25

SILVER ANNIVERSARY

ANNUAL REPORT 1972

NORTH CENTRAL AIRLINES

NORTH CENTRAL AIRLINES

25 YEARS

7500 northliner drive, minneapolis, minnesota

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*
Robert L. Gren................ *Vice President-Maintenance and Engineering*
Daniel F. May..................... *Vice President-Finance*
David E. Moran............ *Vice President-Traffic and Sales*
T. M. Needham.......... *Vice President-Ground Operations*
Arthur E. Schwandt...... *Vice President-Industrial Relations*
G. F. Wallis............... *Vice President-Flight Operations*
J. F. Nixon.................................. *Treasurer*
Gowan J. Miller..................... *Assistant Secretary*
Charlotte G. Westberg............... *Assistant Secretary*

REGISTRARS AND STOCK TRANSFER AGENTS:

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

ANNUAL MEETING:

First Wednesday in April (April 4, 1973)
Wausau, Wisconsin

highlights of growth

	1972	1971	Gain
OPERATING REVENUES	$120,627,000	$100,865,000	19.6%
OPERATING PROFIT	$ 12,355,000	$ 5,815,000	112.5
NET EARNINGS	$ 7,536,000	$ 1,225,000	515.2
EARNINGS PER SHARE	60¢	11¢	445.5
CASH FLOW FROM OPERATIONS	$ 13,938,000	$ 9,204,000	51.4
WORKING CAPITAL	$ 5,109,000	$ 3,900,000	31.0
STOCKHOLDERS' EQUITY	$ 34,787,000	$ 27,192,000	27.9
PASSENGERS CARRIED	4,319,000	3,793,000	13.9
REVENUE PASSENGER MILES	1,029,193,000	865,736,000	18.9

NORTH CENTRAL AIRLINES

7500 northliner drive, minneapolis, minnesota

board of directors

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

management

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

REGISTRARS AND STOCK TRANSFER AGENTS:

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

ANNUAL MEETING:

First Wednesday in April (April 4, 1973)
Wausau, Wisconsin

March 2, 1973

to our stockholders, employees, and friends:

Earnings of $7,536,000—largest in North Central's 25-year history—highlight the many records set by the company in 1972. Revenues reached $120,627,000, and over four million passengers were carried.

While revenues gained 20 percent, operating expenses rose only 14 percent to $108,272,000. The operating profit of $12,355,000 more than doubled the $5,815,000 of 1971. After interest expense of $3,216,000 and income taxes of $2,903,000, up because of increased earnings, the company had record operating earnings of $6,493,000. Disposition of aircraft added $1,043,000 for total net earnings of $7,536,000.

Earnings per share reached $.60 in 1972 compared with $.11 the previous year. Based on the company's impressive performance and strong financial position, a cash dividend of $.05 per share of common stock ($623,000) was declared by the Board of Directors on January 26, 1973.

North Central retained the distinction of having the best financial record in the regional airline industry. The company has operated profitably for 18 of the 19 years under present management. Stockholder equity has reached a record $34,787,000, including $14,262,000 in retained earnings.

Traffic records were set in 1972 as North Central carried 4,319,000 passengers and flew one billion revenue passenger miles for the first time in its history. Passenger traffic was 14 percent ahead of 1971, while revenue passenger miles gained 19 percent to 1,029,193,000. The 12,181,000 cargo ton miles represented a 29 percent increase.

Operations in 1972 were favorably affected by passenger gains on long-haul routes, the improved general economy, and greater public service revenues for providing transportation to smaller communities. A strike against another airline serving some North Central cities added to revenues, but no significant financial benefit resulted as $1,734,000 was returned to the struck carrier under the airlines' mutual aid agreement.

Again this year, the airline maintained an excellent operating performance by completing 99 percent of its 27,840,000 scheduled miles. This is one of the best completion records in the entire airline industry.

Seeking to further expand operations, North Central applied to the Civil Aeronautics Board for nonstop service between Detroit and Boston. The 632-mile route is the largest passenger market in the nation with nonstop flights by only one carrier. The company also refiled its request for an expedited hearing on the 908-mile Milwaukee-Denver nonstop route. On service to Atlanta, the Board reopened proceedings, and North Central proposes flights from Detroit and Cincinnati.

Concern for passengers and the environment led to several new programs. Effective screening procedures tightened security at every station, and special "non-smoking" sections on the aircraft increased passenger comfort. All jet engines are converted to the low-smoke configuration, and noise-abatement flight techniques have been improved. The airline is evaluating and testing methods of further reducing noise levels on the ground.

Under its flight equipment program, three new 100-passenger Douglas DC-9 fan jets were ordered for delivery in April, May and October 1973. Two others were acquired this January from another airline as replacement aircraft. After October, the company will have a fleet of 19 DC-9s and 33 Convair 580 prop-jets to accommodate continuing growth, improve service and expand charter operations.

North Central looks forward to growth and prosperity rivaling that achieved in its first 25 years. With the continuing support of stockholders, passengers and employees, the company is confident the dramatic progress will be maintained.

