

North Central Airlines

ANNUAL REPORT

1965

# NORTH CENTRAL AIRLINES, INC.

**GENERAL OFFICES:** 6201 Thirty-Fourth Avenue South, Minneapolis, Minnesota 55450

## BOARD OF DIRECTORS

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*\*Executive Committee*

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HAL N. CARR . . . . . *Chairman of the Board and President*

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FRANK N. BUTTOMER . . . . . *Vice President-Traffic and Sales*

L. J. KEELY . . . . . *Vice President-Maintenance and Engineering*

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

A. D. NIEMEYER . . . . . *Vice President*

ARTHUR E. SCHWANDT . . . . . *Vice President-Industrial Relations*

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

D. F. MAY . . . . . *Treasurer*

JOHN P. DOW . . . . . *Secretary*

JERROLD SCOUTT, JR. . . . . *Assistant Secretary*

CHARLOTTE G. WESTBERG . . . . . *Assistant Secretary*

## STOCK TRANSFER AGENTS

Northwestern National Bank of Minneapolis; Minneapolis, Minnesota

Irving Trust Company; New York, New York

March 11, 1966

## **To our stockholders, employees, and friends:**

In 1965, North Central achieved the greatest year of growth in the company's history. With record traffic and revenues, the airline earned its largest profit.

On revenues of \$33,891,000, net earnings were \$1,139,000—35 per cent greater than 1964. This profit, together with depreciation charges of \$1,997,000, developed cash flow of \$3,136,000.

The Northliners carried 1,616,900 passengers in 1965—almost 20 per cent ahead of 1964. The 263,599 increase in passengers was the largest in the history of the airline. The 40,982,000 pounds of cargo flown—including air freight, express, and mail—was 31 per cent over 1964, the best previous year.

While carrying record traffic, the company continued its excellent operating performance, and completed 98 per cent of its 15,600,000 scheduled miles in 1965. Besides achieving this enviable performance factor, North Central also maintained its perfect 18-year safety record.

In July, a 10-jet program was announced by the company. The airline has ordered Douglas DC-9 jet aircraft for inauguration of service on its system early in 1967. The agreement with the Douglas Aircraft Company includes an initial purchase of five of the new 100-passenger twin-jets, including parts, at a cost of \$20 million and an option for five additional aircraft.

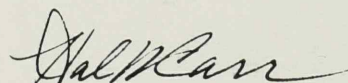
In line with the company's equipment modernization program, six more pressurized Convair 440 aircraft were added during the year and one early in 1966, bringing the fleet to 30 Convairs and 16 DC-3's. Over 90 per cent of the airline's seat miles are now flown with Convairs.

The company continued to pursue its program of route development. During 1965, the airline petitioned the Civil Aeronautics Board for a route from Sioux Falls, South Dakota, to Chicago via Rochester, Minnesota. The Board approved North Central's application to remove operating restrictions on its route between Duluth/Superior and Chicago. This action allows the company greater flexibility in scheduling and will improve service between these points and many Wisconsin communities.

In reviewing the growth of North Central in 1965, we would like to acknowledge the loyalty of our employees and their contribution to the airline. To our stockholders, we extend our gratitude for their confidence in the company. To our Northliner passengers, we want to express our sincere appreciation for their continued support.

We believe that the company's prospects for the future have never been more promising. North Central can look forward in 1966 to another year of record traffic, revenues, and profits.

*Sincerely,*



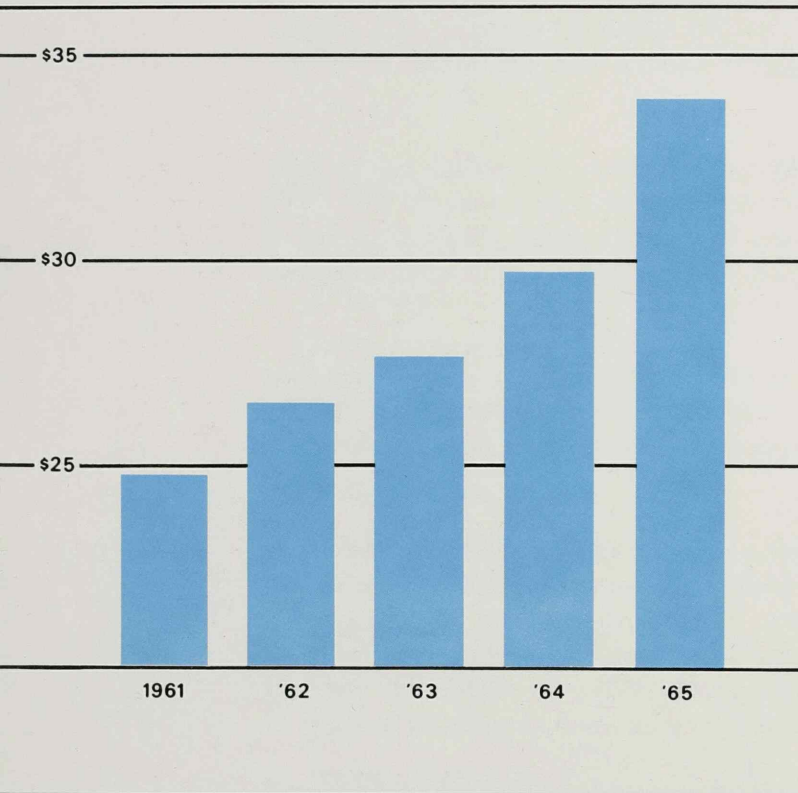
HAL N. CARR

*Chairman of the Board and President*



## Annual Report 1965

### Financial review



● REVENUES (MILLIONS OF DOLLARS)

**R**ECORD PROFITS of \$1,138,752 were attained by North Central in 1965—35 per cent ahead of 1964. Revenues reached an all-time high of \$33,891,031, compared with \$29,714,777 in the previous year.

With operating expenses for 1965 of \$31,324,601, including \$1,997,488 in depreciation charges, the company realized an operating profit of \$2,566,430. The net profit was \$1,138,752, after income taxes of \$1,013,765. It is significant that the net earnings, together with the \$1,997,488 in depreciation, resulted in cash flow of \$3,136,240.

The company earned the profit of \$1,138,752 despite the fact that \$760,000 in excess profits were returned to the Federal Government under the class rate for regional airlines. North Central's record commercial revenues combined with its effective cost control program placed the company in this profit-sharing position for the fifth consecutive year.

During 1965, a \$17-million line of credit for financing the airline's jet acquisition program was established with a group of 15 banks at an interest rate of  $5\frac{1}{4}$  per cent. This extremely favorable rate was obtained because of North Central's strong financial position—the best in its 18-year history.

## SUMMARY OF DECISIONS RENDERED BY THE C.A.B. AFFECTING NORTH CENTRAL DURING THE YEAR AND STATUS OF APPLICATIONS PENDING

### TORONTO SERVICE

Settlement of the Bilateral Air Transport Agreement between the United States and Canada was announced by President Johnson in December 1965 and signed by both parties on January 17, 1966. Among other things, the agreement provides for a Detroit-Toronto route to be operated by a United States local service carrier. The C.A.B. will consider North Central's application for this route sometime in 1966. In addition, the airline has applications on file for three other nonstop routes to the Canadian city: Cleveland-Toronto, Milwaukee-Toronto, and Chicago-Toronto, as well as a one-stop route to Toronto from Chicago via Detroit.

