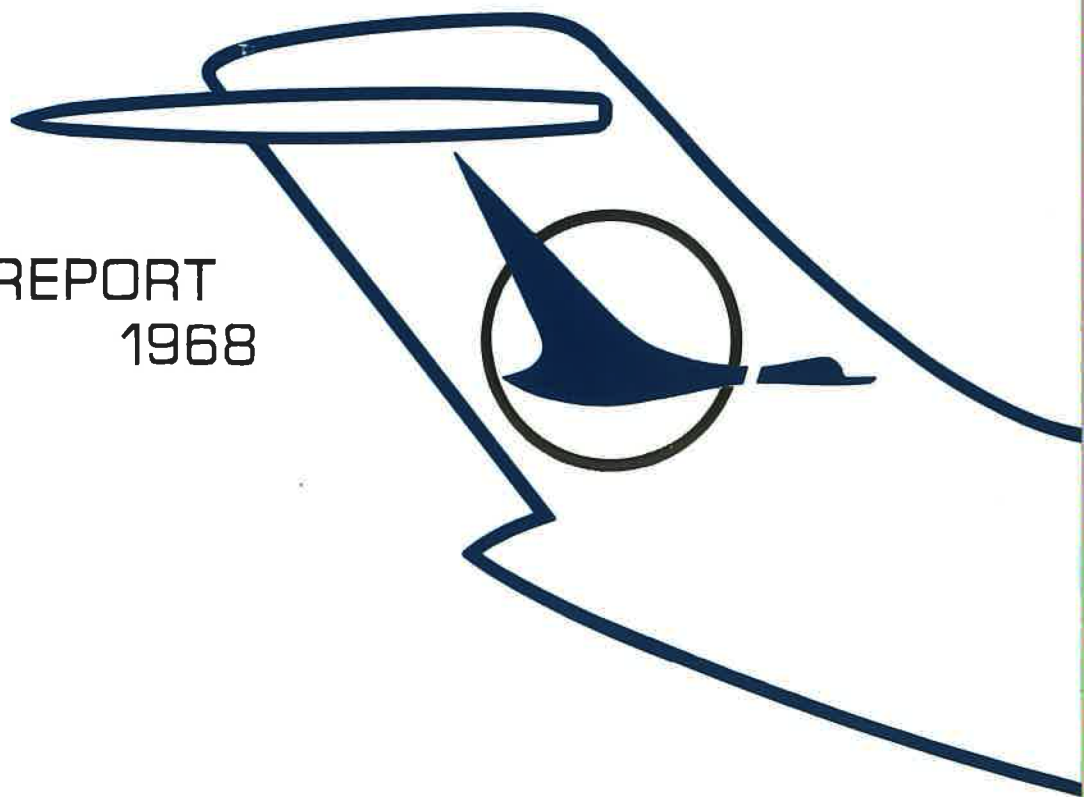


# **NORTH CENTRAL AIRLINES**

ANNUAL REPORT  
1968



February 28, 1969

# NORTH CENTRAL AIRLINES

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

## BOARD OF DIRECTORS

Hal N. Carr\* Chairman  
D. E. Crooker  
G. F. DeCoursin\*  
Chan Gurney  
Samuel H. Maslon\*  
A. James Mueller  
Jay Phillips  
Morton B. Phillips  
Joseph E. Rapkin  
H. P. Skoglund  
Kenneth B. Willett  
Robert G. Zeller

\*Executive Committee

## MANAGEMENT

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

## REGISTRARS AND STOCK TRANSFER AGENTS

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

## TO OUR STOCKHOLDERS, EMPLOYEES, AND FRIENDS:

The year 1968 was a period of dramatic growth for North Central Airlines. Northliners carried over three million passengers for the first time, cargo ton miles gained 40 percent, and revenues reached a record high of \$55,226,000—an increase of \$12,375,000 over 1967.

Operating expenses for the year were up 27 percent to \$49,843,000, while depreciation and amortization expense rose 66 percent to \$4,357,000. However, the company still achieved a \$1,026,000 profit from operations—\$137,000 more than in 1967. After interest expense of \$3,092,000, contrasted with \$680,000 the previous year, net income was \$70,000 in 1968 compared to \$1,520,000 the year before. Both income figures include gains from disposition of equipment—\$1,184,000 for 1968 and \$924,000 the prior year.

The substantial interest and depreciation increases are related primarily to North Central's conversion to jet-powered aircraft. As a result of operating the more efficient planes, seat-mile costs declined from 5.0¢ in 1967 to 4.2¢ in 1968. Even more significant was the reduction of the company's break-even load factor, which measures earnings potential, from 54.4 percent to 45.3 percent.

Financially, 1968 was a difficult year for the entire airline industry, especially the regional carriers. Net losses of the eight regionals, other than North Central, were approximately four times more than their 1967 losses of \$5,831,000. However, the granting of fare increases by the Civil Aeronautics Board, effective February 20, should improve airline earnings for 1969 and subsequent years.

