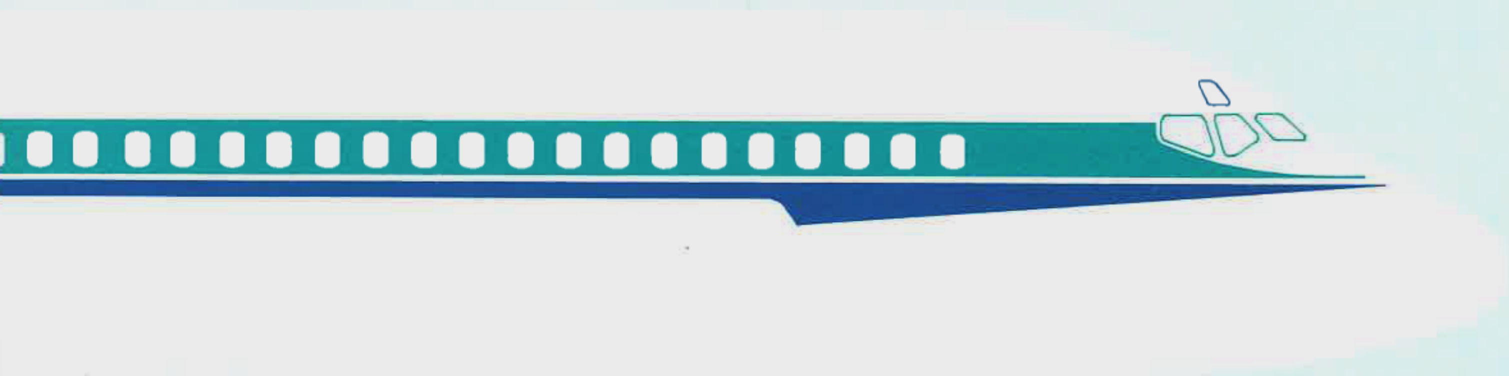
ANNUAL REPORT 1975



NORTH CENTRAL AIRLINES

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7500 northliner drive, minneapolis, minnesota

board of directors

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

G. F. DeCoursin*
President April Company (manufacturer and distributor of seasoned food products)

Chan Gurney
Retired Member Civil Aeronautics Board

John M. Lawrence III
Partner in law firm of Lawrence, Thornton, Payne & Watson

Samuel H. Maslon*
Partner in law firm of Maslon, Kaplan, Edelman, Borman, Brand & McNulty

Theodore R. Miles
President and Chief Executive Officer Stange Co. (manufacturer and distributor of food products)

Jay Phillips
Chairman of the Board Ed. Phillips & Sons Co. (wholesale beverage distributor)

Morton B. Phillips
Chairman of the Board Westland Capital Corporation (small business investment corporation)

Joseph E. Rapkin
Partner in law firm of Foley & Lardner

Henry M. Ross
President Ross Industries, Inc. (machinery manufacturer)

H. P. Skoglund
Chairman, Executive Committee North American Life & Casualty Company

Bernard Sweet*
President North Central Airlines

Kenneth B. Willett*
Chairman of the Board First Financial Savings and Loan Assn. of Stevens Point

*Executive Committee

management

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

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

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

Robert L. Gren................ *Vice President-Maintenance and Engineering*

George J. Karnas........... *Vice President-Inflight Service*

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

Gowan J. Miller.......... *Vice President-Industrial Relations*

David E. Moran............. *Vice President-Traffic and Sales*

T. M. Needham.......... *Vice President-Ground Operations*

J. F. Nixon.................. *Vice President and Treasurer*

G. F. Wallis.............. *Vice President-Flight Operations*

Charlotte G. Westberg.... *Vice President-Staff Administration*

Joseph W. Ettel...................... *Assistant Secretary*

Raymond J. Rasenberger............. *Assistant Secretary*

Walter E. Nielsen.................... *Assistant Treasurer*

Michael D. Meyer........................... *Controller*

John W. Dregge................ *Assistant to the Chairman*

REGISTRARS AND STOCK TRANSFER AGENTS:
First National City Bank
New York, New York
Northwestern National Bank of Minneapolis
Minneapolis, Minnesota

STOCK TRADING:
Common stock and warrants traded under symbol NCA

New York Stock Exchange

Midwest Stock Exchange

ANNUAL MEETING:
First Wednesday in April (April 7, 1976)
Wausau, Wisconsin

AUDITORS:
Alexander Grant & Company

highlights

	1975	1974	Change
OPERATING REVENUES	$163,584,000	$151,490,000	8.0%
OPERATING PROFIT	$ 7,221,000	$ 17,994,000	(59.9)
NET EARNINGS	$ 5,224,000	$ 8,204,000	(36.3)
NET EARNINGS PER SHARE	43¢	66¢	(34.8)
DIVIDENDS PER SHARE	10¢	10¢	—
WORKING CAPITAL FROM OPERATIONS	$ 12,868,000	$ 18,784,000	(31.5)
WORKING CAPITAL AT YEAR-END	$ 1,803,000	$ 4,859,000	(62.9)
RETAINED EARNINGS	$ 31,039,000	$ 27,044,000	14.8
STOCKHOLDERS' EQUITY	$ 50,565,000	$ 47,152,000	7.2
PASSENGERS	4,581,000	4,546,000	0.8
PASSENGER MILES	1,071,638,000	1,060,865,000	1.0
CARGO TON MILES	11,703,000	12,585,000	(7.0)

(For North Central Airlines' Form 10-K report to the Securities and Exchange Commission, write to the Secretary of the Company.)

about north central

North Central Airlines is a regional scheduled carrier linking intermediate-sized cities with major metropolitan areas. Its principal function is to provide safe, dependable air transportation.

Incorporated as Wisconsin Central Airlines in 1944, the company received its Federal operating certificate three years later. Scheduled service was inaugurated on February 24, 1948. When headquarters were moved to Minneapolis/St. Paul in 1952, the name was changed to North Central Airlines. Traffic grew steadily, setting a regional industry record by 1960 with one million passengers, and then doubling every six years to reach four million in 1972.

The company has operated profitably for 21 of the 22 years under present management. Its fleet of 51 jet-powered aircraft makes 600 departures a day over the 10,200-mile route system. Efficient passenger handling includes computerized reservations and automated ticketing.

Now in its twenty-ninth year, the airline serves 90 cities—in 13 states and two Canadian provinces—including Chicago, Detroit, Cleveland, New York, Toronto, Milwaukee, Winnipeg, Minneapolis/St. Paul, Omaha, Kansas City, and Denver.

North Central's 3,410 dedicated employees offer the traveling public the highest type of regional airline service.

to our stockholders, employees and friends:

North Central Airlines earned $5,224,000 in 1975, and set new company records by generating $163,584,000 in revenues and carrying 4,581,000 passengers.

These accomplishments are gratifying in view of the challenges which faced the industry early in the year. Passenger traffic was slow, and the price of fuel and other goods and services was rising sharply. However, with expenses tightly controlled, favorable results were achieved as demand for seats increased.

The company has now operated profitably for 21 years since 1954 when present management was brought in. This consistency of financial performance is unequaled in the regional airline industry; North Central has more retained earnings—$31,039,000 —than all the other regional carriers combined.

In view of the company's strong financial condition and 1975 earnings, the Board of Directors declared the fourth consecutive annual cash dividend. Stockholders of record February 17, 1976, received 10 cents per share of common stock.

Revenues for 1975 were up eight percent to $163,584,000 after reaching $151,490,000 in the previous year.

Operating expenses rose 17 percent to $156,363,000 from $133,496,000. The operating profit was $7,221,000, down from $17,994,000 in 1974.

The acquisition of new equipment provided substantial investment tax credits. These were used to recover 1974 Federal income taxes paid, and to reduce 1975 taxes payable and deferred income taxes. This resulted in a net income tax credit of $340,000 compared with a $7,492,000 income tax expense in 1974. Net earnings were $5,224,000, or $.43 per share. In 1974, company earnings reached a record $8,204,000, or $.66 per share.

Profits, averaging $6,853,000 for the last four years, kept North Central's retained earnings the highest among the regional carriers. Stockholders' equity advanced to $50,565,000, raising the book value to $4.18 per share. The company's long-term debt to equity ratio of .91 to 1 still ranks with the best of the nation's 20 scheduled airlines.

The 4,581,000 passengers carried and 1.1 billion passenger miles flown were both one percent better than the previous highs set a year earlier. The steady recovery which started in July compensated for diminished traffic in the first six months. Cargo shipments were up six percent, but a lighter average weight caused ton miles to drop seven percent to 11,703,000.

Members of North Central's Board of Directors are (from left, seated) Joseph E. Rapkin, G. F. DeCoursin, Hal N. Carr, Samuel H. Maslon, Jay Phillips, Morton B. Phillips, and (standing) John M. Lawrence III, H. P. Skoglund, Henry M. Ross, Bernard Sweet, Kenneth B. Willett, Chan Gurney and Theodore R. Miles.

North Central continued to excel in operating performance. Consistent with its average over the last 18 years, the airline completed 99 percent of the 29,054,000 miles scheduled. Of its 223,000 scheduled arrivals, 83 percent were on time. These levels of reliability are considered outstanding in the industry.

Diligent pursuit of route expansion opportunities has put the company in a favorable position to receive one or more significant new nonstop segments. In February 1976, a Civil Aeronautics Board administrative law judge selected North Central to operate between Detroit and Boston. Later this year, the Board is expected to issue a final decision. The airline first sought this authority in 1972 and was granted an expedited hearing in 1975.

Proceedings are well underway in the Chicago-New Orleans and Midwest-Atlanta cases, and the company has presented strong evidence to support its applications. In the past year, North Central filed for expedited hearings on its requests for Minneapolis/St. Paul-Milwaukee-Memphis and Milwaukee-Denver nonstop service. In February 1976, the airline applied for two new nonstops to Dallas/Ft. Worth from Omaha and Kansas City. All these routes would substantially improve revenues and earnings.