### DETROIT-BALTIMORE

North Central's application for authority to operate between Detroit and Baltimore, with intermediate cities of Cleveland and Pittsburgh, is still pending. This segment of 415 miles would improve the eastern portion of the system by adding the two major cities of Baltimore and Pittsburgh.

### SIoux CITY-DENVER

During 1965, a prehearing conference was held on the company's application for a 480-mile route segment between the terminals of Sioux City, Iowa, and Denver. A formal hearing on this route has been scheduled by the C.A.B. for March 1966. Approval of North Central's application for this route would give new strength to the western segment of the system, and the company would have its first service to the State of Colorado.

### OMAHA-ST. LOUIS

North Central has an application on file for authority to operate a 400-mile segment from Omaha to St. Louis, via the intermediate cities of Chillicothe and Moberly, Missouri. If approved, it would bring a new major terminal—St. Louis—to the system and give the company its first entry into Missouri.

### OMAHA-KANSAS CITY

Service to three new cities has been proposed in the company's application for a 169-mile segment south of Omaha. They are: Falls City, Nebraska; Atchison and Kansas City, Kansas. This would add the State of Kansas to North Central's system.

### RAPID CITY-OMAHA

North Central's amendment to its Omaha-Kansas City application is still pending before the C.A.B. Authorization has been requested between Norfolk, Nebraska, and Rapid City, South Dakota, with nonstop service between Rapid City and Omaha.

### SIoux FALLS-ROCHESTER-CHICAGO

In December 1965, the company applied for a route between Sioux Falls, South Dakota, and Chicago—with one intermediate stop at Rochester, Minnesota. This new route would facilitate air travel from the Dakotas to Rochester and Chicago by making single carrier service available to several cities in these states. It would also add Rochester to North Central's system.

### "USE IT OR LOSE IT" PROCEEDINGS

In February 1965, the C.A.B. rendered its

decision on the company's service to Pontiac, Cadillac/Reed City, and Port Huron, Michigan. Under its "use it or lose it" policy, the Board permitted North Central to suspend service to these communities. In May, the C.A.B. stayed the effective date of this order, as it pertains to Pontiac and Cadillac/Reed City, pending judicial review which is now in progress. A decision by the Sixth Circuit Court of Appeals is expected in 1966.

### OPERATING FLEXIBILITY APPLICATIONS

During 1965, the company petitioned the C.A.B. for the lifting of operating restrictions on flights between Duluth/Superior and Chicago. This request for a change in service pattern was granted by the Board in November. It permits North Central to overfly any intermediate point between Duluth/Superior and Chicago, as well as between Duluth/Superior and Madison, Wisconsin. Nonstop flights can now be scheduled between the Twin Ports and Wisconsin cities. This approval allows the company to provide improved service to these communities.

The Board's action is in accordance with its policy of strengthening the regional airlines by relaxing operating restrictions to permit nonstop and skipstop authority. The company has also requested authority to operate between Minneapolis/St. Paul and Chicago with: 1) nonstop service; 2) one stop, Milwaukee; 3) one stop, Madison; and 4) three stops—La Crosse, Madison, and Milwaukee, Wisconsin.

### TRANSFER INVESTIGATIONS

In line with the C.A.B.'s plan to strengthen regional carriers through transfer of segments and cities from trunk carriers to regional airlines, North Central has an application on file for suspension of United Air Lines at Saginaw/Bay City/Midland, Flint, Lansing, and Muskegon, Michigan. If the Board acts favorably on this application, the company will provide improved replacement service.

### REGIONAL AIRPORT INVESTIGATIONS

The North Central Area Airport Investigation, concerned with combining service to eight cities at regional airports, was completed in 1964 to be effective January 25, 1965.

The Board ruled that, in Wisconsin, Marshfield would be served through the Wausau airport and Wisconsin Rapids, through Stevens Point until a suitable regional airport can be constructed to accommodate these four communities.

The Board also ordered that Appleton will receive its service through the Oshkosh airport and Clintonville through Green Bay. Ashland, Wisconsin will be served through Ironwood, Michigan.

On January 15, 1965, the Board stayed the effective date of this order as it pertained to Ashland, Appleton, and Clintonville, pending judicial review of the Board's decision.

On January 18, 1966, the Seventh Circuit Court of Appeals in Chicago affirmed the previous decision of the C.A.B. In accordance with this ruling, North Central consolidated its service to these points as ordered by the Board.

## Route development

**N**ORTH CENTRAL continued to advance its route development program during 1965. The company made applications to the Civil Aeronautics Board for new routes and for the lifting of operating restrictions on existing segments. At present, the company serves 90 cities in 10 Midwest states and Canada over a 7,000-mile route system.



● The Northliner fleet of 30 Convairs and 16 DC-3's serves 90 cities in 10 Midwest states and Canada.

## Traffic growth

**I**N 1965, North Central broke all traffic records as passenger boardings exceeded 1964 by almost 20 per cent and cargo increased 31 per cent. Some 263,599 more passengers were flown during the year than in 1964. This is the highest passenger increase ever achieved by the airline.

The Northliners carried a record 1,616,900 passengers in 1965. The company flew 273,209,300 passenger miles, a gain of 19 per cent over the previous year.

Two daily records were set on July 2 when 6,330 passengers were carried over the system, and 1,831 of these persons boarded at Chicago—an all-time high for a single station. In August, the company established a new monthly mark for the regional airline industry, with 166,697 passengers carried.

This was the first full year the company offered half-fares to military standby passengers on a space available basis. Nearly 71,000 servicemen and women took advantage of this special fare to fly with North Central. For many, this was their first airline trip.

The company also flew 280 charters and 74 scenics during 1965, and 265,467 additional plane miles were operated. Some 14,483 charter passengers were flown and 6,123 people took scenic trips.

Substantial gains in cargo were also achieved by the company in 1965 as a record 40,982,213 pounds of air freight, express, and mail were carried—a 31 per cent increase over the previous year.

Total cargo ton miles flown were 3,807,677, an increase of 32 per cent over 1964. Air freight ton miles reached 2,073,559—37 per cent ahead; and air express was 1,023,685, a 32 per cent gain. Mail increased 21 per cent during 1965, with 710,433 ton miles flown.

While carrying a record number of passengers in 1965 and the greatest volume of cargo in the airline's history, North Central maintained its perfect 18-year safety record. Since inaugurating service in 1948, the company has flown nearly 12 million passengers 1,918,000,000 passenger miles without a single fatality or injury to passengers or crew members.

Passenger traffic increased nearly 20 per cent in 1965 as 1,616,900 persons flew the Route of the Northliners.



## Operating performance

**T**HE COMPANY achieved an outstanding performance record in 1965, as 98 per cent of its 15,611,988 scheduled miles were flown.

The weather conditions in North Central's area during the winter months were unusually severe and prolonged during 1965. In spite of this, the company again recorded an excellent completion factor, while handling the substantial increase in passengers and cargo.

