NORTH CENTRAL AIRLINES

1962

ANNUAL REPORT

North Central Airlines, Inc.

America's Leading Regional Airline

General Offices: 6201 Thirty-Fourth Avenue South, Minneapolis 50, Minnesota

Board of Directors

HAL N. CARR*
WERNER L. CHRISTENSEN
D. E. CROOKER
G. F. DECOURSIN*
ARTHUR E. A. MUELLER*
A. JAMES MUELLER
A. L. WHEELER
K. B. WILLETT

**Executive Committee*

Management

ARTHUR E. A. MUELLER ..... *Chairman of the Board*
HAL N. CARR ..... *President and General Manager*
R. H. BENDIO ..... *Vice President, Maintenance and Engineering*
FRANK N. BUTTOMER ..... *Vice President, Traffic and Sales*
A. D. NIEMEYER ..... *Vice President, Flight Operations*
ARTHUR E. SCHWANDT ..... *Vice President, Industrial Relations*
BERNARD SWEET ..... *Vice President and Treasurer*
A. L. WHEELER ..... *Vice President and Counsel*
JOHN P. DOW ..... *Secretary*
CHARLOTTE G. WESTBERG ..... *Assistant Secretary*
D. F. MAY ..... *Assistant Treasurer*
L. J. KEELY ..... *Director, Maintenance and Engineering*
T. M. NEEDHAM ..... *Director, Ground Operations*
G. F. WALLIS ..... *Director, Flight Operations*

Registrar and Stock Transfer Agent

Northwestern National Bank of Minneapolis; Minneapolis, Minnesota

To our stockholders, employees and friends:

March 12, 1963

We are pleased to report that during 1962 North Central Airlines earned a net profit of $534,000 on record revenues of $27,160,000. This is the largest profit in the company's 15-year history.

North Central again set the pace for the nation's 13 regional airlines by carrying 1,123,393 passengers. For the third consecutive year, more than a million passengers flew the Route of the Northliners. Cargo volume increased 13 per cent over the 1961 record, set by North Central. The 25,346,000 pounds of cargo, including air express, freight, and mail, carried in 1962 was over seven per cent ahead of the second-ranking regional airline.

The company also maintained an excellent operating performance. Of the 15,000,000 miles scheduled in 1962, 99 per cent were completed; and 81 per cent of the 189,000 flight arrivals were on time. This is recognized as one of the most outstanding performance and on-time records in the entire scheduled airline industry.

In 1962 the airline acquired eight more Convair aircraft, bringing its fleet to 18 Convairs and 29 DC-3's. Because of the company's strong financial position, this equipment financing was accomplished without the assistance of the Federal Government's guaranteed loan program.

North Central continued its aggressive route development program and expects favorable action by the Civil Aeronautics Board on several pending applications during the coming year. The C.A.B.'s policy of strengthening regional airline routes by elimination of unprofitable stops, acquisition of trunkline segments, establishment of regional airports to serve adjacent cities, and relaxation of operating restrictions will all create a favorable climate for the future growth and development of North Central.

As management looks forward to even greater progress and profits in the coming years, we want to acknowledge the loyalty of our employees, the confidence of our stockholders, and the continued support of our North Central passengers. We appreciate the efforts of all those who have helped make 1962 another record year for "America's Leading Regional Airline".

Sincerely,

ARTHUR E. A. MUELLER
Chairman of the Board

HAL N. CARR
President

The year in review

NORTH CENTRAL AIRLINES earned record profits in 1962 of $534,333. This is a 51 per cent increase over 1961, previously the best financial year in the company's history.

Record revenues of $27,159,551—seven per cent ahead of last year—were attained in 1962. Operating expenses were $25,634,479, an increase of only five per cent, and included $1,190,630 in depreciation charges. This resulted in an operating profit of $1,525,072 and a net profit of $534,333 after income taxes of $655,725. It is significant that the net earnings, together with the $1,190,630 of depreciation, developed cash flow of $1,724,963 in 1962.

The record profit was earned by North Central after returning $316,225 in excess profits to the Federal Government under the Class Mail Rate. It was the second consecutive year the airline reached this profit-sharing position through efficiency of operation and its intensified program of cost control.

With final settlement of the past period mail rate in 1961 and after a full year's experience under the new class rate, it was possible to reconstruct certain items of revenues and expenses in order to reflect more accurately the annual profit or loss back to the year 1952. The major items adjusted were mail revenues, extension and development costs, and income tax liabilities. The net effects of these changes by years are shown in the graph on Page 2 and the 10-Year Financial Summary on Page 15.

A special offering of 85,714 shares of common stock was made by North Central to its shareholders, on a pro rata basis, and to employees, on a seniority basis, in April 1962. The offer was fully subscribed and increased the number of stockholders to nearly 5,000.

In the spring of 1962, the airline added three Convair aircraft to its fleet. These planes were put in operation for the summer schedule. In October 1962, the company purchased five more Convair 440 aircraft, bringing the Convair fleet to 18, in addition to its 29 Douglas DC-3's.

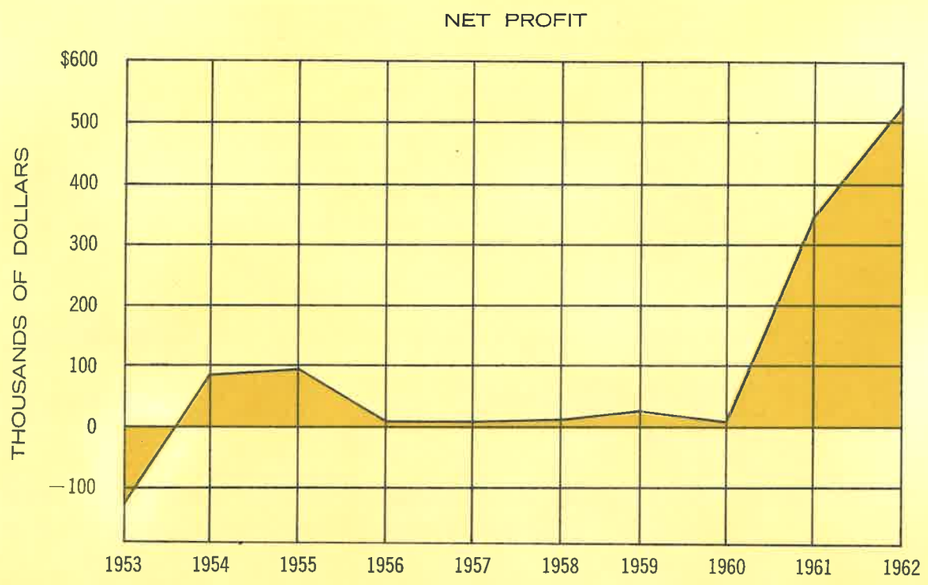
Route development

North Central serves 90 cities in 10 Midwest states and Canada over its 7000-mile system. This is one of the nation's largest airlines in number of cities served. During 1962 the company continued to pursue its aggressive route development program by applications to the Civil Aeronautics Board for new routes, for acquisition of segments and cities now served by trunk airlines, and for greater operating flexibility on existing routes.

