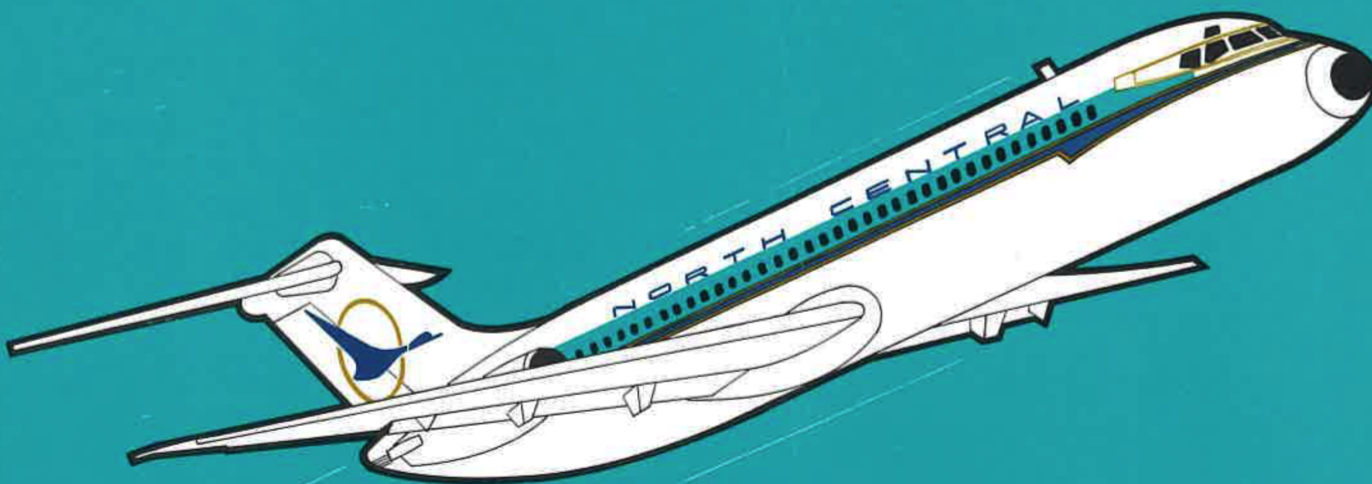


NORTH CENTRAL AIRLINES

ANNUAL REPORT 1970

NORTH CENTRAL AIRLINES

GENERAL OFFICES: 7500 Northliner Drive, Minneapolis, Minnesota 55450

BOARD OF DIRECTORS

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

**Executive Committee*

MANAGEMENT

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

REGISTRARS AND STOCK TRANSFER AGENTS

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

NORTH CENTRAL AIRLINES

BOARD OF DIRECTORS

Seated, (left) Skoglund, DeCoursin, Carr, Maslon, Gurney, J. Phillips. Standing, Rapkin, Sweet, Willett, M. Phillips.

March 5, 1971

TO OUR STOCKHOLDERS, EMPLOYEES, AND FRIENDS:

In 1970, North Central achieved its greatest year of traffic growth and earned the largest profit in its history—$2,178,000, after an out-of-period charge of $617,000.

An all-time high in revenues of $91,952,000 was attained, 34 percent over 1969. Operating expenses were $83,783,000, and interest, $4,899,000. Earnings before income taxes and the special charge reached a record $3,246,000 and, with depreciation and amortization, developed cash flow from operations of $10,025,000.

North Central carried 3,753,000 passengers in 1970, a 16 percent increase and the third consecutive year the airline boarded more than three million passengers. Revenue passenger miles rose to 806,165,000—32 percent over 1969. Cargo advanced 31 percent as 10,985,000 ton miles of air freight, express, and mail were flown, establishing a company record. These gains were related to new long-haul routes, additional seat miles, and the curtailment of service in some markets by another carrier, although traffic was reduced substantially by the sluggish economy throughout the year and the air traffic controllers' work slowdown in the spring.

The company continued to maintain an outstanding operating performance in 1970 as 99 percent of its 25,455,000 scheduled plane miles were flown. This is one of the highest schedule completion records in the entire airline industry.

In June, the Civil Aeronautics Board awarded North Central the most important single route extension in the company's history—nonstop service between Milwaukee and New York City. This 738-mile segment is the airline's longest route, and operations were inaugurated in September. Twin Cities-Omaha nonstops also began in September. New service to Ohio was started in 1970 with nonstop flights between Milwaukee and Dayton, Cincinnati, and Columbus. The airline's route system increased 1,020 miles to 9,900 miles during 1970.

Early in the year, North Central activated its new $8-million computerized reservations and communications system, ESCORT, which provides high quality, expedited passenger reservations service to the 90 cities the airline serves. Operating economies have already been effected and will increase as the volume of business grows.

The company initiated two important environmental programs in 1970. North Central became the first regional airline to operate a modified smokeless JT8D engine in scheduled service, and over 75 percent of its jet engines have now been converted. The airline also adopted an inflight sound abatement procedure designed to reduce noise levels of its DC-9 Northliners in noise-sensitive areas throughout the system.

In July, North Central took delivery of two more 100-passenger DC-9 fan jets, under its aircraft acquisition program. The company's fleet now consists of 15 Douglas DC-9s and 34 Convair 580 prop-jets.

North Central enters 1971 with the best financial record in the regional airline industry. The company anticipates significant growth in the year ahead from fare increases, the expected upturn in the economy, and additional traffic on new long-haul routes. The continued support of stockholders, passengers, and employees will enable North Central to meet the challenge of the future.