North Central set yearly, monthly, and daily passenger traffic records in 1968 as 3,013,816 passengers were carried—an impressive 28 percent ahead of 1967. It took the airline 13 years to reach its first million-passenger year. Six years later in 1966, two million passengers were recorded, and the three-million mark was attained in just two more years. Northliners flew 1.3 billion seat miles in 1968—a 55 percent increase over the previous year—and the company still achieved an outstanding operating performance record of 98.5 percent. Cargo also gained substantially with 78 million pounds of air freight, express, and mail transported.

Route development was accelerated in 1968. North Central is actively seeking authority for 17,000 more route miles to serve 29 additional cities in 11 new states, the District of Columbia, and Manitoba, Canada. During the year, the C.A.B. approved a new Chicago-Sioux Falls route, and Rochester, Minnesota, was added to the company's system. Nonstop DC-9 fan jet flights were inaugurated between Minneapolis/St. Paul-Milwaukee and Milwaukee-Detroit, with single-plane service east to Toronto and west to the Dakotas.

The transition to an all jet-powered fleet has been completed. North Central now operates 100-passenger DC-9 fan jets and Convair 580 prop-jets exclusively. Five additional DC-9 fan jets will be available for use during 1969.

Construction is nearing completion on the airline's new \$15-million general office and main operations base at the Minneapolis-St. Paul International Airport. North Central's Maintenance and Engineering Department moved to the new facilities early in 1969, and occupancy of the general office is expected later this spring.

The company is aggressively building for the future and anticipates increased traffic and earnings for 1969. With the continued support of stockholders, passengers, and employees, North Central is prepared for the challenges and rewards of the jet-year ahead.



Sincerely,

HAL N. CARR  
Chairman of the Board and President





## ANNUAL REPORT 1968

North Central Airlines in 1968 achieved the largest gain in revenues in its entire history. Operating revenues for the year were \$55,225,926, an increase over 1967 of \$12,375,449, or 29 percent, after the 11 percent reduction in public service revenues of \$581,924.

Operating expenses before depreciation were \$49,843,200, an increase of \$10,507,503, or 27 percent. Depreciation and amortization expense rose sharply to \$4,356,893 in 1968 from \$2,626,251 in 1967, for a 66 percent increase. The profit from operations reached \$1,025,833, up from the \$888,529 reported for the previous year. However, interest expense increased to \$3,092,015 from \$680,134 in 1967, resulting in net income of \$70,216 in 1968, compared with \$1,520,124 the previous year. Both income figures include gains from the disposition of aircraft—\$1,183,588 in 1968 and \$924,316 in 1967.

The substantial increase in depreciation and interest is directly related to the airline's transition to jet-powered aircraft. With the introduction of the new planes, however, the break-even load factor has been reduced significantly from 54.4 percent in 1967 to 45.3 percent for 1968. This emphasizes the increased earnings potential of the jets.

Another result of operating more efficient airplanes and continuing the company's cost control program is the decline in seat-mile costs—from 5.0¢ in 1967 to 4.2¢ in 1968.

With this favorable cost trend, consistent revenue gains from traffic growth, and the recent passenger fare increase, greatly improved earnings can be expected in the years ahead.

## FINANCIAL REVIEW

REVENUES (MILLIONS OF DOLLARS)



## FINANCIAL REVIEW

## TRAFFIC GROWTH AND OPERATING PERFORMANCE

North Central Airlines attained the highest passenger traffic levels of its 21-year history in 1968.

The company set yearly, monthly, and daily records as 3,013,816 passengers flew the "Route of the Northliners"—an impressive 28 percent over 1967. The 666,445 passenger-gain was the greatest annual increase the company has ever had. Some 518,423,519 passenger miles were flown, 35 percent ahead of the previous year.

The 311,899 passengers carried in August established a monthly record which was 30 percent above the same month of 1967.

On December 20, the airline enplaned 12,752 passengers for a new daily high. North Central transported 1,354 more passengers that day than for 1948, its first year of operation.

Besides its regular flights, the company scheduled 1,016 "extra sections" to accommodate the traveling public during peak traffic times. These flights carried 22,767 passengers, and 148,825 miles were flown. In addition, 239 charters and 320 scenics were operated, which added 261,002 more plane miles. The 17,521 charter passengers flew to 25 states, the District of Columbia, and three Canadian provinces; 15,517 people took scenic flights over cities on North Central's system.

Excellent cargo gains were made in 1968 with a record 78,062,794 pounds of air freight, express, and mail—up 38 percent over the previous year. A total of 7,244,860 cargo ton miles were flown, for a 40 percent improvement. Air freight ton miles reached 3,899,090—34 percent ahead of 1967, and mail registered a tremendous gain of 88 percent, with 2,152,755 ton miles flown.

The dramatic growth in all areas of traffic resulted from additional aircraft capacity, efficiencies of the new jets, and increased public reliance on air travel.

During 1968, 1,304,492,635 seat miles were flown, 55 percent over 1967, while available ton miles jumped to 158,168,526, a 76 percent gain. The airline becomes jet-powered in March 1969, with a fleet of ten 100-passenger DC-9 fan jets and 34 Convair 580 prop-jets. Five additional DC-9's will be available for use during the year.