A summary of pending applications follows:

SIOUX CITY-NORFOLK-DENVER—North Central has applied for a route between the coterminals Sioux City, Iowa and Norfolk, Nebraska and the terminal point Denver, Colorado. The 480-mile segment would add Denver and the State of Colorado to the system and strengthen the entire western portion of the airline.

OMAHA-ST. LOUIS—Still pending is the company's application for a 400-mile segment between Omaha and St. Louis, via Chillicothe and Moberly, Missouri. This would be North Central's first entry into Missouri, and three new cities would be added.



A newly-acquired hangar at the Minneapolis/St. Paul main operations base now provides over 30,000 square feet of floor space for line maintenance and 8,000 square feet of office space. A work dock, shown at left, greatly facilitates Convair maintenance.

OMAHA-KANSAS CITY—This application would establish North Central service between Omaha and Kansas City, Kansas, with stops at Falls City, Nebraska and Atchison, Kansas. The 169-mile route would add the State of Kansas and three cities to the airline's system.

RAPID CITY-OMAHA—During 1962 the company filed an amendment to the Omaha-Kansas City application to include a route between Norfolk, Nebraska, and Rapid City, South Dakota, with nonstop authority between Rapid City and Omaha.

FORT WAYNE-MUNCIE AREA INVESTIGATION—This case includes North Central's consolidated applications for service between (1) Chicago and Cleveland via South Bend and Fort Wayne, Indiana and Toledo, Ohio; (2) Chicago and Dayton, Ohio via South Bend and Fort Wayne; (3) Indianapolis, Indiana and Detroit via Muncie and Fort Wayne, Indiana; Lima and Toledo, Ohio; (4) Fort Wayne and Grand Rapids, Michigan via Kalamazoo. The routes would add six cities to the company's system.

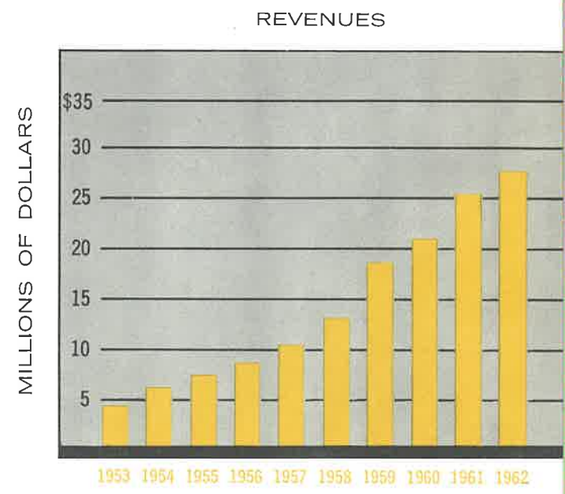
The Board will also consider whether or not to suspend Trans World Airlines at South Bend and Fort Wayne, Delta Air Lines at Fort Wayne and Toledo, and to impose a long-haul restriction on United Air Lines at its intermediate points between Chicago and Cleveland.

The case was heard by a C.A.B. examiner in Fort Wayne in September 1962, and an initial decision is expected in 1963.

MONTANA-NORTH DAKOTA-SOUTH DAKOTA ROUTES—An application for routes in Montana, North Dakota, and South Dakota would add 1,376 route miles, 12 cities, and the State of Montana to the North Central system.

Included are routes between:

Rapid City, South Dakota and Bismarck/Mandan, North Dakota via Lemmon, South Dakota and Dickinson, North Dakota.



The venerable, reliable Douglas DC-3 made scheduled airline service possible. North Central operates 29 of these aircraft over its 7,000-mile system in 10 states and Canada. The DC-3 Northliner carries 26 passengers and a crew of three, and cruises at 180 miles an hour at 10,000 feet.

Bismarck/Mandan and Billings, Montana via Minot and Williston, North Dakota; Sidney, Glendive, and Miles City, Montana.

Minot and Great Falls, Montana via Williston; Sidney, Wolf Point, Glasgow, and Havre, Montana.

Great Falls and Billings via Lewistown, Montana.

DETROIT-TORONTO—North Central's application for a nonstop route between Detroit and Toronto, Ontario, Canada is still pending. A reopening of the Bilateral Treaty between the United States and Canada is necessary for consideration of this application.

MICHIGAN POINTS INVESTIGATION—This proceeding was instituted by the C.A.B. to investigate service to several Michigan cities. Included in the case is North Central's application for a route between Saginaw/Bay City/Midland and Chicago via Muskegon. The company has requested suspension of United Air Lines' authority to serve Saginaw/Bay City/Midland, Flint, Lansing and Muskegon.

Also under consideration in this case is the suspension of certain Michigan cities under the Board's "use it or lose it" policy and service to others through regional airports. A hearing in this case will probably be held sometime in 1963.

OPERATING FLEXIBILITY APPLICATIONS—Several pending applications to the C.A.B. would allow North Central greater operating flexibility on certain existing segments while continuing to serve the intermediate cities on other flights.

The company seeks authorization between Minneapolis/St. Paul and Chicago for (1) nonstop service; (2) one-stop via Milwaukee, Wisconsin; (3) one-stop via Madison, Wisconsin; and (4) three-stop via LaCrosse, Madison and Milwaukee. These modifications would permit use of Convair aircraft, create more available seats for long-haul passengers, and increase the company's revenues.

North Central is continuing to operate nonstop between Madison and Chicago on an interim basis until a final C.A.B. decision is reached on an application for permanent authority.

The company also has an application for nonstop Chicago-Cleveland service.

"USE IT OR LOSE IT" PROCEEDINGS—Two North Central routes and four Michigan cities are now under investigation by the Board under its "use it or lose it" policy.

