carolina Points Investigation—New routes from Chicago to Charlotte, Greensboro/High Point/Winston-Salem, and Raleigh/Durham (2,116 miles)

Omaha and Des Moines Service Investigation—Nonstops from Omaha to Chicago, Minneapolis/ St. Paul, Denver, and Kansas City (1,350 miles)

North Central Route Realignment Proceeding—The Board's staff has recommended combining a number of segments to permit greater operating flexibility.

AWAITING CAB EXAMINER'S DECISION:

Southeast Points Investigation—New routes from Minneapolis/St. Paul and Milwaukee to Miami, via Atlanta and Tampa (1,283 miles)

Atlanta-Detroit, Cleveland, Cincinnati Investigation (1,527 miles)

Chicago-Baltimore Nonstop Service Investigation (622 miles)

APPLICATIONS AWAITING HEARING:

Minneapolis/St. Paul nonstop to Dallas/Ft. Worth, and one-stop via Kansas City. Also, nonstops from Dallas/Ft. Worth to San Antonio and Houston. (1,349 miles)

Minot-Winnipeg and Duluth/Superior to Winnipeg (534 miles)

Milwaukee-Denver nonstop (909 miles)

Columbus, Dayton, Cincinnati and Indianapolis-Philadelphia nonstops (1,977 miles)

Toronto-Montreal nonstop (315 miles)

Minneapolis/St. Paul-Kansas City nonstop (406 miles)

LOOKING TO THE 1970's

NEW FACILITIES

North Central Airlines officially opened its new $15-million general office and main operations base in October. Located at the Minneapolis-St. Paul International Airport on a 100-acre site, the headquarters combines the company's major corporate and operational functions into one massive 516,000-square-foot complex.

The main base has three huge hangar bays and can service nine 100-passenger DC-9 fan jets at one time, or 15 Convair 580 prop-jets. Behind the bays are related shop areas, and nearby is the $900,000 jet-engine test cell. The general office is housed in the adjoining two-story building. North Central also operates an employee cafeteria and Flight Kitchen, becoming the first regional carrier to cater its own aircraft. Over 1,200 of the company's 3,100 employees are based in the Twin Cities.

At Milwaukee, the new $2.5-million boarding terminal, designed for North Central, was operational in December. Eight gates provide expedited check-in service and on-line transfers. At Minneapolis-St. Paul, Green Bay, and Milwaukee, second-level boarding facilities were added, and a new terminal was dedicated at Escanaba. The new Central Wisconsin Regional Airport, serving Wausau, Stevens Point, Wisconsin Rapids, and Marshfield, was opened in October with increased jet flights and more direct air service.

ESCORT COMPUTER SYSTEM

Early in 1969, North Central announced its agreement with International Business Machines for an $8-million **E**lectronic **S**ystem **C**ombining **O**perations, **R**eservations, **T**elecommunications—known as ESCORT. Located in the new computer center at the company's Twin Cities headquarters, the basic equipment includes two IBM 360-65 and two Sanders 200 computers. The system is designed to expedite passenger reservations, message-switching, and flight information inquiries.

Research and planning for North Central's entry into the computerized reservations age started in 1967 with an evaluation of specifications and the economic feasibility of completely automating reservations. During 1968 and 1969, key personnel from the Traffic, Ground Operations, and Treasury Departments implemented the ESCORT project; and extensive programming modifications tailored the IBM system to North Central's requirements. The 1,315 separate programs of ESCORT then underwent intensive testing, and a sophisticated self-instruction course was developed to train North Central employees at all locations simultaneously.

ESCORT's 380 remote agent sets, with attached keyboards, consist of TV-like units and typewriter devices. Linked with the four computers by 18,500 miles of telephone lines, the sets are installed at 160 locations over the airline's 12-state system—reservations centers, city ticket offices, all airport operations, and strategic passenger service positions. North Central is the first carrier to provide visual display sets at passenger gate areas.

