NORTH CENTRAL AIRLINES

ANNUAL REPORT 1971

NORTH CENTRAL AIRLINES

general office: 7500 northliner drive, minneapolis, minnesota

board of directors

Hal N. Carr* *Chairman*	Samuel H. Maslon*	Joseph E. Rapkin	Kenneth B. Willett
G. F. DeCoursin*	Jay Phillips	H. P. Skoglund	**Executive Committee*
Chan Gurney	Morton B. Phillips	Bernard Sweet	

management

Hal N. Carr..................*Chairman of the Board and Chief Executive Officer*

Bernard Sweet..............................*President*

John P. Dow................*Vice President and Secretary*

Daniel F. May....................*Vice President-Finance*

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*

Robert L. Gren......*Director-Maintenance and Engineering*

J. F. Nixon.................................*Treasurer*

Gowan J. Miller.....................*Assistant Secretary*

Charlotte G. Westberg................*Assistant Secretary*

highlights of 1971

TOTAL OPERATING REVENUES	$100,795,581
OPERATING PROFIT	$ 5,815,406
NET EARNINGS	$ 1,224,708
EARNINGS PER SHARE	11¢
INCREASE IN WORKING CAPITAL	$ 12,268,138
STOCKHOLDERS' EQUITY	$ 27,191,653
PASSENGERS CARRIED	3,793,333
REVENUE PASSENGER MILES	865,736,212

ANNUAL MEETING:

First Wednesday in April (April 5, 1972) in Wausau, Wisconsin.

REGISTRARS AND STOCK TRANSFER AGENTS:

First National City Bank, New York, New York;

Northwestern National Bank of Minneapolis, Minneapolis, Minnesota

March 3, 1972

to our stockholders, employees, and friends:

For the first time in its 24-year history, North Central's revenues exceeded $100 million. Total operating revenues for 1971 reached $100,796,000, a gain of $8,844,000 and an increase of 10 percent over 1970. Net profit for the year was $1,225,000. The company has operated profitably for 17 of the last 18 years since present management joined the airline. This is the best financial record in the regional airline industry.

Effective internal cost control programs held operating expenses, including depreciation, to $94,980,000, for the smallest annual increase in four years. Operating profit was $5,815,000. The net profit of $1,225,000 was achieved after non-operating expenses of $4,047,000 and taxes of $544,000. The 1970 profit of $2,178,000 included benefits from the strike against a competitive carrier and an out-of-period accounting adjustment.

With the sale of $8,103,000 of stock and warrants in July and the net profit, stockholders' equity rose from $17,823,000 in 1970 to $27,192,000. North Central has the unique distinction of being the only regional airline with retained earnings—$6,726,000 through 1971.

North Central and the other regional carriers receive public service revenue payments to compensate for serving many small communities which do not generate sufficient traffic to support profitable air service. At present, these revenues are being paid to the regional industry at an annual rate of $60 million. The carriers have petitioned the Civil Aeronautics Board for an increase in this amount, retroactive to July 1, 1971, and the CAB is expected to act on this petition in the near future.

A new passenger traffic record was set when North Central carried 3,793,000 passengers in 1971. Revenue passenger miles gained 7.4 percent for a new high of 865,736,000. The airline continued to maintain its outstanding operating performance again this year by completing 99 percent of its 27,267,000 scheduled miles, with 81 percent of 221,000 arrivals on time. While traffic climbed steadily on recently awarded long-haul routes, North Central pursued pending applications for 5,353 additional route miles. The company seeks to provide new service to Winnipeg, Atlanta, Philadelphia, and Montreal.

The airline expanded its electronic reservations and communications system, ESCORT, in 1971. Two mini-computers were added for economical data processing of specialized jobs. An automated input method called SCIP was activated to provide ESCORT with other airlines' schedule changes. New teleticketing capability was extended to the offices of 300 commercial accounts and travel agents. Other jet-age developments in 1971 included several new terminals at North Central airports, improved gate facilities at major cities, increased in-plant testing of jet engines, and use of DC-9 flight simulators for pilot proficiency checks.

Aware of its responsibility as a corporate citizen, the company continued its environmental and social action programs. Revised hiring guidelines and training policies have enhanced employment opportunities for disadvantaged people. Operationally, all jet engines will be "smokeless" by July 1, 1972, six months ahead of schedule, and sound abatement procedures have reduced noise levels up to 50 percent without jeopardizing safety.

North Central views its accomplishments during the past year with pride and looks to the future with confidence. Financial strength, capacity for growth, employee dedication, and the support of loyal stockholders and passengers provide a firm foundation for making 1972, the airline's 25th year, its most successful.

Sincerely,

Hal N. Carr

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

Bernard Sweet

BERNARD SWEET
President

financial review

Revenues in 1971 exceeded $100 million for the first time in North Central's 24-year history. This financial milestone was achieved with record revenues of $100,795,581. The $8,843,628 gain over 1970 represents an impressive 10 percent increase, while the airline industry as a whole showed limited growth for the year. North Central's 1971 revenue improvement resulted from the development of traffic on its long-haul nonstop routes, a general fare increase effective May 1, and the upturn in the economy during the last months of the year.

Operating expenses of $94,980,175, including depreciation, showed the smallest annual increase since 1967, an indication of the effectiveness of the company's cost control program. Also, the available seat mile cost of 4.8¢ was only five percent ahead of the 4.6¢ in 1970. The company realized an operating profit of $5,815,406, compared with $8,164,752 last year. However, the 1970 figures include benefits from a five-month strike against another carrier serving some North Central cities.

Depreciation and amortization charges rose to $7,240,431, from $6,700,175 the previous year. Interest expense declined sharply to $4,228,541 in 1971 from $4,899,094.

The company's net profit for 1971 reached $1,224,708, after taxes of $544,000. The profit of $2,177,615 in 1970, after taxes of $451,000, reflects strike benefits and an earnings reduction of $617,000 due to an out-of-period accounting adjustment. The regional airlines are being paid public service revenues at an annual rate of $60 million. The industry has petitioned the CAB for an increase in this amount, retroactive to July 1, 1971.

The company enhanced its overall financial position substantially during the year. Working capital showed a major increase of $12,268,138. Significantly, $9,204,148 of this was provided directly from operations through cash flow from earnings, depreciation, and deferred taxes. Cash and commercial paper investment gained $4,176,832, while accounts payable declined by $3,469,226.

In July 1971, North Central successfully marketed a public offering of stock with warrants which provided $8,102,730 of capital. These additional funds, together with cash provided from operations and the finalization of a long-term lease of $6 million of computer equipment, permitted a $16,155,111 reduction in total indebtedness.

Stockholder equity also rose from $17,823,215 to $27,191,653 in 1971. Of the nine regional airlines, North Central is the only one with retained earnings — $6,726,472 through 1971 — and has earned a profit in 17 of the last 18 years since present management joined the company in 1954.

As a result of this outstanding progress, the airline has attained the strongest financial position in its history.

traffic growth and operating performance

For the 24th consecutive year, North Central set new traffic records.

Jet-powered Northliners flew 865,736,212 revenue passenger miles, a 7.4 percent increase over 1970. A record 3,793,333 passengers were boarded in 1971. This was particularly significant compared with 1970 when the company benefited from a five-month strike against another carrier serving some North Central cities. Contributing substantially to the 1971 growth was the increased traffic generated on the long-haul nonstop routes between Milwaukee-New York, Milwaukee-Dayton/Columbus/Cincinnati, Twin Cities-Denver, Twin Cities-Chicago, and Twin Cities-Milwaukee-Detroit-Toronto.