One route is from Duluth, Minnesota/Superior, Wisconsin to Port Arthur/Fort William, Ontario, Canada; and the other, from Hancock/Houghton, Michigan to Port Arthur/Fort William. The hearing examiner has recommended that service be retained on the Duluth/Superior route and suspended on the Hancock/Houghton segment. A final decision is expected later in 1963.

The Michigan cities to be considered under the "use it or lose it" policy are Pontiac, Cadillac/Reed City, and Port Huron. The matter is part of the Michigan Points Investigation.

REGIONAL AIRPORT INVESTIGATIONS—During 1962, the Civil Aeronautics Board instituted its second Area Airport Investigation to determine whether or not eight combinations of cities on North Central's system should be served through regional airports. The C.A.B. stated in its order that "the concentration of the services provided to an area through the use of one airport will often improve the service offered by both scheduled airlines and general aviation at reduced costs." North Central was selected for study "because its routes involve the greatest number of adjacent points, which may be served through a single airport, authorized to any individual local carrier."

The following combinations of cities were included in the Area Airport Investigation: (1) Ashland, Wisconsin-Ironwood, Michigan; (2) Appleton-Oshkosh, Wisconsin; (3) Clintonville-Green Bay, Wisconsin; (4) LaCrosse, Wisconsin-Winona, Minnesota; (5) Land O'Lakes-Rhinelander, Wisconsin; (6) Marshfield-Wausau, Wisconsin; (7) Marshfield-Wisconsin Rapids/Stevens Point, Wisconsin; (8) Wausau-Wisconsin Rapids/Stevens Point.

A hearing in this case is set for May 1963.

In the Michigan Points Investigation, the Board will consider whether or not the following combinations of cities should receive service through area airports: (1) Battle Creek-Kalamazoo, Michigan; (2) Grand Rapids-Muskegon, Michigan; (3) St. Joseph/Benton Harbor, Michigan-South Bend, Indiana; (4) Jackson-Lansing, Michigan; (5) Flint-Saginaw/Bay City/Midland, Michigan.

In the same investigation, if service should be suspended at Cadillac/Reed City, Pontiac, and Port Huron, Michigan under the "use it or lose it" policy, then the Board will also determine if service should be provided through regional airports.

The Convair 440 Super Northliner, luxury aircraft of the North Central fleet, provides air conditioned, pressurized cabin comfort for its 44 passengers. Cruising at 289 miles an hour at 20,000 feet, the Convair is equipped with weather radar and high-intensity Honeywell-Atkins Maximum Safety wingtip lights. The company operates 18 Super Northliners.

Traffic growth

North Central again led the nation's 13 regional airlines by setting a new passenger traffic record in 1962. For the third consecutive year, boardings exceeded the million mark when 1,123,393 passengers flew the Route of the Northliners.

In August the company carried 113,069 passengers—another high in the regional airline industry. On August 31 a new daily mark was reached with 4,511 passengers, 226 more than the previous high set by North Central in June 1961.

A record 25,346,399 pounds of cargo was carried for the year. This includes 9,150,336 pounds of air freight, an increase of 20 per cent over 1961; 9,468,158 pounds of air express, 14 per cent ahead of last year; and 6,727,905 pounds of air mail and surface mail, four per cent above 1961.

While continuing to set the industry traffic pace, the company also maintained its perfect 15-year safety record, again receiving the Award of Honor, highest citation conferred by the National Safety Council. Since beginning scheduled service in 1948, North Central has carried 7,500,000 passengers and flown 1,210,000,000 passenger miles without a single fatality or injury to passengers or crew members.

Improved services

North Central's service to the traveling public increased seven per cent over 1961 with 468,244,632 seat miles being provided. In operating performance, the company maintained one of the most outstanding records in the entire airline industry. North Central flew 14,958,444 of its 15,164,587 scheduled miles for a completion factor of 98.6 per cent. On-time performance reached a new high of 80.7 per cent. This means that of the airline's 188,838 flight arrivals, 81 per cent were on time.

Aircraft utilization also remained high with Convairs averaging six hours, 18 minutes a day; and DC-3's six hours, 17 minutes.

Consolidation of reservations offices to reduce costs and increase service efficiency continued during 1962 as Madison and Beloit/Janesville reservations were moved to Milwaukee; Duluth/Superior to Minneapolis/St. Paul; South Bend to Chicago; and Kalamazoo to Battle Creek. The Milwaukee reservations center was transferred from General Mitchell Field to the downtown area, increasing present space to 3,700 square feet, and providing for future expansion to 11,000 square feet as further consolidations are made.

Downtown city ticket offices in Milwaukee, Minneapolis, and St. Paul were moved to new buildings and remodeled to provide better passenger service at more convenient locations.

During 1962, more than 16,000 sales calls were made over the system by North Central District Traffic and Sales Managers and Representatives. These personal calls were in addition to the regular public relations and traffic responsibilities of these sales people.

New facilities

The year saw many dramatic additions and improvements to the company's system-wide facilities which will provide a more efficient, economical operation and insure North Central's continued leadership among the regional airlines.

In January, North Central moved its Twin Cities station and ticket counter personnel to enlarged quarters in the new terminal building at the Minneapolis/St. Paul International Airport. Flight crews and some line maintenance crews have also been transferred to the terminal.

Early in 1962, all Chicago operations were consolidated at O'Hare International Airport. North Central's newly expanded ticket counter, station and ramp areas have greatly improved passenger service there. The company also added a closed circuit television at Chicago to transmit flight information for passenger convenience and employee efficiency.

Our 150 stewardesses are expertly trained and qualified to serve North Central passengers courteously and efficiently. They welcome the more than one million persons who annually travel the Route of the Northliners.

North Central acquired 65,000 square feet of additional floor space, during 1962, for expansion of its Minneapolis/St. Paul general offices and main operations base. This nearly doubled the company's work area. The extensive program of remodeling for all departments was completed in the fall. The airline presently occupies six buildings on the west side of the Minneapolis/St. Paul Airport.

In 1962, North Central became the world's first scheduled airline to install the Honeywell-Atkins Maximum Safety light on its Convairs. Its signals are visible up to 70 miles—four times the visibility of the present rotating anti-collision lights. The high-intensity xenon strobe lights flash 160 times a minute forward, 80 times a minute to the side, and 40 to the rear. Not only does the light attract immediate attention, but pilots of other aircraft can determine the direction of flight by observing the flash rate.