From the inauguration of service on February 24, 1948, until December 27, 1968, North Central carried 19,061,314 passengers 3,166,122,812 passenger miles without a single fatality or injury, and the entire airline deeply regrets that its perfect safety record has ended. This period is believed to be the longest any scheduled airline in the country has ever operated without a fatal accident. The safety of its passengers has always been North Central's primary objective. As in the past, the airline will continue to do everything humanly possible to insure the welfare of its passengers and is firmly dedicated to reestablishing a new airline safety record.

North Central's winterization program, "Operation Cold Front," was initiated again this year by station and maintenance personnel. This comprehensive preparatory plan includes procedures for converting ground support equipment to winter conditions and the review of cold weather techniques with personnel at all North Central stations. The program contributes significantly to the airline's impressive operating performance under the severe, long-lasting winter weather conditions which exist over most of the 7,500-mile route system.

North Central achieved an outstanding 1968 operating performance. Of the 21,408,317 miles scheduled, 21,077,094 were flown, for a completion factor of 98.5 percent—one of the best records in the airline industry.

Exacting maintenance was one of the major factors in this high level of performance. In 1968, North Central made 214,533 actual departures. Of these departures, one percent were cancelled for mechanical reasons, and only one-tenth of one percent were delayed by mechanicals.

The company's enviable performance record reflects the dedication of North Central's employees and their continuing efforts to provide dependable scheduled airline service.



North Central established yearly, monthly, and daily boarding records in 1968 as 3,013,816 passengers were carried over the airline's 90-city system in 11 Midwest states and Canada.



## ROUTE DEVELOPMENT

New service inaugurated in 1968 included the addition of Rochester, Minnesota to North Central's route system and nonstop flights between Minneapolis/St. Paul and Milwaukee and Milwaukee-Detroit.

The Civil Aeronautics Board authorized the airline to begin Rochester service on September 15 as an intermediate point on a new route between Chicago and Sioux Falls, South Dakota. This route added 666 miles to the company's system.

On October 27, new Twin Cities-Milwaukee and Milwaukee-Detroit nonstops were initiated, with through-plane flights east to Toronto and west to North and South Dakota. The new schedule provides Milwaukee and the Twin Cities with single-plane Northliner flights to Detroit and Toronto—center of a \$6-billion Canadian-U.S. trade market. It also offers the first single-plane service between Toronto and many North Central communities in the Dakotas. The flights are designed to fill existing travel gaps and operate at prime periods.

During the year, the C.A.B. issued its initial order in the North Central Route Realignment Proceeding. The Board tentatively found that North Central's system of 16 segments should be consolidated into five, and certain operating restrictions eliminated. This realignment would enable North Central to operate longer flights, provide greater scheduling flexibility, and better utilize its fleet.

In response to the order, the airline agreed with the Board's findings and also asked for nonstop authority in several markets presently certificated for trunk carriers. If this request is granted, nonstop flights could be provided between Cleveland and Grand Rapids, Lansing, Muskegon, Madison; between Minneapolis/St. Paul and Grand Rapids, Lansing, Muskegon; and between Milwaukee and South Bend.

The new shortened Subpart M hearing procedures approved by the C.A.B. in 1968 have already benefited North Central. The Twin Cities-Milwaukee and Milwaukee-Detroit nonstops were the first company applications approved under the ruling. The new procedures relate to petitions by regional airlines for nonstop authority on their existing systems. With this plan, administrative steps are reduced, and shorter time limits are set for filing answers to requests.

North Central is committed to an ambitious and aggressive route development program and has applications pending before the C.A.B. for 17,200 additional route miles to serve 29 cities in 11 new states, the District of Columbia, and Manitoba, Canada. If approved, these new routes would more than triple North Central's system and extend the airline north to Winnipeg; west to Denver; south to Dallas/Ft. Worth, Houston, San Antonio, Atlanta, and Miami; and east to Boston, New York/Newark, Philadelphia, Washington/Baltimore, and several North Carolina cities.

North Central presently serves 90 cities in 11 Midwest states and Canada over a 7,500-mile route system.



### STATUS OF NORTH CENTRAL'S ROUTE DEVELOPMENT PROGRAM

#### RECENT AWARDS:

Minneapolis/St. Paul-Milwaukee nonstop (297 route miles)  
Milwaukee-Detroit nonstop (238 route miles)  
Chicago-Sioux Falls route, via Rochester (666 route miles)

#### AWAITING CAB DECISION:

Denver-Twin Cities—Examiner has recommended North Central. (694 route miles)  
North Central Route Realignment Proceeding—Examiner has recommended 16 segments be consolidated into five. North Central has requested nonstop authority in several markets.  
Ozark Route Realignment Proceeding—North Central is seeking nonstop Milwaukee-Omaha and Milwaukee-Kansas City routes. (865 route miles)

#### AWAITING EXAMINER'S DECISION:

Omaha and Des Moines Service Investigation—New Omaha-Des Moines-Chicago authority and Omaha-Des Moines-New York. Also, nonstops from Omaha to Chicago, Minneapolis/St. Paul, Denver, St. Louis, and Kansas City. (3,138 route miles)  
Twin Cities-Milwaukee Long Haul Investigation—New routes from the Twin Cities and Milwaukee to Boston, New York/Newark, Philadelphia, and Washington/Baltimore. (3,941 route miles)