Six new Douglas DC-9-50 fan jets will join North Central's fleet in 1976. Three of the 125-passenger jets are being inaugurated into service on April 25. These larger jets offer greater passenger comfort and convenience, as well as increased productivity by reducing seat-mile costs. The other three will be in operation later in the year.

The new Series 50 aircraft and the two 100-passenger DC-9-30 jets purchased in 1975 will make five Convair 580 prop-jets surplus. The company has already contracted to sell these Convairs.

Several airport facilities were improved for passengers and shippers during 1975. Seven terminals and two air freight buildings were newly constructed or extensively renovated.

In October, the company's new $1.8-million digital flight simulator became operational. Permitting the most realistic pilot training possible, the equipment employs a six-axis motion system synchronized with electronic visual equipment. The simulator saves both fuel and aircraft time, and is also a potential source of revenue because other carriers are interested in renting it.

New night charter rates and the recently introduced "Explorer's Fare" have brought down the cost of air travel on North Central. Altogether, the airline offers seven different ways to fly for less than the standard fare, and this should help attract new business.

The company's Affirmative Action and Equal Opportunity Employment programs have increased minority employment, put more men and women in jobs previously stereotyped for one sex, and brought several women into management positions. Concern for the environment is reflected in the company's unending efforts to reduce aircraft noise levels and conserve natural resources.

The airline anticipates further growth while sharing the prosperity this nation has developed in its first 200 years. With the continuing support of stockholders, employees and the passengers North Central serves, the company looks forward to another profitable year in 1976.

Sincerely,

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

Bernard Sweet
President

March 8, 1976

financial review

Net earnings of $5,224,000 were attained by North Central in 1975 as revenues reached a record $163,584,000. These results were achieved in a difficult year that ended unfavorably for many carriers.

With the $5.2 million in earnings, 1975 became the 21st profitable year for North Central since 1954. This consistently successful financial performance—the best among regional airlines—was recently cited in an award from Air Transport World, an industry publication.

Revenues, which have increased in each of the 28 years since operations began, gained eight percent from $151,490,000 in 1974. Operating expenses, including depreciation and amortization of $8,172,000, climbed 17 percent to $156,363,000, compared with $133,496,000 in the previous year.

Operating profit was $7,221,000, down from the $17,994,000 in 1974. Other expenses, primarily interest, increased to $2,337,000 from $2,298,000. After an income tax credit of $340,000, compared with tax expense of $7,492,000 in 1974, the net earnings of $5,224,000 ($.43 per share) were realized. This is a drop of 36 percent from the $8,204,000 ($.66 per share) earned a year earlier.

The Variance Analysis table at the right summarizes the major factors of change in revenues and expenses from 1973 through 1975. (Further data on the company's operations for the last five years is provided on Page 19.)

The $12,100,000 growth in operating revenues for 1975 was primarily from fare adjustments. However, changes in fares were not adequate to compensate for inflationary pressures that continued the upward spiral of expenses. All tariffs must be approved by the Civil Aeronautics Board, and this procedure has a built-in "regulatory lag" because justification for fare increases is based on past experience rather than anticipated costs. This effect was particularly critical in 1975 when expenses rose rapidly throughout the year while traffic lagged during the first half.

North Central's total expenses increased $22,900,000 in 1975 to $156,400,000 accelerated by jet fuel costs which soared a staggering 62 percent to $24,000,000 from $14,800,000—after already climbing 54 percent in 1974 from $9,600,000. Although total expenses were up 17 percent, costs in all categories other than fuel rose 12 percent.

Labor and employee benefits, comprising 45 percent of the company's operating expenses, were up $7.7 million or 12 percent, while the number of employees was only 1.5 percent higher. Inflation continued to boost the price of parts, supplies, landing fees, food and other goods and services. Several strikes against other carriers in 1975 added $800,000 in Mutual Aid payments compared with the prior year.

At year end, advance payments on new aircraft orders were $6,200,000 greater than at December 31, 1974, thereby reducing funds available for investment. This was the primary cause for the $700,000 decline in interest income. Interest expense also dropped $700,000 in 1975 due to lower interest rates and capitalization of interest on the advance payments for equipment.

The purchase of two DC-9-30 jets, a DC-9 flight simulator, other capital expenditures and the establishment of an employee stock ownership plan made $2,742,000 in investment tax credits available. Of this sum, $918,000 was carried back to recover 1974 Federal income taxes paid, $811,000 was applied against 1975 Federal income taxes payable, and $1,013,000 was used to reduce deferred income taxes. These tax credits and the decline in taxable earnings caused income taxes to drop $7.8 million.

The company continued to generate substantial working capital from operations. The $12,868,000 in 1975 and $18,784,000 in 1974 produced a two-year total of $31,652,000. This excellent flow of funds has enabled the airline to continue the expansion of its jet fleet and still maintain one of the most favorable long-term debt to equity ratios in the industry—.91 to 1.

Considering the company's strong financial condition and its 1975 earnings, the Board of Directors declared an annual cash dividend for the fourth consecutive year. Ten cents per share was paid March 1, 1976, to stockholders of record February 17.

During the last two years, the company repurchased 364,800 of its own shares at a total cost of $999,000. These shares, acquired on the open market at well below book value, have effectively increased the worth of outstanding stock. Stockholders' equity has reached a record $50,565,000 or $4.18 per share.

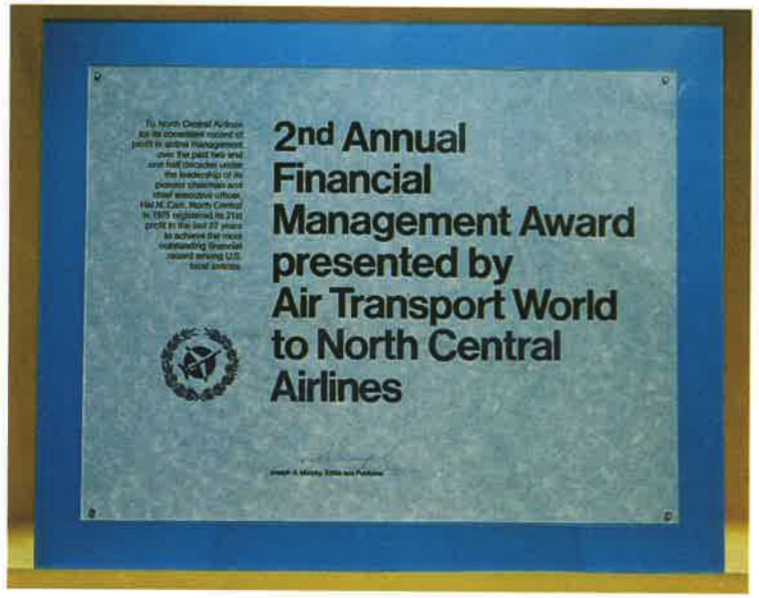
VARIANCE ANALYSIS

	Net Changes	
NET EARNINGS	**1975-1974**	**1974-1973**
1975	$ 5,200,000	
1974	8,200,000	$ 8,200,000
1973		6,400,000
Change in net earnings	$ (3,000,000)	$ 1,800,000
MAJOR FACTORS OF CHANGE:		
Operating revenues		
Passenger miles	$ 1,400,000	$ 7,400,000
Passenger fares	10,300,000	12,300,000
Public service revenues	100,000	2,500,000
Cargo and other revenues	300,000	1,300,000
Net revenue changes	12,100,000	23,500,000
Operating expenses		
Labor and employee benefits	7,700,000	7,100,000
Cost of aircraft fuel	9,200,000	5,200,000
Parts, supplies and services	1,700,000	3,500,000
Landing fees and rent	800,000	700,000
Passenger service and promotion	600,000	900,000
Mutual Aid payments	800,000	(200,000)
Other expenses	1,900,000	(400,000)
Depreciation	200,000	700,000
Net expense changes	22,900,000	17,500,000
Change in operating profit	(10,800,000)	6,000,000
Nonoperating income and expense		
Interest income and other	(700,000)	500,000
Interest expense	(700,000)	—
Income taxes	(7,800,000)	4,700,000
Net nonoperating changes	(7,800,000)	4,200,000
Change in net earnings	$ (3,000,000)	$ 1,800,000