An automatic data collection system was added in August. This new installation collects information daily, from the Minneapolis, Chicago, and Detroit bases, on maintenance man-hours. A distribution is then made showing man-hours spent each day by aircraft, job, and individual. Work progress reports which formerly took weeks to prepare are now available the following day. This system allows for scientific scheduling of routine overhaul and line maintenance work, immediate and efficient shifting of work loads for non-routine jobs, and improved supervision —all at a reduced cost. The program will be expanded in 1963 for other data collection applications in the company.

Management development

The Board of Directors named two new company officers following the 1962 annual stockholders' meeting. D. F. May was elected Assistant Treasurer, and Charlotte G. Westberg, Assistant Secretary.

During 1962, three positions in the Traffic and Sales Department were created to improve reservations efficiency. A District Supervisor of Reservations and Ticketing was appointed for the western region of the airline, and another for the eastern area. These two supervisors are responsible for system-wide administration of reservations and ticketing procedures at the stations. Also added was a Manager of Space Control, assigned to the Chicago reservations office. He is responsible for determining seat availability and assignment on flights over the entire system to insure

North Central is the world's first scheduled airline to install the Honeywell-Atkins Maximum Safety light on its aircraft. The high intensity strobe lights flash 160 times a minute forward, 80 a minute to the side, and 40 a minute to the rear. By observing the flash rate, pilots of other aircraft can determine direction of flight.

maximum utilization of space and efficient passenger service.

Looking to the future

North Central's 1962 revenues, a record for the regional airline industry, are a strong indicator of the company's potential earnings. New routes, elimination of unprofitable segments and cities, addition of larger aircraft, and a continuing cost control program will contribute to a successful future.

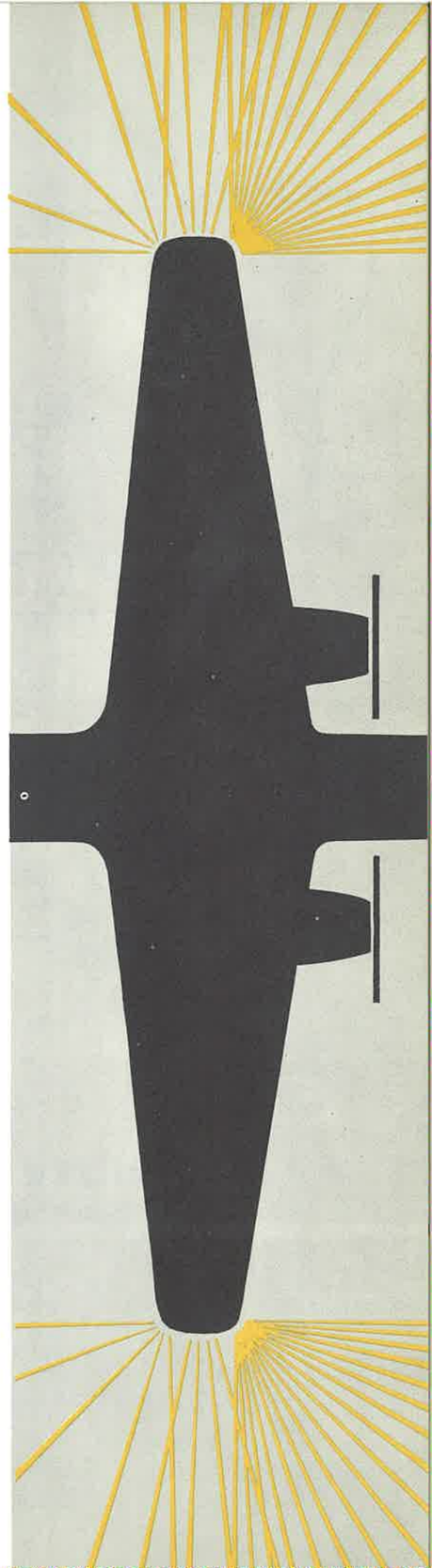
Management is optimistic that a stronger system network and more profitable operation will result from the favorable regulatory climate in Washington. Factors in the Civil Aeronautics Board's program for strengthening the regional airlines' route structures are: the "use it or lose it" policy which aims at eliminating unprofitable cities which do not generate a minimum of five enplaned passengers daily and segments that do not average a minimum of seven passengers per flight; relaxation of operating restrictions to permit nonstop and skip-stop authority on existing routes; transfer of segments and cities from trunk airlines to the regional carriers which are able to serve the short-haul traffic more efficiently; and the regional airport concept aimed at encouraging use of a single airport to serve adjacent communities. These factors will improve service and thereby increase revenues, while reducing operating costs.