#### AWAITING HEARINGS:

Milwaukee Short Haul Investigation—New routes from Milwaukee to Columbus, Dayton, Cincinnati, Indianapolis, and Louisville. (1,413 route miles)  
North Carolina Points Investigation—New routes from Chicago to Charlotte, Greensboro/High Point/Winston-Salem, and Raleigh/Durham. (1,688 route miles)  
Southeast Points Investigation—New routes from the Twin Cities and Milwaukee to Miami, via Atlanta and Tampa. (1,283 route miles)

#### APPLICATIONS PENDING:

Minneapolis/St. Paul nonstop to Dallas/Ft. Worth, and one stop via Kansas City. Also, nonstops from Dallas/Ft. Worth to San Antonio and Houston. (1,349 route miles)  
Cleveland-Baltimore, via Pittsburgh. (316 route miles)  
Chicago-Saginaw/Bay City/Midland, via Muskegon. (229 route miles)  
Chicago-Saginaw/Bay City/Midland, via Lansing. (235 route miles)  
Minneapolis/St. Paul-Chicago. (334 route miles)  
Duluth/Superior and Minot to Winnipeg. (534 route miles)  
Milwaukee-Denver nonstop. (909 route miles)  
Rapid City-Omaha nonstop. (409 route miles)



Complementing North Central's jet "New Look" are the colorful high fashion ensembles of its stewardesses. The basic uniform and hat feature the corporate aqua color, while the new classic gold raincoat completes the costume.



Pre-inaugural DC-9 scenic flights were conducted during 1968 to introduce North Central's new jet service to 24 cities.



Exacting maintenance is one of the major contributing factors in the impressive operating performance record achieved by the airline in 1968.



Classroom instruction is part of the intensive training program new stewardesses receive before flying the "Route of the Northliners."

## NORTH CENTRAL'S JET-AGE OPERATION





North Central's new \$15-million general office and main operations base at the Minneapolis-St. Paul International Airport.

## BUILDING FOR THE FUTURE

North Central Airlines undertook a wide range of activities during 1968 to keep pace with the dramatic rate of traffic growth it experienced and anticipates for 1969.

Programs involving the introduction of jet service and the inauguration of new routes received major promotional emphasis. At the same time, facilities planning was accelerated at a record pace to prepare the airline for the surging traffic increases expected in the near future.

The main part of the construction work on North Central's new \$15-million general office and main operations base at the Minneapolis-St. Paul International Airport was finished in 1968. The headquarters

complex is designed to provide the finest in maintenance and service facilities, enabling Northliner personnel to better serve the traveling public. The main base is being occupied in February, with the general office scheduled for completion this spring.

Terminal building improvements are in progress throughout the system. North Central personnel in Mitchell, South Dakota recently moved into the new Municipal Airport terminal which provides greatly expanded passenger service areas. Second-level boarding gates at Green Bay will be completed in 1969, and a new terminal at Sioux Falls is under construction. Enlarged facilities at Kansas City and Traverse City are in the planning stages.



Construction is well underway on the company's \$2.5-million passenger boarding facility at Milwaukee's General Mitchell Field.

Construction is on schedule for the June completion of the company's second-level gates at Minneapolis-St. Paul International Airport. These will permit more efficient handling of jet operations and accommodate projected passenger increases. In Milwaukee, a unique \$2.5-million boarding terminal, designed exclusively for North Central, is well underway. The eight passenger gates, located in a circular concourse, will provide expedited ticket and baggage handling to relieve congestion at the main counter during peak travel periods. Current plans call for occupancy of this south pier addition by the summer of 1969.

A new regional airport, which has been under development for several years, will soon be a reality for Wisconsin travelers. Known as the Central Wisconsin Regional Airport, this facility will allow the company to offer improved service and increased flight frequencies to the Wausau, Marshfield, Stevens Point, Wisconsin Rapids area.



Seven more 100-passenger DC-9 fan jets were acquired in 1968, increasing the airline's fleet to 10 DC-9's and 34 Convair 580 prop-jets.

First class service is provided to all passengers on North Central aircraft. Stewardesses offer dinner, lunch, snacks, and the continental breakfast on selected flights.



The most important development in the airline's equipment program was the July announcement that five additional DC-9's would be available for 1969 delivery. Two of the fan jets will be used in the second quarter of the year. The company's jet transition program, begun in April 1967, is being completed in March 1969. The airline's fleet will then be all jet-powered and consist of 100-passenger DC-9 fan jets and 48-passenger Convair 580 prop-jets.

During 1967 and 1968, North Central received \$67 million in DC-9 and Convair 580 equipment, and another \$29 million of jet aircraft is scheduled for 1969 delivery.

North Central is entering its 22nd year of operation with a jet-powered fleet, increased service facilities, and anticipated new routes. The airline now looks forward to realizing the rewards of this extensive expansion program, and 1969 promises to be a year of exciting and dramatic growth.