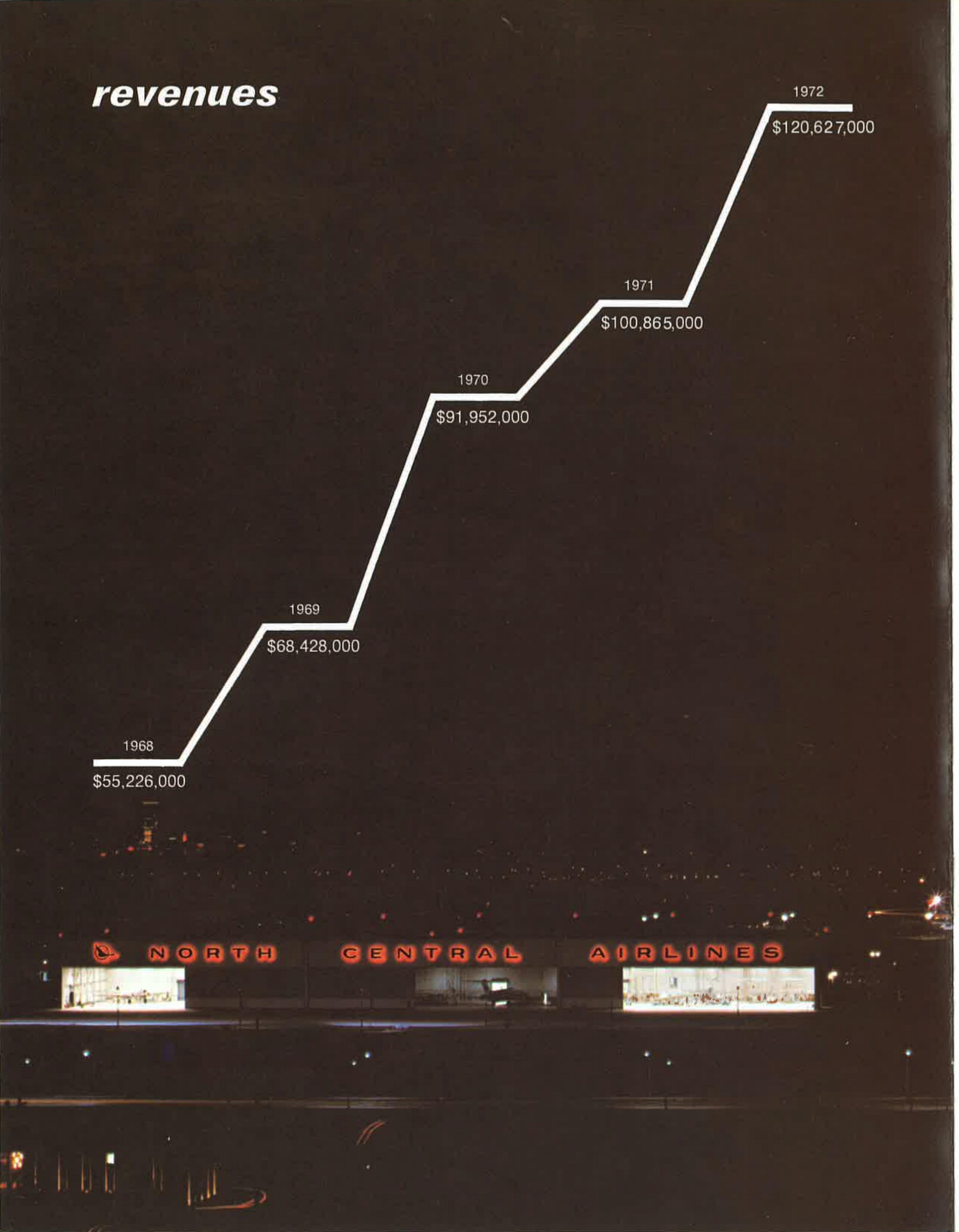
Sincerely,

Hal N. Carr

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

Bernard Sweet

BERNARD SWEET
President



financial review

Earnings of $7,535,878—highest in the company's 25-year history—dramatized North Central's 1972 performance. Revenues reached a record $120,627,442, an increase of 20 percent over 1971.

Contributing factors were passenger gains on long-haul routes, the improved general economy, and greater public service revenues for providing air transportation to smaller communities. A strike against another airline, which curtailed service at some North Central cities, added to revenues, but no significant financial benefits were derived as $1,734,000 was returned to that carrier under the airlines' mutual aid agreement. An additional $61,000 was paid during the year to another struck carrier. In 1972, public service revenues of $9,089,650 were 7.5 percent of total revenues (including $764,735 retroactive for July-December 1971) compared with $6,884,964, or 6.8 percent of 1971 revenues.

The company's revenue growth has averaged 25 percent annually since scheduled service began in 1948. This achievement is attributable to dependable scheduled service, continuous upgrading of flight equipment and facilities, superior operating performance, and an aggressive route development program.

With operating expenses of $108,272,125—a 14 percent increase—the company realized a profit from operations of $12,355,317, more than double the $5,815,406 in 1971. Extra costs were incurred to add service on strike-affected routes, and to make mutual aid payments. However, depreciation and amortization charges of $6,990,351 were $250,080 less than the year before.

Interest expense for 1972 declined $1,012,845 to $3,215,696. Income taxes of $2,903,049 were considerably higher than the $544,000 the previous year because of the company's increased earnings. After interest and income taxes, operating earnings of $6,492,696 were achieved. With the $1,043,182 gain after taxes on disposition of equipment, total net earnings were $7,535,878, compared with $1,224,708 in 1971.

Earnings per share climbed to $.60, from $.11 in 1971. Based on the airline's excellent performance and strong financial position, a cash dividend of $.05 per share of common stock ($623,138) was declared by the Board of Directors on January 26, 1973.

During 1972, North Central improved important elements relating to its financial condition. Net earnings, depreciation, amortization, and deferred taxes generated a record cash flow of $13,932,958—51 percent ahead of the $9,204,148 the previous year. Working capital increased 31 percent to a new high of $5,108,844. The long term debt-to-equity ratio of 1.04 to 1 shows a 35 percent improvement over 1971. Among the nation's 19 scheduled airlines, only three have more favorable ratios than North Central. This is significant considering the company's multi-million dollar capital demands of recent years to expand its fleet of jet aircraft, ground facilities, and computerized equipment.

North Central has operated profitably for 18 of the last 19 years since present management joined the airline. In this period, retained earnings have been reinvested in the company to finance its rapid growth and enhance its potential for the future. As of December 31, 1972, stockholder equity reached a record $34,787,284, including retained earnings of $14,262,350.

The company looks forward to 1973 as another year of impressive growth and continued profitability.

facilities and equipment

New equipment was added in 1972 to North Central's $8-million electronic reservations and communications system (ESCORT) that doubled its "memory" capacity. The $450,000 improvement enabled the airline to increase the number of inquiries handled, while retaining its three-second response time. High-speed messages in a typical month totaled 11,400,000, compared with 7,800,000 in 1971.

North Central expects to be the first regional airline to introduce automatic ticketing, further utilizing this equipment. Special printers, connected to ESCORT over existing transmission lines, will prepare a ticket in about eight seconds, rather than the three minutes needed to produce it manually. The system also affords uniform fare calculations, greater legibility, and expedited billing and auditing.

Installation of the printers begins this Spring and will be completed over the system by mid-1974. The comparatively low $600,000 investment, coupled with the current capabilities of ESCORT, will provide an electronic network to automate 90 percent of North Central's ticketing activity.

Passengers are benefiting from improved facilities at several points on the airline's system. New terminals were opened serving Kansas City, Oshkosh/Appleton, and Hancock/Houghton. La Crosse expanded and remodeled its terminal. To accommodate jet aircraft, runways were lengthened at Pellston, Iron Mountain/Kingsford and Hancock/Houghton.

In New York, greater identification of the company has been accomplished at LaGuardia. Large lighted signs on the terminal building mark North Central's location. Inside are new check-in counters in the remodeled gate areas.

Major changes were made at Denver with the company's move to a new concourse. Additional passenger service counters and gates were acquired, along with the larger baggage area and second-level jet loading. A spacious, climate-controlled mobile gate lounge vastly improves passenger handling at Cincinnati. More gates were added in Minneapolis/St. Paul, and North Central has an enlarged air freight facility at Chicago O'Hare.

To provide for continuing growth, better service in high-density markets, and expanded charter operations, North Central ordered three new 100-passenger DC-9 fan jets from McDonnell Douglas Corporation for delivery in April, May and October 1973. Two additional DC-9s were acquired this January from another airline as replacement aircraft. By the Fall of 1973, the company will have a fleet of 19 DC-9s and 33 Convair 580 prop-jets.

traffic growth and performance

For the first time in its history, North Central carried over four million passengers and flew one billion revenue passenger miles in a year.

The 4,318,643 passengers for 1972 represented an impressive 14 percent increase, 525,310 passengers more than the 3,793,333 served the previous year. The 18,156 passengers boarded on June 30 set a single-day high. A new monthly mark came in August when 473,955 passengers flew on jet-powered Northliners. Traffic in each month exceeded the corresponding month of 1971 as steady growth developed on the longer nonstops—particularly Milwaukee-New York, Milwaukee-Detroit-Toronto, and between the Twin Cities and Denver/Chicago/Milwaukee.

Revenue passenger miles climbed 19 percent to 1,029,192,937, compared with 865,736,212 in 1971. Available seat miles rose only 4.5 percent to 2,048,133,449. The 50.3 percent passenger load factor for 1972 is the best since 1956 when 26-passenger DC-3 aircraft were flown.

The 1972 records resulted from increased long-haul traffic, an upswing in the nation's economy, and the extra service provided during a strike against another carrier which serves some cities on North Central's system.

During the past 25 years, the company's annual passenger increase has averaged 25 percent over the previous year. Starting with only 11,398 passengers in 1948, North Central passed a half-million by 1956, and one million in 1960. The two-million passenger mark came just six years later. Aided by the introduction of jet aircraft and long-haul route awards, the airline served three million passengers during 1968 and nearly four-and-a-half million in 1972. Since inaugurating service, North Central has carried 34.2 million passengers and flown 6.5 billion passenger miles.