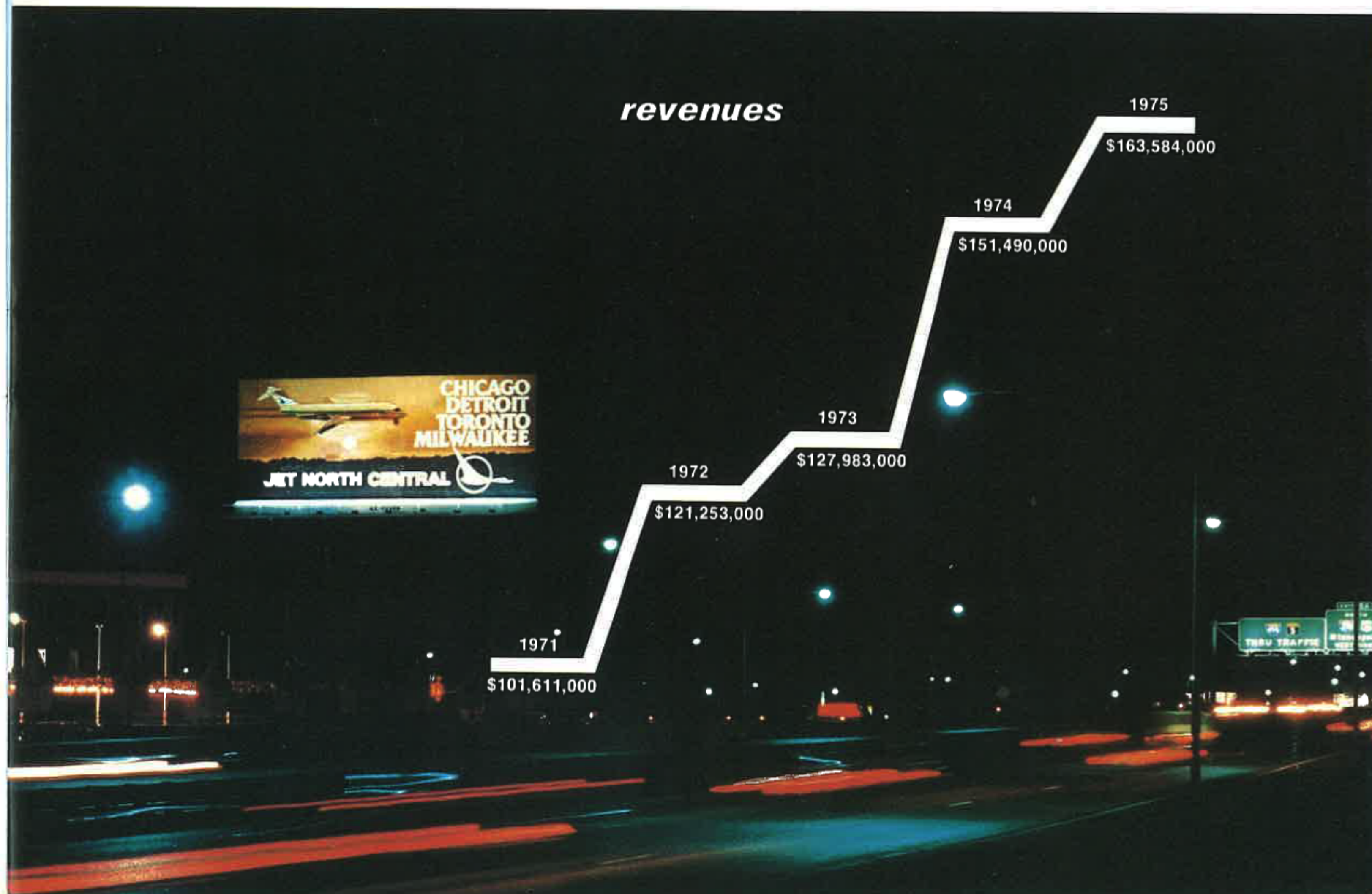
North Central common stock is traded on the New York Stock Exchange and the Midwest Stock Exchange. High-low quotations from the first to fourth quarters were 3⅜-2⅜, 3¼-2⅝, 3-2½, 2⅝-2¼ in 1975 and 4-2⅝, 3⅞-3⅛, 3⅝-2¾, 3-2⅛ in 1974.

The airline's $31,039,000 in retained earnings, highest among the nine regional carriers, has reduced the borrowing needs for the purchase of the six DC-9 Series 50 fan jets to be delivered in 1976. A major portion of the financing for the new 125-passenger jets has been arranged, and the balance is in the process of being finalized. The company has a contract to sell five Convair 580 prop-jets as they become surplus and an option on three more DC-9-50s for delivery in 1977.

Operating from a position of financial strength, the company can fully capitalize on opportunities for future growth. Strict cost control policies, that have proven successful in the past, will be continued, and North Central expects to realize a profit again in 1976.



The airline industry magazine Air Transport World presented its 1975 Financial Management Award "To North Central Airlines for its consistent record of profit in airline management over the past two and one-half decades under the leadership of its pioneer chairman and chief executive officer, Hal N. Carr. North Central in 1975 registered its 21st profit in the last 22 years to achieve the most outstanding financial record among U.S. local airlines."



traffic growth and performance

The 4,580,521 passengers carried in 1975 set an all-time company record, and over a billion passenger miles were flown for the fourth consecutive year. North Central again achieved an outstanding operating performance by completing 99 percent of its scheduled miles.

Boardings from October through December were the best in company history for each of those months, and the airline finished the year with one percent more passengers than the 4,546,209 of 1974. A new single-day mark of 19,600 passengers was established on December 19. Passenger miles, also one percent ahead, reached 1,071,638,330, compared with 1,060,865,304 in the previous year.

Extra flights accommodated nearly 73,000 travelers. The 677 extra sections of scheduled trips, added at peak demand periods, were used by 22,538 persons, while 404 charters took 50,307 passengers to such points as Nassau and Freeport in the Bahamas, Montreal and Calgary in Canada, Washington, D. C., and cities in 37 states. A North Central DC-9 or Convair 580 can be chartered to fly to any airport certificated for the aircraft in the continental United States or nearby areas.

The volume of air freight handled during 1975 rose six percent to 448,449 pieces—up from the 422,060 the year before. Because the average weight had declined and express service was discontinued in November, total cargo ton miles in 1975 dropped seven percent to 11,703,151 from 12,584,535. Mail accounted for 3,294,983 ton miles, a nine percent gain over the 3,030,090 for 1974.

Consistently an industry leader in operating performance, North Central has averaged 99 percent completion of its scheduled miles over the last 18 years. Considering the severe weather conditions—including the "Blizzard of the Century" which virtually halted all flights for several days in January 1975—this high level of dependability is outstanding. In 1975, the airline flew 99 percent of the 29,053,723 scheduled miles, and 83 percent of its 223,140 scheduled arrivals were on time.

Reliable maintenance of equipment and effective flight control were important factors contributing to this high performance. The company's perennial operating excellence has been achieved through its progressive and comprehensive maintenance programs. These are implemented by true professionals like Joseph Orenic, the third North Central employee in the last four years to be named regional Mechanic of the Year by the Federal Aviation Administration. In 1975, less than two-tenths of one percent of the scheduled departures were cancelled for maintenance reasons, and 1.3 percent were delayed by mechanicals.

When operations are disrupted for any reason—weather, field conditions, air traffic control or mechanicals—many North Central employees are involved in adjusting the operation to provide maximum service over the system. Flight control personnel, with input from pilots, passenger agents and station people, are adept at re-routing passengers and available aircraft to accommodate the greatest number of travelers.

As North Central continues to grow, the complexities of providing safe, dependable scheduled air transportation become greater. Again in 1975, the company's 3,410 employees proved their ability to meet these challenges.

Typical winter winds swirl snow around passengers in Michigan's Upper Peninsula. The airline has averaged 99 percent completion of its scheduled miles over the last 18 years, despite adverse weather for many months each year.

The interiors of North Central's new DC-9 Series 50 fan jets feature the wide-body look, with many passenger conveniences and an attractive decor. The flight attendants are Quintin Yearby and Meleia Jordan.

new facilities and services

North Central's new $1.8-million DC-9 digital flight simulator, located at the airline's headquarters, became fully operational in October. The six-axis motion system, combined with electronic visual equipment, provides the most realistic flight training possible.

Formerly, pilots in a simulator could only experience three movements: pitch, roll and vertical control. North Central's equipment, built by CAE Electronics and approved by the Federal Aviation Administration (FAA), also duplicates acceleration and deceleration, yaw, and lateral motion. The illusion of actual flight is further enhanced by a McDonnell Douglas VITAL II unit which uses computer-generated lights to produce detailed night pictures of selected airports on the company's system.

Besides the many routine maneuvers possible, training in emergency procedures can be accomplished more effectively than in the air. The FAA allows pilots to take their six months' proficiency checks in the simulator.

Crews will "fly" over 700 hours a year in this equipment. If a regular jet were used, the aircraft would be out of scheduled service for 117 days and burn approximately 612,000 gallons of fuel. Besides saving fuel and aircraft time, the simulator can produce revenues. Time can be sold to other carriers when North Central pilot training is not scheduled.

Extensive improvements in ground facilities were completed in 1975. A new, larger terminal recently opened in Marquette, and an international flight-arrival building was added at Duluth/Superior. Jet bridges for second-level boarding highlighted the expansion and complete renovation of the Rochester terminal.

Passenger comfort and operational efficiency were enhanced through enlarged and remodeled terminals at Grand Forks, Fairmont, Cincinnati and Columbus. Sault Ste. Marie's new terminal will be opened soon. New air freight facilities were dedicated at Omaha and Madison in 1975.

Air-truck shipping service was extended in 1975 to Manitowoc-Milwaukee and to the Hibbing/Chisholm and Duluth/Superior-Twin Cities route. This year, Grand Rapids-Lansing-Detroit will be added.

Several other changes were made to benefit passengers. On all aircraft, no-smoking sections were increased to comprise 50 percent of the seats. Regulations were amended to allow small pets to travel in the cabin.

Two DC-9-30 fan jets were added in the Summer of 1975. This year, North Central will take delivery of six new DC-9 Series 50 jets. Three of these 125-passenger aircraft start scheduled service on April 25, 1976, with 36 departures daily from 19 cities. The next three arrive this fall, allowing more cities to be served with DC-9-50s.

The addition of larger jets permits the company to reduce the operating cost per seat mile while substantially upgrading other service by replacing Convair 580 prop-jets with DC-9-30s. Therefore, five Convairs will become surplus this year, and the company has already contracted to sell them.

Interiors of the larger jets will feature the wide-body look and a completely new decor. More leg room, enclosed overhead luggage compartments, and fold-down center seats are among the major comfort and convenience attractions.

To bring down its air fares, North Central announced new low rates for night charter flights and introduced the "Explorer's Fare" which permits savings of 20-30 percent on domestic round-trip travel. North Central offers seven different ways to fly for less than the standard fare.

Potential passengers and travel agents in 180 off-line cities, including 70 added in 1975, now have toll-free telephone access to reservations and flight information.

SCEPTRE, an innovative computer system for corporate information, became operational in November after two years of development by North Central. Unlike ESCORT, the airline's computerized system for reservations, flight information and telecommunications, SCEPTRE is designed to use corporate data as its base. Its initial application relates to the hundreds of thousands of aircraft parts required to maintain the company's fleet, as well as the aircraft themselves. While parts and aircraft are a major concern of maintenance/engineering and stores/inventory control, other sections—such as purchasing, accounting, and flight control—also need this myriad of detailed information.

SCEPTRE can "instantly" produce real-time facts on scheduled and unscheduled maintenance in process and forecast, work already completed, aircraft flying times, component times, pilot reports on aircraft, and parts changes. Such information, continuously updated, is available on TV-type receivers or hard-copy printers at 150 company locations throughout the system. Using SCEPTRE's corporate data base, administrative functions can also be accomplished.