# ROUTE OF THE NORTHLINERS

PRESENT ROUTES —  
PROPOSED ROUTES —





## ASSETS

	1968	1967
<b>CURRENT ASSETS</b>		
Cash . . . . .	\$ 1,248,250	\$ 2,805,304
Accounts receivable		
United States Government (Notes 1 and 4) . . . . .	1,671,347	2,282,556
Traffic . . . . .	4,274,625	3,361,710
Other (Note 2) . . . . .	2,053,072	832,918
	<u>7,999,044</u>	<u>6,477,184</u>
Flight equipment parts, at average cost (less reserves of \$338,954 and \$473,493 in 1968 and 1967, respectively) . . . . .	1,824,159	1,539,505
Maintenance and operating supplies . . . . .	468,319	433,710
Prepaid expenses and sundry deposits . . . . .	2,107,083	1,838,491
Total current assets . . . . .	<u>13,646,855</u>	<u>13,094,194</u>
<b>OPERATING PROPERTY AND EQUIPMENT—at cost</b>		
Flight equipment (Notes 2 and 3) . . . . .	66,603,743	38,975,904
Ground equipment . . . . .	3,413,424	4,530,332
Improvements to leased property . . . . .	2,898,522	991,421
Furniture and office equipment . . . . .	518,868	484,294
	<u>73,434,557</u>	<u>44,981,951</u>
Less accumulated depreciation (Note 5) . . . . .	8,516,412	9,857,492
	<u>64,918,145</u>	<u>35,124,459</u>
Advance payments on flight equipment (Note 3) . . . . .	4,515,570	6,454,617
	<u>69,433,715</u>	<u>41,579,076</u>
<b>DEFERRED CHARGES</b>		
Unamortized development and pre-operating costs . . . . .	3,111,666	1,666,093
Unamortized discount and expense on debt . . . . .	194,888	176,475
Rentals and other . . . . .	772,739	277,947
	<u>4,079,293</u>	<u>2,120,515</u>
<b>OTHER INTERLINE RECEIVABLES (Note 6)</b> . . . . .	450,000	—
	<u>\$87,609,863</u>	<u>\$56,793,785</u>

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

## LIABILITIES

	1968	1967
<b>CURRENT LIABILITIES</b>		
Short-term borrowing . . . . .	\$ 540,000	\$ 475,000
Current maturities of long-term debt (Note 2) . . . . .	6,409,940	600,565
Accounts payable . . . . .	7,432,386	6,069,137
Tickets outstanding . . . . .	211,409	178,797
Taxes withheld or collected as agents . . . . .	546,299	435,794
Accrued liabilities		
Salaries and wages . . . . .	1,465,384	1,134,387
Payroll and property taxes . . . . .	209,670	163,873
Other . . . . .	1,204,370	909,343
Total current liabilities . . . . .	<u>18,019,458</u>	<u>9,966,896</u>
<b>LONG-TERM DEBT—less current maturities (Note 2)</b> . . . . .	59,611,269	37,726,617
<b>DEFERRED FEDERAL INCOME TAXES (Note 4)</b> . . . . .	1,994,000	1,245,352
<b>COMMITMENTS (Notes 3, 7, and 8)</b> . . . . .	—	—
<b>STOCKHOLDERS' EQUITY</b>		
Common stock—authorized, 10,000,000 shares of \$.20 par value; issued and outstanding, 8,776,763 and 8,775,513 shares, 1968 and 1967, respectively (Notes 2 and 9) . . . . .	1,755,353	1,755,103
Paid-in capital (Note 2) . . . . .	527,239	467,489
	<u>2,282,592</u>	<u>2,222,592</u>
Retained earnings (Note 2) . . . . .	5,702,544	5,632,328
	<u>7,985,136</u>	<u>7,854,920</u>
	<u>\$87,609,863</u>	<u>\$56,793,785</u>



# Comparative Statement of Income

Years ended December 31, 1968 and 1967

## NORTH CENTRAL AIRLINES, INC.

### OPERATING REVENUES

	1968	1967
Passenger	\$44,628,769	\$33,482,371
Freight and express	3,460,728	2,648,883
Mail	1,183,809	781,501
Public service revenue (Note 1)	4,667,639	5,249,563
Non-scheduled transport service	534,308	327,224
Other	750,673	360,935
Total operating revenues	55,225,926	42,850,477

### OPERATING EXPENSES

	1968	1967
Flying operations	16,594,647	11,061,431
Maintenance	8,930,353	8,750,455
Passenger service	2,922,485	2,325,151
Aircraft and traffic servicing	13,902,654	11,294,923
Promotion and sales	4,741,168	3,871,818
General and administrative	2,751,893	2,031,919
Depreciation and amortization (Note 5)	4,356,893	2,626,251
Total operating expenses	54,200,093	41,961,948
Operating profit	1,025,833	888,529

### OTHER EXPENSE (INCOME)

	1968	1967
Interest expense (less capitalized interest for advances on flight equipment and pre-operating costs of \$559,013 in 1968 and \$840,223 in 1967)	3,092,015	680,134
Other (net)	(83,810)	(51,403)
Total other expense	3,008,205	628,731
Income (loss) before income taxes and gain on disposition of aircraft	(1,982,372)	259,798

### INCOME TAXES (Note 4)

	1968	1967
Deferred	—	134,000
Credits	(869,000)	(470,010)
Income (loss) before gain on disposition of aircraft	(1,113,372)	595,808

### GAIN ON DISPOSITION OF AIRCRAFT, NET OF TAXES (Notes 4 and 10)

	1968	1967
NET INCOME	\$ 70,216	\$ 1,520,124

### INCOME (LOSS) PER SHARE\* (based upon average number of shares outstanding)

	1968	1967
Before gain on disposition of aircraft	\$ (.12)	\$ .07
Gain on disposition of aircraft	.13	.10
NET INCOME PER SHARE	\$ .01	\$ .17

\*Proforma per share (based upon conversion of debentures and the exercise of stock options and warrants) would not materially differ.