To provide more flights for the traveling public in peak traffic periods, the airline operated 2,385 "extra sections" in 1972 that accommodated 80,054 passengers. A record 510 charters took 63,548 people to points in 39 states, the District of Columbia, Canada, Mexico, the Bahamas and Puerto Rico. In addition, scenic flights over North Central communities introduced 7,125 persons to the company's service.

Cargo ton miles jumped 29 percent to an unprecedented 12,180,713 for the year. Air freight alone soared 37 percent. Mail gained 18 percent, and express was up seven percent. The 1,318,051 ton miles flown during September is a cargo milestone.

North Central's operating performance, consistently one of the highest in the entire airline industry, again reached 99 percent, as the company completed 27,523,043 of its 27,840,184 scheduled miles. This excellence was attained although North Central has the shortest average stage length of any carrier, operates in severe winter weather for many months over most of its system, and in 1972 handled the greatest passenger and cargo traffic in its history.

Strict adherence to the company's exacting maintenance program continues to be a significant factor in achieving the high level of performance. Of the 220,000 departures scheduled in 1972, only one-tenth of one percent were cancelled for maintenance reasons, and less than one and a half percent were delayed by mechanicals.

North Central's steady growth and enviable operating record pay tribute to the company's 3,200 employees and their dedication to the task of providing dependable scheduled airline service.

social action programs

Corporate concern with air pollution, noise abatement, waste disposal, security, and employment practices generated specific programs to make North Central a more compatible neighbor and business partner in the communities it serves.

The airline completed its $300,000 jet-engine retrofit project in 1972, when the last of its JT8D engines was converted to a low-smoke configuration. North Central now flies a "smokeless" jet fleet. The industry-wide program will eliminate virtually all of the particle air pollution caused by aircraft.

Early in 1972, the airline also modified its JT8D engines to eliminate fuel venting during takeoff. The project was undertaken after tests indicated no adverse effect on safety and final approval was received from the engine manufacturer.

For passenger comfort, no smoking sections are designated on all aircraft.

To minimize pollution from internal combustion engines, electric-powered tractors were introduced on a test basis at several airports. The company is continuing to purchase biodegradable products for cleaning and the most disposable fluids for de-icing. Solid wastes are removed in accordance with the federal and state standards, and the use of recycled paper has been increased.

North Central successfully improved its noise-abatement flight techniques. Takeoff and landing procedures, designed to "keep them high" over populated areas throughout the system, have reduced noise levels on the ground as much as 50 percent. Use of assigned preferential runways, now standard procedure, restricts traffic over residential districts. Again this year, required engine run-ups have been voluntarily curtailed by North Central between 11 p.m. and 6 a.m. While investment in noise abatement is difficult to estimate, a considerable portion of the increase in flight operating costs can be attributed to implementing environment-oriented procedures.

A system-wide airport security program has been enacted in accordance with Federal Government directives. Experienced security agents now screen each passenger electronically and search all carry-on luggage prior to boarding. Early in 1973, airport operators are to add armed guards to further improve overall security.

During 1972, North Central expanded its "equal opportunity" employment program, with emphasis on jobs for disadvantaged minority group members and Vietnam veterans. Employee participation in the National Guard and Reserve is fully supported by the company. The company retained active membership in JOBS, the manpower training plan sponsored jointly by the U.S. Department of Labor and the National Alliance of Businessmen.

North Central is proud of its present social action and environmental efforts, and will pursue future programs which are beneficial to the community.

route development program

North Central expanded its route development program in 1972 by applying to the Civil Aeronautics Board (CAB) for the first competitive nonstop service between Detroit and Boston. This passenger market is the largest in the nation with only one carrier providing nonstop flights.

The company proposes eight flights daily, using 100-passenger DC-9 fan jets, over the 632-mile route. Forecasts show a first-year potential of 162,000 passengers and a $1.7 million operating profit.

Single-plane service would be available for the first time between Boston and Kalamazoo/Battle Creek, Grand Rapids, Saginaw/Bay City/Midland and Flint, Michigan; and South Bend, Indiana. More than a dozen other Michigan, Minnesota and Wisconsin cities would benefit from single-carrier connections which are not available now.

The Detroit-Boston potential may be even greater than projected since traffic has exceeded estimates on similar long-haul routes (Twin Cities-Denver and Milwaukee-New York) awarded in 1969 and 1970.

The company refiled its 1970 request for an expedited hearing on the Milwaukee-Denver nonstop application. The 908-mile segment would be the longest route on the airline's system. CAB action will probably be taken within a year.

North Central strengthened its position in 1972 as the dominant carrier serving Milwaukee. The company carried 388,000 passengers, accounting for 41 percent of all boardings and 155,000 more passengers than the next highest of the four other airlines serving that city. An even greater share of the Milwaukee market is anticipated in 1973. To meet increased passenger demand on the Milwaukee-New York route, a fifth daily round trip is being added this spring.

The CAB has reopened the record in the Detroit, Cleveland, Cincinnati-Atlanta Investigation. North Central is proposing nonstop service to Atlanta from Detroit and Cincinnati. Hearings began in February 1973, and a decision by the Board is anticipated in 1974.

North Central started operations in 1948 with a 1,028-mile system connecting 19 cities. It had 2,400 route miles when present management joined the company in 1954. An aggressive route development program was instituted, and the system tripled by 1961. Today the company serves 90 cities in 13 states and Canada, spanning a 9,900-mile route system.

Current filings with the CAB involve 5,431 new route miles, including service to Atlanta, Boston, Philadelphia, Winnipeg and Montreal. Activity on route applications is expected to increase in 1973, since the virtual moratorium in 1970 when the airline industry was encountering adverse economic conditions.

The following is a summary of North Central's principal applications awaiting initial hearings or action by the CAB:

DETROIT-BOSTON NONSTOP

North Central would provide the first competitive nonstop service between Detroit and Boston and also offer the only single-plane service between Boston and seven cities in Michigan plus South Bend, Indiana—via Detroit. (632 miles)

MILWAUKEE-DENVER NONSTOP

A request has been refiled for an expedited hearing on the company's application for nonstop service between Milwaukee and Denver. (908 miles)

DETROIT, CLEVELAND, CINCINNATI-ATLANTA

The CAB reopened the record in this proceeding. The company has filed additional exhibits to serve Atlanta from Detroit and Cincinnati. Hearings began in February 1973. (968 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 NONSTOP

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

TWIN CITIES-KANSAS CITY NONSTOP

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

DETROIT-MONTREAL, VIA TORONTO

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

DULUTH/SUPERIOR-WINNIPEG NONSTOP

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

the future

Entering its second 25 years of service, North Central is confident that steady growth will continue.