Each year, North Central moves further ahead in its unending quest for greater efficiency in order to provide the best possible service for its passengers and shippers.

North Central's $1.8-million DC-9 digital flight simulator permits realistic pilot training while saving fuel and aircraft time. It combines a six-axis motion system with electronic visual equipment.

social action programs

Gains are being realized in utilization of human talents through North Central's Affirmative Action plan and its Equal Opportunity Employment program. For 1975, the number of minorities increased 14 percent over the previous year. Several women have been promoted to new management positions, and more men and women are working in jobs previously stereotyped for one sex.

Because of the company's varied and widespread operation, six separate Affirmative Action programs are being implemented: four for the cities with a large number of employees, another for stations with less than 50 people, and a sixth for flight crews. The Federal Aviation Administration (FAA) has approved all plans and periodically reviews them for compliance.

Systemwide, minorities hold 268 positions in the company, or eight percent. For 1975, 33 percent of the 170 persons hired for permanent jobs were minorities. Openings are filled from minority applicants when qualified people are available or required skills can be readily learned.

In the company's seven departments, women comprise 33 percent of the management staff in one, 25 percent in another, and 15 percent in a third. The traditionally-male rosters of pilots, station agents, custodians and skycaps all list women. Among flight attendants, a profession that was all-male before becoming all-female, 13 of North Central's 39 graduates in 1975 were men.

North Central is also active in programs for conserving natural resources. Through the airline's recycling plan, employees "saved" nearly 3,000 trees in 1975 by collecting used office paper rather than discarding it.

In flight crew training, the new DC-9 simulator conserves 612,000 gallons of aviation fuel annually. In addition, 2.4 million gallons are saved yearly with the special flight procedures instituted by North Central two years ago. To further reduce the use of petroleum-based products, aircraft are deiced with hot water or a diluted glycol solution.

Keenly aware of its responsibility to the community, North Central is continuously exploring ways to reduce aircraft noise levels. New landing approach procedures, adopted by the airline industry, use low-power, low-drag techniques to produce quieter, more efficient operations. Further improvements will be achieved with an additional DC-9 flap setting now in the final phases of certification by the FAA. Modified takeoff procedures have been in effect for some time. All engine cowlings on new aircraft include special acoustical material which absorbs sound.

Demonstrating genuine concern for the well-being of its personnel, the airline instituted a comprehensive chemical dependency program with the active cooperation of unions representing North Central employees. The cost of treatment for the disease is covered by company-paid medical insurance. An extensive educational process indoctrinated 300 management people with background information and trained over 100 first-line supervisors to recognize symptoms and assist employees in securing professional counseling. Response has been very positive, and encouraging results have already been accomplished.

The General Office at Minneapolis/St. Paul is now certified for use by handicapped persons. Special parking is provided, and modifications to doors and rest rooms have been made.

North Central is striving to be a responsible corporate citizen in every area of its operation.

Custodians Mary Zierhut, Herb Thompson (center) and Norm Marcell carry some of the 348,000 pounds of office paper saved by company employees for recycling.

Station Agent Peggy Bolton, working in a position previously sought only by men, unloads luggage alongside Agent Callan Richter.

route development

Boston, New Orleans, and Atlanta would be added to North Central's system if the Civil Aeronautics Board (CAB) acts favorably on company route applications now under consideration.

Early in 1975, the airline asked for and was granted expedited hearings on its requests to provide Detroit-Boston and Chicago-New Orleans nonstop service. In July, the Midwest-Atlanta case was initiated by the CAB.

DETROIT-BOSTON NONSTOP

In this case, a CAB administrative law judge issued an initial decision selecting North Central. The case has now gone to the Board for a final decision later in 1976.

North Central is proposing eight flights daily between Boston and Detroit with new 125-passenger DC-9-50 fan jets and 100-passenger DC-9-30 jets. Each flight would originate or terminate beyond Detroit. Milwaukee, South Bend, Kalamazoo/Battle Creek, Grand Rapids, Lansing, Flint, and Saginaw/Bay City/Midland would have single-plane service to Boston. Twenty-six other cities, principally in Wisconsin and Michigan, would receive convenient, same-carrier connecting service.

The Detroit-Boston market is the largest in the nation with nonstop flights offered by only one airline. The CAB judge estimated that North Central would carry 164,000 passengers the first year and realize an operating profit of $3.2 million on the 632-mile route. He also stated that "the award will significantly strengthen the route system of this vigorous small carrier."

CHICAGO-NEW ORLEANS NONSTOP

Proceedings are well underway, and a decision should come in 1976. This extension would generate almost $9 million in operating revenues the first year, with an estimated $2.2-million operating profit. Of the projected passenger traffic, 40 percent would originate or terminate on the airline's flights serving 25 cities in Michigan, Wisconsin, Minnesota and North Dakota.

The company plans three Chicago-New Orleans round trips daily with DC-9s. The 837-mile route is nearly 100 miles longer than any segment now flown by the airline.

MIDWEST-ATLANTA

CAB hearings are starting this March. North Central is asking for Detroit-Atlanta and Cincinnati-Atlanta nonstops. The two routes, totaling 968 miles, would generate $20 million in operating revenues and $5.8 million of operating profit.

MINNEAPOLIS/ST. PAUL-MEMPHIS, MILWAUKEE-MEMPHIS NONSTOPS

In March 1975, North Central proposed the first direct service between Minneapolis/St. Paul and Memphis, a 699-mile route. The application was filed concurrently with requests by the airport commissions of those cities and the State of Minnesota.

Initially, flights would stop at Milwaukee and go nonstop the 556 miles to Memphis. As traffic increases, the Twin Cities-Memphis nonstops would be operated. Benefiting a potential 71,000 passengers the first year, North Central would realize a $1-million operating profit.

MILWAUKEE-DENVER NONSTOP

North Central renewed its request to the CAB for expedited action. The 902-mile segment was first sought in 1968. Traffic estimates show 76,000 passengers for the first year and a $1.6-million operating profit.

OMAHA-DALLAS/FT. WORTH, KANSAS CITY-DALLAS/FT.WORTH NONSTOPS

In February 1976, the company applied for two new nonstops to Dallas/Ft. Worth from Omaha and Kansas City. (1,043 miles) By adding these segments, single-carrier service would be provided through Kansas City or Omaha from 19 cities in Iowa, Nebraska, Minnesota and the Dakotas. North Central asked that its request be consolidated with the Additional Dallas/Ft. Worth-Kansas City Nonstop Service Case now set for hearing by the Board.

MILWAUKEE-PHILADELPHIA NONSTOP

New nonstop service has been proposed providing single-plane service for 10 Minnesota and Wisconsin communities. Although two other carriers are certificated, only one nonstop is available in each direction. (690 miles)

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 CAB has set down the Ohio/Indiana Points Nonstop Service Investigation for hearing. The company's request to serve Philadelphia from Columbus, Dayton, and Cincinnati has been consolidated into this case. (1,389 miles)

TWIN CITIES-KANSAS CITY NONSTOP

This application would permit North Central to operate nonstop flights in addition to the present two-stop service. (394 miles)

DETROIT-MONTREAL, VIA TORONTO

This authority was requested under an amendment to the 1966 Bilateral Air Transport Agreement between the United States and Canada. North Central could also offer single-plane service from Minneapolis/St. Paul and Milwaukee to Montreal. The amendment authorizes Detroit-Montreal flights by a U.S. carrier after 1978. (315 miles)

SUMMARY

These cases would add 8,926 miles and eight new cities to North Central's route system.

the future

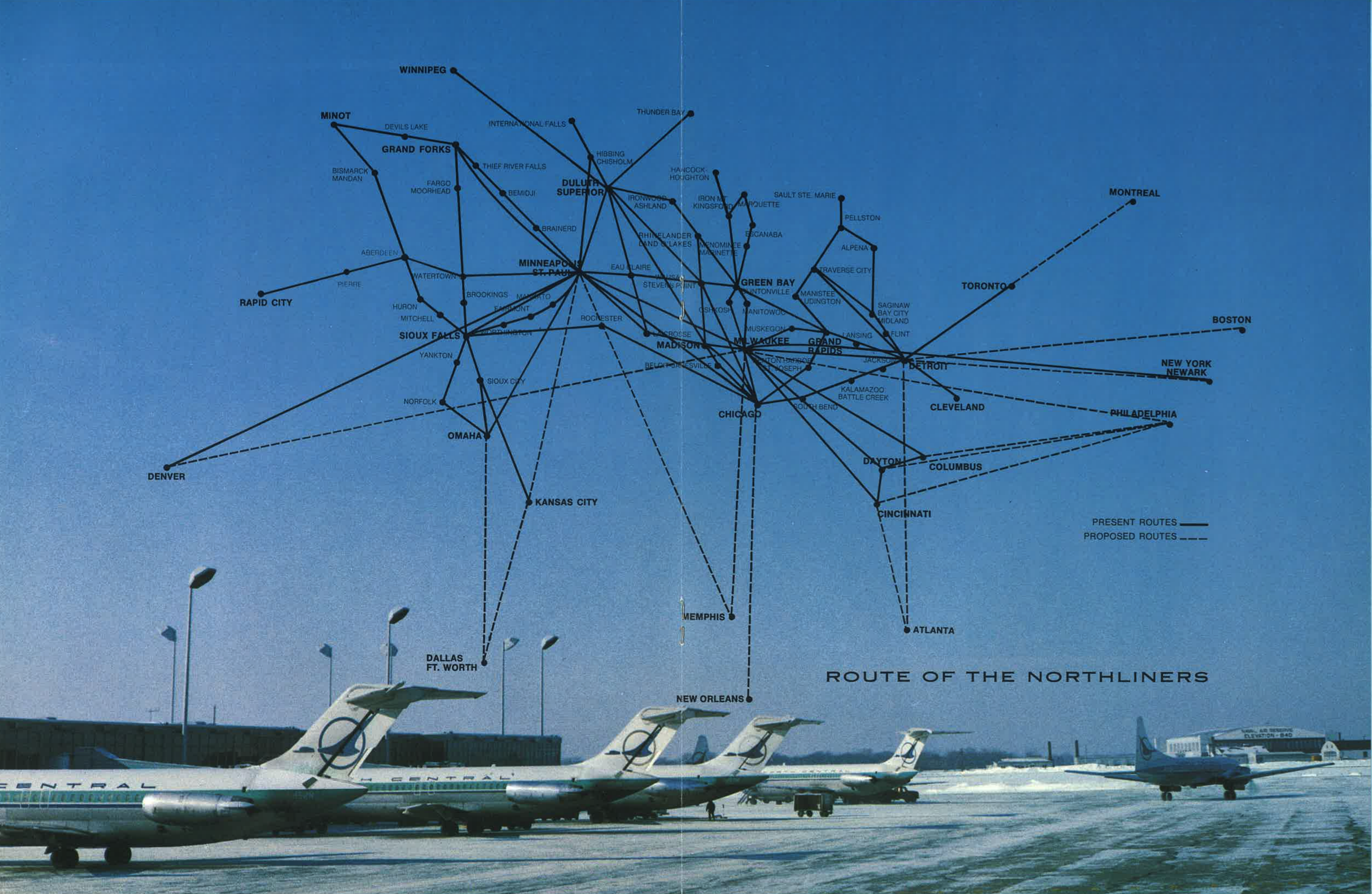
North Central starts the Bicentennial year with passenger boardings already climbing to new highs. Anticipating continued growth in 1976, the company looks forward to good earnings as revenues increase with a stronger national economy, even though inflation boosts expenses.