Exacting maintenance was one of the major factors in this high level of performance. In 1965, only 134 of the company's 180,957 departures—less than one-tenth of one per cent—were cancelled for mechanical reasons, and less than one per cent were delayed.

Again this year, the company's winterization program,

"Operation Cold Front", was put into effect. This plan assures that personnel are properly trained and all ground equipment is in a ready condition for winter operations. New procedures were added to the program in 1965 so that the airline's operating performance would again be significant despite the sub-zero conditions which exist over much of the system.

The company's impressive performance record is a tribute to North Central's employees and their dedication to the task of keeping the Northliners flying.

Besides the scheduled flights, 843 extra sections were operated to provide additional service to the traveling public during peak periods. This represents another 118,145 miles flown by the company in 1965.



# Improved services

**N**ORTH CENTRAL increased its services to the traveling public by providing additional seat miles with the purchase of six more Convair 440 aircraft during 1965, and one in January 1966. This is in accordance with the airline's continuing equipment modernization program to replace its DC-3's with Convairs.

Some 586,492,415 seat miles were flown this year—a 14 per cent increase over 1964. Presently, over 90 per cent of the company's seat miles are operated with pressurized Convairs. North Central's fleet now consists of 30 Convairs and 16 DC-3's.

Northliner Cargo Service was initiated by North Central in April, featuring all-cargo trips to 12 Midwest cities. The specialized flights assure shippers of overnight delivery to these cities. The new service operates in addition to North Central's regularly scheduled flights, which also carry cargo. The Cargoliner Service uses DC-3 aircraft specially equipped for handling 7,000 pounds of cargo in a variety of sizes.

To improve passenger handling, additional teletype equipment was installed at the Chicago, Minneapolis, Madison, and Duluth city ticket offices. This permits the reservations agent to have immediate access to all ticketing information regarding the passenger. Similar units were placed at major airport ticket offices.

Another new service to the traveling public was the installation of television monitors at the airport ticket counters in Milwaukee and Green Bay, like the ones at O'Hare Airport. These monitors allow passengers to determine, at a glance, flight arrival and departure times and gate assignments. This monitor system was also added to North Central's Reservations Center at Milwaukee so that telephone sales agents will have current flight information available to passengers who call in.

The joint airlines' reservations Electronic Switching System was expanded substantially in 1965. North Central was the fourth airline to share this message relay system which permits "instant" exchange of teletype messages on interline reservations.

Now that all the 24 domestic airlines and most foreign

carriers are participants in this program, North Central reservations agents can communicate directly with every "airline city" in the United States and those in most foreign countries. It has also been programmed to handle messages on air cargo and flight operations, as well as administrative business information.

Baggage allowance for North Central's passengers was increased from 40 pounds to 50 pounds in 1965. Also, a new tag is now being used to improve baggage handling.

North Central expanded its credit program in 1965 to include the use of American Express credit cards for on-line transportation. This is in addition to the Universal Air Travel Plan and the company's own credit card.

More than 18,000 personal sales calls were made on North Central customers by the company's traffic and sales representatives. In addition, some 150 speeches were given to further tell the North Central story, and the company's color movie, "The Northliner", was shown to 75 civic, educational, and airline groups.

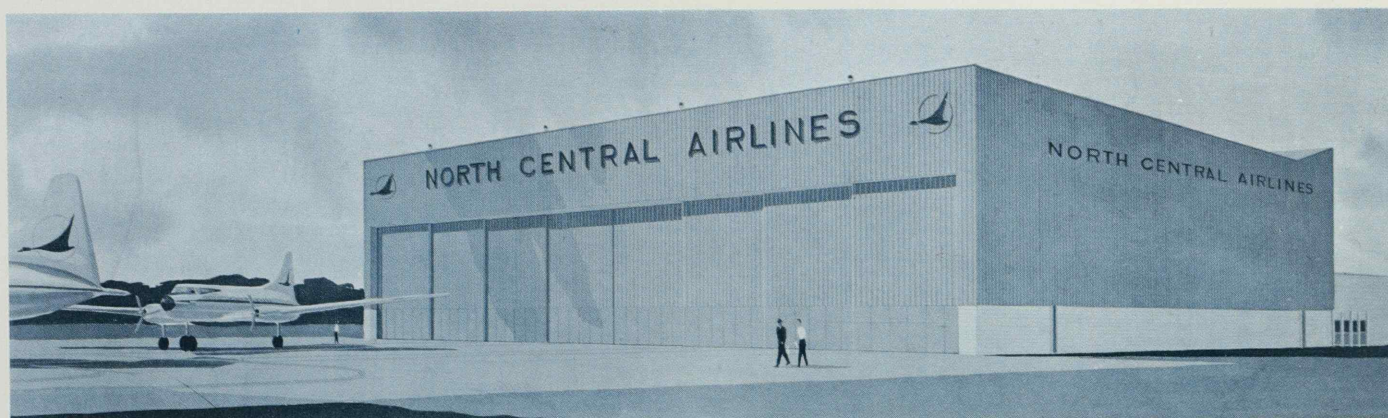
During the year, North Central launched an extensive advertising program. Newspaper and television coverage was expanded. For the first time a specialized series of advertisements designed to emphasize the advantages of business travel by air appeared in Fortune magazine. Unique, colorful travel posters were developed to focus attention on North Central's vacation areas, and over 7,500 were distributed to travel agencies, ski and sports shops by sales personnel.

To further promote vacation and weekend travel, the airline offered several package tours to popular ski resorts on its system and advertised the program widely in The Wall Street Journal and ski magazines.

Three new airport terminal buildings were added to North Central's system in 1965 for Green Bay, Wisconsin; Hibbing/Chisholm, Minnesota; and Port Arthur/Fort William, Ontario, Canada. Remodeling of airport accommodations was accomplished at Minot, North Dakota; La Crosse, Wisconsin; and South Bend, Indiana. Under construction are new terminals for Benton Harbor/St. Joseph and Saginaw/Bay City/Midland, Michigan; Madison, Wisconsin; and Bismarck/Mandan, North Dakota and enlarged facilities at Detroit Metropolitan Airport.

North Central and several other airlines will move from Willow Run Airport at Ypsilanti to the expanded Detroit Metropolitan when it is completed in the Spring of 1966.

● This is North Central's new hangar at Detroit Metropolitan Airport which will be ready for use in April 1966.



In conjunction with this move, the company has constructed a new \$1,725,000 maintenance base at Metropolitan to replace the hangar formerly leased at Willow Run. This base is used to serve the eastern portion of the airline's system.

The telephone answering service at the company's Milwaukee Reservations Center will be greatly improved early in 1966 when a new Call Distributor system is installed. This facility will make 200 telephone lines available to the Milwaukee center, which handles 60 per cent of North Central's reservations, and will speed up the transmission of reservations information. The system will also be used to handle communications concerning baggage, cargo, and flight operations.