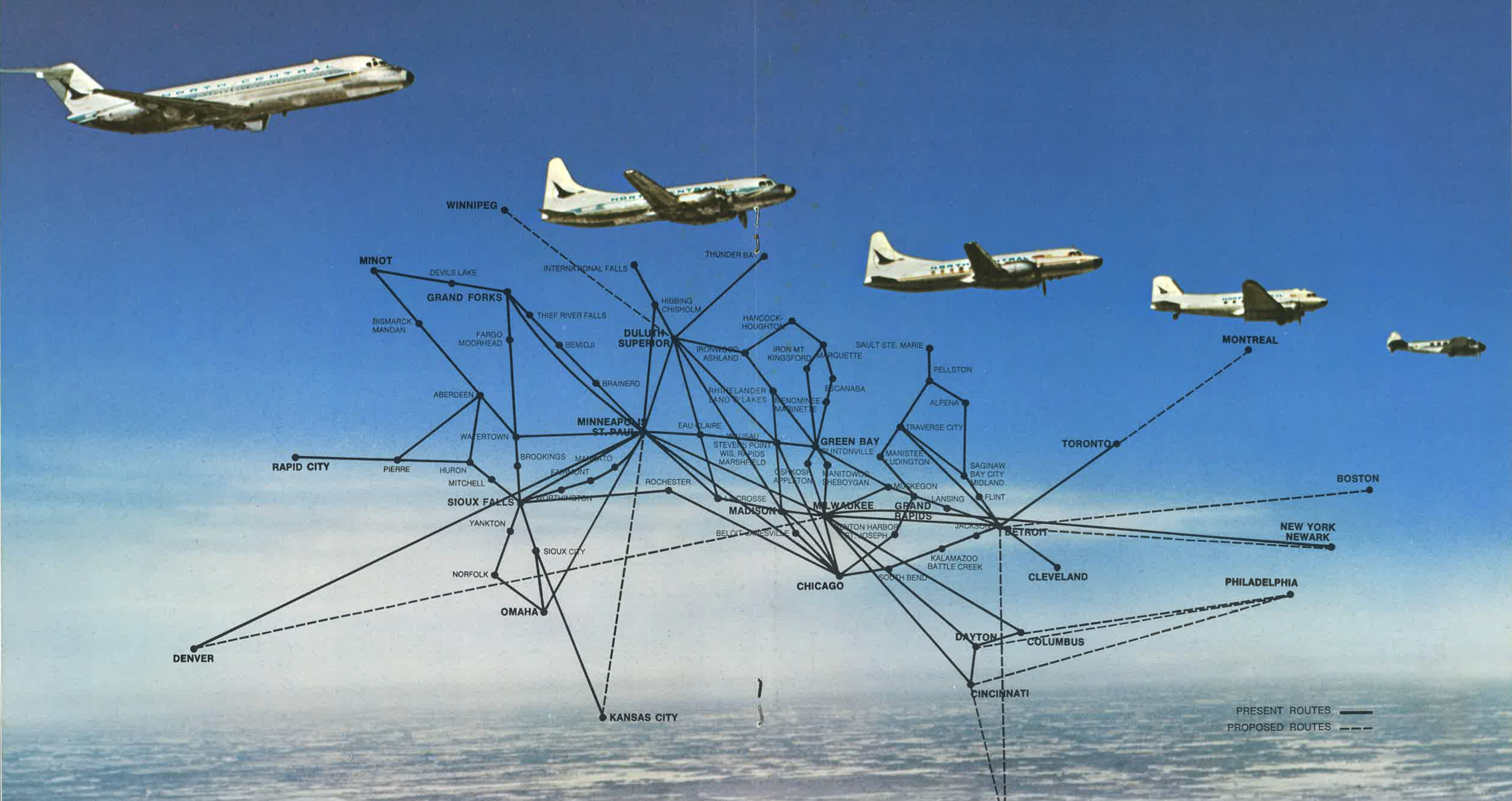
An almost unlimited passenger and cargo market exists. Although 55 percent of American adults have flown on scheduled airlines at some time, up from 33 percent ten years ago, only 23 percent fly in a year. The potential for cargo growth is even greater.

With a fleet of 19 DC-9s and 33 Convair 580s for most of 1973, jet flights will be added to many communities, and charter activity can be increased. Should new routes be awarded, aircraft are available to start immediate service.

Astute scheduling, dependable service and aggressive marketing have already stimulated travel, particularly on the Milwaukee-New York, Milwaukee-Detroit, Twin Cities-Denver, and Twin Cities-Milwaukee nonstops. Should the airline receive the proposed Detroit-Boston, Detroit-New York or Milwaukee-Denver routes, similar programs will be developed. The company expects continued success on its profitable, long-haul routes.

Investment in more efficient aircraft and ground support equipment, as well as electronic computers, has enabled the airline to boost productivity, although the number of employees has remained virtually constant during the last three years. With a continuing gain in productivity, the overall effect will be a greater increase in revenues than in operating costs.

North Central's financial strength, from profitable operations in 18 of the last 19 years, provides a firm foundation for the airline to turn opportunity into reality. With continued improvement in the nation's general economy and effective restraints on costs, the company expects 1973 to be another record-breaking year.



25 YEARS OF PROGRESS

Starting as a small subsidiary of a Wisconsin truck manufacturer, North Central has become one of the nation's leading regional airlines, serving 90 cities in 13 states and Canada over a 9,900-mile route system.

The company was incorporated as Wisconsin Central Airlines in 1944 by FWD Corporation of Clintonville (formerly The Four Wheel Drive Auto Company) to carry its officials and area businessmen between Clintonville and Chicago. After complying with a Federal order to sever ties with FWD, the airline received its operating certificate in 1947.

Scheduled flights were inaugurated on February 24, 1948, with three nine-passenger Lockheed 10A Electras operating over a 1,028-mile route system which connected Chicago with 18 Wisconsin and Minnesota communities. Sixteen of these "pioneer" cities are still served by the airline. Corporate offices moved to Madison before operations began. The company's name was changed to North Central Airlines in 1952 when headquarters were established at the Minneapolis-St. Paul International Airport.

As traffic steadily increased, the airline upgraded its fleet to meet passenger demands. Five types of aircraft have been flown by the company in its first 25 years: the Douglas DC-9 fan jet and Convair 580 prop-jet since 1967; the Convair 440, introduced in 1959; the Douglas DC-3 which debuted in 1951, and the original Lockheed 10A.

Highlighting its first quarter-century by carrying over four million passengers and achieving record earnings, North Central embarks on a new era of progress.

NORTH CENTRAL AIRLINES, INC.

balance sheet

	December 31 1972	December 31 1971
ASSETS		
CURRENT ASSETS		
Cash including certificates of deposit of $5,050,327 in 1972 and $1,410,845 in 1971	$ 8,897,276	$ 4,436,930
Investment in commercial paper (note D)	6,500,000	2,000,000
Accounts receivable (note A)	11,085,569	10,959,872
Flight equipment parts and operating supplies — less reserves of $443,447 in 1972 and $345,848 in 1971 (notes A and B)	2,734,408	2,703,047
Prepaid expenses and sundry deposits (note A)	4,588,388	5,624,890
Total current assets	33,805,641	25,724,739
PROPERTY AND EQUIPMENT — at cost		
Flight equipment (note B)	71,681,797	74,684,520
Ground property and equipment	6,458,707	6,303,069
Improvements to leased property	3,258,633	3,008,130
	81,399,137	83,995,719
Less accumulated depreciation (note A)	25,501,845	21,104,499
	55,897,292	62,891,220
Advance payments on flight equipment (note D)	3,246,103	—
	59,143,395	62,891,220
DEFERRED CHARGES AND OTHER ASSETS		
Unamortized development and preoperating costs (note A)	2,332,898	3,117,984
Unamortized discount and expense on debt (note A)	234,104	298,984
Insurance receivable (note D)	4,300,000	—
Rentals and other	2,230,945	2,241,049
	9,097,947	5,658,017
	$102,046,983	$94,273,976
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt (note B)	$ 7,075,237	$ 7,088,609
Accounts payable (note A)	10,344,324	8,596,991
Tickets outstanding (note A)	810,338	543,715
Accrued compensation, taxes and other expenses (note A)	7,856,898	5,595,541
Income taxes (notes A and I)	2,610,000	—
Total current liabilities	28,696,797	21,824,856
LONG-TERM OBLIGATIONS		
Long-term debt — less current maturities (note B)	36,327,040	43,407,267
Deferred income taxes (notes A and I)	1,990,762	1,621,000
Warrant obligation (note B)	245,100	229,200
	38,562,902	45,257,467
COMMITMENTS (note D)	—	—
STOCKHOLDERS' EQUITY (notes B, E and F)		
Common stock — authorized 16,000,000 shares of $.20 par value	2,492,550	2,489,170
Additional paid-in capital	18,032,384	17,976,011
Retained earnings	14,262,350	6,726,472
	34,787,284	27,191,653
	$102,046,983	$94,273,976