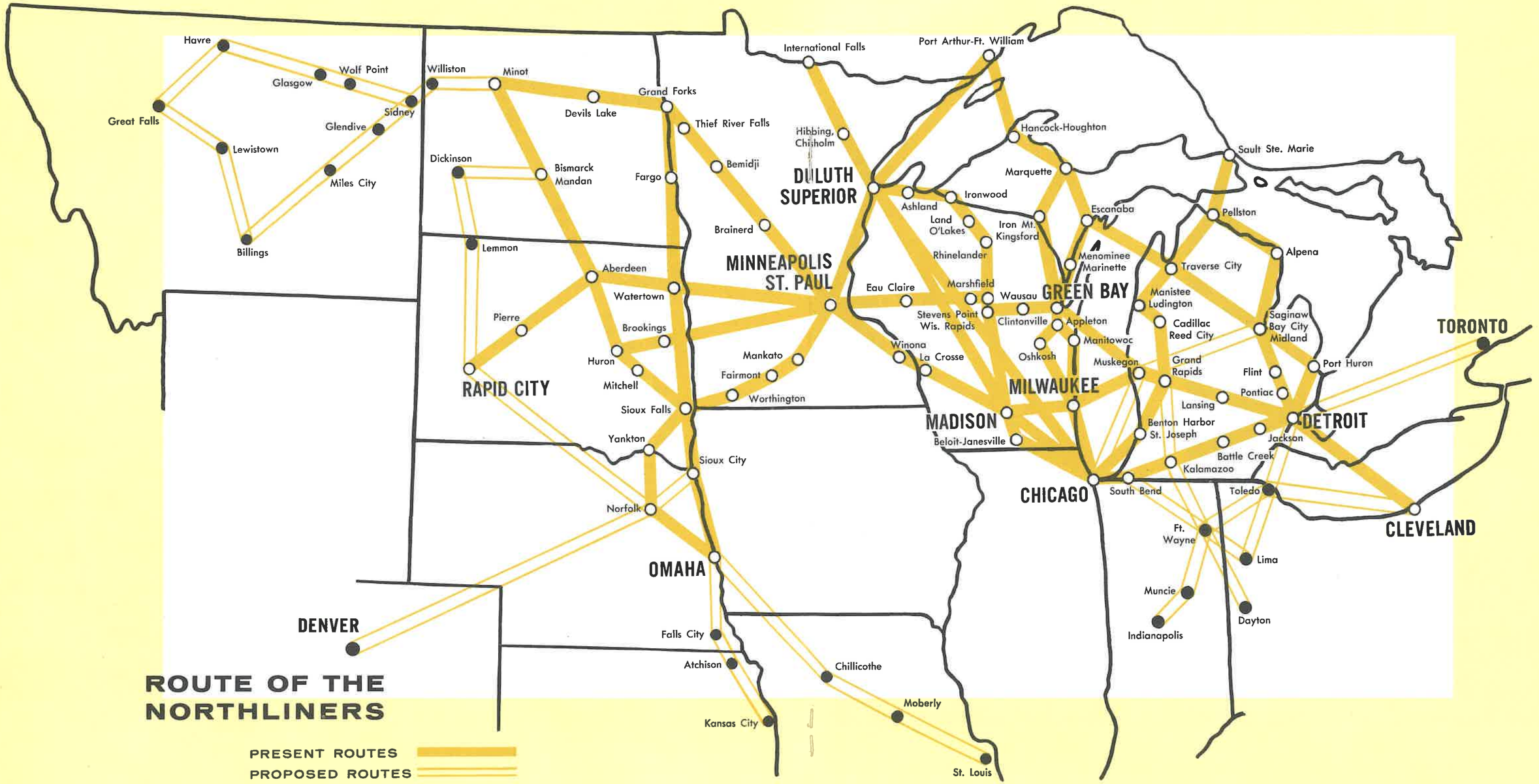
The C.A.B.'s program of strengthening the regional airline routes will also increase the carriers' earnings potential—thus implementing the Board's efforts to reduce public service payments.

North Central's re-equipment program is progressing toward the eventual replacement of the DC-3's with Convair 440's, or short-haul jet aircraft, resulting in greater capacity and comfort, reduced costs, and increased profits.

The company will continue to investigate the possibility of mergers with other regional carriers. North Central's leading position in the industry insures that any future merger would benefit the company substantially.

The future has never been brighter for the airline. Record revenues attained in 1962 can be expected to increase in the years ahead through traffic growth, system development, and the acquisition of larger aircraft. With a continuation of the company's intensive cost control program, North Central can anticipate record earnings again in 1963.



