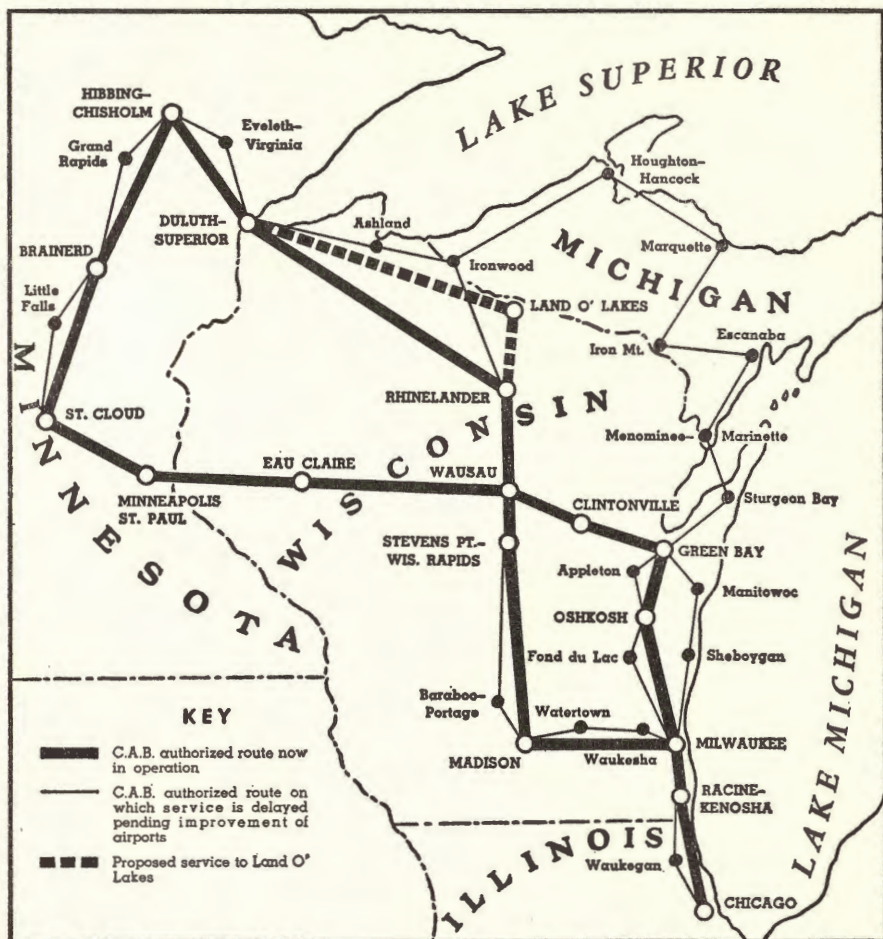


Annual Report

**WISCONSIN CENTRAL AIRLINES
INC.**



YEAR ENDED DECEMBER 31, 1948



Report of the President to the Stockholders

On behalf of the Board of Directors, we are pleased to submit a review of our first year of scheduled airline operations and the financial statements of the company for the calendar year 1948.

REVIEW OF FIRST YEAR'S OPERATION:

Our first scheduled flights carrying passengers, mail, and express were authorized on February 24, 1948. The ten-month period following the start of scheduled operations was one of perfecting the organization, improving and adding equipment, and expanding the operation.

The company started scheduled operations with two airline certified Lockheed twin engine, nine passenger aircraft. The third plane was placed in operation within a month and while these three planes met all safety requirements, they were not equipped for instrument operation and required extensive modification to meet this standard. Three additional aircraft, all of the same make and size, were purchased during the year and modified to meet air carrier requirements. Four of the six aircraft are now fully modified for instrument authority and it is anticipated that the remaining two aircraft will be fully converted for instrument operation in approximately thirty days. The cost of the aircraft, completely modified, averages approximately \$38,000 per plane.

OPERATION RESULTS:

Operating revenues for the ten months of scheduled operations were \$703,123.45, plus \$2,132.84 of other income. Operating expenses for the same period were \$739,648.19, which, with other deductions amounting to \$3,029.35, resulted in a net loss of \$37,421.25, after a provision for depreciation amounting to \$40,229.47. It has been the policy of the Civil Aeronautics Board in determining mail rates of feeder airlines to reimburse them for operating losses plus an additional amount equivalent to 7% return on investment used in the operation.