The accompanying notes are an integral part of this statement.

statement of earnings

	Years ended December 31 1972	Years ended December 31 1971
OPERATING REVENUES		
Passenger (note A)	$ 99,259,565	$ 83,820,866
Freight and express	6,331,095	5,113,178
Public service revenues (note G)	9,089,650	6,884,964
Mail	1,308,575	1,214,895
Non-scheduled service and other	4,638,557	3,831,441
Total operating revenues	120,627,442	100,865,344
OPERATING EXPENSES		
Flying operations	28,512,471	27,380,498
Maintenance	18,219,258	15,979,974
Aircraft and traffic servicing	26,690,000	23,580,140
Passenger service	7,579,386	6,269,080
Promotion and sales	10,646,128	8,366,053
General and administrative	7,839,584	6,163,999
Depreciation and amortization (note A)	6,990,351	7,240,431
Mutual Aid payments (note H)	1,794,947	69,763
Total operating expenses	108,272,125	95,049,938
Operating profit	12,355,317	5,815,406
OTHER (INCOME) EXPENSES		
Interest expense (note A)	3,215,696	4,228,541
Other — net	(256,124)	(181,843)
Total other expenses	2,959,572	4,046,698
Earnings before income taxes and extraordinary item	9,395,745	1,768,708
INCOME TAXES (notes A and I)		
Currently payable — less investment tax credits of $2,019,000 in 1972	2,610,000	—
Deferred — less investment tax credits, $231,000 in 1972 and $470,000 in 1971	293,049	544,000
Total income taxes	2,903,049	544,000
Earnings before extraordinary item	6,492,696	1,224,708
EXTRAORDINARY ITEM		
Gain on disposition of flight equipment — less related deferred income taxes of $452,000 (note A)	1,043,182	—
NET EARNINGS	$ 7,535,878	$ 1,224,708
EARNINGS PER SHARE (note J)		
Earnings before extraordinary item	$ .52	$ .11
Extraordinary item	.08	—
NET EARNINGS PER SHARE	$ .60	$ .11

The accompanying notes are an integral part of this statement.

statement of changes in financial position

	Years ended December 31	
	1972	1971
SOURCES OF WORKING CAPITAL		
From operations		
Net earnings before extraordinary item	$ 6,492,696	$ 1,224,708
Charges to earnings not using working capital		
Depreciation of property and equipment (note A)	6,178,603	6,438,279
Amortization of deferred charges (note A)	1,001,500	986,182
Deferred income taxes (note I)	239,762	544,000
Loss on disposition of property and equipment	20,397	10,979
Working capital provided from operations exclusive of extraordinary item	13,932,958	9,204,148
Extraordinary item providing working capital — gain on disposition of flight equipment (note A)	1,043,182	—
Proceeds in excess of the gain from disposition of property and equipment	3,279,735	6,024,583
Proceeds from sale of common stock	59,753	8,102,730
Increase in long-term debt	—	2,995,024
Other	—	134,400
	18,315,628	26,460,885
APPLICATIONS OF WORKING CAPITAL		
Additions to property and equipment	5,278,910	2,353,857
Additions to deferred charges	447,530	872,184
Reduction of long-term debt	7,080,227	10,966,706
Increase in insurance receivable	4,300,000	—
	17,106,667	14,192,747
INCREASE IN WORKING CAPITAL (note K)	1,208,961	12,268,138
Working capital at beginning of year	3,899,883	(8,368,255)
Working capital at end of year	$ 5,108,844	$ 3,899,883

The accompanying notes are an integral part of this statement.

statement of changes in stockholders' equity

Years ended December 31, 1972 and 1971	Common Stock		Additional Paid-in Capital	Retained Earnings (note B)
	Shares Outstanding	Amount		
Balance at January 1, 1971	10,463,087	$2,092,617	$10,228,834	$ 5,501,764
Proceeds of public stock offering — less expenses	1,980,000	396,000	7,706,730	—
Conversion of 5½% subordinated convertible debentures into common stock (note B)	2,765	553	20,447	—
Excess value of warrants issued in warrant exchange	—	—	20,000	—
Net earnings for the year	—	—	—	1,224,708
Balance at December 31, 1971	12,445,852	2,489,170	17,976,011	6,726,472
Exercise of stock options (note F)	16,450	3,290	53,988	—
Exercise of stock warrants (note F)	450	90	2,385	—
Net earnings for the year	—	—	—	7,535,878
Balance at December 31, 1972	12,462,752	$2,492,550	$18,032,384	$14,262,350

The accompanying notes are an integral part of this statement.

25 YEARS

ten-year earnings summary

OPERATING REVENUES	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963
Passenger	$99,259,565	$83,820,866	$76,954,521	$57,073,369	$44,628,769	$33,482,371	$30,261,479	$23,720,203	$20,002,281	$18,064,524
Public service revenues	9,089,650	6,884,964	5,131,306	4,016,386	4,667,639	5,249,563	5,767,888	7,199,418	7,274,370	7,644,080
Other	12,278,227	10,159,514	9,866,126	7,338,168	5,929,518	4,118,543	3,583,304	2,971,410	2,438,126	2,168,100
	120,627,442	100,865,344	91,951,953	68,427,923	55,225,926	42,850,477	39,612,671	33,891,031	29,714,777	27,876,704
OPERATING EXPENSES										
Direct expenses	46,731,729	43,360,472	39,207,293	31,647,246	25,525,000	19,811,886	17,980,535	15,356,876	13,666,142	13,076,180
Indirect expenses	54,550,045	44,449,035	37,879,733	30,782,288	24,318,200	19,523,811	17,062,543	13,970,237	12,303,601	11,812,690
Depreciation and amortization	6,990,351	7,240,431	6,700,175	5,605,500	4,356,893	2,626,251	2,253,361	1,997,488	1,712,800	1,541,857
	108,272,125	95,049,938	83,787,201	68,035,034	54,200,093	41,961,948	37,296,439	31,324,601	27,682,543	26,430,727
OPERATING PROFIT	12,355,317	5,815,406	8,164,752	392,889	1,025,833	888,529	2,316,232	2,566,430	2,032,234	1,445,977
Non-operating income and (expenses), net	(2,939,175)	(4,035,719)	(4,875,788)	(4,677,092)	(3,008,205)	(628,731)	(464,974)	(442,894)	(348,305)	(428,423)
EARNINGS (Loss) before taxes	9,416,142	1,779,687	3,288,964	(4,284,203)	(1,982,372)	259,798	1,851,258	2,123,536	1,683,929	1,017,554
Income taxes	2,903,049	544,000	451,000	(1,934,888)	(869,000)	(336,010)	720,647	1,006,520	873,304	514,497
EARNINGS (Loss) before gain (loss) on disposition of equipment	6,513,093	1,235,687	2,837,964	(2,349,315)	(1,113,372)	595,808	1,130,611	1,117,016	810,625	503,057
Gain (Loss) on disposition of equipment, less income taxes	1,022,785	(10,979)	(43,349)	(29,080)	1,183,588	924,316	24,000	21,736	33,939	18,656
Prior years' adjustment due to change in accounting	—	—	(617,000)	—	—	—	—	—	—	—
NET EARNINGS (LOSS)	$ 7,535,878	$ 1,224,708	$ 2,177,615	$(2,378,395)	$ 70,216	$ 1,520,124	$ 1,154,611	$ 1,138,752	$ 844,564	$ 521,713