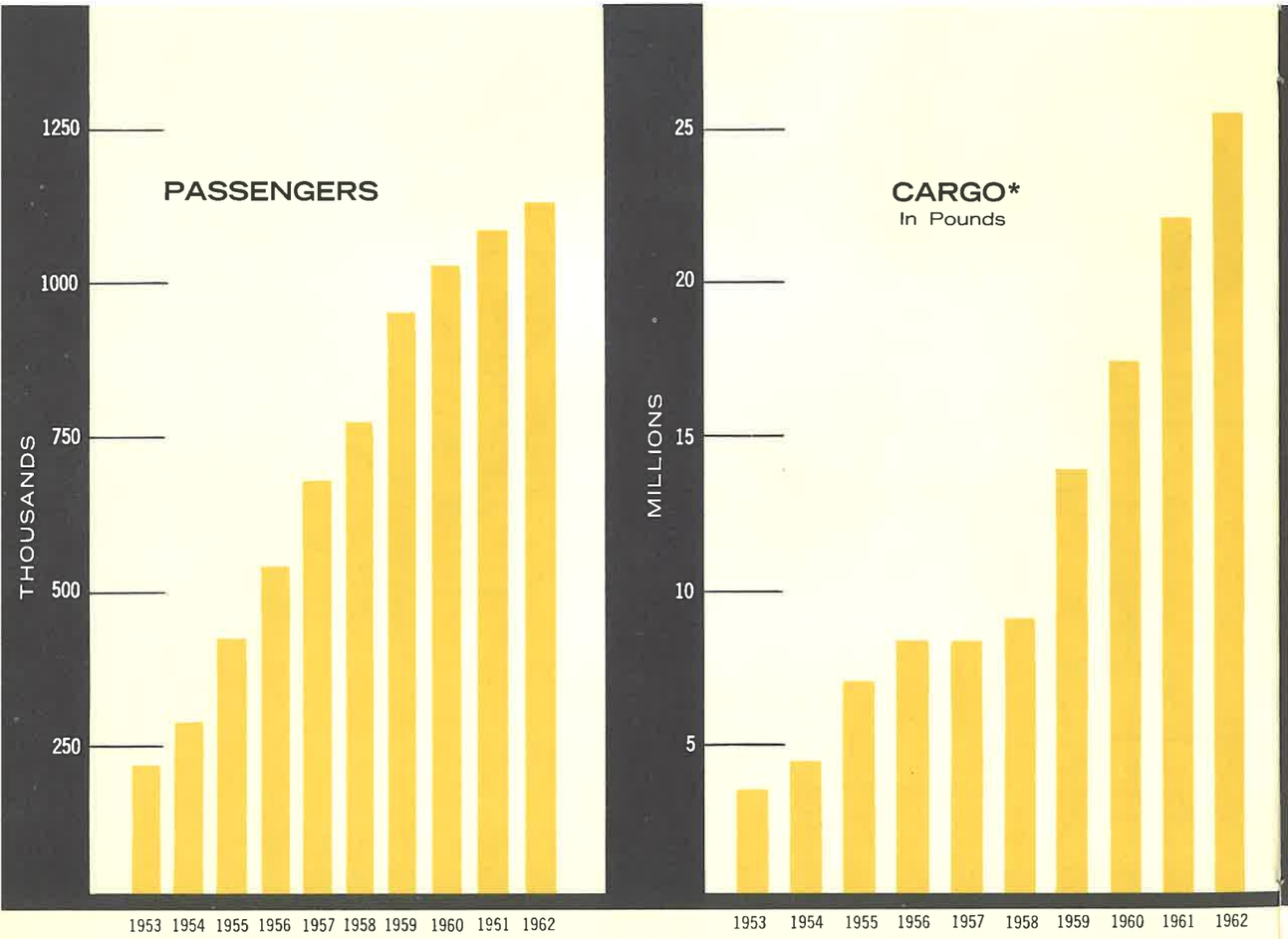


ROUTE OF THE NORTHLINERS

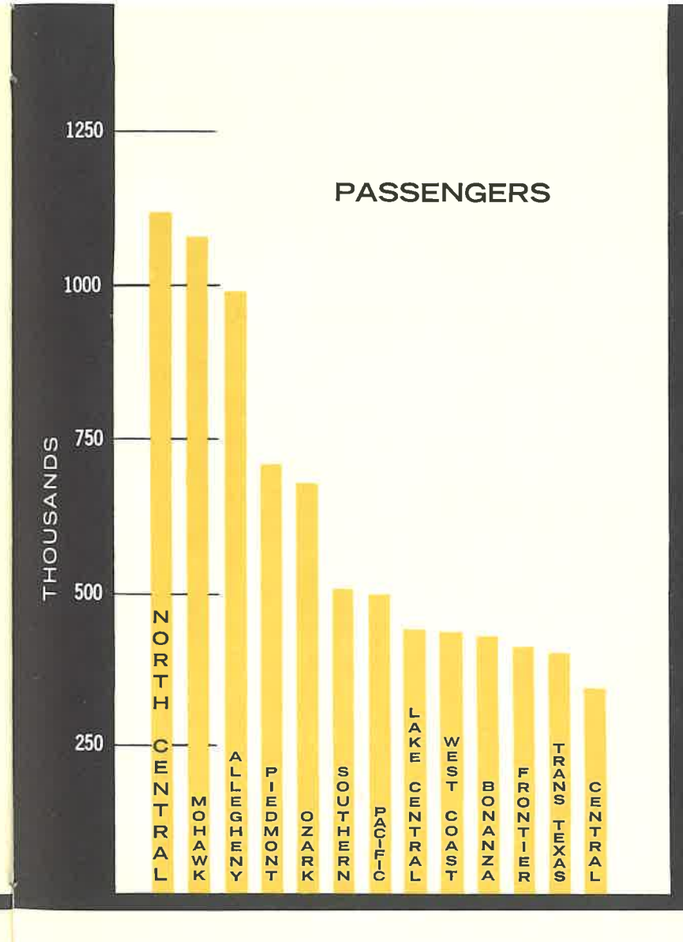
PRESENT ROUTES

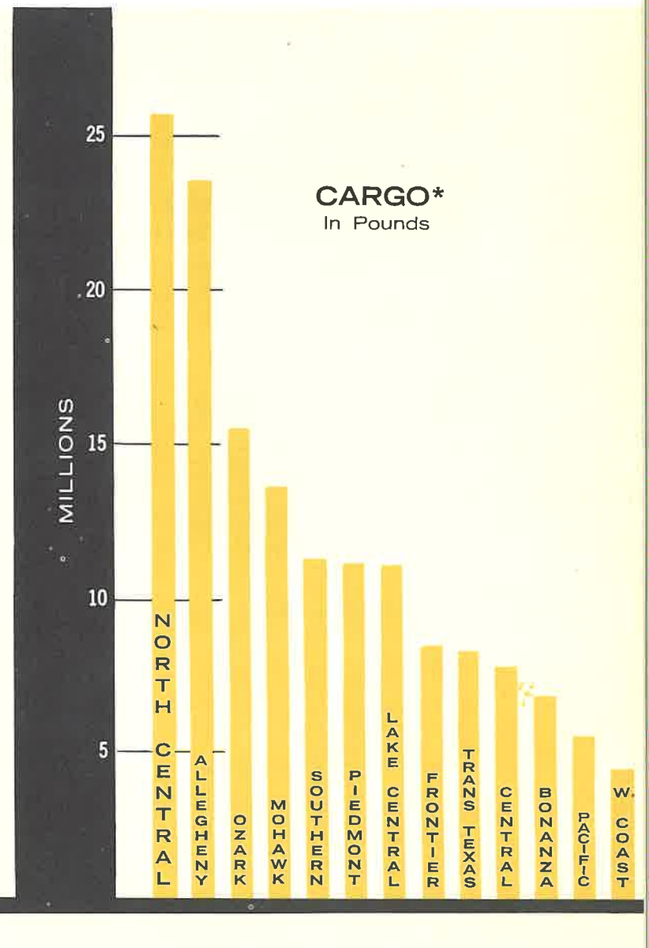
PROPOSED ROUTES

America's Leading Regional Airline... *Continuing record of growth and progress... First in passengers and cargo*



*Includes Express, Freight and Mail





*Includes Express, Freight and Mail

North Central Airlines, Inc.—*Balance Sheet December 31, 1962*

Assets

Current Assets

Cash		$ 427,784
Accounts receivable		
Mail	$ 996,067	
Traffic	2,068,557	
Other	358,515	3,423,139
Flight equipment parts, at average cost (less deterioration reserves of $100,755)		995,569
Maintenance and operating supplies		267,184
Prepaid expenses and sundry deposits		582,947
Total current assets		5,696,623

Operating Property and Equipment—at cost

Flight equipment (Note 1)	11,534,569	
Ground equipment	1,131,181	
Hangar buildings and improvements to leased property	636,407	
Furniture and fixtures	312,485	
	13,614,642	
Less accumulated depreciation	5,538,658	8,075,984

Deferred Charges

Route development and aircraft preoperating costs	225,301	
Rentals	201,361	
Unamortized discount and expense on debt	49,882	
Other	33,717	510,261
		$14,282,868

The accompanying notes are an integral part of this statement.

Liabilities

Current Liabilities

Current maturities of long-term debt		$ 1,090,884
Accounts payable		
Trade	$ 1,404,991	
Traffic	1,530,433	2,935,424
Unearned transportation revenue		161,096
Taxes withheld or collected as agents		357,910
Income taxes		602,365
Accrued liabilities		
Salaries and wages	652,651	
Payroll and property taxes	121,811	
Other	366,326	1,140,788
Total current liabilities		6,288,467

Long-Term Debt (Note 1 and Note 2)

6% notes payable to banks	5,716,000	
Other notes payable, collateralized in part by pledge of certain equipment, payable in monthly installments	510,001	
	6,226,001	
Less current maturities	1,090,884	5,135,117

Deferred Credits

Deferred income taxes (Note 5)	96,000	
Deferred Federal investment tax credit	22,558	118,558

Stockholders' Equity

Common stock—authorized, 10,000,000 shares of $.20 par value; issued and outstanding, 8,699,421 shares; reserved on subscription, 32,617 shares	1,746,407	
Paid-in capital	298,548	
	2,044,955	
Retained earnings	695,771	2,740,726
		$14,282,868

North Central Airlines, Inc.