Sincerely,

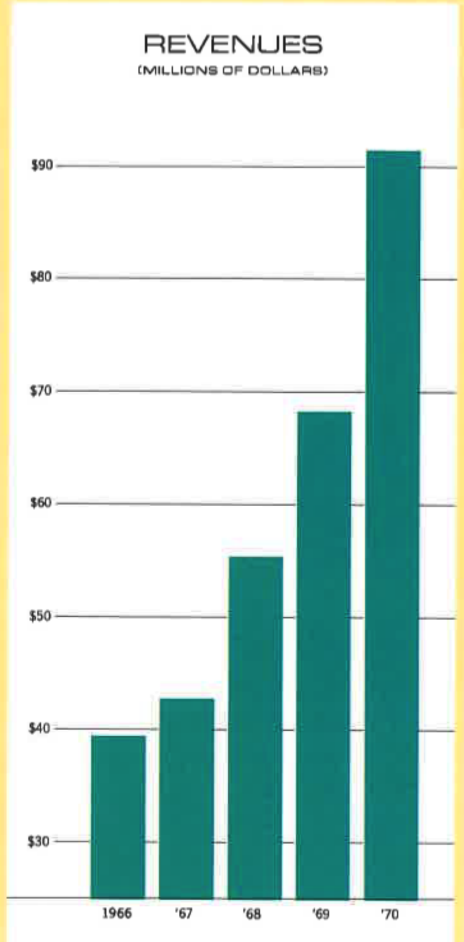
Hal N. Carr

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

Bernard Sweet

BERNARD SWEET
President

ANNUAL REPORT 1970



FINANCIAL REVIEW

Record earnings of $2,177,615 were achieved by North Central in 1970, after an out-of-period accounting adjustment of $617,000. Revenues reached an all-time high of $91,951,953, up 34 percent compared with $68,427,923 in 1969. The $23,524,030 gain is the largest revenue increase of any year in the company's history.

Traffic from new long-haul routes, fare revisions, curtailment of service by another carrier during part of the year, aggressive marketing programs with emphasis on charter and group sales, and greater public service revenues all contributed to this substantial gain.

With operating expenses of $83,782,845—23 percent over 1969—the company realized a profit from operations of $8,169,108, compared with $392,889 in the previous year. Depreciation and amortization expense rose to $6,779,002 from $5,605,500, due principally to the depreciation of new computerized reservations equipment. Interest expense remained virtually constant at $4,899,094.

The company changed its method of accounting for employee vacation pay, on recommendation of the Securities and Exchange Commission, and a one-time charge of $617,000 against earnings resulted. Before this out-of-period adjustment and income taxes of $451,000, the company showed a profit of $3,245,615, compared with a pre-tax loss of $4,335,283 in 1969—an overall earnings improvement of $7,580,898.

Earnings, depreciation, and amortization provided cash flow of $10,024,617, a substantial gain over the $1,270,217 generated in 1969.

The net profit of $2,177,615 was a record high for the company and was attained in a year when the airline industry as a whole incurred substantial losses.

North Central has achieved the best financial record in the regional airline industry by earning a profit in 16 out of the last 17 years since present management joined the company in 1954. With revenue gains from traffic on new routes and expected passenger fare increases, the company looks forward to 1971 as another year of impressive growth.

TRAFFIC GROWTH AND OPERATING PERFORMANCE

In 1970, North Central set new traffic records with 3,753,020 passengers carried—16 percent over 1969—and 806,164,805 passenger miles flown, a 32 percent increase. For three consecutive years, the airline has boarded more than three million passengers.

The air traffic controllers' slowdown, as well as the sluggish economy, greatly reduced North Central's 1970 traffic; however, gains were achieved from new long-haul routes, curtailment of service by another carrier, and additional seat miles provided by two more DC-9 fan jets.

A monthly high was reached in August 1970 when 401,981 passengers were carried, for a 14 percent gain over the same month in 1969. On November 29, a daily record was set as 16,691 passengers flew on the airline. To provide more service for the traveling public in peak traffic periods, North Central operated 3,484 extra sections of regular flights. These carried 123,186 passengers, and 910,378 miles were flown.

During the year, 36,697 passengers flew on 322 charters to such points as Las Vegas, Salt Lake City, Tallahassee, San Antonio, Philadelphia, St. Louis, Tampa, Dallas, Houston, Oklahoma City, New Orleans, and Nassau. In addition, the 182 scenic flights operated in North Central communities introduced 10,680 passengers to the speed and convenience of jet-powered Northliner service.

North Central flew 1,810,327,199 seat miles during 1970—17 percent over 1969 and a new high. The airline's fleet consists of 15 100-passenger DC-9 fan jets and 34 Convair 580 prop-jets.

Substantial cargo gains were also made in 1970, with a record 92,399,219 pounds of air freight, express, and mail carried. A total of 10,984,825 cargo ton miles were flown—up 31 percent compared with 1969. Air freight ton miles reached 6,863,077, for a tremendous increase of 49 percent over the previous year. Express rose 23 percent to 1,511,120 ton miles flown.

Since inaugurating service in 1948, North Central has carried 26,091,612 passengers and flown 4,591,598,329 passenger miles.

North Central's operating performance record for 1970 was one of the highest in the entire airline industry—with 99 percent of the company's 25,454,829 scheduled miles being flown.

This excellent completion factor was attained although the airline has the shortest average stage length of any carrier, operates in severe winter weather for many months over most of its system, and in 1970 handled the largest passenger and cargo traffic in its history.

The achievement was even more significant in view of the difficult and restricted operating conditions resulting from the air traffic controllers' slowdown during the Spring of 1970. The hourly flight quotas which were imposed severely limited operations at hub airports.

Again this year, a major factor in the high level of performance was the company's exacting maintenance. In 1970, North Central scheduled 216,696 departures—yet only one-tenth of one percent were cancelled for maintenance reasons, and less than one and one-half percent were delayed by mechanicals.

The winterization program "Operation Cold Front" also contributed to the enviable operating performance. Station and maintenance personnel carried out comprehensive preparations for converting ground support equipment to winter conditions and reviewed cold weather operational techniques.

The airline's consistently impressive operating record is a tribute to all North Central employees and their dedication to the task of providing dependable scheduled airline service.

ROUTE DEVELOPMENT PROGRAM

The most important single route extension in the company's history was made in June 1970 when the Civil Aeronautics Board awarded North Central nonstop service between Milwaukee and New York City. This 738-mile segment is the longest route ever granted to the airline, and service was inaugurated in September.

A major factor in the CAB decision was North Central's ability to establish Milwaukee as a Midwest aviation gateway. For the first time, Duluth/Superior; Wausau, Stevens Point, Wisconsin Rapids, and Marshfield (all served by the new Central Wisconsin Regional Airport); and Green Bay/Clintonville have the convenience of single-plane service to New York, bypassing Chicago. Also, the Upper Peninsula of Michigan and other North Central communities receive connecting service at Milwaukee's General Mitchell Field.

Traffic volume on this new route has been good, and extra sections were operated in November and December to accommodate holiday travelers.

North Central inaugurated new nonstop flights between Milwaukee and Cincinnati, Dayton, and Columbus in March 1970, adding another major marketing area to its system. Many cities in Minnesota, Wisconsin, and Michigan now have convenient single-plane service to the Ohio points.