North Central's 1971 gains are considerably better than the airline industry average which showed a two percent increase in revenue passenger miles and only slight growth in passenger boardings.

A single-day high was posted on November 28 when 16,776 passengers flew the "Route of the Northliners." By comparison, 47 percent more people were transported that day than in all of 1948, the airline's first year of operation. Since inaugurating service, North Central has carried 29.9 million passengers and flown 5.5 billion passenger miles.

During 1971, the company welcomed 107,378 people aboard 1,746 extra sections of scheduled flights and 459 charters to such points as Acapulco, Mexico City, Montreal, San Juan, Nassau, Miami, San Francisco, Seattle and Washington, D.C. Some 9,667 people were introduced to jet-powered Northliner service on 153 scenic flights over the airline's system.

North Central set an additional record in 1971 by offering 1,960,563,482 seat miles — 8.3 percent above the previous year.

Cargo — including air freight, express, and mail — reached 9,473,014 ton miles flown for the year. Total ton miles were 96,046,635, a 5 percent gain over 1970 and an all-time record.

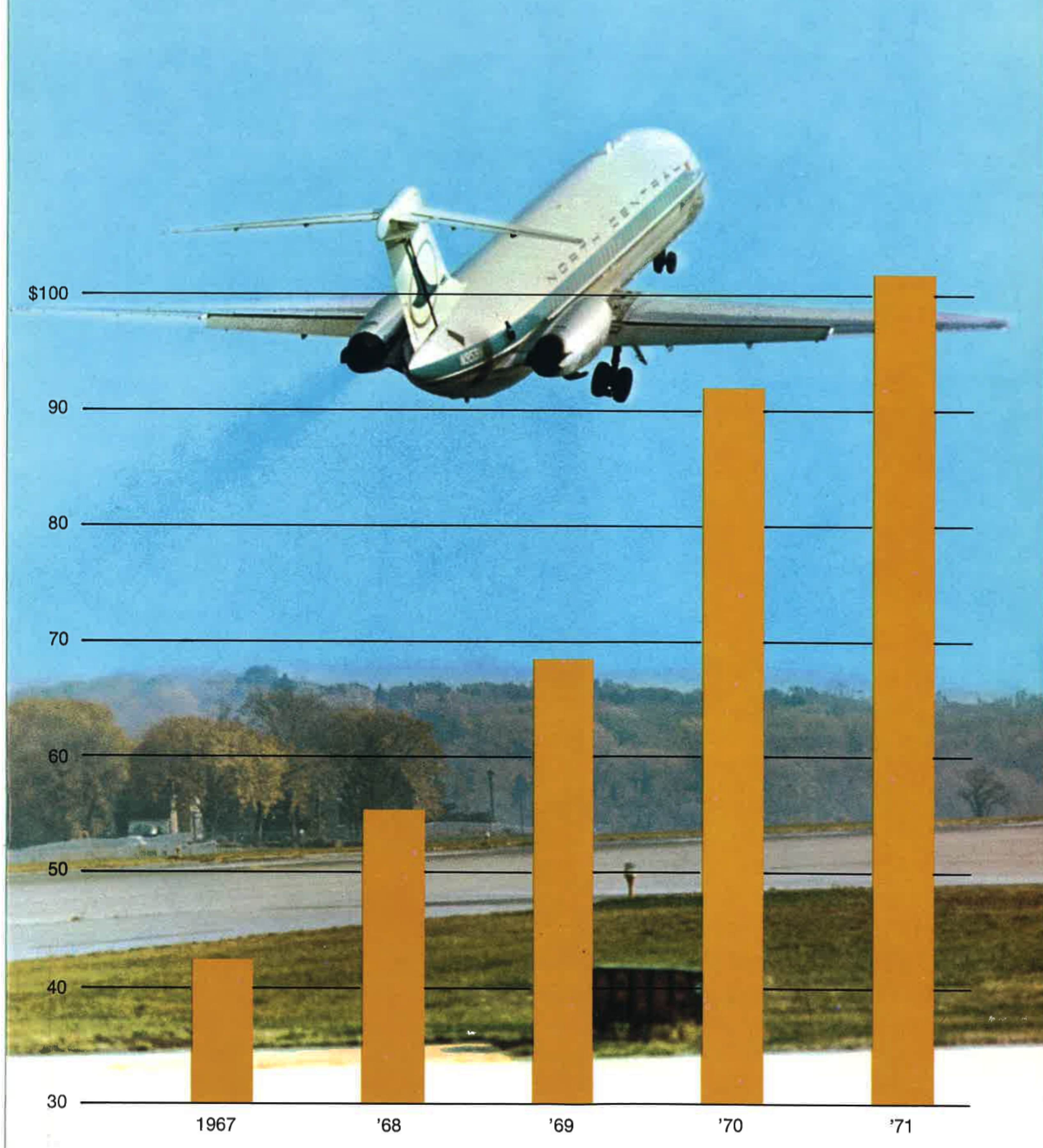
North Central maintained its excellent operating performance despite the severe winter weather conditions which prevail for many months over most of its 9,900-mile route system. For 1971, the airline established a completion record of 99 percent as 26,895,322 of its 27,267,213 scheduled miles were flown. In addition, an on-time performance of 81.4 percent was achieved. Of the company's 220,614 scheduled arrivals, 179,601 were routine.

Contributing to this outstanding operation was the airline's exacting and progressive maintenance program. In 1971, less than one-tenth of one percent of North Central's scheduled departures were cancelled, and less than one-and-a-quarter percent were delayed for mechanical reasons.

Providing dependable scheduled airline service is the continuing objective of all North Central employees. The company's consistently impressive operating performance is a tribute to their dedicated efforts.

revenues

(MILLIONS OF DOLLARS)



route development program

North Central Airlines and the 90 communities it serves continued to benefit from long-haul, nonstop route awards received in the 1967-1970 period. Particularly important to future growth are nonstops between the Twin Cities and Denver, Omaha, Milwaukee, Chicago; between Milwaukee and Detroit, Dayton, Columbus, Cincinnati, New York; and Detroit-Toronto.

These long-haul routes were awarded to North Central on a subsidy-ineligible basis and contributed substantially to profits in 1971 which the company used to maintain increasingly costly air service to its smaller communities. The nonstops also provide increased frequency and first single-plane service from 12 Midwest cities to New York; from 11 communities to Denver; and from 14 cities to Dayton, Columbus, and Cincinnati.

The development of Milwaukee as a Midwest aviation gateway has been North Central's objective for some time. In 1971, with increased traffic from new route awards, the company achieved the distinction of being the dominant Milwaukee carrier by boarding more passengers than any trunk or regional airline serving that city.

North Central's route development program includes applications to the Civil Aeronautics Board for 5,353 more miles. New Northliner service would be provided to Philadelphia, Atlanta, Winnipeg, and Montreal, adding Pennsylvania, Georgia, and the Canadian Provinces of Quebec and Manitoba to North Central's system. However, route case activity declined sharply in 1971 from the high level of preceding years. Because the soft economy has affected overall industry growth, the CAB's present policy is to minimize the number of route awards. In line with this Board position, the company is concentrating its efforts on those applications already on file. The following is a summary of principal applications awaiting initial hearings or further action by the CAB.