In December 1965 the company announced that an agreement had been made to share Eastern Air Lines' computer system which will provide North Central passengers with improved reservations and flight information. The combined operation, using Eastern's Univac 490 computer, will begin in April 1966. The system makes immediate reservations information, as well as arrival and departure times, on North Central available to nearly 70 per cent of the passengers. Also, this same data will be obtainable on 1,300 Eastern flights and those of the three other participating airlines.

In addition, through an "interline availability" arrangement, immediate confirmation can be received on 11 other airlines. This represents 90 per cent of North Central's interline requests. Likewise, immediate reservations information on North Central's 175 daily flights will be available to these airlines.

North Central passengers will be able to receive information concerning reservations, arrival and departure times, number of stops, type of equipment, days of operation, and meal service more quickly by utilization of the Univac computer system.

Advantages for reservations personnel include: improved



● North Central will utilize these two Real-Time Univac 490 computers starting in April 1966 by agreement with Eastern Air Lines. The combined operation will improve reservations and flight information services to Northliner passengers.

quick reference material, reduced telephone time, better utilization of airline seats by immediate resale of cancellations, rapid dissemination of flight information, and improved passenger handling when irregular operations occur.

The reservations computer system to be shared by North Central has a capability of processing 100,000 transactions an hour.

A \$10-million general office and main operations base—as modern as the DC-9 jets that the company has ordered—will be built at the Minneapolis/St. Paul International Airport. This expansion plan, which has been under study for over a year, was approved by the Board of Directors in July 1965.

The new complex will replace all of the company's present facilities located in several buildings on the west side of the airport and will be completed within four or five years. The plan will meet North Central's space requirements for the next 20 years as it moves ahead in the jet age.

## Management development

AT ITS MARCH MEETING, North Central's Board of Directors elected Hal N. Carr as Chairman of the Board to fill the vacancy created by the death of Arthur E. A. Mueller, Chairman since 1952. Mr. Carr assumed the duties of Chairman in addition to his positions as President and General Manager.

Joseph E. Rapkin of Milwaukee was elected a director to fill Mr. Mueller's unexpired term on the Board. Mr. Rapkin is a partner in the law firm of Foley, Sammond and Lardner of Milwaukee.

Robert G. Zeller of New York was elected to North Central's Board at the December meeting. He is a general partner in the investment banking firm, F. Eberstadt & Co., New York.

The extensive business background which both Mr. Rapkin and Mr. Zeller bring to North Central will be an important

contribution to the company.

In 1965, the airline continued its program of developing, within the organization, managerial personnel qualified to meet the company's future growth demands.

In line with this policy, three North Central department heads were named officers of the company by the Board of Directors at its April meeting. L. J. Keely was elected Vice President-Maintenance and Engineering; T. M. Needham, Vice President-Ground Operations; and G. F. Wallis, Vice President-Flight Operations.

During the year, three positions in the Traffic and Sales Department were created to improve and promote North Central's service to its passengers and shippers. A Regional Traffic and Sales Manager was appointed for the central area of the airline and another for the eastern. Also added was the position of Manager-Advertising and Promotion.

## Jet program

Signing the agreement for North Central's 10-jet program is President Hal N. Carr. Also participating are John L. Burton, left, Regional Sales Manager for Douglas Aircraft, and Bernard Sweet, North Central's Vice President-Finance.



## The future

**N**ORTH CENTRAL is looking forward to a greater year of growth in 1966. With anticipated improvements in the airline's route structure and passenger service, as well as the scheduling of more Convairs, the company expects record earnings in the coming year.

Considerable time and effort will be expended during 1966 to prepare North Central for its entry into the jet age. Extensive personnel training will be accomplished; special-

**N**ORTH CENTRAL'S decision on jet aircraft was made in July, when the company announced its 10-jet Douglas DC-9 program. Through an agreement with the Douglas Aircraft Company, the airline purchased five of the new 100-passenger twin-jets, including parts, at a cost of \$20 million and has an option for five additional aircraft.

For several years the company made an extensive evaluation study of the jets that could meet North Central's particular requirements. The factors which had to be considered were capacity, speed, range, and design features of the aircraft; operating costs and purchasing price; and adaptability of the plane to the airline's route system and airport runways.

The study indicated that the DC-9 is the most suitable jet aircraft for North Central's operation.

The DC-9 has two Pratt & Whitney fan jet engines which produce 14,000 pounds of thrust each during take-off. It cruises at 560 miles an hour. Wingspan of the new jet is 93.4 feet. The overall length of the aircraft is 119.3 feet.

The trim jetliner will bring a new look to many airports served by North Central. Distinctive physical features are the high-level "T" tail and the two engines mounted at the rear of the fuselage. This positioning of the engines produces an even quieter ride for the passenger.

The company will offer all first-class service on its jets, with two stewardesses in attendance. The DC-9 features "big jet" roominess, outstanding climate control comfort, interior beauty, and a smooth ride. Travelers will enjoy all the luxury expected in the jet age.

Seating facilities for 100 passengers in the spacious cabin have exceptional head, shoulder, and leg room. Another feature of the new jet is its unexcelled lighting and window view.

During 1965, North Central supervisory personnel from all departments completed classes in jet familiarization. Training has also been started by maintenance employees.

The company will inaugurate jet service early in 1967, thus bringing the speed and comfort of jet travel to North Central passengers.