Advance bookings are well ahead of last year. Business travel is normally stimulated by improvements in the economy, and vacationers are expected to capitalize on liberalized charter regulations and new excursion fares on scheduled flights. The new DC-9 Series 50 fan jets will enhance North Central's position in competitive markets. Freight volume is moving higher, and the U. S. Postal Service states that more mail will go by air.

Expenses are reasonably predictable. Jet fuel prices have largely stabilized after tripling since 1973. Labor costs, although rising, can be fairly well calculated because four union contracts extend through 1976, and the airline expects to reach agreement with the other two unions.

Major route awards would have a significant impact on 1976 results. Detroit-Boston, Chicago-New Orleans, Detroit-Atlanta and Cincinnati-Atlanta are possible new nonstop segments. Each would add substantial revenues and profits if approval were granted early enough in 1976 for the airline to start service and establish itself in the market.

The outlook for the company is brighter now than a year ago. Anticipated revenue gains and high employee productivity, coupled with stringent cost control, should make 1976 another profitable year. North Central fully expects to maintain its leadership in financial performance among the regional airlines.


WINNIPEG
MINOT
DEVILS LAKE
GRAND FORKS
BISMARCK
MANDAN
THIEF RIVER FALLS
FARGO
MOORHEAD
BEMIDJI
INTERNATIONAL FALLS
THUNDER BAY
HIBBING
CHISHOLM
DULUTH
SUPERIOR
BRAINERD
IRONWOOD
ASHLAND
HANCOCK
HOUGHTON
IRON MT
KINGSFORD
MARQUETTE
SAULT STE. MARIE
PELLSTON
ESCANABA
ALPENA
RHINELANDER
LAND O'LAKES
MENOMINEE
MARINETTE
ABERDEEN
PIERRE
RAPID CITY
WATERTOWN
MINNEAPOLIS
ST. PAUL
EAU CLAIRE
STEVENS POINT
GREEN BAY
CLINTONVILLE
TRAVERSE CITY
MANISTEE
LUDINGTON
SAGINAW
BAY CITY
MIDLAND
FLINT
TORONTO
MONTREAL
BOSTON
BROOKINGS
MANKATO
FAIRMONT
HURON
MITCHELL
SIOUX FALLS
WORTHINGTON
ROCHESTER
OSHKOSH
MANITOWOC
MUSKEGON
LA CROSSE
MADISON
MILWAUKEE
GRAND RAPIDS
LANSING
DETROIT
NEW YORK
NEWARK
YANKTON
BELOIT-JANESVILLE
BENTON HARBOR
ST. JOSEPH
JACKSON
SIOUX CITY
KALAMAZOO
BATTLE CREEK
NORFOLK
CHICAGO
SOUTH BEND
CLEVELAND
PHILADELPHIA
OMAHA
DENVER
DAYTON
COLUMBUS
KANSAS CITY
CINCINNATI
PRESENT ROUTES
PROPOSED ROUTES
MEMPHIS
ATLANTA
DALLAS
FT. WORTH
NEW ORLEANS
ROUTE OF THE NORTHLINERS
CENTRAL

NORTH CENTRAL AIRLINES, INC.

balance sheet

	December 31 1975	December 31 1974
ASSETS		
CURRENT ASSETS		
Cash (note B)	$ 3,555,000	$ 5,055,000
Short-term investments — at cost, which approximates market	—	9,750,000
Accounts receivable, less allowances	19,277,000	14,764,000
Flight equipment parts and supplies (notes A and B)	4,791,000	4,023,000
Prepaid expenses and other (note A)	7,610,000	5,030,000
	35,233,000	38,622,000
PROPERTY AND EQUIPMENT — at cost (notes A, B and E)		
Flight equipment	104,192,000	92,452,000
Ground property and equipment	17,648,000	9,741,000
Improvements to leased property	5,145,000	3,677,000
	126,985,000	105,870,000
Less accumulated depreciation	44,005,000	36,962,000
	82,980,000	68,908,000
Advance payments on equipment	11,154,000	4,984,000
	94,134,000	73,892,000
DEFERRED CHARGES AND OTHER ASSETS		
Unamortized development and preoperating costs (note A)	1,473,000	1,600,000
Rentals and other (notes A, C and D)	3,303,000	4,582,000
	4,776,000	6,182,000
	$134,143,000	$118,696,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt (note B)	$ 7,581,000	$ 8,400,000
Trade accounts payable	5,472,000	6,588,000
Interline payables and tickets outstanding (note A)	9,370,000	8,190,000
Accrued compensation and other expenses	10,754,000	8,153,000
Income taxes (notes A and J)	253,000	2,432,000
	33,430,000	33,763,000
LONG-TERM OBLIGATIONS		
Long-term debt — less current maturities (note B)	45,909,000	32,633,000
Deferred income taxes (notes A and J)	3,939,000	4,867,000
Warrant obligation (note B)	300,000	281,000
	50,148,000	37,781,000
COMMITMENTS (notes D and E)	—	—
STOCKHOLDERS' EQUITY (notes B, F and G)		
Common stock — authorized 16,000,000 shares of $.20 par value	2,493,000	2,493,000
Additional paid-in capital	18,032,000	18,032,000
Retained earnings	31,039,000	27,044,000
Less treasury stock — at cost	(999,000)	(417,000)
	50,565,000	47,152,000
	$134,143,000	$118,696,000

The accompanying notes are an integral part of this statement.

statement of earnings

	Years ended December 31 1975	Years ended December 31 1974
OPERATING REVENUES		
Passenger (note A)	$135,664,000	$124,007,000
Freight and express	8,531,000	8,158,000
Public service revenues (note H)	12,225,000	12,126,000
Mail	1,996,000	2,041,000
Non-scheduled service and other	5,168,000	5,158,000
	163,584,000	151,490,000
OPERATING EXPENSES		
Flying operations	50,342,000	38,077,000
Maintenance	24,330,000	20,983,000
Aircraft and traffic servicing	38,481,000	34,923,000
Passenger service	9,873,000	9,158,000
Promotion and sales	14,933,000	13,912,000
General and administrative	8,322,000	7,179,000
Other transport-related expenses	1,910,000	1,247,000
Depreciation and amortization (note A)	8,172,000	8,017,000
	156,363,000	133,496,000
Operating profit	7,221,000	17,994,000
OTHER EXPENSES (INCOME)		
Interest expense	3,611,000	3,868,000
Less interest capitalized (note A)	757,000	341,000
	2,854,000	3,527,000
Interest income and other — net	(517,000)	(1,229,000)
	2,337,000	2,298,000
Earnings before income taxes	4,884,000	15,696,000
INCOME TAXES (notes A and J)		
Current	172,000	5,348,000
Deferred	(512,000)	2,144,000
	(340,000)	7,492,000
NET EARNINGS	$ 5,224,000	$ 8,204,000
NET EARNINGS PER SHARE (note K)	$ .43	$ .66

The accompanying notes are an integral part of this statement.