A major advantage of ESCORT is that every North Central agent at every location has direct access to all stored reservations records. He can make, change, or reconfirm a reservation "instantly", and passenger records can be retrieved by name or flight number. The agent enters the inquiry into ESCORT and receives a response within three seconds. (ESCORT will remind him of missing information.) Data can be secured on seat availability, fares, arrival/departure times, and the operating status of all North Central's 1,300 daily flight segments, as well as seat availability and fares for 3,800 connecting flight segments of 21 major airlines. ESCORT also maintains an inventory of all "sold out" flights for these airlines, and reservations can be confirmed on every other flight in their entire schedule. ESCORT's overall capacity permits storage of passenger records for 340 days, including name, telephone number, flight itinerary, fare, ticketing information, and special services required.

North Central is the first airline to install electronic equipment system-wide which will transmit reservations, message-switching, flight information, and weather inquiries to a single computer system for common retrieval. In addition, ESCORT is used for processing payroll, accounting, crew scheduling, maintenance planning, and inventory control data.

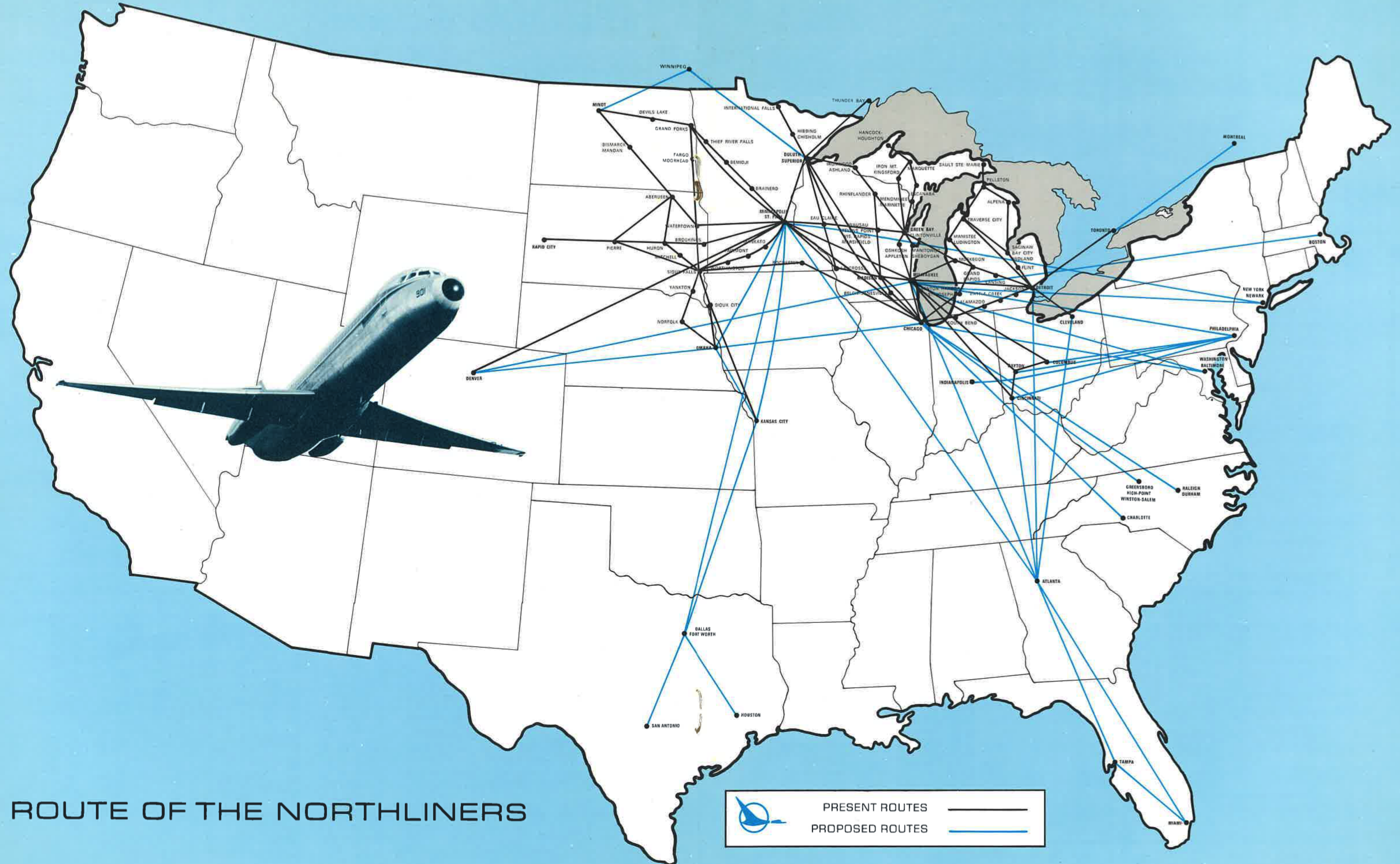
ESCORT provides significant operating economies which will increase as the company's volume of business grows. The system is a vitally important part of North Central's expansion program and assures improved, high-quality reservations service for future traffic growth on present and anticipated new routes. Early in 1970, the message-switching function of ESCORT was activated, and during March the entire system will be operational.