MICHIGAN POINTS-DETROIT-NEW YORK

This proposed authority would enable North Central to provide new, single-plane service through Detroit to New York City from ten Michigan cities. (501 miles)

COLUMBUS, DAYTON, CINCINNATI-PHILADELPHIA NONSTOPS

The company's request to serve Philadelphia from Columbus, Dayton, and Cincinnati has been consolidated into the CAB's Ohio/Indiana Points Nonstop Service Investigation. (1,369 miles)

TWIN CITIES-KANSAS CITY NONSTOP

This application would permit North Central to operate nonstop flights in addition to the present two-stop service. (404 miles)

MILWAUKEE-DENVER NONSTOP

North Central has applied to the CAB to provide nonstop service between Milwaukee and Denver. (908 miles)

DETROIT-MONTREAL, VIA TORONTO

Authority to serve Montreal from Detroit, via Toronto, was requested under an amendment to the 1966 Bilateral Air Transport Agreement between the United States and Canada. With this route, North Central could also offer convenient single-plane service from Minneapolis/St. Paul and Milwaukee to Montreal. Action on this application is awaiting further discussions between officials of the United States and Canada. (315 miles)

DETROIT, CLEVELAND, CINCINNATI-ATLANTA

The Oral Argument on proposed nonstop service to Atlanta from Detroit, Cleveland, and Cincinnati was heard February 24, 1971. The CAB examiner recommended that another carrier provide the service by lifting its existing operating restrictions. North Central has asked that the decision be reviewed and is awaiting Board action. (1,522 miles)

DULUTH/SUPERIOR-WINNIPEG NONSTOP

This route would allow nonstop service from Duluth/Superior to Winnipeg, and also make available single-carrier service between a number of Wisconsin communities and Winnipeg. The application is being considered by United States and Canadian officials under the Bilateral Air Transport Agreement. (314 miles)

jet-age facilities

North Central's $8-million electronic reservations and communications system, ESCORT, was expanded in 1971. Two "IV Phase" mini-computers were added to provide economical data processing of specialized jobs. An initial use in Revenue Accounting permits information to be entered from ticket coupons into the computer for auditing and billing purposes. Another valuable application is the ability to receive continuous transmittal of real-time weather data directly from the National Weather Service to ESCORT for immediate retrieval by station, flight, and reservations personnel.

"SCIP", an automated method of putting other airlines' schedule changes into ESCORT, was activated. Instant display of the most direct routings to 800 destination cities is now available to North Central's agents. In addition, ESCORT provides availability status of 12,000 domestic and international flights, making possible prompt, accurate construction of interline itineraries.

ESCORT agent sets were recently installed at travel agencies and commercial accounts in the Twin Cities area, enabling their personnel to easily obtain immediate airline routings and confirmed reservations. The program will be extended to other principal markets. The company also added teleticketing equipment at its Reservation Center to permit automatic printing of tickets in the offices of 300 commercial and travel agency accounts. Both these extra services to North Central's major users should generate additional traffic in 1972.

The computer has become an effective management tool. Extensive flight and traffic data is accessible for use in evaluating North Central's present air service and determining future needs. To utilize ESCORT more fully, data processing is being performed on a contract basis for other companies when time permits, providing extra revenues.

Since ESCORT was activated on February 1, 1970, its performance has been "near perfect." For 1971, uptime of over 99 percent was achieved on a seven-day-a-week basis — with unscheduled downtime averaging only two minutes every 24 hours.

Major improvements in facilities were made at several airports on North Central's system, with new terminals at Yankton, South Dakota, and Pellston and Flint, Michigan. Two large second-level gate areas with jet-walks were added at Chicago O'Hare. North Central also secured new upper-level gates at Omaha, Minneapolis/St. Paul, Dayton, and Toronto. To promote its long-haul air freight service to New York, North Central acquired freight facilities in 1971 at LaGuardia Airport.

North Central substantially expanded its in-plant jet engine repair program during 1971. Significant economies were realized because of the airline's modern operations base and completion of the jet engine test cell and the related training program for maintenance personnel.

North Central began using DC-9 flight simulators in 1971 for the semi-annual Captains' proficiency checks required by the FAA. This resulted in a 25 percent reduction of training costs and an improvement in aircraft availability. Also, some DC-9 transition training of pilots was conducted with simulators.

The company has been increasingly able to boost productivity of employees and improve services as a result of its previous investment in major jet-age facilities and its continuous upgrading of equipment.

social action programs

North Central Airlines continued to emphasize its social action programs in 1971.

The company's fleet of 15 DC-9 aircraft are all operating with "smokeless" jet engines. The $300,000 program of retrofitting 37 JT8D engines is virtually completed, with 36 converted to low-smoke configuration. The last engine will be modified by July 1, 1972, six months ahead of schedule. In addition, according to a recent Air Transport Association report of industry testing, 23 percent of the invisible emissions from jet engines — mainly hydrocarbons and carbon monoxide — are also removed in the conversion process.

North Central expanded its voluntary program of jet noise abatement. Revised takeoff procedures over noise-sensitive areas throughout the system have decreased noise levels on the ground as much as 50 percent without jeopardizing the airline's high safety standards. At major airports, the company has cooperated with local authorities by using preferential runway assignments, thereby decreasing the number of operations over the most densely populated areas. North Central continued its participation in the Federal Aviation Administration research project on the evaluation of acoustically-treated jet engine nacelles.

At the airline's maintenance bases, outdoor jet engine run-ups have been practically eliminated between 11 p.m. and 6 a.m. The required engine-testing program was revised so that run-up noise could be kept at acceptable levels in the surrounding community during daytime hours.

In 1972, North Central plans to modify its JT8D jet engines to eliminate fuel venting during takeoff, presently required because of the engine's design characteristics. Operational tests made by the manufacturer and several airlines have shown that such modifications will have no adverse effects. Final approval by the engine manufacturer is expected soon.

Wherever possible in day-to-day operations, the company now specifies cleaning and maintenance products easily decomposed by natural elements. For instance, only approved chemicals are used to purify water in heating-plant boilers; emulsion-type biodegradable soaps, for washing aircraft and ground equipment; and the most disposable spraying fluids, for de-icing aircraft. North Central personnel have worked closely with pollution control agencies on environmentally-oriented projects and are following the recommendations established by these agencies.

In the area of employment, the airline is dedicated to the principle of equal opportunity for all individuals. During 1971, an "affirmative action" program was implemented at North Central. Hiring guidelines were revised, and training programs expanded to provide more employment opportunities for disadvantaged minority group members. "Minority-sensitivity" sessions were held for management personnel to give them a basis for understanding special situations which may occur. A long-range goal was set to increase minority representation in the company's work force.

Again in 1971, the company participated in JOBS, a manpower training plan sponsored jointly by the National Alliance of Businessmen and the U. S. Department of Labor.

North Central is recognized as a leader in developing programs to minimize the effect of airline operations on the environment and has expanded its employment opportunities for disadvantaged groups. The Company is making every effort to be a compatible neighbor and business partner in the communities it serves.