statement of changes in financial position

	Years ended December 31	
	1975	**1974**
SOURCES AND APPLICATIONS OF WORKING CAPITAL		
SOURCES		
From operations		
Net earnings	$ 5,224,000	$ 8,204,000
Charges (credits) to earnings not using (providing) working capital		
Depreciation and amortization	8,172,000	8,017,000
Deferred income taxes	(928,000)	2,363,000
Other	400,000	200,000
Working capital provided from operations	12,868,000	18,784,000
Proceeds in excess of gain from property and equipment dispositions	51,000	1,061,000
Increase in long-term debt	34,531,000	—
Reduction of rentals and other assets	1,138,000	—
	48,588,000	19,845,000
APPLICATIONS		
Additions to property and equipment	28,051,000	5,881,000
Additions to deferred charges	527,000	2,557,000
Reduction of long-term debt	21,255,000	9,539,000
Purchase of treasury stock	582,000	417,000
Payment of cash dividend	1,229,000	1,246,000
	51,644,000	19,640,000
INCREASE (DECREASE) IN WORKING CAPITAL	(3,056,000)	205,000
Working capital at beginning of year	4,859,000	4,654,000
Working capital at end of year	$ 1,803,000	$ 4,859,000
NET CHANGE IN WORKING CAPITAL ELEMENTS		
Increase (decrease) in current assets		
Cash and certificates of deposit	$ (1,500,000)	$ 1,597,000
Short-term investments	(9,750,000)	763,000
Accounts receivable	4,513,000	854,000
Flight equipment parts and supplies	768,000	692,000
Prepaid expenses and other	2,580,000	552,000
Net change in current assets	(3,389,000)	4,458,000
Increase (decrease) in current liabilities		
Current maturities of long-term debt	(819,000)	303,000
Trade and interline payables and tickets outstanding	64,000	1,075,000
Accrued compensation and other expenses	2,601,000	759,000
Income taxes	(2,179,000)	2,116,000
Net change in current liabilities	(333,000)	4,253,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,056,000)	$ 205,000

statement of changes in stockholders' equity

Years ended December 31, 1975 and 1974

	Common Stock		Additional Paid-In Capital	Retained Earnings (note B)	Treasury Stock	
	Shares Issued	**Amount**			**Shares Held**	**Amount**
Balance at January 1, 1974	12,462,752	$2,493,000	$18,032,000	$20,086,000	—	$ —
Cash dividend (note G)	—	—	—	(1,246,000)	—	—
Purchase of treasury stock	—	—	—	—	150,900	417,000
Net earnings for the year	—	—	—	8,204,000	—	—
Balance at December 31, 1974	12,462,752	2,493,000	18,032,000	27,044,000	150,900	417,000
Cash dividend (note G)	—	—	—	(1,229,000)	—	—
Purchase of treasury stock	—	—	—	—	213,900	582,000
Net earnings for the year	—	—	—	5,224,000	—	—
Balance at December 31, 1975	12,462,752	$2,493,000	$18,032,000	$31,039,000	364,800	$999,000

The accompanying notes are an integral part of these statements.

notes to financial statements

December 31, 1975 and 1974

Note A—Summary of Significant Accounting Policies—The company is regulated by the Civil Aeronautics Board (CAB) and uses the Uniform System of Accounts and Reports for Certified Air Carriers as required by the CAB. The significant policies consistently followed by the company are:

Flight Equipment Parts and Supplies: These are priced at average cost. An allowance for obsolescence ($675,000 in 1975 and $551,000 in 1974) is provided for repairable parts by allocating their cost over the life of the related aircraft.

Prepaid Expenses — Engine Overhaul: Engine overhaul costs are charged to expense as incurred except for those overhaul costs included in the purchase price of flight equipment. The company reclassifies to a current prepaid expense the cost of those overhauls estimated to be consumable within the next twelve months by reducing costs included in flight equipment ($3,010,000 in 1975 and $2,175,000 in 1974).

Capitalized Interest: To properly reflect their total cost, major additions to flight equipment, ground facilities and expenditures for deferred charges include capitalized interest based on the weighted average interest rate of debt outstanding. Capitalization of interest ceases when projects become operational. The capitalized interest is amortized over the useful lives of the related assets for financial reporting purposes, but charged to current period expense for income tax reporting purposes. If capitalized interest had been expensed as incurred for financial reporting purposes, net earnings would have been reduced by approximately $317,000 in 1975 and $118,000 in 1974.

Capitalized Leases: The company capitalizes, for both financial reporting and tax purposes, leased facilities where the terms of the lease result in the creation of a material equity in the property accruing to the company.

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. Flight equipment is being depreciated to residual values (15% of cost): Convair 580 based on a common retirement date of June 1979 and DC-9-30 based on 15-year lives.

Deferred Charges: Expenditures for route development are deferred and amortized over the life of temporary certificates, or from five to eight years for permanent certificates. Major computer software development is deferred and amortized over a five-year period. Certain of these expenditures are expensed when incurred for tax reporting purposes.

Passenger Revenues: Passenger revenue is recognized when the transportation service is provided. Unused ticket sales are included as a current liability.

Pension Costs: The company has pension plans for substantially all of its employees, and funds its current expense of normal costs and amortization of prior service costs over periods ranging from 25 to 30 years. Asset appreciation or depreciation is applied to the unfunded prior service cost. Pension funding is determined primarily by using the unit credit method (note I).

Income Taxes: The company uses the flow-through method of accounting for investment tax credit which reduces income tax expense when the related liability is reduced. The company recognizes deferred income taxes resulting from differences in financial and income tax reporting (note J).

Note B — Long-Term Debt — Long-term debt at December 31 consists of the following:

	1975	1974
Quarterly installment notes (a)	$19,014,000	$25,566,000
Quarterly installment notes (b)	28,700,000	—
Semi-annual installment notes (c)	—	13,800,000
Total due banks and insurance companies (d)	47,714,000	39,366,000
Lease obligation (e)	4,418,000	—
Subordinated convertible debentures (f)	690,000	690,000
Semi-annual subordinated notes (g)	300,000	900,000
Sundry	368,000	77,000
Total long-term debt	53,490,000	41,033,000
Less current maturities (h)	7,581,000	8,400,000
	$45,909,000	$32,633,000

(a) Payable in quarterly installments of $1,358,000 plus interest during January and April and $1,811,000 plus interest during July and October through October 1978; interest at 7%.

(b) The company signed a credit agreement in April 1975 with two banks for $35,000,000. At December 31, 1975 the company had borrowed $28,700,000 under the agreement payable in quarterly installments of $1,435,000 plus interest from July 1977 through April 1982; interest varies from 1/4% to 1/2% above the banks' prime rate; effective rate at December 31, 1975 was 7½%.

(c) Prepaid in May 1975; effective interest rate at December 31, 1974 was 10½%-11%.

(d) Total due banks and insurance companies is collateralized by substantially all flight equipment and spare aircraft parts owned by the company. Two equipment manufacturers partially guarantee these loans. Included in the loan agreement provisions are restrictions on dividend payments, capital expenditures, additional borrowings and requirements related to minimum working capital and net worth. The company has a commitment to retire 259,511 warrants at $1.50 per warrant within 30 days after the expiration date of October 31, 1979 for any of these warrants not then exercised. These warrants were issued to loan holders in consideration of deferring certain debt repayments (note G). The obligation is being accrued as additional interest expense through 1979.

The company maintains cash balances in connection with the amounts due banks and for general operating purposes. From January 1, 1974 through April 15, 1975 the compensating balances maintained by the company averaged approximately $2,000,000. In April 1975 the company entered into a new arrangement which required them to maintain average compensating balances of $3,300,000 (adjusted for float) and required the payment of interest at 1/2% over prime rate on the average compensating balance shortfalls. Interest paid on shortfalls was approximately $100,000 during 1975. At December 31, 1975 and 1974 the required compensating balances (adjusted for float) were approximately $3,500,000 and $2,000,000, respectively.

(e) Lease obligation payable in monthly installments of $99,000 including interest at 10% through July 1980.

(f) Convertible into common shares at $8.55 a share to maturity, June 1, 1978; interest payable each June and December at 5½%.

(g) Payable in semi-annual installments of $300,000 plus interest at 7% through March 1976. Stock purchase warrants issued in connection with this debt enable the holders to purchase a total of 200,000 common shares (note G).

(h) Current maturities of all long-term debt due in each of the next five years following December 31, 1975 are as follows:

1976	$ 7,581,000
1977	10,215,000
1978	13,785,000
1979	6,794,000
1980	6,503,000
	$44,878,000

At December 31, 1975 $3,000,000 of unused lines of credit were available for short-term borrowing from several banks at their prime lending rate.

notes to financial statements

December 31, 1975 and 1974 (continued)

Note C—Lessor Leasing Activities—Investments in leased equipment accounted for under the finance method, including residual values, totaled $1,338,000 and $1,255,000 at December 31, 1975 and 1974, respectively.

In 1975 the company leased equipment which they capitalized at a cost of approximately $4,700,000 (note B[e]). This equipment was subleased and rentals accounted for under the operating method.

Note D — Lease Obligations — Total rent expense, including landing fees, was $13,642,000 in 1975 and $12,876,000 in 1974, including rentals under "financing leases" (as defined by the Securities and Exchange Commission) of $6,421,000 in 1975; $6,375,000 in 1974.

The company has lease commitments for various airport facilities based upon usage and landings, subject to adjustment depending upon the needs of the airport operating authority. These leases expire over varying periods, and future annual lease commitments are not determinable due to the usage and adjustment factors.

At December 31, 1975, the company's minimum rental commitments, including rental prepayment requirements, under non-cancellable leases with initial or remaining terms of more than one year are as follows (in thousands of dollars):

Period	DC-9-30 Aircraft	CV-580 Aircraft	Computer Equipment	Facilities	Other	Total
1976	$2,088	$441	$1,637	$1,634	$283	$ 6,083
1977	2,088	—	1,569	1,634	215	5,506
1978	2,088	—	1,398	1,634	48	5,168
1979	2,088	—	1,023	1,634	28	4,773
1980	2,088	—	—	1,634	28	3,750
1981-1985	1,957	—	—	8,170	—	10,127
1986-1990	—	—	—	8,034	—	8,034
1991-1995	—	—	—	7,395	—	7,395
1996-2000	—	—	—	2,285	—	2,285

Because DC-9-30 leases are related to the prevailing prime interest rate, the actual rent expense exceeded the minimum by $344,000 in 1975 and $600,000 in 1974. Nearly all leases contain renewal or extension options which are to be negotiated within specified periods prior to the expiration of the leases.

The present value of the noncapitalized financing leases and the related interest rates at December 31 are (in thousands of dollars):

	Interest Rate	1975	1974
Five DC-9-30 aircraft	6½%	$10,113	$11,520
Nine CV-580 aircraft	5¾%	434	2,344
Computer equipment	8½%	4,220	5,050
Facilities	4½%	15,942	16,436
Other	6¾%	467	724
		$31,176	$36,074

The impact on net earnings by capitalization of such leases would have been immaterial. The company, regulated by the CAB, is unable to determine what impact the above capitalization might have on the rate base and any consequent rate adjustments.