THE FUTURE

In addition to the airline's acquisition of new facilities and passenger service equipment, North Central has also completed its jet modernization program during the past 30 months, representing an expenditure of $93 million for 13 DC-9 fan jets and 34 Convair prop-jets.

These major investments give North Central a strong foundation for implementing new route awards and achieving record growth in the decade of the 70's.

ESCORT provides North Central's agents with "instant" responses to all inquiries (photo above), and the basic equipment is located in the new Computer Center (below) at the airline's Twin Cities headquarters.



ROUTE OF THE NORTHLINERS

NORTH CENTRAL AIRLINES, INC.

Comparative Balance Sheet - December 31, 1969 and 1968

ASSETS

	1969	1968
CURRENT ASSETS		
Cash	$ 1,382,932	$ 1,248,250
Accounts receivable		
United States Government	1,112,204	1,671,347
Traffic	5,896,338	4,274,625
Other	929,433	2,053,072
	7,937,975	7,999,044
Flight equipment parts, at average cost (less reserves of $260,152 and $338,954 in 1969 and 1968, respectively)	2,212,636	1,824,159
Maintenance and operating supplies	666,251	468,319
Prepaid expenses and sundry deposits (Note 1)	5,126,936	2,107,083
Total current assets	17,326,730	13,646,855
OPERATING PROPERTY AND EQUIPMENT—AT COST		
Flight equipment (Note 2)	71,774,524	66,603,743
Ground equipment	4,090,219	3,413,424
Improvements to leased property	3,116,950	2,898,522
Furniture and office equipment	747,538	518,868
	79,729,231	73,434,557
Less accumulated depreciation (Note 3)	10,875,534	8,516,412
	68,853,697	64,918,145
Advance payments on flight equipment	—	4,515,570
	68,853,697	69,433,715
DEFERRED CHARGES		
Unamortized development and pre-operating costs (Note 4)	3,830,379	3,111,666
Unamortized discount and expense on debt	189,997	194,888
Rentals and other	1,084,329	772,739
	5,104,705	4,079,293
OTHER ASSETS		
Other interline receivables	—	450,000
	$91,285,132	$87,609,863

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES

	1969	1968
CURRENT LIABILITIES		
Short-term borrowing	$ 690,000	$ 540,000
Current maturities of long-term debt (Note 2)	6,086,920	6,409,940
Accounts payable	10,136,122	7,432,386
Tickets outstanding	265,933	211,409
Taxes withheld or collected as agents	979,181	546,299
Accrued liabilities		
Salaries and wages	2,138,173	1,465,384
Payroll and property taxes	361,033	209,670
Other	1,272,765	1,204,370
Total current liabilities	21,930,127	18,019,458
LONG-TERM DEBT—less current maturities (Note 2)	53,719,506	59,611,269
DEFERRED FEDERAL INCOME TAXES (Note 5)	—	1,994,000
COMMITMENTS (Notes 6, 7, and 8)	—	—
STOCKHOLDERS' EQUITY (Notes 2, 9 and 10)		
Common stock—authorized, 16,000,000 shares of $.20 par value; issued and outstanding, 10,462,824 and 8,776,763 shares, 1969 and 1968, respectively	2,092,565	1,755,353
Paid-in capital	10,218,785	527,239
	12,311,350	2,282,592
Retained earnings	3,324,149	5,702,544
	15,635,499	7,985,136
	$91,285,132	$87,609,863

NORTH CENTRAL AIRLINES, INC.