THIS SUMMARY DOES NOT INCLUDE ALL DETAILED INFORMATION CONTAINED IN THE ANNUAL REPORTS FOR RELATED YEARS, AND IS NOT COVERED BY THE AUDITORS' REPORT HEREIN.

notes to financial statements

December 31, 1972 and 1971

Note A — Summary of Significant Accounting Policies — The company, regulated by the Civil Aeronautics Board (CAB), uses the Uniform System of Accounts and Reports for Certificated Air Carriers as required by the CAB, which are consistent with generally accepted accounting principles. The principal policies followed by the company are:

Accounts receivable: The company provides an allowance for certain uncollectable accounts receivable.

Flight equipment parts and operating supplies: These are priced at average cost. Reserves are provided by allocating costs of repairable items over the life of related flight equipment.

Prepaid expenses — engine overhaul: The company includes in prepaid expense that portion of engine overhaul costs which will expire during the next operating cycle ($2,338,000 in 1972 and $2,944,000 in 1971). Engine overhaul costs are charged to expense as incurred.

Capitalized interest: Interest is capitalized on funds associated with major project expenditures such as acquisition of flight equipment, construction of ground facilities and expenditures for route development and preoperating costs. Capitalization of interest ceases when projects become operational. The capitalized interest is then amortized over the useful lives of the related assets for financial reporting purposes but charged to current period expense for income tax reporting purposes.

Depreciation: Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight line basis for financial and tax reporting purposes. Prior to 1968, accelerated depreciation methods were used for tax purposes. 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 five years for permanent certificates. Aircraft preoperating costs are amortized over approximately eight years. Certain expenditures are expensed when incurred for tax reporting purposes. Unamortized discount and expense on debt are amortized using the "interest method" over the term of the loan.

Pension costs: The company has pension plans for substantially all of its employees, and funds current pension costs accrued and interest on unfunded prior service cost.

Revenues: Revenues are recognized when the related services are rendered. Tickets outstanding at December 31st represent tickets sold for the company's flights but unused by passengers at that date. Tickets sold for flights on other airlines, for which reimbursement has not been made, are included in accounts payable. Tickets sold by others and lifted at time of flight by the company are included in accounts receivable until payment is received.

Disposition of property and equipment: To the extent allowable, the company defers gains on disposition of property and equipment for tax reporting purposes while recognizing them currently for financial reporting purposes.

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 of capitalized interest, depreciation, deferred charges, December 31, 1971 vacation pay accrual and gains on disposition of property and equipment.

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

	1972	1971
Quarterly installment notes (a)	$ 2,937,783	$ 8,813,348
Semi-annual installment notes (b)	2,350,226	2,937,783
7% notes, due in quarterly installments of $1,468,891 and $1,958,522 from July, 1973 through October, 1978	35,253,393	35,253,393
Total due banks and insurance companies (c)	40,541,402	47,004,524
7% subordinated notes (d)	2,100,000	2,700,000
5½% subordinated convertible debentures (e)	721,500	721,500
Sundry	39,375	69,852
Total long-term debt	43,402,277	50,495,876
Less current maturities	7,075,237	7,088,609
	$36,327,040	$43,407,267

(a) Due in quarterly installments of $979,261 and $1,958,522 through April, 1973; interest at ½% above bank's prime rate (effective rate was 6½% at December 31, 1972).

(b) Payable in semi-annual installments of $293,778 due from April 1972 through October 1976; interest at 1% above bank's prime rate (effective rate was 7% at December 31, 1972).

(c) Total loans are collateralized by substantially all flight equipment and spare aircraft parts owned by the company. Two equip-

notes to financial statements

(continued)

ment 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, issued to loan holders in consideration of deferring certain debt repayments, at $1.50 per warrant that has not been exercised by November 30, 1979 (note F). The obligation is being accrued as additional interest expense over the remaining term of the loan.

(d) Due in semi-annual installments of $300,000 from September 1971 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 F).

(e) Due on June 1, 1978 and convertible into common shares at $8.55 a share to maturity.

Note C — Pension Costs — Total pension expense was $2,553,000 for 1972 and $1,949,000 for 1971. At the 1972 actuarial valuation date, the company had funded in excess of vested benefits for all plans by approximately $950,000.

Note D — Commitments — Approximate minimum annual lease commitments for five DC-9-30 and nine Convair 580 aircraft total $3,876,000 at December 31, 1972 and $4,030,000 at December 31, 1971 expiring at various dates from 1978 through 1981. The amount above includes the commitment resulting from the sale (upon which no gain was recognized) and leaseback of one Convair 580 aircraft finalized during January 1973. The company also leases office and operational facilities, terminal facilities, computer and other equipment under long-term agreements expiring on various dates through 1996 for which minimum annual rentals are approximately $7,077,000 and $6,460,000 at December 31, 1972 and 1971, respectively.

At December 31, 1972, the company had purchase commitments on three new DC-9-30 aircraft for which they have advanced $3,246,000. An additional $11,340,000 will be expended by the company in fulfilling these commitments. On January 5, 1973, the company finalized an agreement to purchase two used DC-9-30 aircraft for $7,100,000. A portion of the insurance receivable included in other assets is to be used toward payment on one of these aircraft.

Note E — Shareholder Disclosure of Ownership — The CAB requires that any person who owns, as of December 31 of any year, or who acquires ownership, as of ten days after acquisition, of more than 5% in the aggregate of the company's common stock, either beneficially or as trustee, 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 may obtain further information by writing to the Director, Bureau of Operating Rights, CAB, Washington, D. C. 20428.

Note F — Common Stock — Under a qualified plan, 350,000 shares of unissued common stock were reserved for officers and key employees. Options expire five years after date of grant. Options granted in 1967 for 5,000 shares expired in 1972. Those outstanding and exercisable and dates granted, at December 31, 1972 are: 1968 — 5,000 shares at $5.61; 1969 — 18,000 shares at $4.125; 1970 — 47,500 shares at $4.125 and 105,000 shares at $3.25; 1971 — 38,050 shares at $3.19; 1972 — 2,500 shares at $6.375. Options for 16,450 shares were exercised in 1972 and for 115,000 shares in previous years. Options for 2,500 shares are available for granting.

At December 31, 1972 and 1971 there were outstanding warrants to purchase 2,649,061 and 2,649,511 shares, respectively, of common stock. These warrants resulted from public offerings prior to 1972 and from financing transactions as discussed in note B (c) and (d). All warrants enable the holder to purchase common stock at $5.50 per share and expire October 31, 1979.

During January 1973, the Board of Directors declared a $.05 per share dividend payable March 1, 1973 for stockholders of record on February 9, 1973.

Note G — Public Service Revenues — The CAB adopted Class Rate VI on June 16, 1972 for the period beginning July 1, 1971 through June 30, 1972. The company received in June 1972 $765,000 pertaining to the period July 1, 1971 through December 31, 1971 in excess of the estimate previously recorded.