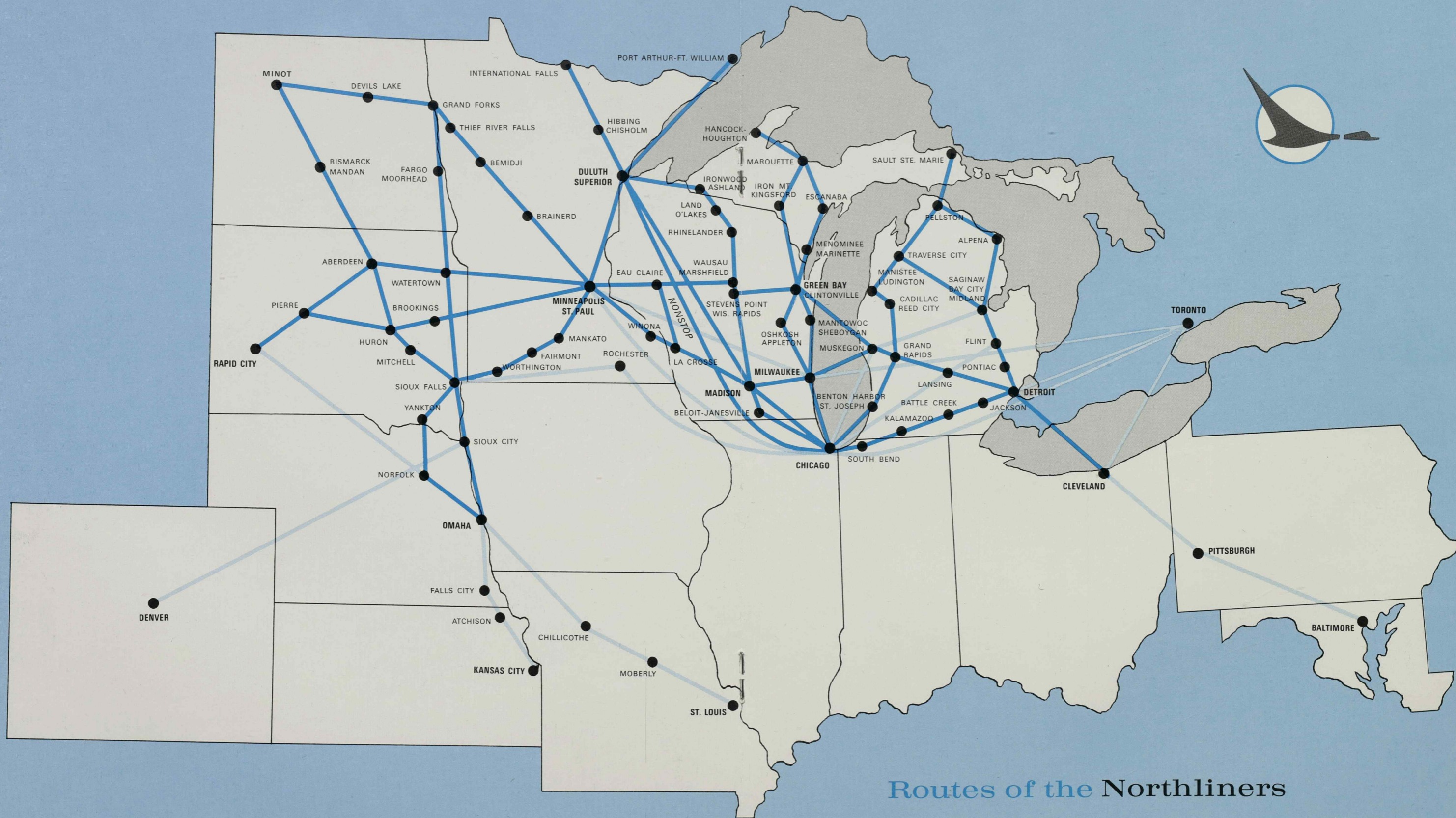
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ized equipment, acquired; and facilities upgraded throughout the system, to make the airline's transition to jets an efficient one.

Several pending C.A.B. cases pertaining to North Central will be completed in the next year, and the company is optimistic about these decisions. Favorable Board action will strengthen the airline's route system.

As the company looks ahead to 1966, a substantial increase in passenger and cargo traffic is anticipated. This will result from the additional capacity produced when more Convairs are placed in service and from aggressive sales promotion. Corresponding record revenues are forecast. With a continuation of the company's intensive cost control program, management is projecting even larger profits for 1966.





## Routes of the Northliners

Present routes \_\_\_\_\_

Proposed routes \_\_\_\_\_

## Five years of record progress

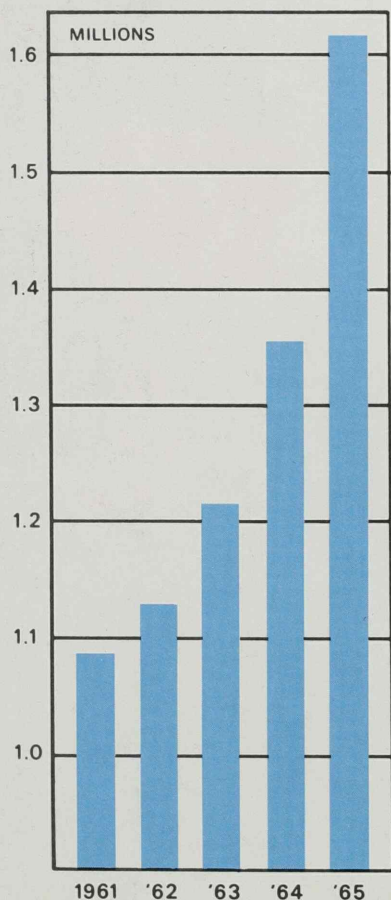
**N**ORTH CENTRAL achieved new records in all categories of traffic during 1965, as it has every year since beginning scheduled operations in 1948. The 1,616,900 passengers carried was nearly 20 per cent ahead of 1964. The 263,599 increase in passengers was the largest for any year in the company's history. Passenger traffic since 1961 has shown a 56 per cent gain.

Air cargo, which includes freight, express, and mail, increased even more. Over the past five years, cargo has grown 130 per cent and, in 1965, 31 per cent. This year's gain was due, in part, to the company's new Cargoliner Service inaugurated in April. In addition, with more Convairs in service during 1965, cargo capacity on the regularly scheduled flights was increased.

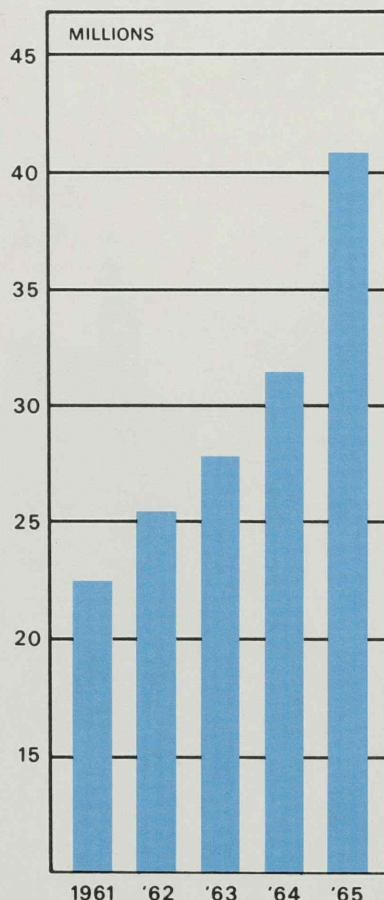
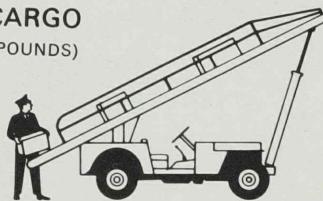
North Central's available seat miles have risen 50 per cent in the last five years, in line with the company's continuing program to increase service to the traveling public. In 1965, some 586,492,415 seat miles were offered—14 per cent more than in the previous year.

With the advancement of the airline's equipment modernization program, even greater traffic increases are anticipated in 1966.