COMPARATIVE STATEMENT OF OPERATIONS

Years ended December 31, 1969 and 1968

	1969	1968
OPERATING REVENUES		
Passenger	$57,073,369	$44,628,769
Freight and express	4,153,106	3,460,728
Public service revenue	4,016,386	4,667,639
Mail	1,501,786	1,183,809
Non-scheduled service and other	1,683,276	1,284,981
Total operating revenues	68,427,923	55,225,926
OPERATING EXPENSES		
Flying operations	20,960,004	16,594,647
Maintenance (Note 1)	10,687,242	8,930,353
Passenger service	3,849,181	2,922,485
Aircraft and traffic servicing	17,421,674	13,902,654
Promotion and sales	5,966,402	4,741,168
General and administrative	3,545,031	2,751,893
Depreciation and amortization (Note 3)	5,605,500	4,356,893
Total operating expenses	68,035,034	54,200,093
Operating profit	392,889	1,025,833
OTHER EXPENSE (INCOME)		
Interest expense—net of interest capitalized (Note 11)	4,829,814	3,092,015
Other (net)	(152,722)	(83,810)
Total other expense	4,677,092	3,008,205
(Loss) before income taxes and gain on disposition of equipment	(4,284,203)	(1,982,372)
INCOME TAXES (Note 5)		
Deferred	(1,934,888)	(869,000)
(Loss) before gain (loss) on disposition of equipment	(2,349,315)	(1,113,372)
GAIN (LOSS) ON DISPOSITION OF EQUIPMENT, NET OF TAXES (Note 5)	(29,080)	1,183,588
NET INCOME (LOSS)	$(2,378,395)	$ 70,216
INCOME (LOSS) PER SHARE (Note 12)		
(Loss) before gain (loss) on disposition of equipment	$(.26)	$(.12)
Gain (loss) on disposition of equipment, net of taxes	—	.13
NET INCOME (LOSS) PER SHARE	$(.26)	$ .01

The accompanying notes to financial statements are an integral part of this statement.

COMPARATIVE STATEMENTS OF RETAINED EARNINGS AND PAID-IN CAPITAL

Years ended December 31, 1969 and 1968

	1969	1968
RETAINED EARNINGS (Note 2)		
Retained earnings—beginning of year	$ 5,702,544	$ 5,632,328
Net income (loss) for the year	(2,378,395)	70,216
Retained earnings—end of year	$ 3,324,149	$ 5,702,544
PAID-IN CAPITAL		
Paid-in capital—beginning of year	$ 527,239	$ 467,489
Premium in excess of par value applicable to stock purchase warrants (Note 2)	—	50,000
Excess of proceeds over par value of common stock issued upon conversion of debentures (Note 2)	8,287	9,750
Excess of proceeds over par value of common stock issued under option (Note 9)	242,427	—
Excess of net proceeds over par value of common stock issued as a result of a public offering (Note 10)	9,440,832	—
Paid-in capital—end of year	$10,218,785	$ 527,239

The accompanying notes to financial statements are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1969

1. ENGINE OVERHAUL—In 1969, the company changed its method of accounting for jet engine overhaul costs from the reserve method to the direct charge-off method. In the opinion of the company, the change has not had a material effect on the operating results of the company.

Prepaid overhaul expenses totaling $3,522,000 and $1,353,000 are included in prepaid expenses as of December 31, 1969 and 1968, respectively.