New routes awarded to the company in 1970 increased North Central's system by 1,020 miles.

The airline is awaiting a CAB decision in the Atlanta-Detroit, Cleveland, Cincinnati Investigation, which would add 1,522 miles. The Board Examiner has recommended that the route be awarded to another carrier. Also, the North Central Route Realignment Proceeding is still pending. This application proposes that a number of segments be combined to permit greater operating flexibility. The company expects CAB action on these two route matters early in 1971.

The airline's route development program includes applications for 5,975 additional miles, serving five cities in three new states and the Canadian Provinces of Manitoba and Quebec.

North Central presently serves 90 cities in 13 states and Canada over a 9,900-mile route system.

STATUS OF NORTH CENTRAL'S ROUTE DEVELOPMENT PROGRAM

1970 AWARDS:

Milwaukee-New York/Newark (738 miles)

Minneapolis/St. Paul-Omaha (282 miles)

AWAITING CAB DECISION:

Atlanta-Detroit, Cleveland, Cincinnati Investigation (1,522 miles)

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

AWAITING CAB EXAMINER'S DECISION:

Chicago-Baltimore Nonstop Service Investigation (622 miles)

APPLICATIONS AWAITING HEARING:

Milwaukee-Denver nonstop (908 miles)

Columbus, Dayton, Cincinnati-Philadelphia nonstops (1,389 miles)

Detroit-New York nonstop (501 miles)

Minneapolis/St. Paul-Kansas City nonstop (404 miles)

Duluth/Superior-Winnipeg nonstop (314 miles)

Detroit-Montreal, via Toronto (315 miles)

ENVIRONMENTAL PROGRAMS

North Central in 1970 instituted two important programs relating to the environment—conversion of its jet engines to smoke-free status and adoption of inflight sound abatement procedures for the DC-9.

The airline was the first regional carrier to operate a fan jet aircraft in scheduled service with the "smokeless" JT8D engine, making North Central an environmental pacesetter.

A special DC-9 demonstration flight in April 1970 showed dramatically the effect of modifying one jet engine. Basically, the retrofit permits the nine burner cans in each JT8D engine to be cooled by air. The actual burning of jet fuel takes place in the burner cans, and prior to the engine modification, the cans were cooled by injecting extra fuel. This excess, partially-burned fuel formed the black trail of smoke-associated with jet aircraft.

Over 75 percent of North Central's jet engines have been refitted with the new low-smoke configuration. The company expects to complete this environmental project in March 1972, well ahead of the December 1972 industry deadline.

The airline also initiated a voluntary program to reduce the noise levels of North Central jet aircraft during takeoff and landing.

In May 1970, the company conducted test flights for the Metropolitan Aircraft Sound Abatement Council and the Twin Cities press at the Minneapolis-St. Paul International Airport utilizing the newly-developed takeoff procedures. A decibelmeter recorded an average reduction of ten decibels in sound pressure level energy. This reduced noise level is sensed by the ear as being "half as loud" as that associated with former takeoff procedures. The overall perceived improvement was even greater, since the duration of peak level noise was also reduced significantly.

The company's inflight sound abatement program is being implemented in noise-sensitive areas throughout the airline's system.

North Central mechanics are shown installing one of the nine new burner cans required to convert the JT8D fan jet engine to the low-smoke configuration.

DC-9 Northliner demonstrates the substantial difference in smoke pollution between a conventional engine, left, and the engine on the right which has been modified with the air-cooled burner cans.

JET-AGE FACILITIES

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1. North Central's Chicago base is a maintenance hub, with continuous line checks being made by mechanics around-the-clock on originating and terminating aircraft. The checks include the review of pilot logbooks and inspection of certain systems. Over 110 Northliner flights are serviced daily at O'Hare International Airport. The intermediate checks required every 45 flight hours on Convair 580 aircraft are scheduled at night.

2. The airline has a major maintenance facility at Detroit Metropolitan Airport. North Central personnel perform daily line checks on DC-9 and Convair 580 aircraft. Overnight, the intermediate checks are accomplished on the Convairs and also the mid-period checks at 200 flight hours.

3. Another important jet-age facility is North Central's $2.5-million boarding terminal at Milwaukee's General Mitchell Field. The circular south passenger concourse has eight gates with upper-level boarding which provides passenger convenience and facilitates check-in procedures, on-line transfers, and ground operations. This addition is the first phase in the airport's master plan to develop Milwaukee into a major Midwest aviation gateway.

4. In March 1970, North Central introduced ESCORT, its $8-million Electronic System Combining Operations, Reservations, and Telecommunications. The IBM and Sanders equipment is located in the Computer Services Section at the company's headquarters. The system is designed to expedite passenger reservations, message-switching, and flight information inquiries. ESCORT has the capability of transmitting data to a single computer system for common retrieval by remote agent sets installed at 160 locations over the airline's 13-state system.

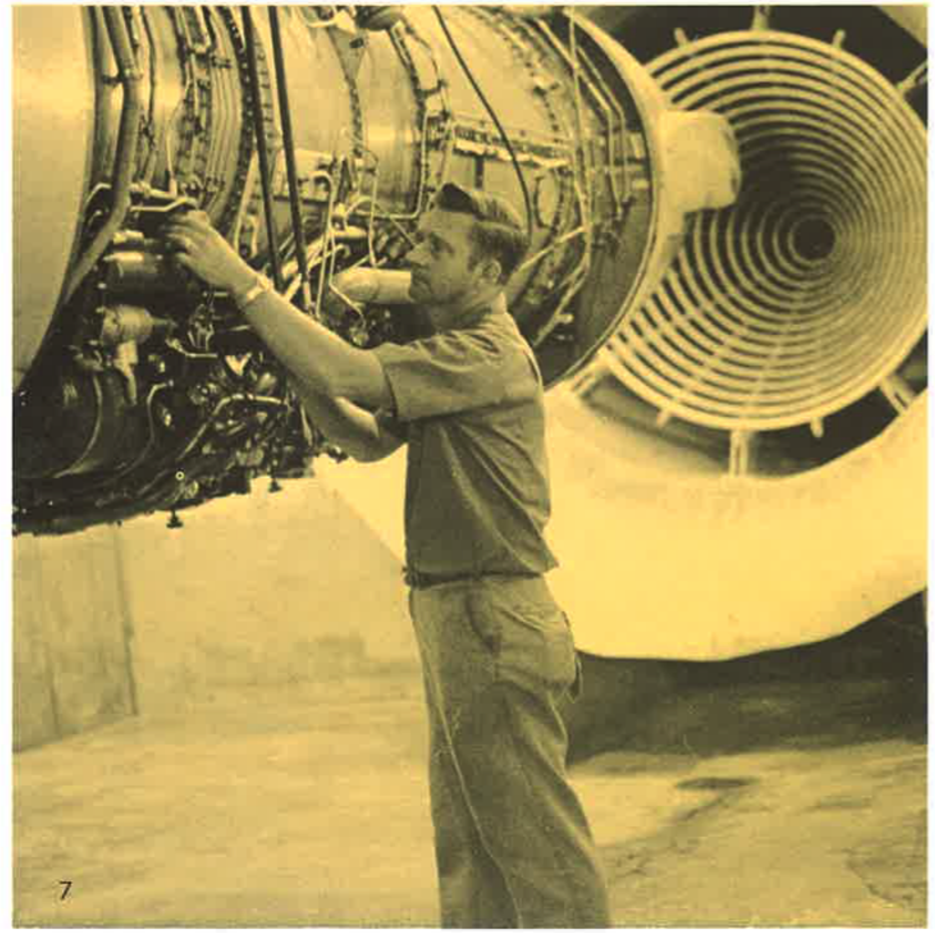
5. ESCORT's 380 sets, which resemble television screens with attached typewriter keyboards, are linked with the computers by 18,500 miles of telephone lines. Each set produces a visual display of all passenger record information within three seconds of the agent's inquiry.