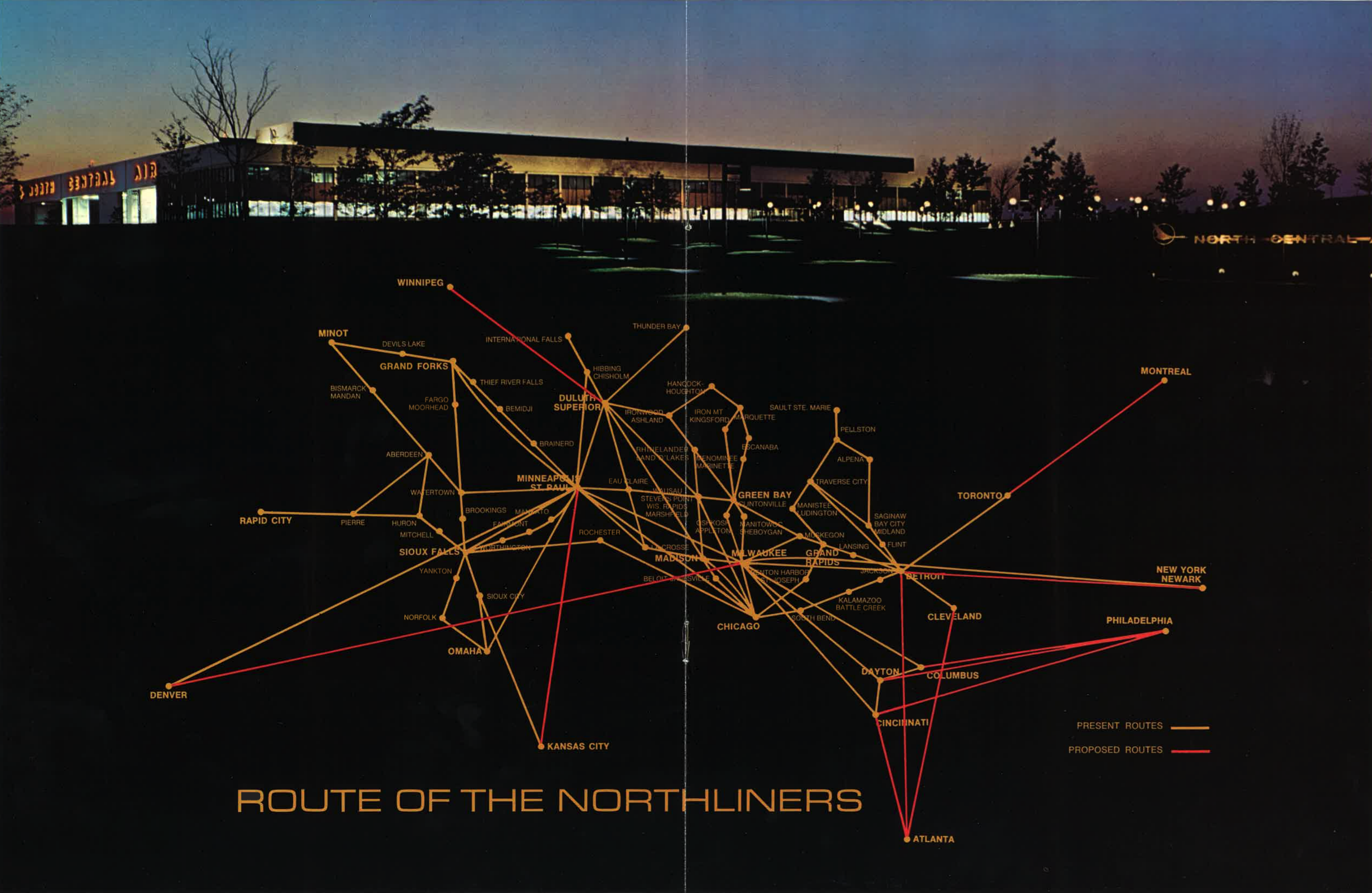
the future

North Central enters 1972 with the capability of accelerating its growth and improving profits, while holding capital investments at present levels. With its modern, jet-age facilities, the airline is equipped to handle substantial traffic gains without incurring proportional increases in costs. Recently awarded long-haul nonstop routes afford unprecedented opportunities for profitable new business.

No major expenditures are anticipated for aircraft or added facilities during 1972. The company's fleet of 49 jet-powered Northliners — 15 DC-9s and 34 Convair 580s — offers quality service and passenger comfort, while maintaining excellent operating efficiency. ESCORT, the airline's electronic reservations and communications system, provides immediate passenger reservations and flight information and has the capacity to increase the number of transactions and perform a variety of other functions. The newest in maintenance, ground, and fleet servicing equipment is in operation throughout the company's system.

Continued improvement in the nation's economy will have a favorable effect on North Central's future. Increased traffic in the last quarter of 1971 and early 1972 indicates that business activity is accelerating. Concerted efforts to generate additional traffic over the entire system will have even greater impact in 1972.

Strengthened by the first full year of benefits from the industry fare increase of 1971 and the company's continuing cost control program, North Central's 25th year of operation should be one of substantial growth and prosperity.



ROUTE OF THE NORTHLINERS

NORTH CENTRAL AIRLINES, INC.

comparative balance sheet

	December 31 1971	December 31 1970
ASSETS		
CURRENT ASSETS		
Cash including certificates of deposit of $1,410,845 in 1971 and $180,372 in 1970	$ 4,436,930	$ 2,260,098
Investment in commercial paper	2,000,000	—
Accounts receivable	10,959,872	12,614,067
Flight equipment parts and operating supplies at average cost — less reserves of $345,848 in 1971 and $293,454 in 1970 (note C)	2,703,047	2,940,534
Prepaid expenses and sundry deposits (note A)	5,624,890	6,791,030
	25,724,739	24,605,729
PROPERTY AND EQUIPMENT — at cost		
Flight equipment (note C)	74,684,520	72,998,698
Ground property and equipment	6,303,069	12,815,652
Improvements to leased property	3,008,130	3,810,524
	83,995,719	89,624,874
Less accumulated depreciation (note K)	21,104,499	16,586,469
	62,891,220	73,038,405
DEFERRED CHARGES		
Unamortized development and preoperating costs (note B)	3,117,984	3,901,572
Unamortized discount and expense on debt	298,984	440,732
Rentals and other	2,241,049	1,409,710
	5,658,017	5,752,014
	$94,273,976	$103,396,148
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ —	$ 3,284,312
Current maturities of long-term debt (note C)	7,088,609	11,966,726
Accounts payable	8,596,991	12,066,217
Tickets outstanding	543,715	521,041
Accrued compensation, taxes and other expenses (note D)	5,595,541	5,135,688
	21,824,856	32,973,984
LONG-TERM DEBT — less current maturities (note C)	43,407,267	51,399,949
DEFERRED CREDITS		
Income taxes (note E)	1,621,000	987,000
Warrant obligation (note C)	229,200	212,000
	1,850,200	1,199,000
COMMITMENTS (notes F and G)	—	—
STOCKHOLDERS' EQUITY (notes C, H and I)		
Common stock — authorized 16,000,000 shares of $.20 par value	2,489,170	2,092,617
Additional paid-in capital	17,976,011	10,228,834
Retained earnings	6,726,472	5,501,764
	27,191,653	17,823,215
	$94,273,976	$103,396,148

The accompanying notes are an integral part of this statement.

comparative statement of earnings

	Years ended December 31 1971	Years ended December 31 1970
OPERATING REVENUES		
Passenger	$ 83,820,866	$76,954,521
Freight and express	5,113,178	5,700,315
Public service revenues (note J)	6,884,964	5,131,306
Mail	1,214,895	1,475,073
Non-scheduled service and other	3,761,678	2,690,738
Total operating revenues	100,795,581	91,951,953
OPERATING EXPENSES		
Flying operations	27,380,498	24,869,382
Maintenance	15,979,974	14,337,911
Aircraft and traffic servicing	23,580,140	21,068,686
Passenger service	6,269,080	4,770,272
Promotion and sales	8,366,053	7,326,275
General and administrative	6,163,999	4,714,500
Depreciation and amortization (note K)	7,240,431	6,700,175
Total operating expenses	94,980,175	83,787,201
Operating profit	5,815,406	8,164,752
OTHER (INCOME) EXPENSES		
Interest expense	4,228,541	4,899,094
Other — net	(181,843)	20,043
Total other expenses	4,046,698	4,919,137
Earnings before income taxes and cumulative effect of a change in accounting for vacation pay	1,768,708	3,245,615
INCOME TAXES (note E)		
Deferred — net of investment tax credits, $470,000 in 1971 and $823,000 in 1970	544,000	890,000
Current credit	—	(439,000)
Total income taxes	544,000	451,000
Earnings before cumulative effect of a change in accounting for vacation pay	1,224,708	2,794,615
EFFECT OF ACCOUNTING CHANGE		
Cumulative effect on prior years due to change in accounting for vacation pay, less applicable income tax credits of $618,000 (note D)	—	(617,000)
NET EARNINGS	$ 1,224,708	$ 2,177,615
EARNINGS PER SHARE (note L)		
Earnings before cumulative effect of a change in accounting for vacation pay	$ .11	$ .27
Cumulative effect on prior years due to change in accounting for vacation pay (note D)	—	(.06)
NET EARNINGS PER SHARE	$ .11	$ .21

The accompanying notes are an integral part of this statement.