Statement of Earnings—*Year ended December 31, 1962*

TRANSPORTATION REVENUES		
Passenger		$16,799,514
U.S. Mail		465,482
Public Service Revenue (after excluding $316,225 profit-sharing to Government)		8,526,611
Express		378,831
Freight		563,311
Excess baggage		142,602
Non-scheduled transport service		130,823
Other		152,377
		27,159,551
OPERATING EXPENSES		
Flying operations	$ 7,198,439	
Flight equipment maintenance	3,420,846	
Other maintenance	2,254,511	
Passenger service	1,303,025	
Aircraft and traffic servicing	7,274,824	
Promotion and sales	1,948,217	
General and administrative	1,043,987	
Depreciation (Including $92,570 of extension and development expense)	1,190,630	25,634,479
Operating profit		1,525,072
OTHER DEDUCTIONS		
Interest	312,002	
Sundry	23,012	335,014
Earnings before income taxes		1,190,058
INCOME TAXES		
States	39,000	
Federal, less current year amortization ($2,402) of investment credit	616,725	655,725
NET EARNINGS		$ 534,333

The accompanying notes are an intregal part of this statement.

Statements of Retained Earnings and Paid-In Capital—

Year ended December 31, 1962

RETAINED EARNINGS	
Retained earnings—December 31, 1961	$289,213
Net earnings for the year	534,333
	823,546
Income taxes on 1961 mail subsidy received in 1962	127,775
Retained earnings—December 31, 1962	$695,771
PAID-IN CAPITAL	
Paid-in capital—December 31, 1961	$ 17,085
Excess over par value on sale of 85,714 shares of common stock	282,856
	299,941
Commission paid on sale of common stock	1,393
Paid-in capital—December 31, 1962	$298,548

The accompanying notes are an integral part of this statement.

Notes to Financial Statements—*December 31, 1962*

1. FLIGHT EQUIPMENT AND LONG-TERM DEBT

During the year, the company acquired six additional Convair 340/440 aircraft and entered into loan agreements with two banks supplemental to the one dated September 15, 1961. The supplemental agreements provide for the borrowing of an additional $2,326,000, which was used to pay for two of the aircraft and related spare parts and for working capital. The other four aircraft and related spare parts were financed through $1,485,000 of term debt due in 1963. All aircraft owned by the company, along with related spare parts, are pledged as security on the loans.

A provision of the agreement requires the company to maintain current assets in excess of current liabilities by at least $250,000, after April 1, 1962, exclusive of amounts due the noteholders.

2. WORKING CAPITAL

The $1,485,000 of term debt due in 1963 is classified as long-term debt on the premise that present financing now being negotiated will be consummated. The company anticipates that the proposed financing will negate the requirement that this debt be presently classified as a current liability. Should such financing not materialize, current liabilities at December 31, 1962 should then be restated from $6,288,467 to $7,773,467 and long-term debt would decrease accordingly.

3. LONG-TERM LEASES

The company has a forty-year lease covering hangar and terminal facilities at Chicago's O'Hare International Airport. A lease at Detroit's Willow Run Airport expires in 1967, and the leases for terminal and hangar facilities at Minneapolis-St. Paul are being negotiated. Management anticipates the cost of leased facilities at these three major locations, including landing fees where a long-term contingency exists, to approximate $600,000 annually.

4. PENSION PLAN

The company contributes annually to a Pilots' Retirement Plan which was established in 1956. The contribution for the year 1962 amounted to $317,862 and at December 31, 1962 substantially all unfunded past service liability was paid.

An amendment to the Plan provides that the company assume the liability for pilots' contributions after March 31, 1962. In 1962, $94,994 of such cost is charged against operations.

5. INCOME TAXES

Federal income tax returns through the year 1959 have been reviewed by the Treasury. Returns for the three subsequent years are open to review. Income tax returns required by the States of Minnesota and Wisconsin have also been reviewed through 1959. There are no unpaid assessments resulting from any examination.

Revenues for 1962 include $172,553 of mail pay subsidy held back by the Government. This income is not reportable, for tax purposes, until the year ended December 31, 1963, and the tax liability of approximately $96,000 is shown as deferred income taxes on the balance sheet.

CHICAGO
NEW YORK
LOS ANGELES

ALEXANDER GRANT & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
312 EAST WISCONSIN AVENUE
MILWAUKEE 2, WISCONSIN

OTHER
PRINCIPAL
CITIES

Stockholders and Directors
North Central Airlines, Inc.

February 1, 1963

We have examined the balance sheet of NORTH CENTRAL AIRLINES, INC. (a Wisconsin corporation) as of December 31, 1962 and the related statements of earnings and 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; it was not practicable to confirm receivables from United States Government departments and agencies but we satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, except for the effect of the classification of certain liabilities as long-term debt, as described in Note 2 of Notes to Financial Statements, the accompanying balance sheet and statements of earnings and retained earnings and paid-in capital present fairly the financial position of North Central Airlines, Inc. at December 31, 1962 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.