6. The company's $15-million headquarters, located at the Minneapolis-St. Paul International Airport, is one of the most modern facilities in the airline industry and combines North Central's corporate and operational functions into one massive complex. The general office and main operations base is designed to utilize advanced maintenance programs and provide efficient administrative offices. The main building includes the Computer Services Section; the Training Center, featuring cabin and cockpit procedure trainers, aircraft systems mockups, and navigational trainers; and an adjoining Flight Kitchen where Northliner inflight meals are prepared. The six-story three-bay hangar can house nine DC-9 fan jet aircraft at one time or 15 Convair 580 prop-jets, besides the specialized overhaul maintenance shops.

7. North Central is one of the few regional airlines to operate its own jet engine evaluation facility. This $900,000 concrete and steel engine test cell enables maintenance personnel to monitor engine performance after repair or overhaul has been completed. The cell consists of one area for testing the JT8D engines which power the DC-9 fan jet, a second area for the Allison 501 prop-jet engines used on the Convair 580, and a Control Room. The JT8D engine can be run up to top speed at maximum thrust under soundproofed conditions, and performance is measured by electronic means. The Allison engine is tested under simulated flight loads, with a dynamometer replacing the propeller. The Control Room is common to both units and contains the highly scientific instruments needed for the complete evaluation and certification of the engines. During 1970, use of this test cell by North Central mechanics saved the company $350,000 in maintenance costs.

THE FUTURE

North Central enters its 24th year of scheduled operation with new long-haul routes, increased facilities, a computerized passenger reservations system, and an expanded fleet of all jet-powered aircraft. These improvements will enable the company to take the fullest advantage of the opportunities for further growth and development in the future. In addition, intensified sales efforts, anticipated fare increases, and the expected upturn in the economy should make 1971 another record year for the airline.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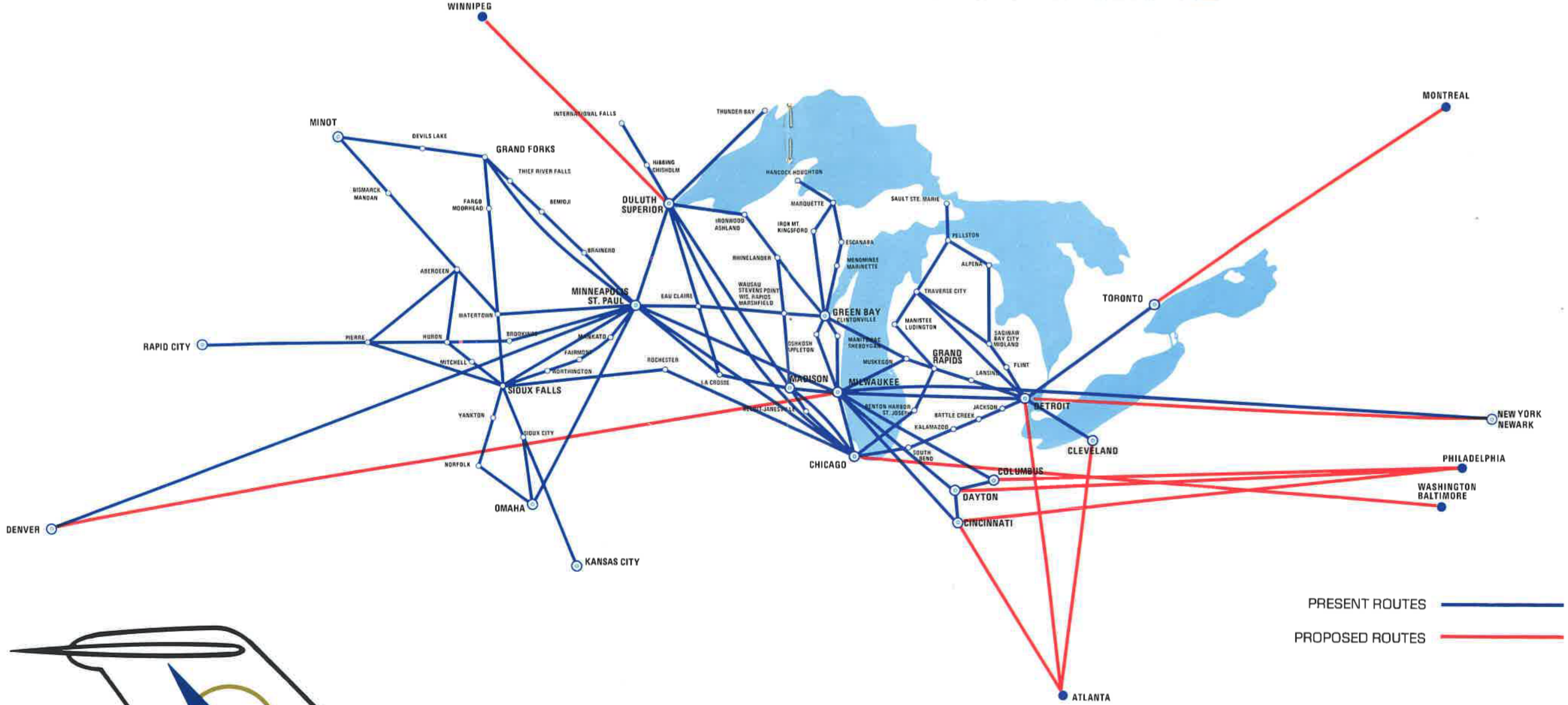
ROUTE OF THE NORTHLINERS



Newest North Central Cities

New York Dayton Columbus Cincinnati

NORTH CENTRAL AIRLINES, INC.