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

### COMPARATIVE STATEMENTS OF RETAINED EARNINGS AND PAID-IN CAPITAL

Years ended December 31, 1968 and 1967

	1968	1967
RETAINED EARNINGS (Note 2)		
Retained earnings—beginning of year	\$ 5,632,328	\$ 4,112,204
Net income for the year	70,216	1,520,124
Retained earnings—end of year	\$ 5,702,544	\$ 5,632,328
PAID-IN CAPITAL		
Paid-in capital—beginning of year	\$ 467,489	\$ 410,447
Premium in excess of par value applicable to stock purchase warrants (Note 2)	50,000	—
Excess of proceeds over par value of common stock issued upon conversion of debentures (Note 2)	9,750	—
Excess of proceeds over par value of common stock issued under option	—	57,042
Paid-in capital—end of year	\$ 527,239	\$ 467,489

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

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 1968

1. **PUBLIC SERVICE REVENUE**—Public service revenue received from the Federal Government is subject to review by the Civil Aeronautics Board. Settlement has been made through 1965. Provision has been made for all known adjustments for subsequent years.

2. **LONG-TERM DEBT**—Long-term debt consists of the following:

Terms	Total	Long-Term	Current
Quarterly installment notes due from January, 1969 through April, 1973; interest at 1/2% above prime rate	\$26,000,000	\$21,000,000	\$5,000,000
7% quarterly installment notes due from July, 1973 through October, 1978	36,000,000	36,000,000	—
Acceleration of above notes due to insurance proceeds received from conversion of mortgaged properties, \$1,285,823 less current maturities of \$103,695. Insurance proceeds of \$1,300,000 are reflected in the balance sheet as other receivables.	—	(1,182,128)	1,182,128
Total due banks and insurance companies (a)	\$62,000,000	\$55,817,872	\$6,182,128
7% subordinated notes due in semi-annual installments from September, 1971 through March, 1976 (b)	3,000,000	3,000,000	—
5 1/2% subordinated convertible debentures due in 1978 (c)	753,000	753,000	—
Various	268,209	40,397	227,812
	\$66,021,209	\$59,611,269	\$6,409,940

(a) The total \$62,000,000 loan is collateralized by substantially all flight equipment owned or to be owned by the company. Two equipment manufacturers are partially guaranteeing these loans. Among other things, the loan agreement contains certain restrictions on the payment of dividends, capital expenditures, and additional borrowings and requirements regarding working capital and net worth.

(b) Stock purchase warrants attached enable the holders to purchase an aggregate of 200,000 shares of common stock at \$6.00 a share through March 1, 1976. Unamortized Discount and Expense on Debt has been charged and Paid-in Capital credited for \$50,000 representing the value of the warrants issued. This amount is being amortized over the life of the loan.

(c) Convertible into common shares at \$8.00 a share to 1971 and \$10.00 a share thereafter to maturity. During the year, \$10,000 of debentures were converted into 1,250 shares of common stock, resulting in increases in Common Stock of \$250 and Paid-in Capital of \$9,750.

### 3. COMMITMENTS

(a) Purchase commitments exist for the conversions of nine Convair 440's to Convair 580 turbo-props in 1969 and other equipment (\$4,515,570 has been deposited in advance) \$6,806,000

(b) Annual minimum obligations exist for:

	Amount
(1) New office and operational facilities at the Minneapolis-St. Paul International Airport for 30 years beginning approximately June 1969	\$1,100,000
(2) Terminal and other facilities (including landing fees)	1,500,000
(3) Nine Convair 580 aircraft for 10 years	1,750,000
(4) Minimum commitment on two DC-9 aircraft at \$50,000 each per month on a short term basis, and approx. \$40,000 for 12 continuous months or more. Scheduled delivery in July	100,000
(5) Data processing equipment—to 1974	140,000
	\$4,590,000

4. **INCOME TAXES**—Timing differences in reporting depreciation and certain deferred expenses for book and tax purposes produced a net operating tax loss of approximately \$9,500,000 in 1968. The carry back of approximately \$2,200,000 of this amount against prior years' taxable income resulted in an income tax refund receivable of approximately \$900,000, and a related provision for deferred income taxes. The remaining net operating tax loss of \$7,300,000 is available as a deduction against future taxable income through 1973—due to the timing differences, a provision for deferred income taxes will be required as this deduction is used. Deferred Federal and State income taxes of \$1,994,000, representing tax benefits derived from timing differences to date, may become payable in future years when depreciation and deferred expenses for tax purposes are less than for financial reporting purposes.