NORTH CENTRAL AIRLINES

statement of changes in financial position

	Years ended December 31	
	1971	1970
SOURCES OF WORKING CAPITAL		
From operations		
Net earnings	$ 1,224,708	$ 2,177,615
Add expenses not requiring outlay of working capital		
Depreciation and amortization of property and equipment and route development expenses (notes B and K)	7,240,431	6,700,175
Amortization of other deferred expenses	184,030	168,765
Deferred income taxes (note E)	544,000	890,000
Loss on disposition of property and equipment	10,979	43,349
Total provided from operations	9,204,148	9,979,904
Proceeds from disposition of property and equipment	6,024,583	34,999
Proceeds of public stock offering	8,102,730	8,101
Increase in long-term debt	2,995,024	7,436,019
Other	175,400	311,000
	26,501,885	17,770,023
APPLICATION OF WORKING CAPITAL		
Additions to property and equipment	2,353,857	10,208,311
Additions to deferred charges	872,184	1,570,994
Reduction of long-term debt	10,966,706	9,753,576
Other	41,000	2,000
	14,233,747	21,534,881
INCREASE (DECREASE) IN WORKING CAPITAL	12,268,138	(3,764,858)
Working capital at beginning of year	(8,368,255)	(4,603,397)
Working capital at end of year	$ 3,899,883	$ (8,368,255)
NET CHANGE IN WORKING CAPITAL ELEMENTS - increase (decrease)		
Cash and certificates of deposit	$ 2,176,832	$ 877,166
Investment in commercial paper	2,000,000	—
Accounts receivable	(1,654,195)	4,676,092
Flight equipment parts and supplies	(237,487)	61,647
Prepaid expense and sundry deposits	(1,166,140)	1,664,094
Short-term borrowings	3,284,312	(2,594,312)
Current maturities of long-term debt	4,878,117	(5,879,806)
Accounts payable and tickets outstanding	3,446,552	(1,206,022)
Accrued liabilities	(459,853)	(1,363,717)
INCREASE (DECREASE) IN WORKING CAPITAL	$12,268,138	$ (3,764,858)

The accompanying notes are an integral part of this statement.

statement of changes in stockholders' equity

Years ended December 31, 1971 and 1970

	Common Stock		Additional Paid-in Capital	Retained Earnings (note C)
	Shares Outstanding	Amount		
Balance at January 1, 1970	10,462,824	$2,092,565	$10,218,785	$3,324,149
Proceeds of public stock offering	—	—	8,101	—
Conversion of 5½% subordinated convertible debentures into common stock (note C)	263	52	1,948	—
Net earnings for the year	—	—	—	2,177,615
Balance at December 31, 1970	10,463,087	2,092,617	10,228,834	5,501,764
Proceeds of public stock offering — net of expenses	1,980,000	396,000	7,706,730	—
Conversion of 5½% subordinated convertible debentures into common stock (note C)	2,765	553	20,447	—
Excess value of warrants issued in warrant exchange	—	—	20,000	—
Net earnings for the year	—	—	—	1,224,708
Balance at December 31, 1971	12,445,852	$2,489,170	$17,976,011	$6,726,472

The accompanying notes are an integral part of this statement.

auditors' report

Stockholders and Board of Directors
North Central Airlines, Inc.

We have examined the balance sheet of North Central Airlines, Inc., (a Wisconsin corporation) as of December 31, 1971, and the related statements of earnings, changes in stockholders' equity and changes in financial position 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 have previously examined and reported on the financial statements for the preceding year.

In our opinion, the financial statements referred to above present fairly the financial position of North Central Airlines, Inc., at December 31, 1971, and the results of its operations and changes in financial position 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

Minneapolis, Minnesota
February 14, 1972

ten-year earnings summary

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
OPERATING REVENUES										
Passenger	$83,820,866	$76,954,521	$57,073,369	$44,628,769	$33,482,371	$30,261,479	$23,720,203	$20,002,281	$18,064,524	$16,750,086
Public service revenues	6,884,964	5,131,306	4,016,386	4,667,639	5,249,563	5,767,888	7,199,418	7,274,370	7,644,080	8,286,733
Other	10,089,751	9,866,126	7,338,168	5,929,518	4,118,543	3,583,304	2,971,410	2,438,126	2,168,100	1,833,426
	100,795,581	91,951,953	68,427,923	55,225,926	42,850,477	39,612,671	33,891,031	29,714,777	27,876,704	26,870,245
OPERATING EXPENSES										
Direct expenses	43,360,472	39,207,293	31,647,246	25,525,000	19,811,886	17,980,535	15,356,876	13,666,142	13,076,180	12,858,386
Indirect expenses	44,379,272	37,879,733	30,782,288	24,318,200	19,523,811	17,062,543	13,970,237	12,303,601	11,812,690	11,561,629
Depreciation and amortization	7,240,431	6,700,175	5,605,500	4,356,893	2,626,251	2,253,361	1,997,488	1,712,800	1,541,857	1,183,464
	94,980,175	83,787,201	68,035,034	54,200,093	41,961,948	37,296,439	31,324,601	27,682,543	26,430,727	25,603,479
OPERATING PROFIT	5,815,406	8,164,752	392,889	1,025,833	888,529	2,316,232	2,566,430	2,032,234	1,445,977	1,266,766
Non-operating income and (expenses), net	(4,035,719)	(4,875,788)	(4,677,092)	(3,008,205)	(628,731)	(464,974)	(442,894)	(348,305)	(428,423)	(335,014)
EARNINGS (Loss) before taxes	1,779,687	3,288,964	(4,284,203)	(1,982,372)	259,798	1,851,258	2,123,536	1,683,929	1,017,554	931,752
Income taxes	544,000	451,000	(1,934,888)	(869,000)	(336,010)	720,647	1,006,520	873,304	514,497	491,812
EARNINGS (Loss) before gain (loss) on disposition of equipment	1,235,687	2,837,964	(2,349,315)	(1,113,372)	595,808	1,130,611	1,117,016	810,625	503,057	439,940
Gain (Loss) on disposition of equipment, less income taxes	(10,979)	(43,349)	(29,080)	1,183,588	924,316	24,000	21,736	33,939	18,656	—
Prior years' adjustment due to change in accounting	—	(617,000)	—	—	—	—	—	—	—	—
NET EARNINGS (LOSS)	$ 1,224,708	$ 2,177,615	$(2,378,395)	$ 70,216	$ 1,520,124	$ 1,154,611	$ 1,138,752	$ 844,564	$ 521,713	$ 439,940

This summary does not include all detailed information. Reference should be made to the annual reports for the related years.

notes to financial statements

December 31, 1971 and 1970

NOTE A — PREPAID EXPENSES — Prepaid expenses include prepaid engine overhaul expenses of $2,994,000 at December 31, 1971 and $3,504,000 at December 31, 1970.