Comparative Balance Sheet-December 31, 1970 and 1969

ASSETS

	1970	1969
CURRENT ASSETS		
Cash	$ 2,260,098	$ 1,382,932
Accounts receivable		
United States Government	2,692,965	1,112,204
Traffic	8,812,819	5,896,338
Other	1,108,283	929,433
	12,614,067	7,937,975
Flight equipment parts, at average cost (less reserves of $293,454 and $260,152 in 1970 and 1969, respectively)	2,283,398	2,212,636
Maintenance and operating supplies	657,136	666,251
Prepaid expenses and sundry deposits (note A)	6,791,030	5,126,936
Total current assets	24,605,729	17,326,730
PROPERTY AND EQUIPMENT—AT COST (note B)		
Flight equipment	72,998,698	71,774,524
Ground equipment	4,052,481	4,090,219
Improvements to leased property	3,810,524	3,116,950
Furniture and office equipment	8,763,171	747,538
	89,624,874	79,729,231
Less accumulated depreciation (note C)	16,586,469	10,875,534
	73,038,405	68,853,697
DEFERRED CHARGES		
Unamortized development and preoperating costs (note D)	3,901,572	3,830,379
Unamortized discount and expense on debt (note B)	440,732	189,997
Rentals and other	1,409,710	1,084,329
	5,752,014	5,104,705
	$103,396,148	$91,285,132

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

LIABILITIES

	1970	1969
CURRENT LIABILITIES		
Short-term borrowings	$ 3,284,312	$ 690,000
Current maturities of long-term debt (note B)	11,966,726	6,086,920
Accounts payable	10,711,219	10,136,122
Tickets outstanding	521,041	265,933
Taxes withheld or collected as agents	1,354,998	979,181
Accrued liabilities		
Salaries and wages	1,565,502	2,097,219
Vacation pay (note E)	1,470,954	40,954
Payroll and property taxes	590,554	361,033
Other	1,508,678	1,272,765
Total current liabilities	32,973,984	21,930,127
LONG-TERM DEBT—less current maturities (note B)	51,399,949	53,719,506
DEFERRED CREDITS		
Income taxes (note F)	987,000	—
Warrant obligation (note B)	212,000	—
	1,199,000	—
COMMITMENTS (notes G and H)	—	—
STOCKHOLDERS' EQUITY (notes B, I and J)		
Common stock—authorized, 16,000,000 shares of $.20 par value; issued and outstanding, 10,463,087 and 10,462,824 shares, 1970 and 1969, respectively	2,092,617	2,092,565
Paid-in capital	10,228,834	10,218,785
	12,321,451	12,311,350
Retained earnings	5,501,764	3,324,149
	17,823,215	15,635,499
	$103,396,148	$91,285,132

NORTH CENTRAL AIRLINES, INC.

COMPARATIVE STATEMENT OF EARNINGS

Years ended December 31, 1970 and 1969

	1970	1969
OPERATING REVENUE		
Passenger	$76,954,521	$57,073,369
Freight and express	5,700,315	4,153,106
Public service revenue	5,131,306	4,016,386
Mail	1,475,073	1,501,786
Non-scheduled service and other	2,690,738	1,683,276
Total operating revenue	91,951,953	68,427,923
OPERATING EXPENSES		
Flying operations	24,869,382	20,960,004
Maintenance	14,254,728	10,687,242
Passenger service	4,770,272	3,849,181
Aircraft and traffic servicing	21,068,686	17,421,674
Promotion and sales	7,326,275	5,966,402
General and administrative	4,714,500	3,545,031
Depreciation and amortization (note C)	6,779,002	5,605,500
Total operating expenses	83,782,845	68,035,034
Operating profit	8,169,108	392,889
OTHER EXPENSE (INCOME)		
Interest expense—net of interest capitalized (note K)	4,899,094	4,829,814
Other—net	24,399	(101,642)
Total other expense	4,923,493	4,728,172
Earnings (loss) before income taxes and cumulative effect of a change in accounting for vacation pay	3,245,615	(4,335,283)
INCOME TAXES (note F)		
Deferred	890,000	(1,956,888)
Current credit	(439,000)	—
Total income taxes	451,000	(1,956,888)
Earnings (loss) before cumulative effect of a change in accounting for vacation pay	2,794,615	(2,378,395)
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 E)	(617,000)	—
NET EARNINGS (LOSS)	$ 2,177,615	$(2,378,395)
EARNINGS (LOSS) PER SHARE (note L)		
Earnings (loss) before cumulative effect of a change in accounting for vacation pay	$ .27	$(.26)
Cumulative effect on prior years due to change in accounting for vacation pay (note E)	(.06)	—
NET EARNINGS (LOSS) PER SHARE	$ .21	$(.26)

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

COMPARATIVE STATEMENTS OF RETAINED EARNINGS AND PAID-IN CAPITAL

Years ended December 31, 1970 and 1969

	1970	1969
RETAINED EARNINGS (note B)		
Retained earnings at beginning of year	$ 3,324,149	$ 5,702,544
Net earnings (loss) for the year	2,177,615	(2,378,395)
Retained earnings at end of year	$ 5,501,764	$ 3,324,149
PAID-IN CAPITAL		
Paid-in capital at beginning of year	$10,218,785	$ 527,239
Excess of proceeds over par value of common stock issued upon conversion of debentures (note B)	1,948	8,287
Excess of proceeds over par value of common stock sold under option	—	242,427
Excess of net proceeds over par value of common stock sold as a result of a public offering	8,101	9,440,832
Paid-in capital at end of year	$10,228,834	$10,218,785

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

AUDITORS' REPORT

Stockholders and Directors
North Central Airlines, Inc.

We have examined the balance sheet of North Central Airlines, Inc., (a Wisconsin corporation) as of December 31, 1970, and the related statements of earnings, retained earnings and paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the preceding year.