Note H — Mutual Aid Payments — Under provisions of the Mutual Aid Agreement effective January 1, 1971, the company pays 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 I — Income Taxes — Unused investment tax credit totals $3,490,000, of which $1,688,000 has been recognized as a reduction of reported deferred provision for income tax expense. The amount available to reduce income taxes payable expires: $1,958,000 in 1975; $791,000 in 1976; $571,000 in 1977; $93,000 in 1978; $77,000 in 1979.

Note J — Earnings Per Share — Earnings per share is based on the weighted average number of shares outstanding for the year (12,455,348 in 1972 and 11,455,051 in 1971). Conversion of debentures into common stock, exercise of stock options and warrants to purchase stock would not result in material dilution of earnings per share for the years ended December 31, 1972 and 1971.

Note K — Net Change in Working Capital Elements — Changes in working capital elements consisted of:

	Years ended December 31	
	1972	1971
Increase (decrease) in current assets		
Cash & certificates of deposit	$4,460,346	$ 2,176,832
Investment in commercial paper	4,500,000	2,000,000
Accounts receivable	125,697	(1,654,195)
Flight equipment parts & supplies	31,361	(237,487)
Prepaid expense & sundry deposits	(1,036,502)	(1,166,140)
	8,080,902	1,119,010
Increase (decrease) in current liabilities		
Short-term borrowings	—	(3,284,312)
Current maturities of long-term debt	(13,372)	(4,878,117)
Accounts payable & tickets outstanding	2,013,956	(3,446,552)
Accrued liabilities	2,261,357	459,853
Income taxes	2,610,000	—
	6,871,941	(11,149,128)
Increase in working capital	$1,208,961	$ 12,268,138

auditors' report

Stockholders and Board of Directors
North Central Airlines, Inc.

We have examined the balance sheet of North Central Airlines, Inc., (a Wisconsin corporation) as of December 31, 1972, and the related statements of earnings, changes in stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the financial statements referred to above present fairly the financial position of North Central Airlines, Inc., at December 31, 1972, and the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

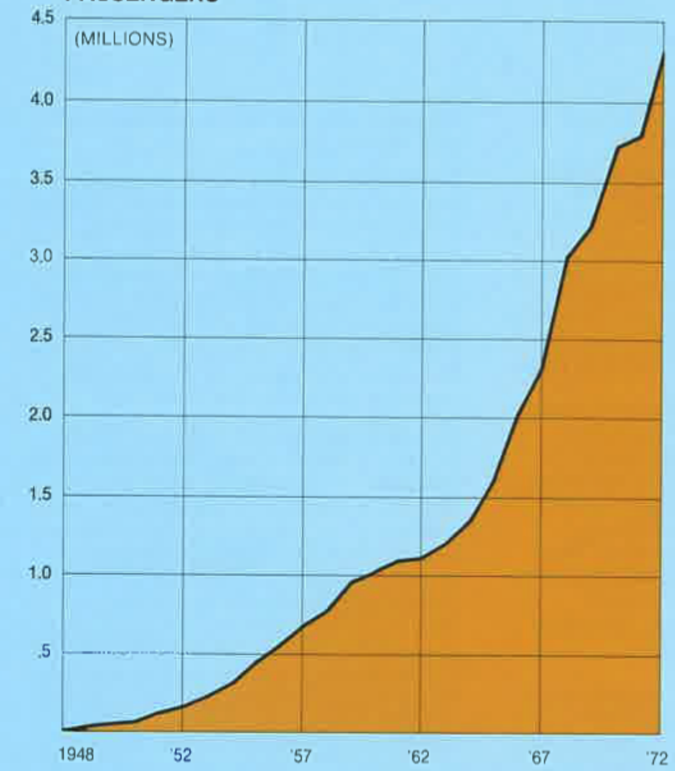
Minneapolis, Minnesota
February 16, 1973