NOTE B — DEVELOPMENT AND PREOPERATING COSTS — Expenditures for route development costs are deferred and amortized over the life of the temporary certificates or five years for permanent certificates. Aircraft preoperating costs are amortized over approximately eight years. Certain types of expenditures are expensed when incurred for tax purposes; future income taxes payable have been provided in the deferred income tax liability account.

NOTE C — LONG-TERM DEBT — Long-term debt at Dec. 31 consists of:

	1971	1970
Quarterly installment notes (a)	$ 8,813,348	$14,688,914
Semi-annual installment notes (b)	2,937,783	2,937,783
7% notes, due in quarterly installments of $1,468,950 and $1,958,600 from July, 1973 through October, 1978	35,253,393	35,253,393
Total due banks and insurance companies (c)	47,004,524	52,880,090
9½%-11% equipment obligations	—	6,711,662
7% subordinated notes (d)	2,700,000	3,000,000
5½% subordinated convertible debentures (e)	721,500	742,500
Sundry	69,852	32,423
Total long-term debt	50,495,876	63,366,675
Current maturities	7,088,609	11,966,726
	$43,407,267	$51,399,949

(a) Due in quarterly installments of $979,261 and $1,958,522 through April, 1973; interest at ½% above bank's prime rate (effective rate was 6% at December 31, 1971).

(b) Previously due in October, 1971; terms renegotiated in 1971 to semi-annual installments of $293,778 due from April, 1972 through October, 1976; interest at 1% above bank's prime rate (effective rate was 6½% at December 31, 1971).

(c) The total loans are collateralized by substantially all flight equipment and spare aircraft parts owned by the company. Two equipment manufacturers partially guarantee these loans. Included in the provisions of the loan agreement are certain restrictions on dividend payments, capital expenditures, additional borrowings, and certain requirements related to minimum working capital and net worth.

Stock purchase warrants were issued to all loan participants during 1970 as consideration for deferral of payments originally due in 1970 as discussed in (b) above. The warrant holders may purchase 259,511 shares of common stock for $5.50 a share through October 31, 1979. The company has a commitment to retire, at $1.50 per warrant, all of these warrants not sold or exercised by November 30, 1979. The provision for this commitment is being recognized as a deferred warrant obligation. The related cost is being recognized as interest expense over the term of the debt.

(d) Due in semi-annual installments of $300,000 from September, 1971 through March, 1976. Stock purchase warrants attached enable the holders to purchase a total of 200,000 common shares for $5.50 a share through October 31, 1979.

(e) Convertible into common shares at $7.59 a share through June 1, 1971 and $8.55 a share thereafter to maturity.

NOTE D — CHANGE IN ACCOUNTING FOR VACATION PAY — In 1970 the company adopted the accounting method of accruing vacation pay as the obligation for vacation pay is incurred. Previously, vacation pay was expensed when paid. The effect of the change in 1970 was to increase the accrued vacation pay liability $1,430,000 at December 31, 1970; this change reduced 1970 net earnings by $715,000 (after income tax credits of $715,000), of which $617,000 applied to prior years. The future income tax credits are reccgnized as a prepaid expense. For tax purposes, vacation pay is expensed when paid (note E).

NOTE E — INCOME TAXES — At December 31, 1971 the company had a net operating loss carryover of $1,028,000 which expires in 1976 and arose out of timing differences (notes B, D and K). The company uses the flow-through method of accounting for investment tax credit. Unused investment tax credit totaling $5,526,000, of which $1,293,000 has been recognized as a reduction of reported income tax expense, is available to reduce income taxes payable as follows:

Expiration dates	Amount
1977	$1,528,000
1978	2,635,000
1979	792,000
1980	571,000
	$5,526,000

The 1970 current income tax credit of $439,000 was due the company as a result of a claim of right adjustment.

NOTE F — PENSION PLANS — The company has several pension plans covering substantially all of its employees. The total pension expense for 1971 was $1,949,000 and $1,685,000 for 1970, which includes the normal cost and interest on unfunded prior service cost. The company's policy is to fund pension cost accrued. At the 1971 actuarial valuation date, the ccmpany had funded in excess of the vested benefits for all plans by approximately $519,000.

NOTE G — COMMITMENTS — Approximate minimum annual lease commitments exist for:

	1971	1970
Office and operational facilities at the Minneapolis-St. Paul International Airport through 1996	$ 1,100,000	$1,000,000
Terminal and other facilities (including landing fees) expiring on various dates	3,930,000	3,460,000
Nine Convair 580 aircraft expiring in 1978	1,760,000	1,760,000
Three DC-9 aircraft expiring in 1981 (converted in 1971 from short-term leases)	1,250,000	1,440,000
Two DC-9 aircraft cancellable upon six months' notice	1,020,000	1,020,000
Computer equipment expiring in 1979	1,060,000	—
Other equipment	370,000	370,000
	$10,490,000	$9,050,000

NOTE H — COMMON STOCK — A total of 250,000 shares of unissued common stock was reserved for officers and key employees under a qualified plan in 1965. During 1970 an additional 100,000 shares were reserved by an amendment to the plan. Options granted expire five years after date of grant and therefore options granted in 1965 for 105,000 shares expired during 1970. Those outstanding, and dates granted, at December 31, 1971 and 1970 are: 1967 — 5,000 shares at $6.81; 1968 — 5,000 shares at $5.60; 1969 — 20,000 shares at $4.125; 1970 — 50,000 shares at $4.125 and 115,000 shares at $3.25. Additionally, in 1971 options to purchase 40,000 shares at $3.19 were granted and are outstanding. Options for 115,000 shares were exercised in prior years.

At December 31, 1971 there were outstanding warrants to purchase 2,649,511 shares of common stock. Of these, warrants to purchase 1,200,000 shares of common stock resulted from a prior year's public offering, and warrants were issued, as discussed in note C, which enable the holders to purchase 459,511 shares of common stock and during 1971, warrants to purchase 990,000 shares of common stock were issued in connection with a public offering. All warrants enable the holder to purchase common stock at $5.50 per share and expire October 31, 1979.

NOTE I — SHAREHOLDER DISCLOSURE OF OWNERSHIP — The Civil Aeronautics Board requires that any person who owns as of December 31 of any year, or who acquires ownership, either beneficially or as trustee, more than 5% in the aggregate of the company's common stock, or within ten days after acquisition, must file a report with the Board containing information required by §245.13 of The Federal Aviation Act unless the person has previously filed such a report. Any shareholder who believes that he may be required to file such a report may obtain further information by writing to the Director, Bureau of Operating Rights, Civil Aeronautics Board, Washington, D. C. 20428.

NOTE J — PUBLIC SERVICE REVENUES — Public service revenues recorded for the period July 1, 1971 to December 31, 1971 are based upon the rate in effect for the year ended June 30, 1971. The rate for the period July 1, 1971 through June 30, 1972 has not yet been determined by the Civil Aeronautics Board.