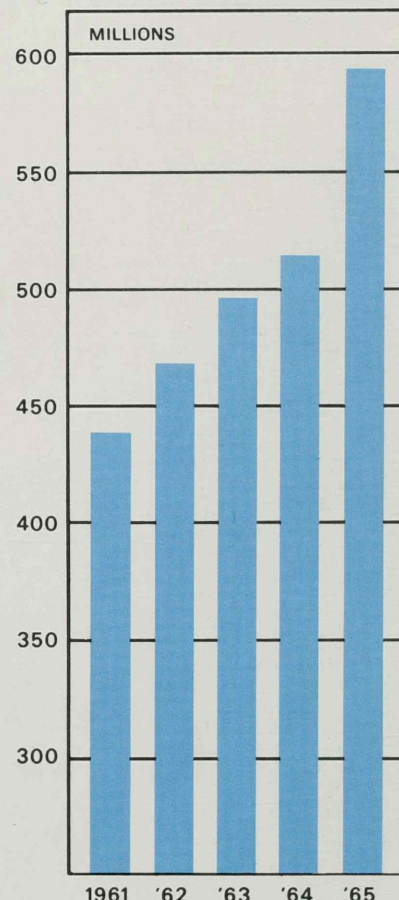
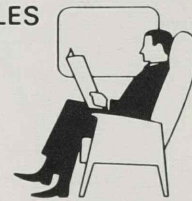
**PASSENGERS**



**CARGO**  
(POUNDS)



**SEAT MILES**





NORTH CENTRAL  
CARGOLINER

53

CARGO

FRAGILE  
THIS SIDE UP

THE VOICE

FRAGILE



# NORTH CENTRAL AIRLINES, INC.

## Assets

|   | 1965                | 1964                |
|---|---------------------|---------------------|
| <b>CURRENT ASSETS</b>   |                     |                     |
| Cash . . . . .  | \$ 1,593,962        | \$ 1,253,874        |
| Accounts receivable   |                     |                     |
| Public service revenue (Note 1) . . . . .   | 992,374             | 863,163             |
| Traffic . . . . .   | 2,755,168           | 2,499,066           |
| Other . . . . .   | 476,387             | 451,037             |
|   | <u>4,223,929</u>    | <u>3,813,266</u>    |
| Flight equipment parts, at average cost (less deterioration<br>reserves of \$369,592 and \$276,041) . . . . . | 1,183,017           | 951,414             |
| Maintenance and operating supplies . . . . .  | 293,529             | 277,354             |
| Prepaid expenses and sundry deposits . . . . .  | 846,238             | 786,610             |
| Total current assets . . . . .  | <u>8,140,675</u>    | <u>7,082,518</u>    |
| <b>OPERATING PROPERTY AND EQUIPMENT—at cost (Note 2)</b>  |                     |                     |
| Flight equipment . . . . .  | 16,780,907          | 14,285,169          |
| Ground equipment . . . . .  | 1,500,631           | 1,376,434           |
| Hangar buildings and improvements to leased property . . . . .  | 2,255,154           | 626,950             |
| Furniture and fixtures . . . . .  | 389,289             | 357,418             |
|   | <u>20,925,981</u>   | <u>16,645,971</u>   |
| Less accumulated depreciation . . . . .   | 8,291,930           | 7,215,851           |
|   | <u>12,634,051</u>   | <u>9,430,120</u>    |
| Advance payments on flight equipment (Note 5) . . . . .   | 2,551,645           | —                   |
|   | <u>15,185,696</u>   | <u>9,430,120</u>    |
| <b>DEFERRED CHARGES</b>   |                     |                     |
| Unamortized route development costs . . . . .   | 72,123              | 127,648             |
| Unamortized discount and expense on debt . . . . .  | 68,088              | 70,593              |
| Rentals and other . . . . .   | 245,223             | 261,626             |
|   | <u>385,434</u>      | <u>459,867</u>      |
|   | <u>\$23,711,805</u> | <u>\$16,972,505</u> |

The accompanying notes are an integral part of this statement.

# Comparative Balance Sheet

December 31,  
1965 and 1964

## Liabilities

### CURRENT LIABILITIES

|   | 1965         | 1964         |
|---|--------------|--------------|
| Current maturities of long-term debt . . . . .  | \$ 1,458,553 | \$ 1,348,065 |
| Accounts payable . . . . .                      | 3,533,392    | 2,775,408    |
| Tickets outstanding . . . . .                   | 165,752      | 161,465      |
| Taxes withheld or collected as agents . . . . . | 433,357      | 368,792      |
| Income taxes (Note 8) . . . . .                 | 299,192      | 538,777      |
| Accrued liabilities                             |              |              |
| Salaries and wages . . . . .                    | 1,065,876    | 737,180      |
| Payroll and property taxes . . . . .            | 141,438      | 122,866      |
| Other . . . . .                                 | 437,568      | 594,907      |
| Total current liabilities . . . . .             | 7,535,128    | 6,647,460    |

### LONG-TERM DEBT (Note 2)

|                                   |            |           |
|-----------------------------------|------------|-----------|
| Notes payable to banks . . . . .  | 9,691,000  | 6,631,000 |
| Other notes payable . . . . .     | 2,093,483  | 330,115   |
| Subordinated debentures . . . . . | 851,500    | 851,500   |
|                                   | 12,635,983 | 7,812,615 |
| Less current maturities . . . . . | 1,458,553  | 1,348,065 |
|                                   | 11,177,430 | 6,464,550 |

### STOCKHOLDERS' EQUITY

|  |           |           |
|--|-----------|-----------|
| Common stock—authorized, 10,000,000 shares of \$.20 par value;<br>issued and outstanding, 8,732,038 shares (Notes 2 and 7) . . . . . | 1,746,408 | 1,745,408 |
| Paid in capital . . . . .  | 295,246   | 295,246   |
|  | 2,041,654 | 2,041,654 |
| Retained earnings . . . . .  | 2,957,593 | 1,818,841 |
|  | 4,999,247 | 3,860,495 |

### COMMITMENTS AND CONTINGENT LIABILITY (Notes 5 and 6)

|  |              |              |
|--|--------------|--------------|
|  | —            | —            |
|  | \$23,711,805 | \$16,972,505 |



# NORTH CENTRAL AIRLINES, INC.

## Comparative Statement of Earnings

Years ended December 31, 1965 and 1964

|  | 1965         | 1964         |
|--|--------------|--------------|
| <b>OPERATING REVENUES</b>  |              |              |
| Passenger . . . . .  | \$23,720,203 | \$20,002,281 |
| Mail . . . . .   | 571,921      | 476,454      |
| Public service revenue (after excluding \$760,000 and \$600,000<br>respectively of profit-sharing to government) (Notes 1 and 3) . . . . . | 7,199,418    | 7,274,370    |
| Freight and express . . . . .  | 1,811,578    | 1,370,356    |
| Excess baggage . . . . .   | 125,531      | 140,315      |
| Non-scheduled transport service . . . . .  | 357,515      | 358,200      |
| Other . . . . .  | 104,865      | 92,801       |
| Total operating revenues . . . . .   | 33,891,031   | 29,714,777   |
| <b>OPERATING EXPENSES</b>  |              |              |
| Flying operations . . . . .  | 8,362,924    | 7,456,027    |
| Maintenance . . . . .  | 6,993,952    | 6,210,115    |
| Passenger service . . . . .  | 1,684,747    | 1,440,949    |
| Aircraft and traffic servicing . . . . .   | 8,156,746    | 7,358,512    |
| Promotion and sales . . . . .  | 2,773,774    | 2,297,751    |
| General and administrative . . . . .   | 1,354,970    | 1,206,389    |
| Depreciation and amortization . . . . .  | 1,997,488    | 1,712,800    |
| Total operating expenses . . . . .   | 31,324,601   | 27,682,543   |
| Operating profit . . . . .   | 2,566,430    | 2,032,234    |
| <b>OTHER EXPENSE (INCOME)</b>  |              |              |
| Interest . . . . .   | 437,064      | 413,605      |
| Sundry (net) . . . . .   | (23,151)     | (112,234)    |
| Total other expense (income) . . . . .   | 413,913      | 301,371      |
| Earnings before income taxes . . . . .   | 2,152,517    | 1,730,863    |
| <b>INCOME TAXES (Note 8)</b>   |              |              |
| States . . . . .   | 37,000       | 46,500       |
| Federal, less investment credits of \$56,974<br>and \$47,201 respectively . . . . .  | 976,765      | 839,799      |
| NET EARNINGS (Note 3) . . . . .  | \$ 1,138,752 | \$ 844,564   |

The accompanying notes are an integral part of this statement.