Alexander Grant + Company

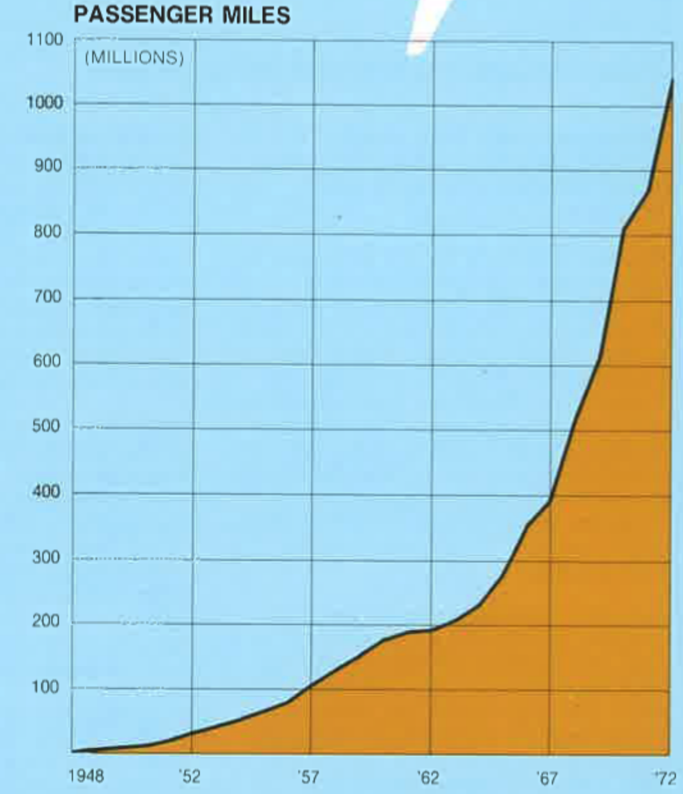
25 years of growth

25 YEARS

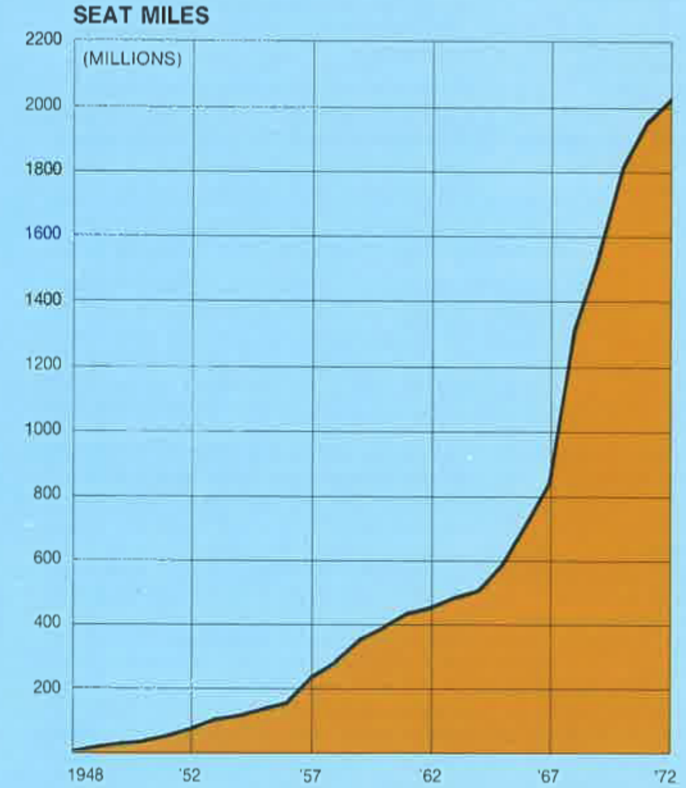
PASSENGERS



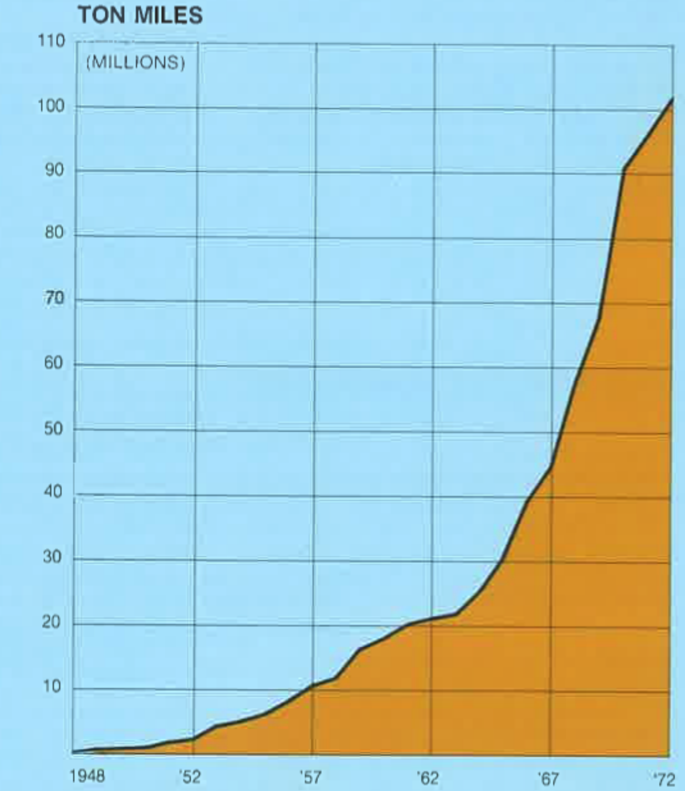
PASSENGER MILES



SEAT MILES



TON MILES



communications program

Important extras that entice passengers to choose North Central headlined the 1972 advertising program.

Denver-bound skiers are attracted by ads announcing complimentary "Frostbite" kits. A steak and eggs breakfast is now served on the Twin Cities-Omaha nonstop and other major routes. Innovative "Magellan Service" on luncheon flights features Portuguese wine and a delicatessen sandwich that satisfies even discriminating gourmets. Cold Duck and domestic wines are poured to enhance steak dinners for Milwaukee-New York and Twin Cities-Denver passengers.

Attention was drawn in advertising to extra conveniences, such as a reserved section on the aircraft for non-smokers and the free "Personal Pak" container which allows carry-on items to be checked as baggage.

Ads ran in 70 newspapers and magazines with a combined circulation of 6.5 million readers. Television and radio spots on 72 stations reached an estimated 19.5 million viewers and listeners.

Reinforcing the advertising program, North Central's field sales force made over 23,250 personal calls on travel agents, commercial accounts and interline representatives. Sales blitzes promoted new services.

Extensive participation in sports travel shows, 350 civic group appearances, and 200 speeches provided additional exposure for the company. The ski season was ushered in with seminars for travel agents and equipment retailers, acquainting them with schedules, in-flight extras and the availability of snow condition reports from ski areas on North Central's system.

Near the company's headquarters at the Minneapolis-St. Paul International Airport, an impressive electronic sign is beaming messages about North Central—cities served, flight frequencies, reservations information, and civic events. The sign, visible to motorists driving both ways on Minnesota's most heavily-used highway, has received very favorable comments.

A guided tour program, conducted at the general office and main operations base, was initiated in July. Some 2,000 members of 75 groups have already seized the opportunity for a "behind the scenes" look at the airline. Over 100 tours were given at other company locations.

Quarterly financial reports informed stockholders and the investment community of the company's progress. Monthly traffic data and noteworthy events were announced by 32 releases to news media and 25 radio/TV appearances.

Special articles ran in newspapers and magazines.

Northliner Magazine, the airline's quarterly inflight publication, enjoyed a passenger audience exceeding one million persons each issue. The 32-page magazine contains entertaining and informative features about communities and activities on North Central's system. Based on the number of requests for more copies, the publication is well-received.

To increase rapport with the cities it serves, North Central continued its program of appointing business and civic leaders "Presidential Advisors" to the airline. Selected in recognition of their support of the company and contribution to the development of scheduled airline service, Presidential Advisors serve as a communications link between North Central and its communities. The program was instituted in 1954, and the group is limited to 100 individuals.

Employees keep abreast of company developments through The Northliner newspaper. Additionally, regular visits are made to each station by corporate officers and managers, who hold informal discussions with personnel.

North Central also benefited from publicity initiated by countless friends and supporters. Their efforts on the company's behalf are genuinely appreciated.

northliner museum

Mementos dating back to the company's pre-operational days are among the hundreds of items displayed in the Northliner Museum, located at North Central's headquarters. Most of these have been contributed by employees and friends.

Significant events of the first 25 years of service are depicted by the hundreds of photographs. Comparative route maps and schedules graphically illustrate the airline's growth.

Some 27 scrap books contain news clippings telling of events as they happened over the years. One volume documents the world-wide acclaim given "728", North Central's corporate DC-3, cited for having flown more hours than any other aircraft in the history of aviation. Other books include old issues of the company newspaper, The Northliner.

Stewardess uniforms, back to 1954, highlight the changes in fashion. Citations and award plaques adorn the wall. Display cases hold advertisements introducing new service and aircraft—even an early announcement of the first Lockheed flight to Janesville.

Flight operation records, initial station plans, uniform insignia, promotional items and stationery from Wisconsin Central days are also shown.

Pride in the company's first 25 years of progress and a desire to preserve its history have made the Northliner Museum a reality.

commemorating 25 years of service

An Anniversary Seal, featuring the corporate insignia, is the focal point of the program commemorating North Central's 25 years of scheduled service.

The distinctive mallard duck, dubbed "Herman" by employees, is silhouetted against the moon by night and the sun by day—just as it was when the company started operations as Wisconsin Central Airlines on February 24, 1948. The mallard, prized for its speed in flight, is native to the region.

The special seal, printed in company colors on "anniversary" silver, is being carried on correspondence. Larger versions are displayed at North Central passenger service counters and gate areas, inside all aircraft, and on ground equipment. An historical montage including the seal appears on ticket envelopes.

North Central's first scheduled flights were reenacted over the original 1,028-mile route connecting 18 Wisconsin and Minnesota cities with Chicago. Replacing the nine-passenger Lockheed 10A Electras, was the airline's corporate DC-3, "728", which has flown more hours than any other aircraft in aviation history. The captains at the controls, members of the first pilot group, presently fly the DC-9 fan jets. Commemorative plaques bearing the anniversary seal were presented to officials at each of the "pioneer" cities still served by the airline.

Company personnel are participating in the anniversary promotion by using automobile decals noting the 25-year milestone. Personal checks, with a color picture of North Central's DC-9, are being purchased by employees.

Photos and news releases reviewing the history of the airline were distributed to newspapers, magazines and radio/television stations in the 90 cities on its 13-state system. The Winter 1973 issue of the passenger-oriented Northliner Magazine carries an article entitled, "25 and Still Growing", which traces company progress.

The Anniversary Seal symbolizes North Central's 25 years of service to the traveling public. The corporate insignia, a familiar sight to the first 11,000 passengers in 1948, still identifies the airline to the more than four million people who flew the Route of the Northliners in 1972.

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