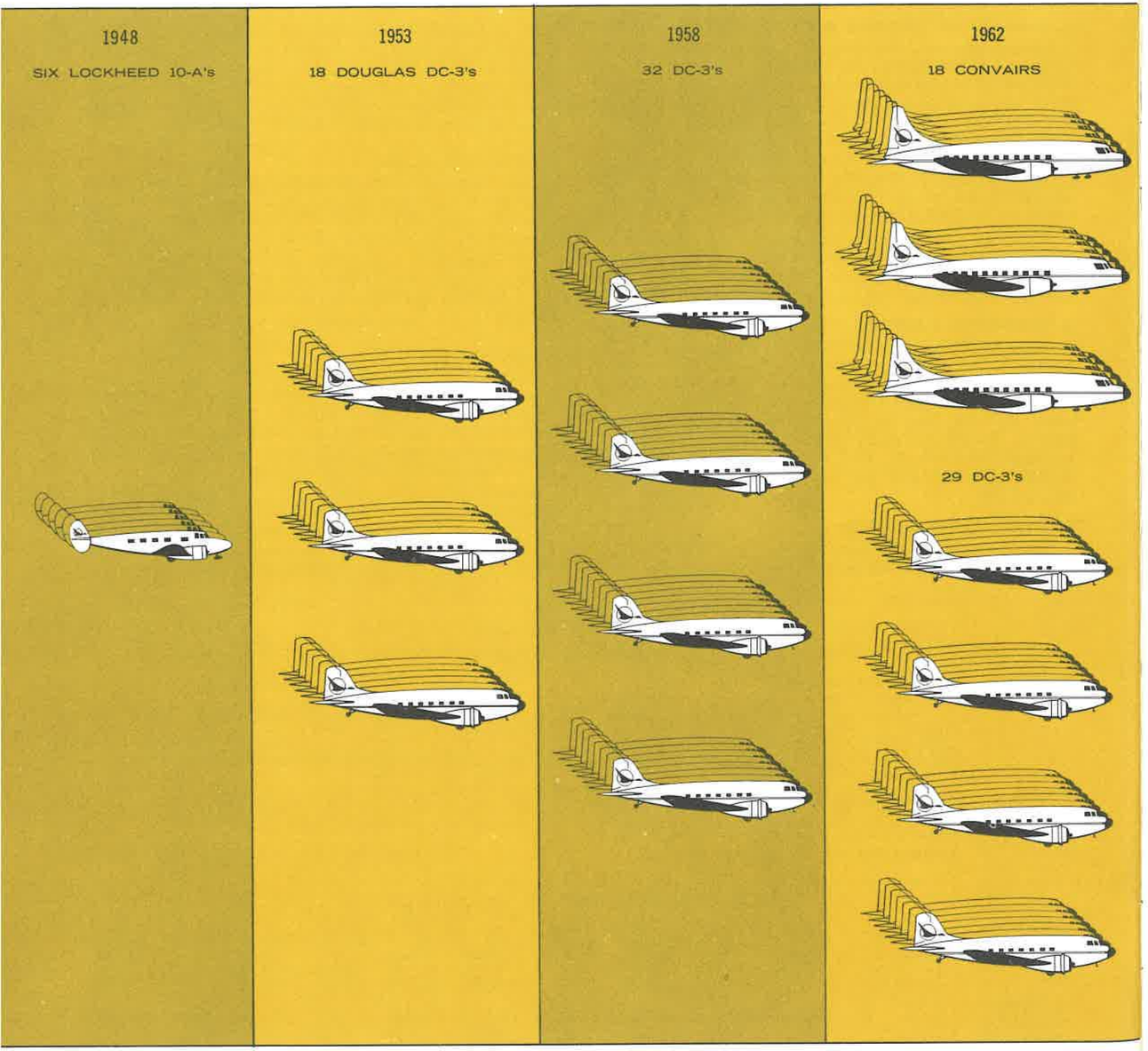
Milwaukee, Wisconsin

Alexander Grant & Company

10-YEAR FINANCIAL SUMMARY

	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953
Operating Revenues										
Passenger	$16,799,514	$15,631,735	$12,660,869	$11,388,135	$ 8,702,455	$ 7,372,333	$6,137,216	$4,933,487	$3,351,782	$2,303,738
Mail and Public Service Revenue	8,992,093	8,466,678	8,054,111	6,239,756	3,698,395	2,839,163	1,538,215	1,689,890	2,328,921	2,468,685
Other	1,367,944	1,112,046	886,554	790,090	657,961	504,017	324,910	194,628	148,622	114,974
TOTAL	$27,159,551	$25,210,459	$21,601,534	$18,417,981	$13,058,811	$10,715,513	$8,000,341	$6,818,005	$5,829,325	$4,887,397
Operating Expenses										
Direct Expenses	$12,873,796	$12,405,644	$10,815,675	$ 7,924,030	$ 5,849,305	$ 4,811,661	$3,538,274	$2,853,134	$2,448,640	$2,104,078
Indirect Expenses	11,570,053	10,766,044	9,653,514	9,315,951	6,550,910	5,426,616	4,020,375	3,271,207	2,702,111	2,399,016
Depreciation	1,098,060	1,021,474	787,177	859,102	583,174	452,993	301,161	470,169	535,557	428,308
TOTAL	$25,541,909	$24,193,162	$21,256,366	$18,099,083	$12,983,389	$10,691,270	$7,859,810	$6,594,510	$5,686,308	$4,931,402
Net Operating Profit (or Loss)	$ 1,617,642	$ 1,017,297	$ 345,168	$ 318,898	$ 75,422	$ 24,243	$ 140,531	$ 223,495	$ 143,017	$ (44,005)
Amortization of Route Development Expense	(92,570)	(88,924)	(100,866)	(98,295)	(16,869)	(17,124)	(48,055)	(57,540)	(7,665)	(15,397)
Non-operating Income and Expenses, Net	(335,014)	(269,483)	(229,282)	(183,364)	(43,472)	(54,709)	(36,085)	(50,051)	(55,130)	(59,965)
Net Profit (or Loss) Before Taxes	$ 1,190,058	$ 658,890	$ 15,020	$ 37,239	$ 15,081	$ (47,590)	$ 56,391	$ 115,904	$ 80,222	$ (119,367)
Income Taxes	655,725	305,776	-0-	4,542	-0-	(60,103)	45,700	18,000	-0-	-0-
Net Profit (or Loss) After Taxes	$ 534,333	$ 353,114	$ 15,020	$ 32,697	$ 15,081	$ 12,513	$ 10,691	$ 97,904	$ 80,222	$ (119,367)

Growth of the North Central fleet



This chart shows the dramatic growth of the North Central fleet from the first year of operation through 1962. With six nine-passenger Lockheed 10-A's in 1948, the fleet has grown steadily until it now includes 29 Douglas DC-3's and 18 Convairs. Equipment plans call for the eventual replacement of the DC-3 with Convairs or short-haul jet aircraft.

North Central has maintained a perfect 15-year safety record and, every year of its operation, has been awarded a citation by the National Safety Council. Since starting scheduled service in 1948, the airline has carried 7,500,000 passengers and flown 1,210,000,000 passenger miles without a single fatality or injury to passengers or crew members.

NORTH CENTRAL AIRLINES, INC.
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