The company uses the flow-through method of accounting for the investment credit. The 1968 investment credit of \$2,569,000 had been used in part (\$28,000) to reduce the current year deferred income tax provision. The unused investment credits available for future years total \$3,378,000 and expire in 1974 (\$837,000) and 1975 (\$2,541,000).

5. **DEPRECIATION**—For financial reporting purposes, the company depreciates its fixed assets on the straight-line method based on estimated useful lives ranging from seven to fifteen years for flight equipment and three to ten years for other equipment and property. Accelerated methods, used for income tax purposes, resulted in a \$7,714,000 excess of tax depreciation over book depreciation for the year.

6. **OTHER INTERLINE RECEIVABLES**—Accounts with other airlines are determined by the application of statistical methods because of the large volume of interline tickets and the small dollar amount of each ticket. The Other Interline Receivables of \$450,000 represent amounts which the Company believes to be due from other airlines but cannot allocate to specific accounts at this time. The ultimate disposition of the Other Interline Receivables may require a charge to operations if some or all of these receivables prove not to be due and collectible. It is estimated that such a charge could result in a reduction in net earnings of up to \$300,000 after tax considerations.

7. **VACATION PAY**—The company records vacation pay when paid. The unrecorded obligation at December 31, 1968 approximated \$550,000, net of prospective income tax credits.

8. **PENSION PLANS**—The company has non-contributory pension plans covering substantially all of its employees. Pensions, based on length of service and average salary, are provided for retirement of pilots at age 60 and all other employees at age 65. The plans covering pilots are fully funded for past service cost, while the company pays the normal cost and interest only on the past service cost of the other plans. The cost to the company in 1968 was \$1,100,000 compared with \$819,000 in 1967.

9. **STOCK OPTION PLAN**—A total of 250,000 shares of unissued common stock was reserved for officers and key employees under a stock option plan in 1965. Options granted are: 1965—20,000 shares at \$5.05; 1967—5,000 shares at \$6.81; and, 1968—5,000 shares at \$5.60. Options for 30,000 shares were exercised in prior years, leaving 190,000 shares expiring in 1970 and 5,000 shares expiring in each 1972 and 1973.

10. **GAIN ON DISPOSITION OF AIRCRAFT**—During 1968 the company sold eight Douglas DC-3's and four Convair 440 aircraft and related spare parts for a gain of \$2,055,588 before income taxes. Allocable income taxes totaled \$872,000, resulting in a net gain of \$1,183,588.

### FIVE-YEAR INCOME SUMMARY

	1968	1967	1966	1965	1964
OPERATING REVENUES					
Passenger	\$44,628,769	\$33,482,371	\$30,261,479	\$23,720,203	\$20,002,281
Public Service Revenue	4,667,639	5,249,563	5,767,888	7,199,418	7,274,370
Other	5,929,518	4,118,543	3,583,304	2,971,410	2,438,126
TOTAL	\$55,225,926	\$42,850,477	\$39,612,671	\$33,891,031	\$29,714,777
OPERATING EXPENSES					
Direct Expenses	\$25,525,000	\$19,811,886	\$17,980,535	\$15,356,876	\$13,666,142
Indirect Expenses	24,318,200	19,523,811	17,062,543	13,970,237	12,303,601
Depreciation and Amortization	4,356,893	2,626,251	2,253,361	1,997,488	1,712,800
TOTAL	\$54,200,093	\$41,961,948	\$37,296,439	\$31,324,601	\$27,682,543
Operating Profit	1,025,833	888,529	2,316,232	2,566,430	2,032,234
Non-operating Income and (Expenses), Net	(3,008,205)	(628,731)	(464,974)	(442,894)	(348,305)
Income Before Taxes	\$ (1,982,372)	\$ 259,798	\$ 1,851,258	\$ 2,123,536	\$ 1,683,929
Income Taxes	(869,000)	(336,010)	720,647	1,006,520	873,304
Income Before Gain on Disposition of Aircraft	\$ (1,113,372)	\$ 595,808	\$ 1,130,611	\$ 1,117,016	\$ 810,625
Gain on Disposition of Aircraft, Less Income Taxes	924,316	24,000	21,736	33,939	33,939
Net Income	\$ 70,216	\$ 1,520,124	\$ 1,154,611	\$ 1,138,752	\$ 844,564

### 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, 1968, and the related statements of income, retained earnings and paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We made a similar examination for the preceding year.

In our opinion, subject to the ultimate effect from the disposition of the other interline receivables discussed in note 6, the accompanying balance sheet and statements of income, retained earnings and paid-in capital present fairly the financial position of North Central Airlines, Inc. at December 31, 1968, 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.

Alexander Grant & Company

Minneapolis, Minnesota  
February 12, 1969



## FIVE YEARS OF RECORD PROGRESS



### HIGHLIGHTS OF DRAMATIC GROWTH

Every year since North Central began scheduled operations in 1948, new passenger traffic records have been achieved. In 1968, the 3,013,816 passenger total was 28 percent greater than in 1967 and 223 percent over five years ago. The 666,445 passenger-gain in 1968, compared with the previous year, was the largest annual increase in the company's 21-year history.

North Central carried 78,062,794 pounds of cargo in 1968, including air freight, express, and mail. This was a 38 percent improvement for one year and 249 percent for five years.