2. LONG-TERM DEBT—Long-term debt at December 31, 1969 consists of the following:

Terms	Total	Long-term	Current
Quarterly installment notes due from January, 1969 through April, 1973; interest at ½% above prime rate	$20,564,480	$14,688,914	$5,875,566
7% quarterly installment notes due from July, 1973 through October, 1978	35,253,393	35,253,393	—
Total due banks and insurance companies (a)	55,817,873	49,942,307	5,875,566
7% subordinated notes due in semi-annual installments from September, 1971 through March, 1976 (b)	3,000,000	3,000,000	—
5½% subordinated convertible debentures due in 1978 (c)	744,500	744,500	—
Various	244,053	32,699	211,354
	$59,806,426	$53,719,506	$6,086,920

(a) The total $55,817,873 loan is collateralized by substantially all flight equipment 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) Stock purchase warrants attached enable the holders to purchase an aggregate of 200,000 shares of common stock at $6.00 a share through March 1, 1976. Unamortized discount and expense on debt has been charged and paid-in capital credited for $50,000 representing the value of the warrants issued. This amount is being amortized over the life of the loan.

(c) Convertible into common shares at $7.59 a share to 1971 and $9.50 a share thereafter to maturity. During the year, $8,500 of debentures were converted into 1,061 shares of common stock, resulting in increases in common stock of $212 and paid-in capital of $8,287.

3. DEPRECIATION—For financial reporting purposes, the company depreciates fixed assets on the straight-line method based on estimated useful lives ranging from seven to fifteen years for flight equipment and three to ten years for other equipment and property. The company has followed the practice in previous years of using accelerated methods for income tax purposes. The continued use of this method will result in an excess of tax depreciation over depreciation used for financial reporting purposes of $8,884,000 (see Note 5).

4. DEVELOPMENT AND PREOPERATING COSTS—Expenditures for route development costs are deferred by the company and amortized over the life of the temporary certificates or five years for permanent certificates. Aircraft preoperating costs are amortized over approximately eight years.

5. INCOME TAXES—The company's loss was used primarily to reduce deferred income taxes previously provided (including reducing the loss on sale of equipment by $22,000). Approximately $150,000 of the loss is available to offset income in future years used in computing the income tax provision.

The company has additional net operating loss carryovers available as a reduction against future taxable income arising out of timing differences in reporting depreciation and certain deferred expenses for financial reporting and income tax purposes. There are several options for reporting depreciation for income tax purposes (see note 3) under consideration by the company which will affect the carryover to future years; under no circumstances, however, will the decision result in taxable income for 1969 nor will it reduce the carryover privilege below the $150,000 available for financial reporting purposes.

Earned but unused investment credits available for reduction of future years' income taxes for both financial reporting purposes and income tax purposes total $4,876,000. These unused investment credits expire as follows: 1974—$1,528,000 1975—$2,545,000 1976—$803,000

6. VACATION PAY—The company records vacation pay when paid. The unrecorded obligation at December 31, 1969 and 1968 approximated $1,130,000 and $1,100,000, respectively, before income tax credits.

7. PENSION PLANS—The company has noncontributory pension plans covering substantially all of its employees. Pensions, based on length of service and average salary, are provided for retirement of pilots at age 60 and all other employees at age 65. The plans covering pilots are fully funded for past service cost, while the company pays the normal cost and interest only on the past service cost of the other plans. The cost to the company in 1969 was $1,075,000 compared with $1,100,000 in 1968.

In 1969 the company began funding the bargaining units and supervisory pension plans on a current basis which had the effect of reducing the current year's net loss by $180,000 or $.02 per share.

8. COMMITMENTS—Approximate minimum annual commitments exist for:

(1) New office and operational facilities at the Minneapolis-St. Paul International Airport for the periods ending in 1996	$1,050,000
(2) Terminal and other facilities (including landing fees)	1,900,000
(3) Nine Convair 580 aircraft for eight to nine years	1,760,000
(4) Three DC-9 aircraft, cancelable upon six months' notice	1,440,000
(5) Data processing equipment—1970 (increasing to $1,050,000—1971 to 1978)	650,000
(6) Other equipment	260,000
	$7,060,000

9. STOCK OPTION PLAN—A total of 250,000 shares of unissued common stock was reserved for officers and key employees under a qualified plan in 1965. Options granted are: 1965—220,000 shares at $3.05; 1967—5,000 shares at $6.81; 1968—5,000 shares at $5.60; and 1969—20,000 shares at $4.125.