## Comparative Statement of Retained Earnings

Years ended December 31, 1965 and 1964

|  | 1965         | 1964         |
|--|--------------|--------------|
| Retained earnings—beginning of year (note 3) . . . . . | \$ 1,818,841 | \$ 974,277   |
| Net earnings for the year (note 3) . . . . .           | 1,138,752    | 844,564      |
| Retained earnings—end of year . . . . .                | \$ 2,957,593 | \$ 1,818,841 |

The accompanying notes are an integral part of this statement.

## Notes to financial statements

December 31, 1965

**1. PUBLIC SERVICE REVENUE**—Public service revenue received from the Federal Government is subject to review and adjustment by the Civil Aeronautics Board. Settlement has been completed through the year 1963. The year 1964 is presently under review with provision having been made for all known adjustments.

**2. LONG TERM DEBT**—Notes payable to banks consist of three 5½% notes having an unpaid balance of \$6,391,000, and three 5¼% notes totaling \$3,300,000. The 5½% notes are due in varying installments with the final payment due in 1970. The 5¼% notes are part of a \$17,000,000 loan commitment with installments payable from 1967 through 1976.

A commitment fee of ¼ of 1% per year is payable on the unused portion of the \$17,000,000. Of the \$3,300,000 drawn to date, an amount of \$2,444,031 was deposited on five Douglas DC-9 aircraft to be delivered in 1967 and 1968.

Among other things, the bank agreements require that working capital be maintained at an increasing level beginning with \$1,500,000 prior to July 1, 1966 to \$2,000,000 on July 1, 1968, exclusive of amounts due noteholders. The notes payable to banks are secured by all aircraft and related spare parts owned or to be acquired.

Other notes payable include \$1,725,000 of bonds for airport facilities at Wayne County, Michigan. Interest ranges from 3.25% to 5%, with annual payments of approximately \$110,000 from 1966 to 1990.

The 5½% convertible debentures are subject to redemption in whole or in part at the election of the Company at any time prior to June 1, 1978. The holders have the option to convert the principal into common stock at rates ranging from \$6.50 per share to June 1, 1966, to \$10.00 per share from June 2, 1971–1978. The debentures are subordinated to other long term debt.

**3. RESTATED NET EARNINGS FOR 1964**—Net earnings for the year ended December 31, 1964 have been restated to reflect a net adjustment resulting from settlement of public service revenue for the years 1961, 1962 and 1963. The net adjustment, after tax credits, of \$225,205 increases previously reported net earnings for 1964 from \$617,359 to \$844,564.

**4. PENSION PLANS**—The Company has non-contributory pension plans covering a majority of its employees. Costs for the year 1965 approximated \$834,000 as compared with \$418,000 for 1964. Estimated past service liability as of December 31, 1965 was \$1,055,000.

**5. COMMITMENTS**—A purchase commitment exists for five Douglas DC-9 jet aircraft including spare parts at a cost of approximately \$20,000,000. Delivery of three is scheduled for early 1967 and two for early 1968. The company is also committed for delivery of two used Convair 440's in 1966 along with spare parts at a cost of approximately \$1,000,000.

Major lease facilities exist at airports in Minneapolis/St. Paul, Chicago, Detroit and Milwaukee. Annual rentals at these locations, including landing fees, approximate \$825,000.

**6. VACATION PAY**—The Company records vacation pay as a period charge. The unrecorded obligation as of December 31, 1965 was estimated at \$260,000, net of income tax credits.

**7. STOCK OPTION PLAN**—During the year a total of 250,000 shares of authorized but unissued common stock were reserved under a qualified stock option plan for officers and key employees of the company. A total of 220,000 of the reserved shares were granted prior to the year end at a price of \$3.05208 per share. Options expire five years after the date of grant. The plan is subject to stockholder approval.

**8. INCOME TAXES**—Federal income tax returns have been examined and settled through 1963.

## Auditor's Opinion

### ALEXANDER GRANT & COMPANY CERTIFIED PUBLIC ACCOUNTANTS

*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, 1965 and 1964 and the related statements of earnings and retained earnings for the years then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly includes such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Since it was not practicable to confirm receivables from United States Government departments and agencies, we satisfied ourselves with respect to such receivables by means of other auditing procedures.

In our opinion, the accompanying balance sheet and statements of earnings and retained earnings present fairly the financial position of North Central Airlines, Inc. at December 31, 1965 and 1964 and the results of its operations for the two years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Alexander Grant & Company

*Milwaukee, Wisconsin  
February 9, 1966*

## Five-year financial summary

|  | 1965                | 1964                | 1963                | 1962                | 1961                |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <b>OPERATING REVENUES</b>                        |                     |                     |                     |                     |                     |
| Passenger . . . . .                              | \$23,720,203        | \$20,002,281        | \$18,064,524        | \$16,750,086        | \$15,681,163        |
| Public Service Revenue . . . . .                 | 7,199,418           | 7,274,370           | 7,644,080           | 8,286,733           | 7,613,159           |
| Other . . . . .                                  | 2,971,410           | 2,438,126           | 2,168,100           | 1,833,426           | 1,546,429           |
| <b>TOTAL . . . . .</b>                           | <b>\$33,891,031</b> | <b>\$29,714,777</b> | <b>\$27,876,704</b> | <b>\$26,870,245</b> | <b>\$24,840,751</b> |
| <b>OPERATING EXPENSES</b>                        |                     |                     |                     |                     |                     |
| Direct Expenses . . . . .                        | \$15,356,876        | \$13,666,142        | \$13,076,180        | \$12,858,386        | \$12,394,337        |
| Indirect Expenses . . . . .                      | 13,970,237          | 12,303,601          | 11,812,690          | 11,561,629          | 10,741,476          |
| Depreciation and Amortization . . . . .          | 1,997,488           | 1,712,800           | 1,541,857           | 1,183,464           | 1,072,902           |
| <b>TOTAL . . . . .</b>                           | <b>\$31,324,601</b> | <b>\$27,682,543</b> | <b>\$26,430,727</b> | <b>\$25,603,479</b> | <b>\$24,208,715</b> |
| Operating Profit . . . . .                       | 2,566,430           | 2,032,234           | 1,445,977           | 1,266,766           | 632,036             |
| Non-operating Income and Expenses, Net . . . . . | (413,913)           | (301,371)           | (403,549)           | (335,014)           | (269,483)           |
| Net Profit Before Taxes . . . . .                | \$ 2,152,517        | \$ 1,730,863        | \$ 1,042,428        | \$ 931,752          | \$ 362,553          |
| Income Taxes . . . . .                           | 1,013,765           | 886,299             | 520,715             | 491,812             | 158,253             |
| Net Profit After Taxes . . . . .                 | <u>\$ 1,138,752</u> | <u>\$ 844,564</u>   | <u>\$ 521,713</u>   | <u>\$ 439,940</u>   | <u>\$ 204,300</u>   |

See Note 3 above for explanation of Restated Net Earnings.