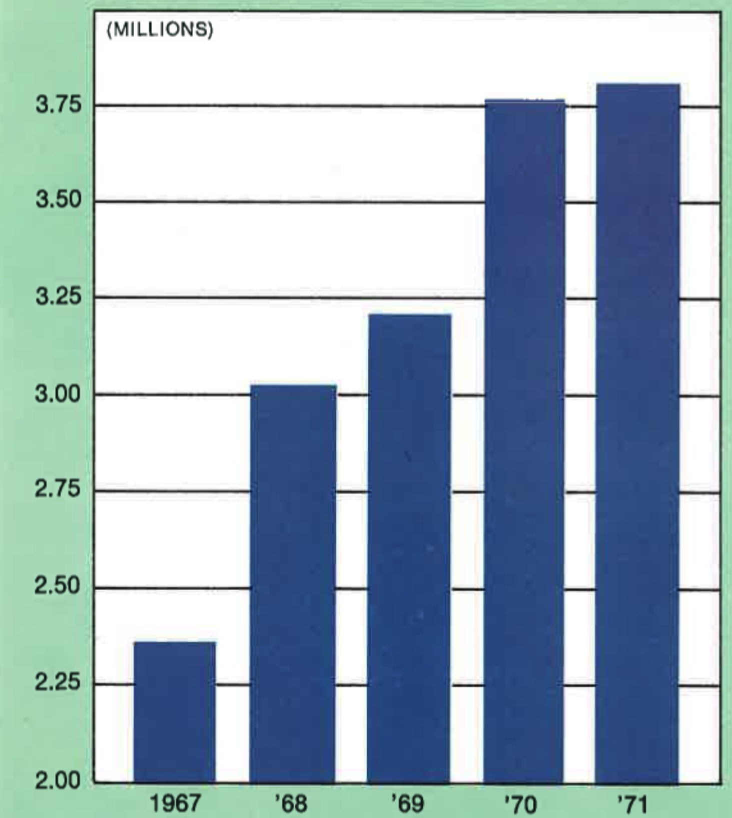
NOTE K — DEPRECIATION — Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight line basis for financial and tax reporting purposes.

Prior to 1968 accelerated depreciation methods were used for tax purposes. Future income taxes resulting from accumulated differences have been provided for in the deferred income tax liability account.

NOTE L — EARNINGS PER SHARE — Earnings 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 of the net earnings per share for the years ended December 31, 1971 and 1970.

highlights of growth

PASSENGERS



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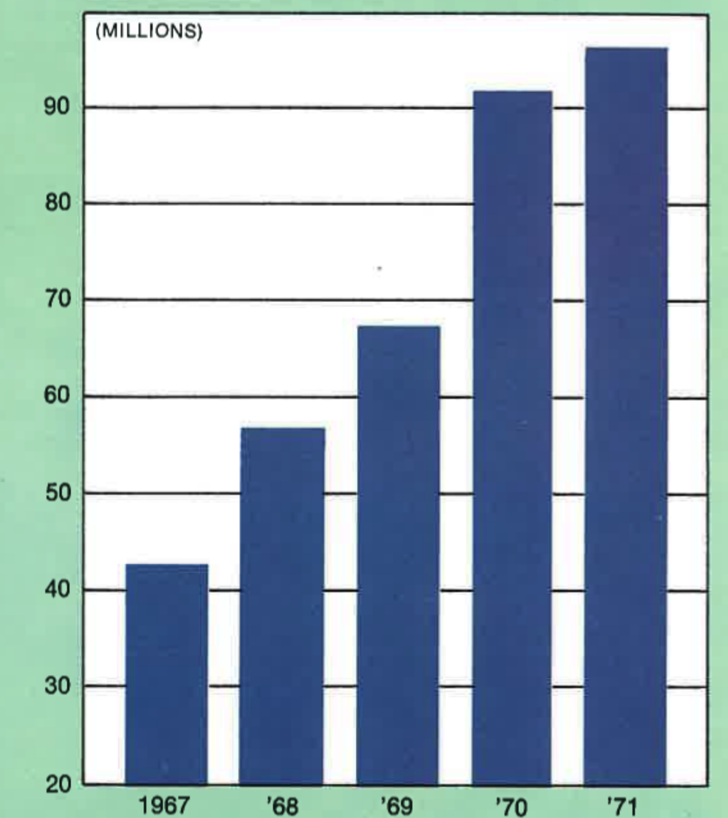
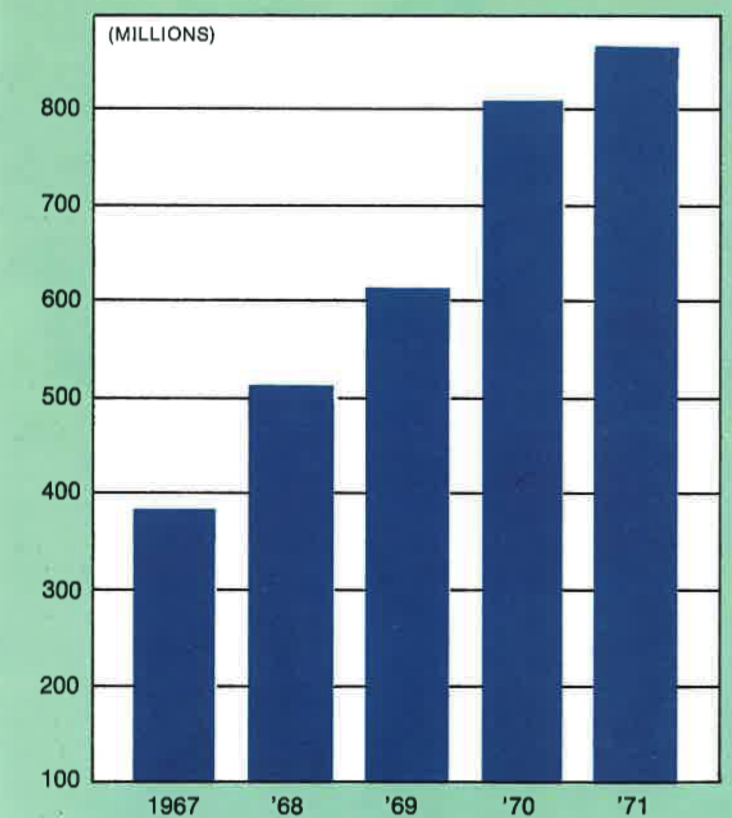
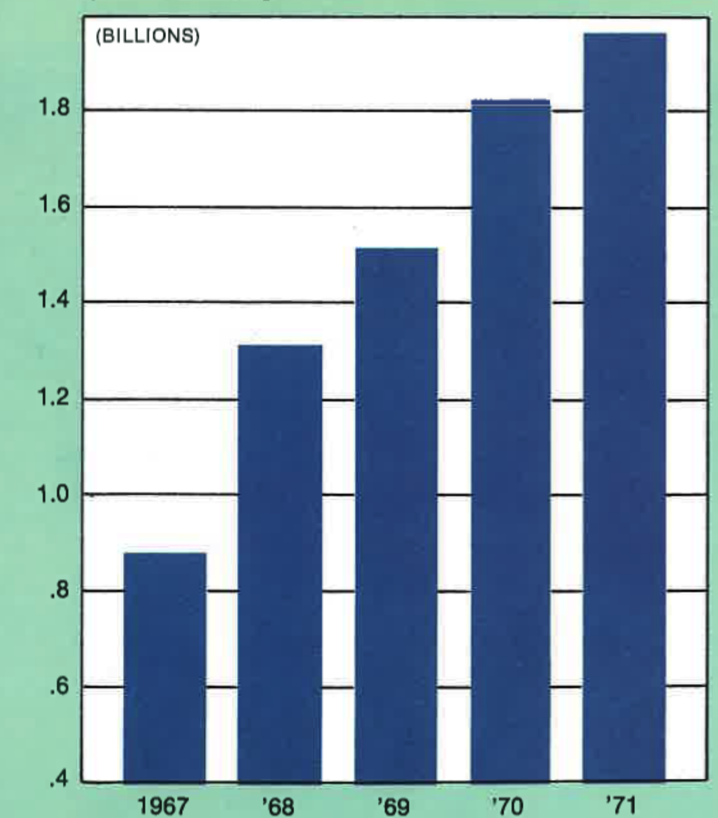


PASSENGER MILES



SEAT MILES



communications program

The promotion of North Central's "custom jet service" highlighted the 1971 communications program.