Inventories at our cost at the beginning of scheduled operations amounting to \$30,564.58 were required to be increased to \$82,379.15 at the end of the year and the investment in operating property and equipment was increased from \$193,541.93 to \$297,744.77 after deducting \$47,273.19 as a reserve for depreciation.

FINANCIAL:

Pending a final determination of the company's permanent mail rate, which cannot be anticipated until the latter part of 1949, the company found it necessary to resort to long-term borrowing from an insurance company. The amount due from the U. S. Government for the carrying of mail in 1948 was \$147,195.44. Pre-operational expense was \$224,831.49. Net loss for the year 1948 was \$37,421.25. The total of these amounts or \$409,448.18 is subject to government audit and eligible for reimbursement to the company from the

government under its prevailing policy, in the opinion of the Board of Directors.

While, as has been stated, it is the policy of the Civil Aeronautics Board to reimburse an airline operating under a temporary mail rate for its operational losses, its eligible pre-operational expense, and a 7% return on the investment used in the operation, the withholding of these large sums from the company, until the permanent mail rate is established, is a severe financial handicap to the company.

RADIO AND NAVIGATIONAL AIDS:

The company found it necessary to install its own radio communication facilities over its entire system and navigational aids over that part of its routes not already so equipped. These navigational aids will permit the company to operate under instrument authority over its entire system. The cost of the navigational aids and radio facilities will represent an investment of approximately \$100,000 when completed for the system. It is expected that these radio communication facilities and navigational aids will increase performance reliability an average of 10% throughout the year.

OUTLOOK FOR 1949:

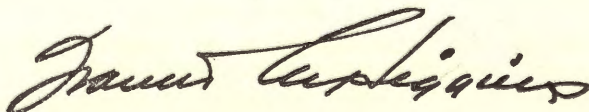
During the year the company served twenty-two cities through sixteen airports. An additional twenty-two cities on routes awarded the company could not be served because of the lack of adequate airports. At least eight additional airports, however, were under construction during the year. If additional financing can be arranged to provide funds for more planes, station installations, and other capital outlays, some of these cities can be added to the system in 1949.

The company's passenger, mail, and express revenues should be materially improved during 1949 with the more reliable and frequent service that can be provided with the navigational aids. We have implicit confidence in the future of Wisconsin Central Airlines based on our experience of the past year and our estimates of traffic and revenue potentials of the routes awarded us.

CONCLUSION:

The remarkable showing of Wisconsin Central Airlines in its first year of operation is a tribute to the pioneering spirit, loyalty and resourcefulness of the men and women in its employ. Special recognition should also be given the members of the Board of Directors who unselfishly gave much of their time and effort to the organization during the year.

Respectfully submitted,

A handwritten signature in dark ink, reading "Francis M. Higgins". The signature is fluid and cursive, with the first name "Francis" being more prominent and the last name "Higgins" following in a similar style.

FRANCIS M. HIGGINS
President

Madison, Wisconsin
March 19, 1949

WISCONSIN CENTRAL AIRLINES, INC.

Balance Sheet
December 31, 1948

ASSETS

CURRENT ASSETS

Cash	\$ 36,092.83	
Accounts receivable		
U. S. Government . . .	\$147,195.44	
Traffic	15,486.20	
Other	<u>6,030.80</u>	168,712.44
Inventories—at cost		
Parts and supplies . . .	16,608.57	
Gasoline and oil . . .	<u>4,358.98</u>	20,967.55
Prepaid insurance, interest and other expenses . . .	<u>15,734.73</u>	\$241,507.55

OPERATING PROPERTY AND EQUIPMENT

Flight equipment—at cost (Equipment costing \$210,705.26 pledged as security for notes pay- able—contra)	274,990.41	
Ground equipment— at cost	27,304.35	
Hangar and office building —at cost	42,329.47	
Furniture and fixtures— at cost	<u>13,247.80</u>	357,872.03
Less reserves for depreciation	<u>47,273.19</u>	310,598.84
Radio equipment instal- lation in progress—at cost (pledged as security for notes payable— contra)	<u>48,557.53</u>	359,156.37

DEFERRED CHARGES

Route development expense (note 1)	224,831.49	
Organization and capital stock expense	65,378.39	
Other	<u>3,877.74</u>	294,087.62
		<u>\$894,751.54</u>

LIABILITIES

CURRENT LIABILITIES

Notes payable—unsecured	\$ 6,280.61	
Notes payable—installments due within one year . . .		111,598.69
Accounts payable		134,105.51
Accrued liabilities		
Salaries and wages . . .	\$ 10,711.07	
Taxes (other than income taxes)	8,071.33	
Other	<u>13,232.14</u>	<u>32,014.54</u>
		\$283,999.35