In our opinion, the accompanying balance sheet and statements of earnings, retained earnings and paid-in capital present fairly the financial position of North Central Airlines, Inc., at December 31, 1970, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting for vacation pay discussed in note E, with which we concur.

Alexander Grant & Company

Minneapolis, Minnesota
February 16, 1971

TEN-YEAR EARNINGS SUMMARY

	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
OPERATING REVENUES										
Passenger	$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	$15,681,163
Public service revenue	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	7,613,159
Other	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	1,546,429
	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	24,840,751
OPERATING EXPENSES										
Direct expenses	33,374,994	31,647,246	25,525,000	19,811,886	17,980,535	15,356,876	13,666,142	13,076,180	12,858,386	12,394,337
Indirect expenses	43,628,849	30,782,288	24,318,200	19,523,811	17,062,543	13,970,237	12,303,601	11,812,690	11,561,629	10,741,476
Depreciation and amortization	6,779,002	5,605,500	4,356,893	2,626,251	2,253,361	1,997,488	1,712,800	1,541,857	1,183,464	1,072,902
	83,782,845	68,035,034	54,200,093	41,961,948	37,296,439	31,324,601	27,682,543	26,430,727	25,603,479	24,208,715
OPERATING PROFIT	8,169,108	392,889	1,025,833	888,529	2,316,232	2,566,430	2,032,234	1,445,977	1,266,766	632,036
Non-operating income and (expenses), net	(4,893,149)	(4,677,092)	(3,008,205)	(628,731)	(464,974)	(442,894)	(348,305)	(428,423)	(335,014)	(269,483)
EARNINGS (Loss) before taxes	3,275,959	(4,284,203)	(1,982,372)	259,798	1,851,258	2,123,536	1,683,929	1,017,554	931,752	362,553
Income taxes	451,000	(1,934,888)	(869,000)	(336,010)	720,647	1,006,520	873,304	514,497	491,812	158,253
EARNINGS (Loss) before gain (loss) on disposition of equipment	2,824,959	(2,349,315)	(1,113,372)	595,808	1,130,611	1,117,016	810,625	503,057	439,940	204,300
Gain (Loss) on disposition of equipment, less income taxes	(30,344)	(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)	$ 2,177,615	$(2,378,395)	$ 70,216	$ 1,520,124	$ 1,154,611	$ 1,138,752	$ 844,564	$ 521,713	$ 439,940	$ 204,300

NOTES TO FINANCIAL STATEMENTS

December 31, 1970 and 1969

NOTE A—ENGINE OVERHAUL—Prepaid overhaul expenses, totaling $3,504,000 and $3,522,000, are included in prepaid expenses as of December 31, 1970 and 1969, respectively.

NOTE B—LONG-TERM DEBT—Long-term debt at December 31, 1970 consists of:

Terms	Total	Long-term	Current
Quarterly installment notes due from January, 1971 through April, 1973; interest at ½% above prime rate (a)	$17,626,697	$ 8,813,349	$ 8,813,348
7% quarterly installment notes due from July, 1973 through October, 1978	35,253,393	35,253,393	—
Total due banks and insurance companies (b)	52,880,090	44,066,742	8,813,348
9½% note of which $1,229,000 is due in 1971 plus monthly installments from January, 1971 through June, 1974 (c)	5,880,520	3,475,950	2,404,570
11% note due in monthly installments through December, 1971 plus one payment due in January, 1972 (c)	831,142	402,146	428,996
7% subordinated notes due in semiannual installments from September, 1971 through March, 1976 (d)	3,000,000	2,700,000	300,000
5½% subordinated convertible debentures due in 1978 (e)	742,500	742,500	—
Sundry	32,423	12,611	19,812
	$63,366,675	$51,399,949	$11,966,726

(a) Includes payments of $2,937,783 due in 1970 but deferred by the lenders until October, 1971; the interest rate on the payments deferred was increased ½% per annum.

(b) The total $52,880,090 loan is collateralized by substantially all flight equipment 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 requirements related to minimum working capital and net worth.

Stock purchase warrants were issued to all loan participants during 1970 to induce deferral of payments due in 1970 as discussed in (a) 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 warrants not sold or exercised by November 30, 1979. The value of these warrants at the date of grant, $212,000, is recognized in the financial statements as deferred warrant obligation; unamortized discount and expense on debt has been charged for this amount and is being amortized over the term of the debt.

(c) These loans are collateralized by computer equipment and display terminals.

(d) 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. Unamortized discount and expense on debt has been charged and paid-in capital credited for $50,000 representing the value of the warrants issued. This amount is being amortized over the term of the loan.

(e) Convertible into common shares at $7.59 a share through June 1, 1971 and $9.50 a share thereafter to maturity. During the year, $2,000 of debentures were converted into 263 shares of common stock.

NOTE C—DEPRECIATION—For financial reporting purposes, the company depreciates fixed assets on the straight-line method based on estimated useful lives ranging from seven to fifteen years for flight equipment and three to ten years for other equipment and property.

Prior to 1968 accelerated depreciation methods for flight equipment were used to determine income taxes; the company subsequently changed to the straight-line method. As of December 31, 1970 accumulated depreciation deducted for income taxes exceeded financial depreciation by $5,080,000 (note F).

NOTE D—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.

NOTE E—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 also reduced 1970 net earnings by $715,000 (after income tax credits of $715,000 [note F]), of which $617,000 is the cumulative result from 1948 through 1969, including $100,000 ($.01 per share) which is attributable to 1969.

NOTE F—INCOME TAXES—Deferred income tax expense for 1970 ($890,000) recognizes utilization of a financial reporting loss carryover of $150,000 and applicable investment tax credit carryovers. The current income tax credit of $439,000 is due the company as an adjustment under claim of right provisions of the Federal income tax laws relating to adjustments of Public Service Revenue in prior years.

The deferred income tax credit of $987,000 includes the current year's provision and $97,000 of taxes relating to the increase in 1970 of the vacation pay accrual recognized but not deductible until paid for tax reporting.

At December 31, 1970 the company has $3,700,000 of net operating loss carryovers available as a reduction against future taxable income arising out of timing differences in reporting depreciation and certain deferred expenses for financial and tax reporting purposes (note C).