The airline focused attention on the unique features of this quality service — "steak and eggs" breakfast on the Twin Cities-Denver and Milwaukee-New York nonstops, gourmet wine basket lunches and deluxe hot meals, complimentary Broadway Cocktails to New York travelers, and Frostbite Kits for Denver skiers. Custom jet service was publicized in over 70 newspapers and magazines and on 130 television and radio stations.

The company also emphasized improved prime-time schedules and its single-plane service from smaller Midwest communities to Denver, Omaha, Chicago, Cleveland, Cincinnati, Columbus, Dayton, Detroit, Toronto, and New York.

Supplementing the advertising campaign, members of North Central's sales department made 20,770 personal calls on travel agents, commercial accounts and interline representatives; conducted sales blitzes to promote new services; and participated in sport and travel shows. Company personnel attended 550 civic meetings, made over 40 television and radio appearances, operated 185 scenic "familiarization" flights, and conducted 110 civic and educational groups on tours of the airline's headquarters. Special promotions were developed to acquaint travel agents with North Central's custom jet service and group fares.

The airline introduced new uniforms for its nearly 300 passenger service agents in 1971. The eye-catching persimmon and blue colors of the attractively designed uniforms (pictured below) enhance the jet-age image of North Central at passenger service counters and city ticket offices.

But what's behind the uniform counts, too. In 1971, a company-wide training program, "Perceptive Action", was started. Its purpose is to develop a better understanding of passenger needs and improve employees' skill in solving problems by recognizing the passenger's point of view. Management, supervisors, and all passenger service agents were the first to participate. (Photo below)

Ticket envelopes took on a new look in 1971. Favorite hunting scenes by artist Sherm Pehrson were reproduced on the folders. Prints suitable for framing can be ordered by passengers.

The airline's inflight publication, Northliner Magazine, was available to almost four million passengers. It features articles on communities and activities in North Central's cities. Some 10,000 employees and friends received copies of the company newspaper, The Northliner.

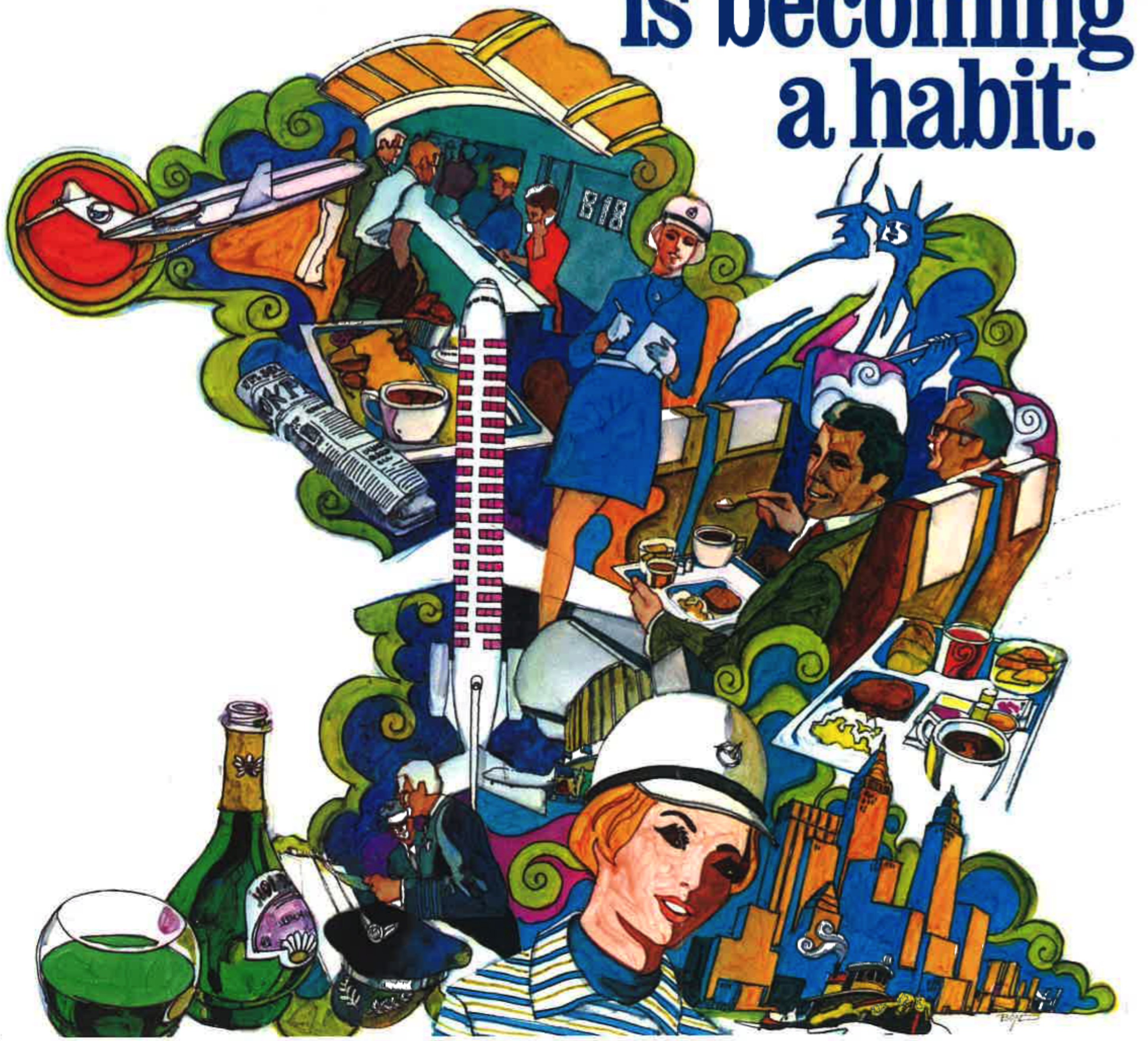
To help promote skiing in "North Central Land", professional skier Jim Hoeschler was named a consultant to the airline. Hoeschler, a native of LaCrosse, Wisconsin, is a former member of the U. S. Olympic and Championship ski teams.

North Central continued its community relations program of recognizing the support which outstanding business and civic leaders have extended the company and their valuable contribution to the development of scheduled airline service by appointing them "Presidential Advisors." Instituted in 1954, the group of 100 prominent individuals acts in a liaison capacity between the community and the airline.

All news media throughout the system received frequent news releases in 1971. Special articles about the company were given national coverage in Forbes, Aviation Week and Space Technology, and Aviation Daily. Many regional publications ran feature stories on the airline.

North Central gratefully acknowledges the cooperation of the countless individuals who helped publicize the company's progress in 1971.

Breaking records is becoming a habit.



1971. Another record year for North Central. We flew more passengers more miles than ever before. And the only way we can keep breaking records is to continually give you better service.

For instance . . . our Milwaukee-New York "custom jet" nonstops at coach rates. Many people have told us they're the best flights to New York . . . great food, better service, unusual extras (like our complimentary after-dinner liqueur).

But our Twin Cities-Denver flights are just as great. And we also offer frequent nonstops to Dayton, Cincinnati, Columbus, Milwaukee and Omaha, too, with improved service to many other cities on our 13-state system.

See for yourself why we keep setting new records . . . come fly with us!

good people make ~~an~~ our airline great

NORTH CENTRAL AIRLINES

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