Note E — Commitments — At December 31, 1975, the company has purchase commitments on six new DC-9-50 aircraft for which it has advanced $10,475,000 and capitalized interest of $401,000. An additional $36,286,000 will be expended by the company in fulfilling these commitments. Three of the aircraft will be delivered in the second quarter and three in the fourth quarter of 1976. The total purchase price of $46,761,000 could be adjusted upwards based upon an agreement which allows for changes in specifications. The company has applied for additional financing in the form of government guaranteed notes.

Subsequent to year end, the company entered into a contract for the sale of five CV-580 aircraft. The aircraft are scheduled for delivery in 1976 (2) and 1977 (3). The total selling price is $3,975,000, which approximates the company's book value.

The company has advanced $75,000 on a purchase commitment, which contains an option to cancel prior to September 1976, for three additional DC-9-50 aircraft. If the option to cancel is not exercised, an additional $23,602,000 would be expended prior to delivery of the three aircraft in the fourth quarter of 1977.

Purchase commitments for various other equipment total $1,520,000, for which $203,000 has been advanced.

Under provisions of the Mutual Aid Agreement, the company would pay struck carriers who are a party to this agreement. The company would receive such payments in the event of a strike by its employees.

Note F — Stockholder Disclosure of Ownership — The company is required by §245.16 of the Civil Aeronautics Board Economic Regulations to include in its annual report to stockholders the following notice:

(1) Any person who either owns, as of December 31, of the year preceding issuance of such annual report, or subsequently acquires, beneficially or as trustee, more than 5 percent, in the aggregate, of any class of the capital stock or capital of the air carrier, shall file with the Board a report containing the information required by §245.12, on or before April 1, as to the capital stock or capital owned as of December 31, of the preceding year, and in the case of stock subsequently acquired, a report under §245.13, within 10 days after such acquisition or ownership;

(2) any bank or broker covered by (1), to the extent that it holds shares as trustee on the last day of any quarter of a calendar year, shall file with the Board, within 30 days after the end of the quarter, a report in accordance with the provisions of §245.14; and

(3) any person required to report under this subpart who grants a security interest in more than 5 percent of any class of the capital stock or capital of the air carrier shall within 30 days after granting such security interest file with the Board a report containing the information required in §245.15. The notice shall also state that any stockholder 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 G — Common Stock — At December 31, 1975, 123,550 shares of unissued common stock are reserved for officers and key employees, under a qualified plan adopted in 1965. An additional 200,000 shares were reserved under a plan adopted by the Board of Directors in September 1975 which is subject to shareholder approval. When options are exercised, the excess of the option price over par value of the shares is credited to additional paid-in capital. The company makes no charges to income in connection with the shares issued under the stock option plan.

Options Outstanding		Option Price and Fair Market Value at Date of Grant				
			December 31, 1975		December 31, 1974	
Year Granted	Year Exercisable	Per Share	Shares	Amount	Shares	Amount
1970	1970	$3.25	—	$ —	95,000	$308,750
1971	1971	3.1875	36,100	115,069	36,100	115,069
1973	1973	4.25	7,500	31,875	7,500	31,875
1974	1974	3.375	8,525	28,772	8,525	28,772
1974	1974	2.75	23,925	65,794	23,925	65,794
1974	1975	2.75	45,000	123,750	45,000	123,750
1974	1977	2.75	2,500	6,875	2,500	6,875
			123,550	372,135	218,550	680,885
1975	1979	2.50	95,000	237,500	—	—
			218,550	$609,635	218,550	$680,885

All options granted expire five years after date of granting. There were 105,000 shares under the 1975 plan available for granting at December 31, 1975.

At December 31, 1975 and 1974 there were outstanding warrants to purchase 2,649,061 shares of common stock. These warrants resulted from public offerings prior to 1973 and from financial transactions as discussed in note B(d) and (g). All warrants enable the holder to purchase common stock at $5.50 per share and must be exercised by October 31, 1979.

During January 1976, the Board of Directors declared a $.10 per share dividend payable on March 1, 1976 to shareholders of record on February 17, 1976. The company also paid cash dividends of $.10 per share to its shareholders during the first quarter of 1975 and 1974.

Note H — Public Service Revenues — As a local service carrier, the company receives public service revenues for serving small and intermediate size communities which do not generate sufficient traffic to fully support profitable air service. The amount of such payments is determined by the CAB on the basis of its evaluation of the amount of revenue needed to meet operating expenses and provide a reasonable return on investment with respect to eligible routes. The amount so determined is reduced by a portion of the company's earnings on routes not eligible for public service revenue, when these earnings exceed the prescribed maximum return on investment as set by the CAB. The CAB adopted Class Rate VII effective as of July 1, 1973. It provides for semiannual review of the company's public service revenue rate and has no specified expiration date.

Note I — Pension Costs — Total pension expense was $4,489,000 for 1975 and $4,150,000 for 1974. At January 1, 1975, the latest actuarial valuation date, the actuarially computed value of vested benefits for all plans exceeded the total market value of fund assets by approximately $943,000. Changes in funding methods for certain of the plans did not have a material effect on pension expense for 1975. Market value declines and improvements in benefits are the major reasons for the excess of vested benefits over the market value of fund assets.

The Pension Reform Act of 1974 is not expected to have a significant future effect on the amount of the company's pension expense, funding or unfunded vested benefits.

Note J — Income Taxes — Income tax expense for the years ended December 31 consists of the following:

	1975	1974
Current income taxes		
Federal	$1,675,000	$7,214,000
Investment tax credit used in current year	(811,000)	(2,798,000)
Investment tax credit carried back to prior year	(918,000)	—
	(54,000)	4,416,000
State and local	226,000	932,000
	172,000	5,348,000
Deferred income taxes		
Federal	418,000	190,000
Investment tax credit	(1,013,000)	1,933,000
	(595,000)	2,123,000
State and local	83,000	21,000
	(512,000)	2,144,000
	$ (340,000)	$7,492,000

Income taxes of $(340,000) in 1975 and $7,492,000 in 1974 (effective rates of (7.0%) and 47.7% respectively) are less than those expected to result by application of the federal income tax rate of 48% to income before taxes. For the years ended December 31, the reasons for these differences are:

	1975	1974
Computed "expected" tax expense	$2,344,000	$7,534,000
Increase (decrease) in income taxes		
Investment tax credit utilized	(2,742,000)	(865,000)
State and local income taxes net of federal income tax benefit	161,000	496,000
Other	(103,000)	327,000
	$ (340,000)	$7,492,000

Deferred income taxes arise from timing differences between financial and tax reporting. The tax effects of these differences follow:

	1975	1974
Increase (decrease) in deferred income tax expense		
Capitalized interest	$ 403,000	$ 181,000
Lessor leasing activities	311,000	61,000
Depreciation	136,000	98,000
Pension	(306,000)	—
Training and development	(147,000)	(248,000)
Investment tax credit	(1,013,000)	1,933,000
Other	104,000	119,000
	$ (512,000)	$2,144,000

Investment tax credits of $1,013,000 were recognized during 1975 as an offset against deferred income taxes for financial reporting purposes, but are carried forward for federal tax reporting purposes and will expire in 1982.

During the fourth quarter of 1975 the company generated more investment tax credits than were anticipated earlier in the year. Part of the additional credits were generated by establishing an employee stock ownership plan. The company received an additional investment tax credit of approximately $250,000 by contributing the same amount to the plan.

The Internal Revenue Service has examined and cleared the company's federal tax returns through December 31, 1974.

Note K — Net Earnings Per Share — Net earnings per share is based on the weighted average number of shares outstanding for the year (12,212,427 in 1975 and 12,431,869 in 1974). Conversion of debentures into common stock, exercise of stock options and warrants to purchase stock would not result in material dilution of net earnings per share for the years ended December 31, 1975 and 1974.

Note L — Reclassifications — Certain of the 1974 figures have been reclassified where appropriate to conform with the financial statement presentation used in 1975.

auditors' report

Alexander Grant
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

MIDWEST PLAZA BUILDING, MINNEAPOLIS, MN 55402
AMERICAN NATIONAL BANK BLDG., ST. PAUL, MN 55101

INTERNATIONAL FIRM
ALEXANDER GRANT TANSLEY WITT

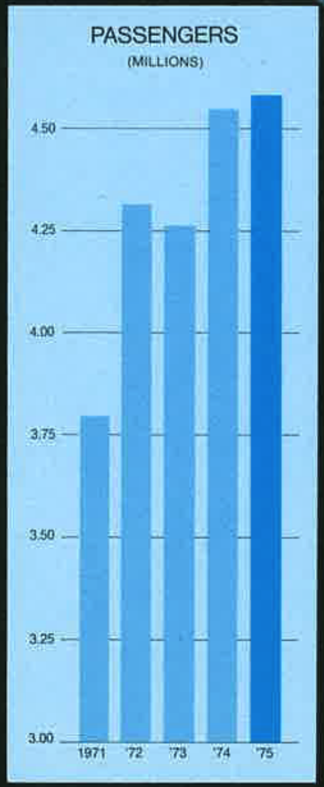
Stockholders and Board of Directors
North Central Airlines, Inc.