Earned but unused investment credit available for reduction of future years income taxes for financial and income tax purposes are $4,624,000 and $5,447,000, respectively. The unused investment credit available to reduce future income taxes payable expires in: 1974—$1,528,000, 1975—$2,545,000, 1976—$803,000 and 1977—$571,000 subject to the additional three-year carryover provision of the 1969 Tax Reform Act.

NOTE G—PENSION PLANS—The company has noncontributory pension plans covering substantially all of its employees. Pensions, based on length of service and average salary, are provided for retirement of pilots at age 60 and all other employees at age 65. The plans covering pilots are fully funded for past service cost, while the company pays the normal cost and interest only on the past service cost of the other plans. The cost to the company in 1970 was $1,685,000 and $1,075,000 in 1969.

The company has funded in excess of the vested benefits for all plans in the net amount of approximately $246,000.

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

(1) Office and operational facilities at the Minneapolis-St. Paul International Airport through 1996	$1,000,000
(2) Terminal and other facilities (including landing fees)	3,460,000
(3) Nine Convair 580 aircraft for seven to eight years	1,760,000
(4) Five DC-9 aircraft (cancellable on six months' notice)	2,460,000
(5) Other equipment	370,000
	$9,050,000

NOTE I—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 in 1965 for 105,000 shares expired during 1970. Options granted expire five years after date of grant. Those outstanding, and dates granted, at December 31, 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. Options for 115,000 shares were exercised in prior years and options for 40,000 shares are available for granting in future years.

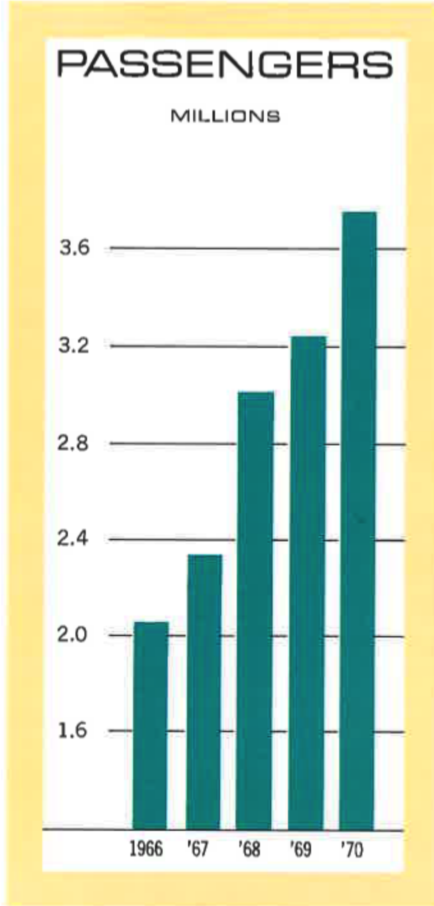
At December 31, 1970 there were outstanding, from a prior year's public offering, warrants to purchase 1,200,000 shares of common stock at $5.50 a share. These warrants expire October 31, 1979.

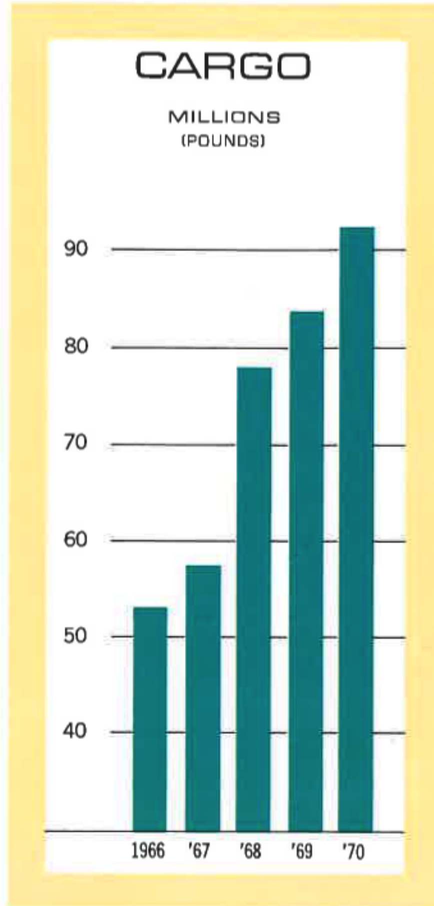
NOTE J—SHAREHOLDER DISCLOSURE OF OWNERSHIP—The Civil Aeronautics Board requires that any person who owns as of December 31 of any year or who acquires ownership, either beneficially or as trustee, of more than 5%, in the aggregate, of the company's common stock as of December 31, 1970 or within ten days 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.

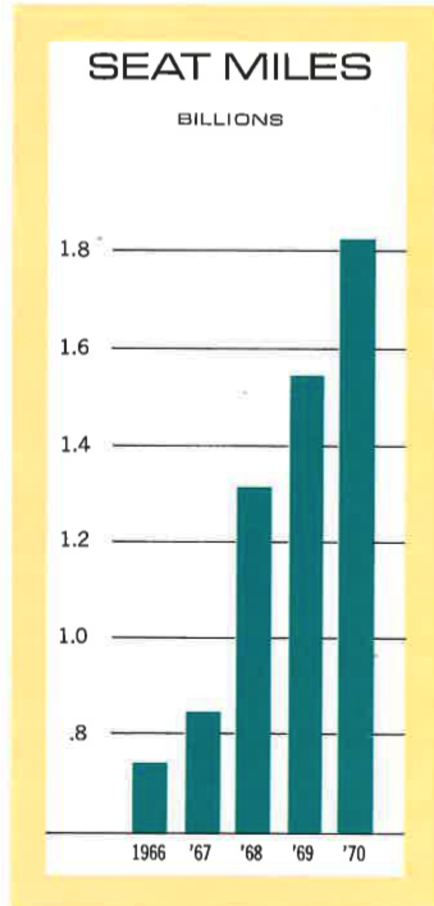
NOTE K—CAPITALIZED INTEREST—The company recognizes the financing costs associated with acquisition of operating property and equipment and preoperating and development expenditures by capitalizing interest. Capitalized interest reduced interest expense $156,000 in 1970 and $458,000 in 1969.

NOTE L—EARNINGS (LOSS) PER SHARE—Earnings (loss) per share is based upon the weighted average number of shares outstanding for the year. Conversion of debentures into common stock, exercise of stock options and exercise of warrants to purchase stock would not result in material dilution of the net earnings per share for the years ended December 31, 1970 and 1969.