Options for 85,000 and 30,000 shares were exercised in 1969 and prior years, respectively. Options granted but unexercised will expire in 1970 (105,000 shares), 1972 (5,000 shares), 1973 (5,000 shares), and 1974 (20,000 shares).

10. COMMON STOCK—During 1969, the company issued 1,600,000 shares of common stock with stock purchase warrants attached which enable the holders to purchase an aggregate of 1,200,000 shares of common stock at $5.50 a share through October 31, 1979.

The gross proceeds from this sale of common stock and warrants totaled $10,600,000 which after reduction by $839,168 for underwriting commissions and expenses, resulted in $9,760,832 net proceeds to the company, accounted for as follows:

Increase in common stock, 1,600,000 shares at $.20 par value	$ 320,000
Increase in paid-in capital	9,440,832
	$9,760,832

11. CAPITALIZED INTEREST—The company recognizes the financing costs associated with acquisition of operating property and equipment and pre-operating and development expenditures by capitalizing interest. Capitalized interest reduced interest expense by $458,000 in 1969 and $559,000 in 1968.

12. INCOME (LOSS) PER SHARE—Income (loss) per share is based upon the weighted average number of shares outstanding for the year. Conversion of debentures into common stock, exercise of stock options and exercise of warrants to purchase stock would not result in material dilution (as defined in Opinion 15 of the Accounting Principles Board) of the net loss per share for the year ended December 31, 1969.

FIVE-YEAR OPERATING SUMMARY

	1969	1968	1967	1966	1965
OPERATING REVENUES					
Passenger	$57,073,369	$44,628,769	$33,482,371	$30,261,479	$23,720,203
Public service revenue	4,016,386	4,667,639	5,249,563	5,767,888	7,199,418
Other	7,338,168	5,929,518	4,118,543	3,583,304	2,971,410
TOTAL	68,427,923	55,225,926	42,850,477	39,612,671	33,891,031
OPERATING EXPENSES					
Direct expenses	31,647,246	25,525,000	19,811,886	17,980,535	15,356,876
Indirect expenses	30,782,288	24,318,200	19,523,811	17,062,543	13,970,237
Depreciation and amortization	5,605,500	4,356,893	2,626,251	2,253,361	1,997,488
TOTAL	68,035,034	54,200,093	41,961,948	37,296,439	31,324,601
Operating profit	392,889	1,025,833	888,529	2,316,232	2,566,430
Non-operating income and (expenses), net	(4,677,092)	(3,008,205)	(628,731)	(464,974)	(442,894)
Income (Loss) before taxes	(4,284,203)	(1,982,372)	259,798	1,851,258	2,123,536
Income taxes	(1,934,888)	(869,000)	(336,010)	720,647	1,006,520
Income (Loss) before gain (loss) on disposition of equipment	(2,349,315)	(1,113,372)	595,808	1,130,611	1,117,016
Gain (Loss) on disposition of equipment, less income taxes	(29,080)	1,183,588	924,316	24,000	21,736
Net Income (Loss)	$(2,378,395)	$ 70,216	$ 1,520,124	$ 1,154,611	$ 1,138,752

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, 1969, and the related statements of operations, 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 operations, retained earnings and paid-in capital present fairly the financial position of North Central Airlines, Inc. at December 31, 1969 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, except for the change in accounting for engine overhaul costs discussed in Note 1, with which we concur.

Alexander Grant & Company

Minneapolis, Minnesota
February 18, 1970

"GOOD PEOPLE MAKE AN AIRLINE GREAT"

ADVERTISING-PROMOTION

Highlighting North Central's 1969 advertising program was the introduction of the theme, "Good People Make An Airline Great." People-oriented newspaper advertisements ran in major marketing areas on North Central's system, while television and radio spots featured the airline's new "Good People" jingle.

This corporate musical identity was particularly effective and appealing in emphasizing the new North Central image—outstanding service by employees who care.