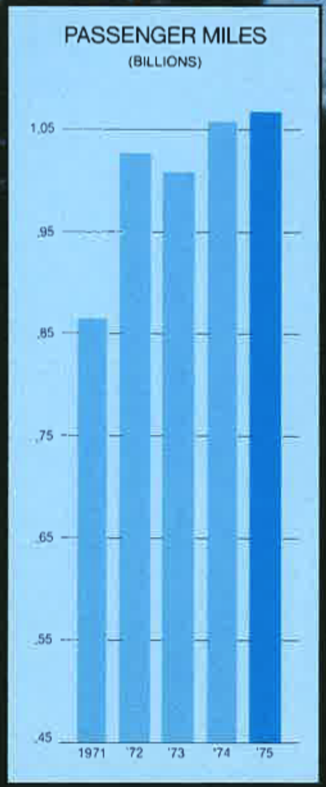
We have examined the balance sheet of North Central Airlines, Inc. (a Wisconsin corporation) as of December 31, 1975 and 1974, and the related statements of earnings, changes in stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

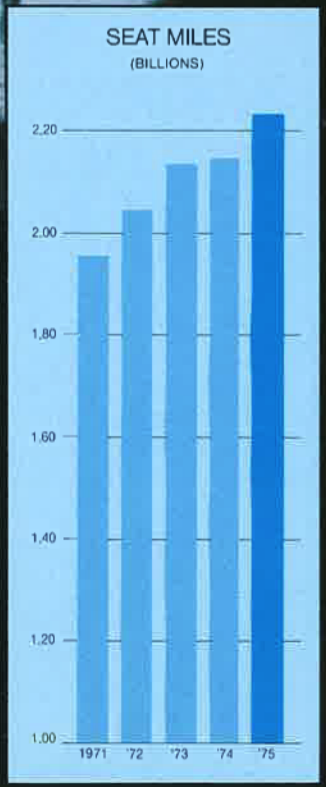
In our opinion, the financial statements referred to above present fairly the financial position of North Central Airlines, Inc., at December 31, 1975 and 1974, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

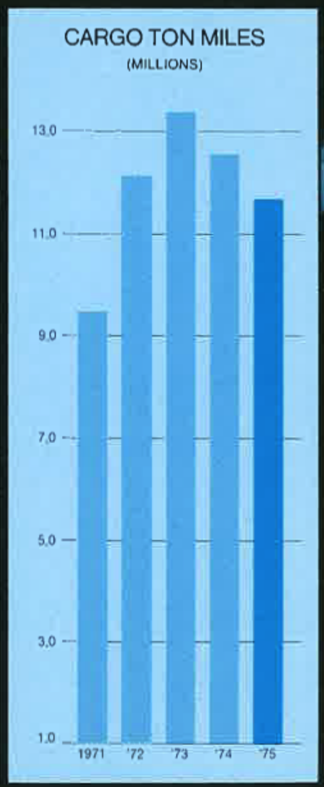
Alexander Grant & Company

Minneapolis, Minnesota
February 12, 1976









five-year summary

EARNINGS

	1975	1974	1973	1972	1971
OPERATING REVENUES					
Passenger	$135,664,000	$124,007,000	$104,279,000	$ 99,260,000	$ 83,821,000
Public service revenues	12,225,000	12,126,000	9,631,000	9,090,000	6,885,000
Other	15,695,000	15,357,000	14,073,000	12,903,000	10,905,000
	163,584,000	151,490,000	127,983,000	121,253,000	101,611,000
OPERATING EXPENSES					
Flying operations and maintenance	74,672,000	59,060,000	48,480,000	46,732,000	43,360,000
Other operating expenses	73,519,000	66,419,000	60,152,000	55,176,000	45,196,000
Depreciation and amortization	8,172,000	8,017,000	7,350,000	6,990,000	7,240,000
	156,363,000	133,496,000	115,982,000	108,898,000	95,796,000
OPERATING PROFIT	7,221,000	17,994,000	12,001,000	12,355,000	5,815,000
OTHER EXPENSES (INCOME)					
Interest expense	3,611,000	3,868,000	3,623,000	3,229,000	4,252,000
Capitalized interest	(757,000)	(341,000)	(142,000)	(14,000)	(23,000)
Interest income and other—net	(517,000)	(1,229,000)	(690,000)	(256,000)	(183,000)
	2,337,000	2,298,000	2,791,000	2,959,000	4,046,000
EARNINGS BEFORE TAXES	4,884,000	15,696,000	9,210,000	9,396,000	1,769,000
Income taxes	(340,000)	7,492,000	2,763,000	2,903,000	544,000
EARNINGS BEFORE EXTRAORDINARY GAIN	5,224,000	8,204,000	6,447,000	6,493,000	1,225,000
Extraordinary gain on disposition of equipment (net of income taxes)	—	—	—	1,043,000	—
NET EARNINGS	$ 5,224,000	$ 8,204,000	$ 6,447,000	$ 7,536,000	$ 1,225,000
NET EARNINGS PER SHARE	$.43	$.66	$.52	$.60	$.11
DIVIDENDS PER SHARE	$.10	$.10	$.05	—	—

BALANCE SHEET ITEMS

	1975	1974	1973	1972	1971
Current assets	$ 35,233,000	$ 38,622,000	$ 34,164,000	$ 33,806,000	$ 25,725,000
Working capital from operations	$ 12,868,000	$ 18,784,000	$ 14,176,000	$ 14,263,000	$ 9,204,000
Working capital at year-end	$ 1,803,000	$ 4,859,000	$ 4,654,000	$ 5,439,000	$ 3,900,000
Property and equipment—net	$ 94,134,000	$ 73,892,000	$ 76,324,000	$ 59,143,000	$ 62,891,000
Total long-term debt	$ 45,909,000	$ 32,633,000	$ 42,172,000	$ 36,327,000	$ 43,407,000
Retained earnings	$ 31,039,000	$ 27,044,000	$ 20,086,000	$ 14,262,000	$ 6,726,000
Stockholders' equity	$ 50,565,000	$ 47,152,000	$ 40,611,000	$ 34,787,000	$ 27,192,000
Shares outstanding	12,098,000	12,312,000	12,463,000	12,463,000	12,446,000
Book value per share	$4.18	$3.83	$3.26	$2.79	$2.18

STATISTICS

	1975	1974	1973	1972	1971
Passengers	4,581,000	4,546,000	4,263,000	4,319,000	3,793,000
Passenger miles (000)	1,072,000	1,061,000	1,012,000	1,029,000	866,000
Available seat miles (000)	2,235,000	2,151,000	2,139,000	2,048,000	1,961,000
Passenger load factor	48.0%	49.3%	47.3%	50.3%	44.2%
Cargo ton miles	11,703,000	12,585,000	13,394,000	12,181,000	9,473,000
Revenue plane miles	29,748,000	29,055,000	29,422,000	29,200,000	28,204,000
Number of employees	3,410	3,360	3,250	3,120	3,020

communications

"Ski Tips" was the theme of a comprehensive advertising campaign designed to stimulate air travel to Denver and other major ski areas on North Central's system. This highly-successful program was launched with radio, television, billboard, newspaper and magazine advertising in appropriate markets. A full-color brochure detailed the 79 different "packages" available to Colorado skiers. A Travel Agent's Guide contained complete reference material on air fares, car rental, ski facilities, and accommodations. Ad coupons offered a free copy (Volume Four) in the company's series of "Ski Tips" booklets.

An eight-minute movie called "Ski Tips" was part of the audio-visual presentation made to travel agents and other interested groups by company sales managers. Believed to be the only instructional film in general circulation, "Ski Tips" was viewed by 315,000 persons during 475 group showings and telecasts booked in a four-month period.

To point out the benefits of joint fares, "Stop Driving Yourself" headlines appeared in newspaper ads carried in most of the intermediate and smaller cities on the company's system. Through reader involvement, the ad mathematically showed actual dollar savings realized by passengers who board North Central locally, compared with driving to hub airports for flights on other airlines.

New toll-free telephone service to North Central was announced through newspaper ads in 70 off-line cities.

Improved schedules were promoted in major markets. Excursion fares for Milwaukee-New York and Duluth/Superior-Minneapolis/St. Paul received special attention. Air freight ads appeared in national trade magazines.

"Operation Contact" was instituted in June 1975 to increase personal calls made by the company's station managers on potential and present air freight customers. The managers point out the advantages of shipping by air and the special attention North Central offers. The program has reached 2,800 prospects in just seven months.

For the third consecutive year, North Central's Annual Report was selected for an award in its industry class by *Financial World* magazine. The report, principally a stockholder communication, is supplemented by quarterly statements summarizing financial performance and interim developments.

Throughout the year, 50 general and special news releases to various media outlets related the airline's traffic results, financial data, and other significant events that occurred. Station personnel made nearly 2,200 weather and "spot" reports. A greater awareness of North Central in the financial community was achieved through presentations to security analysts in New York and Kansas City by company officers.

Sales personnel conducted extensive field activity. Their 24,200 personal calls on major industrial accounts and 3,000 travel agencies produced closer working relationships. Company personnel took part in 1,350 civic, industry and special interest meetings or events.

Again this year, North Central hosted thousands of visitors at its headquarters in Minneapolis/St. Paul. Over 15,300 were given a glimpse of the overall facility while attending functions in the employee cafeteria, and—in most cases—an introduction to meals prepared by the airline's flight kitchen. The Northliner Museum attracted 1,300 persons. Another 5,000 took scheduled tours of the General Office and Main Operations Base.

The Northliner Magazine and Northliner Gifts catalog, both carried aboard the aircraft, tell about the company and promote corporate identity. Each issue of the magazine reaches over a million readers. Many of the gifts offered for sale carry the North Central logo and name.

Internal communications are carried by the monthly Northliner newspaper, periodic memos to all employees, and bulletin board announcements. Stations are given advance notice of advertising campaigns breaking in their areas. Company officers have informal meetings with employees at each station at least once a year.

Support by many persons outside the airline was again in evidence this year. North Central always derives substantial benefit from the generous efforts of others, and their contributions are gratefully acknowledged.

North Central's DC-3 "728", the "World's High-Time Aircraft", has settled into retirement—but not obscurity. On May 28, 1975, it landed for the last time at Dearborn, Michigan, with 84,875 hours of flying time in its log book. Scores of cameras recorded the event.

The 36-year-old plane, known as "728" after the last three digits in its serial number, was donated by the company to the Henry Ford Museum in Dearborn. Retaining the North Central colors, it is on permanent display as part of a collection of the ten most significant piston-powered aircraft of all times. Over 2,000,000 people visit the Museum annually.

This DC-3 gained international prominence when it was officially retired from scheduled service in 1965 after having flown an incredible 83,032 hours and 52 minutes—more time aloft than any other aircraft in the history of aviation. North Central added 1,843 hours by using the plane for promotional and public relations flights.

The company is still identified with 728's fame through the Museum exposure and a brochure telling about the aircraft's lore.

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