FIVE YEARS OF RECORD PROGRESS







HIGHLIGHTS OF GROWTH

Every year since North Central began scheduled operations in 1948, new passenger records have been established. In 1970, the airline carried 3,753,020 passengers—representing an impressive annual growth of 16 percent and 510,201 passengers over the previous year. Compared with the 1966 boardings of 2,056,209, the passenger increase for the five-year period was a dramatic 83 percent.

Substantial air cargo gains, including air freight, express, and mail, were also achieved in 1970. The airline flew 92,399,219 pounds of cargo—an all-time high—12 percent more than in 1969 and 77 percent over 1966.

North Central provided 1,810,327,199 available seat miles on its route system in 1970, up 17 percent compared with 1969. Since 1966, seat miles have risen 146 percent as a result of new route awards and the addition of larger jet aircraft.

In this five-year period, the company initiated its jet program and completed the transition to an all jet-powered fleet. Convair aircraft were converted to turboprops, and pure jet service was inaugurated in 1967 with 100-passenger Douglas DC-9s. Under the company's flight equipment program, two more fan jets were acquired in July 1970, bringing the Northliner fleet to 49 aircraft, consisting of 15 DC-9s and 34 Convair 580 prop-jets.

With additional seat miles available and traffic increases anticipated on new long-haul routes, 1971 should be another year of notable growth.

ADVERTISING AND PROMOTION

The introduction of North Central's New York service was the company's most important promotional effort in 1970. A comprehensive advertising program was developed to acquaint passengers, travel agents, interline representatives, and the press with North Central's entry into New York and its new "Custom Jet Service."

Full-page newspaper advertisements, four-color magazine ads, and television commercials focused national and local attention on the specialized service, emphasizing the airline's two-three seating and its deluxe inflight hot meals and beverages at coach fares. Color brochures describing Custom Jet Service were widely distributed in all major marketing areas. The company's entire sales staff participated in a "blitz" of New York City and Milwaukee accounts, making 1,200 special calls to promote the new route.

Travel agents learned of North Central's Custom Jet Service firsthand at company-sponsored breakfast meetings throughout the Midwest. They were served the same type meals as passengers receive aboard morning flights on the New York route.

During 1970, North Central used over 115 television and radio stations and 60 newspapers to publicize its service. Outdoor billboards in 20 major cities supplemented the advertising program.

Highlighting the New York promotion, North Central operated a special pre-inaugural flight for media representatives from Wisconsin and Minnesota. As part of the September inaugural of the Milwaukee-New York route, welcoming ceremonies were held in New York City, and a reception was hosted by North Central at Milwaukee for business and civic leaders from New York and Wisconsin, travel agents, and members of the press.

Localized advertising of North Central as "New York's newest airline" took a more direct approach in the Wisconsin, Upper Michigan and Minnesota communities receiving single-plane service. These ads featured the airline's prime time schedules for the particular city, the reservations phone number, and the food and beverages available with single-class service.

A concentrated advertising and promotion campaign in March 1970 heralded North Central's new Milwaukee-Ohio service to Dayton, Columbus, and Cincinnati. Intensive sales efforts produced over 1,100 personal calls in the three Ohio cities and Milwaukee. Following the inaugural flights, government officials and members of the business community from these metropolitan areas attended a North Central reception at Milwaukee.

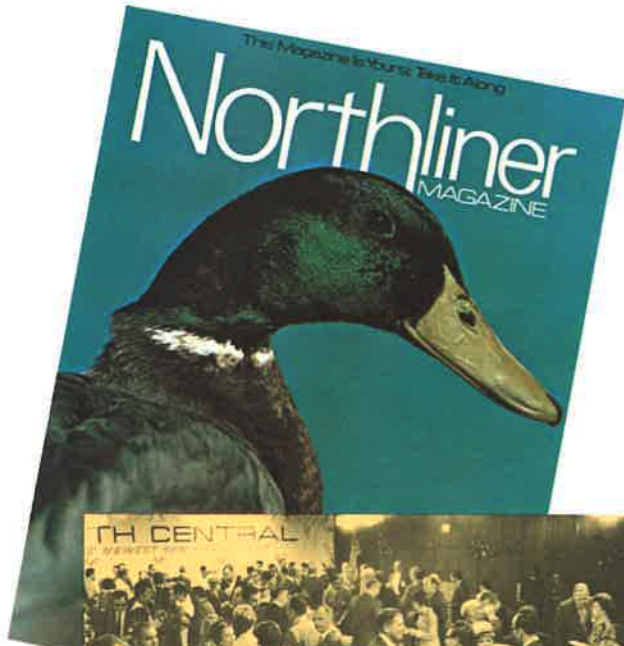
Advertising and direct mail, along with personal sales calls, introduced the airline's new Twin Cities-Omaha nonstop flights which began in September.

The story of North Central's progress was advertised in communities which opened new airport facilities in 1970. Among these were Sioux Falls, South Dakota, and Milwaukee, Green Bay, Clintonville, Wausau, Stevens Point, Wisconsin Rapids, and Marshfield, Wisconsin.

Ads geared to the Colorado ski areas suggested travel via North Central's nonstop flights between Minneapolis/St. Paul and Denver. A colorful ski display was created for use at sports shows to draw attention to the airline's service. In addition, the company developed a familiarization program for travel agents, which included a special tour of Colorado resort facilities.

The company's sales staff made 22,750 personal sales calls on commercial, travel agency, and interline accounts during 1970. Also, North Central publicized its service to thousands of people in the Midwest by conducting 180 scenic flights on DC-9 jets and Convair 580 prop-jets.

Keeping the traveling and shipping public up-to-date on North Central's service is an important part of the public relations program. Over 160 group tours, speeches, and television/radio appearances were made to promote North Central and its new routes. News media throughout the airline's 13-state area received 40 press releases, while 200,000 copies of The Northliner, the company newspaper, were distributed to employees and passengers. In October, a new passenger-oriented inflight publication, the Northliner Magazine, was introduced. The four-color quarterly magazine features articles about travel, sports, business, and human interest in the cities the airline serves and carries full-page advertisements on North Central.



Sherm Booen, well-known Midwest aviation commentator, has publicized the company and its service for many years on his weekly television program, "World of Aviation."

New York and Milwaukee business and civic leaders, travel agents, and interline representatives visit with North Central directors and personnel at the inaugural reception promoting the airline's Milwaukee-New York route.

This huge, chalet-type transportable display, featuring North Central's jet service to Denver, travels over the company's system to winter sports shows.

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