During 1969, over 60 television and radio stations and some 40 newspapers promoted North Central's service and its slogan, Good People Make An Airline Great.

In addition, billboard advertising in ten major cities featured new service. Special "Good People" folders spotlighted the new Minneapolis/St. Paul-Denver and Chicago-Twin Cities nonstops, and travel brochures were widely distributed.

Promotional activities in 1969 included over 200 DC-9 and Convair 580 scenic flights, introducing passengers to the comfort and speed of jet transportation. Other flights heralded important events, such as the opening of the new Central Wisconsin Regional Airport and the inauguration of DC-9 fan jet service at Iron Mountain/Kingsford, Escanaba, Marquette and Muskegon in Michigan and Hibbing/Chisholm, Minnesota.

April 23, 1969 represented a milestone in North Central's history. That day the airline received special attention as the company's 20-millionth passenger, Patrick Cannon of Sydney, Australia, boarded a DC-9 at Oshkosh/Appleton's Wittman Field for Chicago.

Of major importance to North Central in 1969 was the inauguration of Minneapolis/St. Paul-Denver nonstop service. To acquaint Colorado communities and the Twin Cities with the new fan jet flights, the airline's sales department made over 2,000 personal calls on commercial, travel agency, and interline accounts. Following the June 15 inaugural ceremonies the company held a reception in the Colorado capitol for business and civic leaders and news media personnel.

A special dedication program on October 16-17 officially introduced the company's new $15-million headquarters complex. A reception and banquet was held for Twin Cities community leaders and news media representatives, featuring the Honorable John G. Adams, Civil Aeronautics Board member, as keynote speaker.

The next day's ceremonies began with the outdoor dedication of the general office and main operations base by Chairman of the Board Hal Carr. Following this, North Central was given a Recognition Luncheon by the Minneapolis and St. Paul Chambers of Commerce and the Minnesota Department of Economic Development. A special award was presented citing the airline for its contribution to the economic growth of the Twin Cities.

Pictorial brochures were distributed during the two-day program, and news releases publicized the event throughout the system. An Employee Open House was scheduled in November, and nearly 5,000 employees and members of their families attended.

North Central's publication, The Northliner, reported the company's news of interest to passengers and employees. Over 330,000 copies were placed on board the aircraft and distributed by mail during 1969. In addition, news media in the 12-state area served by North Central received 60 press releases about the airline.