## Advertising program

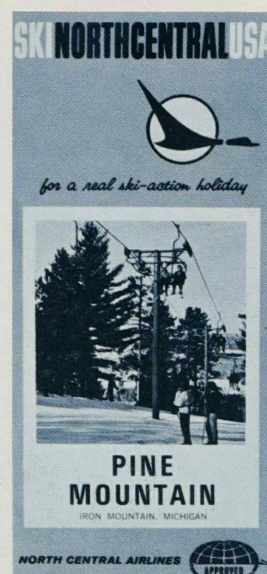
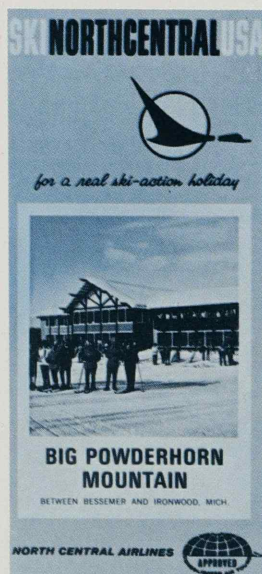


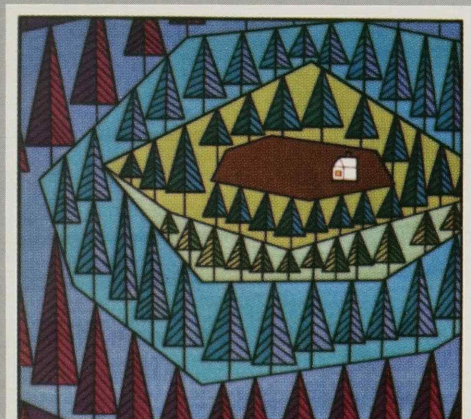
**N**ORTH CENTRAL's progressive advertising program received wide coverage in 1965. The addition of a colorful series of contemporary travel posters focused attention on the vacation areas of the Route of the Northliners.

Television, newspaper, and magazine advertising was expanded considerably during the year.

Radio advertising took a sports turn in 1965. North Central co-sponsored broadcasts of the Minnesota Vikings football games which were carried on 19 stations in a three-state area. The airline also scheduled spot commercials throughout the Minnesota Twins baseball season.

All-expense ski package tours were developed by the company in 1965, in cooperation with Pine Mountain and Big Powderhorn Mountain Lodges, in the Upper Peninsula of Michigan; and Terry Peak Lodge, in the Black Hills of South Dakota. Attractive brochures were widely distributed to promote weekend and vacation travel to these ski areas.



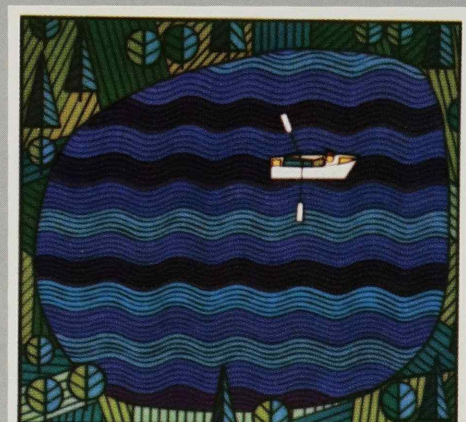


# hidaway

country

FLY NORTH CENTRAL AIRLINES

OHIO - MICHIGAN - INDIANA - ILLINOIS - WISCONSIN - MINNESOTA - IOWA - NEBRASKA - SOUTH DAKOTA - NORTH DAKOTA - CANADA

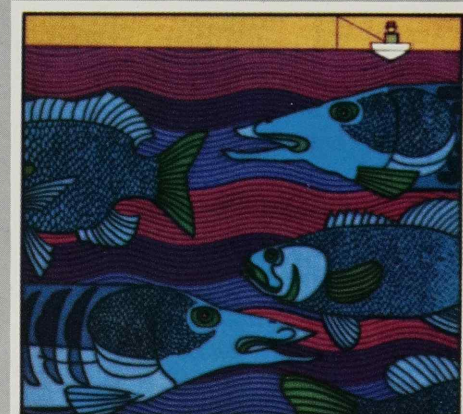


# escape

country

FLY NORTH CENTRAL AIRLINES

OHIO - MICHIGAN - INDIANA - ILLINOIS - WISCONSIN - MINNESOTA - IOWA - NEBRASKA - SOUTH DAKOTA - NORTH DAKOTA - CANADA




# action

country

FLY NORTH CENTRAL AIRLINES

OHIO - MICHIGAN - INDIANA - ILLINOIS - WISCONSIN - MINNESOTA - IOWA - NEBRASKA - SOUTH DAKOTA - NORTH DAKOTA - CANADA



# game

country

FLY NORTH CENTRAL AIRLINES

OHIO - MICHIGAN - INDIANA - ILLINOIS - WISCONSIN - MINNESOTA - IOWA - NEBRASKA - SOUTH DAKOTA - NORTH DAKOTA - CANADA




# thrill

country

FLY NORTH CENTRAL AIRLINES

OHIO - MICHIGAN - INDIANA - ILLINOIS - WISCONSIN - MINNESOTA - IOWA - NEBRASKA - SOUTH DAKOTA - NORTH DAKOTA - CANADA



# rawhide

country

FLY NORTH CENTRAL AIRLINES

OHIO - MICHIGAN - INDIANA - ILLINOIS - WISCONSIN - MINNESOTA - IOWA - NEBRASKA - SOUTH DAKOTA - NORTH DAKOTA - CANADA

**N**ORTH CENTRAL AIRLINES has maintained a perfect safety record during its 18 years of scheduled operation.

The company again received an award from the National Safety Council for having no fatal accidents during the previous year.

In 1965, North Central was also presented with a special certificate from the Oshkosh, Wisconsin Safety Council. This award recognizes the company's safety record as one of the finest for all types of industry in the Oshkosh area.

The Tri-County Safety Award from Oconto and Marinette, Wisconsin and Menominee, Michigan was given to the airline during 1965 for leadership in the field of safety.

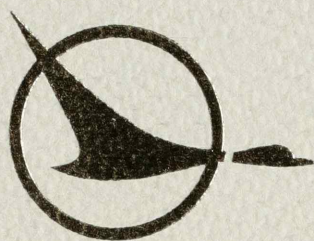
Since inaugurating service on February 24, 1948, North Central has carried nearly 12 million passengers and flown 1,918,000,000 passenger miles without a single fatality or injury to passengers or crew members.

This outstanding record demonstrates dramatically the dedication of the company's employees to performing their daily work efficiently and their conscientious efforts to assure passenger safety and comfort.



## Safety





North Central Airlines, Inc.

6201 Thirty-Fourth Avenue South

MINNEAPOLIS, MINNESOTA 55450