The 1,304,492,635 seat miles flown during 1968 showed a 55 percent increase over 1967 and a 254 percent gain in the five-year period.

The addition of seven 100-passenger DC-9 fan jets and 13 Convair 580 prop-jets during 1968 substantially increased available seat and cargo capacity. North Central will be operating an all jet-powered fleet in March, with ten DC-9's and 34 Convair 580 prop-jets. Five more DC-9's are available for use this year. As a result of the increased capacity, speed, and efficiencies of the jet aircraft, 1969 should be another year of exceptional traffic growth for the airline.



## ADVERTISING

North Central's 1968 advertising program continued the "Take a New Look at North Central" theme, with emphasis on new routes, improved service, and the introduction of additional jet-powered aircraft.

Millions of people did take a new look at North Central, and more than three million bought tickets, setting an all-time yearly boarding record.

A new image was generated about the company—its big jets, its expansions in routes and facilities, and its dynamic future. The airline's advertising program played a significant role in successfully translating this enthusiasm into passenger boardings.

Each of the airline's markets is unique because of its own flight schedule patterns, fares, and promotional needs. North Central tailors its advertising to promote the items which are of interest to the individual communities.

Most of North Central's advertising is in local newspapers—an effective method of emphasizing the air link which a growing, progressive airline provides to "Main Street USA." In 1968, the company used more than 60 newspapers to tell this North Central service story. In addition, special commercials on 45 radio and television stations reminded the traveling public to fly North Central. These were scheduled in the airline's major marketing areas.

An unusual display was developed in 1968 to promote the company's services and the tourist attractions on its extensive route system. Lighted color photographs depict North Central equipment and facilities, and recreational activities. This attractive exhibit appeared initially in the lobby of the Civil Aeronautics Board Building in Washington, D. C. It received an enthusiastic response from members of the Board, airline representatives, and the general public. The "traveling" display will be used in 1969 for special promotions throughout North Central's area.

To complete the advertising program, Northliner service was highlighted by outdoor billboards, special travel brochures, and ski-country material to encourage travelers to "Take a New Look at North Central."



Civil Aeronautics Board Chairman John H. Crooker, Jr. (center) and Director of Community and Congressional Relations John W. Dregge (right), stopped to view the special North Central exhibit on display in the lobby of the C.A.B. Building in Washington, D. C. Greeting these officials was David E. Moran, North Central Vice President-Traffic and Sales.



North Central's billboard and newspaper advertising promoted the airline's jet-powered service in the local communities. Improved flight schedules and new routes were also emphasized.





20th Anniversary Flight.

## PROMOTIONS

Promotional activities in 1968 included introductory DC-9 scenic flights, sales calls, and local receptions to publicize North Central's new jet service to 24 additional communities on its system.

As part of the September 15 inaugural of the new Chicago-Rochester-Sioux Falls route, a reception was hosted in Sioux Falls for community representatives from Rochester, Chicago, Sioux Falls, Mitchell, Huron, Rapid City, and Pierre.

At Milwaukee, a similar reception in October promoted North Central's new nonstop flights between Milwaukee and the Twin Cities, and Milwaukee-Detroit. Prior to the October 27 inauguration, members of the company's sales department made 850 special calls on commercial, travel agency, and interline accounts in Detroit, Milwaukee, and the Twin Cities to acquaint them with the benefits of the new service. As a result of this concentrated sales effort and related advertising, the first two months' passenger traffic on these nonstop routes was even greater than anticipated.

A dramatic aerial feat heralded North Central's 20th Anniversary in February 1968. The five types of aircraft which have been used by the airline since its beginning in 1948 were flown in formation for newsmen and photographers. One of the company's original Lockheed 10A's led the formation, followed by a DC-3, Convair 440, Convair 580, and DC-9. This unique, promotional flight was particularly significant because of the great variance in speeds between the small Lockheed and the DC-9 fan jet.

The DC-3 used in the 20th Anniversary Flight was North Central's corporate plane, "728," which holds the distinction of having flown more hours than any other aircraft in the history of aviation. Known as The World's High-Time Aircraft, it has now logged over 84,200 hours.

A new documentary film, *The Plane That Refused to Die*, which features "728" and other North Central DC-3's was completed in 1968. Radio and television personality Arthur Godfrey narrates the production, based on Douglas J. Ingell's book, *The Plane That Changed the World*.

During the year, "728" was used for numerous flights related to business and community promotions on North Central's system and for company public relations programs.

Other local activities included speeches by company officials to civic groups, meetings with chambers of commerce, and speaking participation by employees at high school Career Days. Window displays and joint interline efforts rounded out the special events picture.

An important continuing promotion is the placement of "The Northliner" on board all aircraft. In 1968, nearly 360,000 copies of this company publication were distributed to passengers. In addition, over 50 press releases and 320 scenic flights told the North Central story to thousands of people across the United States.



Taking a break during the filming of the DC-3 documentary film which features North Central's "728" aircraft are (from left) Captain Julian Carr, Jr.; Captain Arthur Hinke, Manager-Flight Crews; Arthur Godfrey; Stewardess Carol Shanahan; and Hal Carr, North Central Chairman of the Board and President.





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