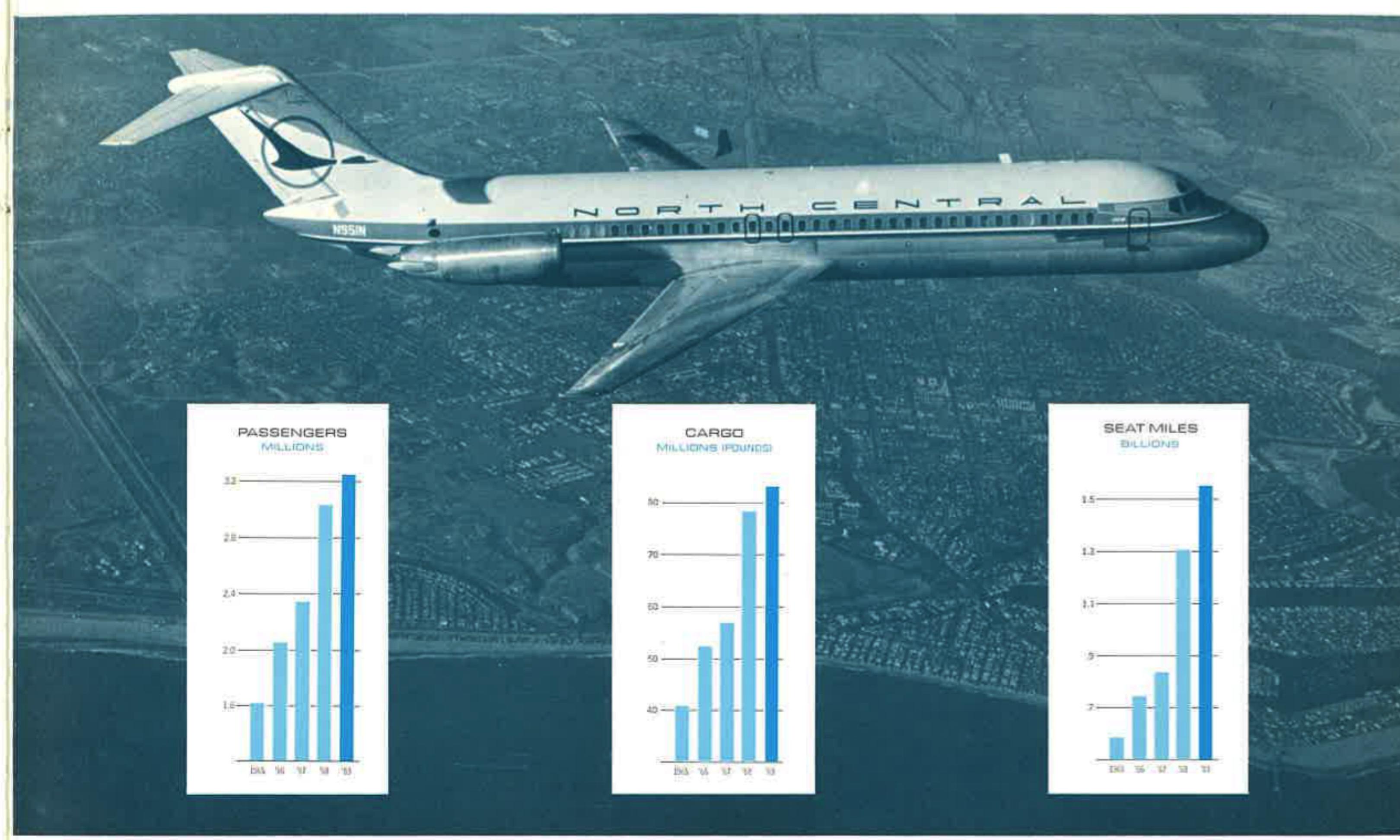
NEW FASHION LOOK

To enhance North Central's image, "Good People Make An Airline Great," the company's stewardesses donned eye-catching new uniforms—placing them among the industry fashion leaders.

The ensemble uses a brilliant Apollo Blue as the basic color. Designed for inflight versatility, the uniform features a short-sleeved lightweight wool A-line dress with white leather belt and tailored cardigan jacket. For outdoor wear, a horizontally striped tri-season coat, white vinyl hat, and boots are added, along with a wool topcoat for winter months.

North Central's colorful new stewardess ensemble features a brilliant Apollo Blue dress and matching cardigan jacket. The uniform is accented by a silver pin, which uses North Central's mallard duck insignia, and the white vinyl hat. A striped, tri-season coat of red, white and Apollo Blue complements the new fashion look.

FIVE YEARS OF RECORD PROGRESS



HIGHLIGHTS OF DRAMATIC GROWTH

North Central achieved new records in all categories of traffic during 1969, as it has each year since inaugurating service in 1948.

The 3,242,819 passengers carried was an all-time high and a gain of 229,003 passengers over 1968. The increase for the last five years was 1,889,518 passengers —a jump of 140 percent.

Air cargo, including air freight, express and mail, also set records in 1969 when the company flew 82,744,459 pounds of cargo—up 164 percent compared with five years ago.

The company's available seat miles rose 201 percent in this five-year period, while the 1,543,706,426 seat miles in 1969 represented an 18 percent increase over 1968.

The additional seats were of major importance in North Central's efforts to provide improved service to the traveling public. With the delivery of three more 100-passenger DC-9 fan jets and the completion of the Convair conversion program in 1969, the airline's all jet-powered fleet now consists of 13 DC-9's and 34 Convair 580 prop-jets.

North Central looks forward to even greater progress in the next five years as traffic growth continues and the full impact of jet-operating efficiencies are realized.

NORTH CENTRAL AIRLINES, INC.
7500 NORTHLINER DRIVE
MINNEAPOLIS, MINNESOTA 55450