NONCURRENT LIABILITIES

5% notes payable, due \$6,300.00 monthly January 12, 1949 to February 12, 1950, and \$6,800.00 on March 12, 1950 (secured—contra)	95,000.00	
Less installments due within one year	<u>75,600.00</u>	19,400.00
6% notes payable, due \$2,999.89 monthly (secured—contra)	41,998.45	
Less installments due within one year	<u>35,998.69</u>	<u>5,999.76</u>
		25,399.76

DEFERRED INCOME

Unearned transportation revenue		2,773.68
--	--	----------

CAPITAL STOCK AND SURPLUS

Capital stock—common; authorized, 300,000 shares of \$1.00 par value; issued, 155,000 shares . . .	155,000.00	
Paid-in surplus—excess of issue price over par value of common stock	465,000.00	
Earned surplus (<i>Deficit</i>)— net loss from February 24 to December 31, 1948 (note 2)	<u>37,421.25</u>	<u>582,578.75</u>
		<u>\$894,751.54</u>

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

WISCONSIN CENTRAL AIRLINES, INC.

STATEMENT OF INCOME

FEBRUARY 24 (NOTE 2) TO DECEMBER 31, 1948

TRANSPORTATION REVENUE

Mail (note 2)	\$582,500.00	
Passenger	113,648.51	
Express	5,962.67	
Excess baggage	<u>1,012.27</u>	\$703,123.45

OPERATING EXPENSES

Flying operations	190,630.20	
Flight equipment maintenance . . .	126,966.18	
Ground operations	201,761.50	
Ground and indirect maintenance .	50,414.32	
Passenger service	3,294.22	
Traffic and sales	16,749.99	
Advertising and publicity	15,432.92	
General and administrative	94,169.39	
Provision for depreciation	<u>40,229.47</u>	739,648.19
Operating loss		36,524.74

OTHER INCOME

Incidental revenue and cash discounts earned	<u>2,132.84</u>
	34,391.90

OTHER DEDUCTIONS

Interest	2,118.33	
Amortization of debt expense . . .	333.66	
Miscellaneous	<u>577.36</u>	3,029.35
NET LOSS		<u>\$ 37,421.25</u>

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

WISCONSIN CENTRAL AIRLINES, INC.

Notes to Financial Statements

December 31, 1948

1. Route development expense in the amount of \$224,831.49 consists of net costs incurred in securing and developing the route awarded to the company by the Civil Aeronautics Board under a temporary certificate of convenience and necessity authorizing engagement in scheduled air transportation for a period of three years from October 3, 1947. No provision has been made for amortization of this deferred charge because, in the opinion of the Board of Directors, based upon past rulings of the Civil Aeronautics Board, the current temporary mail rate will be changed to a permanent mail rate by the Civil Aeronautics Board which will include an amount sufficient to provide for amortization of the allowable expense plus a return on the investment.
2. Net income is for the period from February 24, 1948, date of commencement of scheduled flight operations, to December 31, 1948. Expenses incurred prior to February 24, 1948 were capitalized as Route Development Expense. Mail revenue is based upon a temporary mail rate order issued by the Civil Aeronautics Board. The Board reserves the right to increase or decrease this rate and such change may be made retroactive to February 24, 1948.

NEW YORK

CHICAGO
GREEN BAY
LA CROSSE

ALEXANDER GRANT & COMPANY

MEMBER AMERICAN INSTITUTE OF ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANTS

303 BELLIN BUILDING

GREEN BAY, WISCONSIN

Board of Directors

Wisconsin Central Airlines, Inc.

We have examined the balance sheet of WISCONSIN CENTRAL AIRLINES, INC. (a Wisconsin corporation) as of December 31, 1948 and the related statement of income from February 24, 1948 (date of commencement of scheduled flight operations) to December 31, 1948. Except that it was not practical to confirm the accounts receivable from the U. S. Government, as to which we satisfied ourselves by means of other auditing procedures, 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.

Scheduled flight operations commenced February 24, 1948 under a temporary certificate of public convenience and necessity granted by the Civil Aeronautics Board for a period of three years from October 3, 1947. Expenses incurred prior to February 24, 1948 have been capitalized as Route Development Expense. No provision has been made for amortization of this deferred charge because, in the opinion of the Board of Directors, based upon past rulings of the Civil Aeronautics Board, the current temporary mail rate will be changed to a permanent mail rate by the Civil Aeronautics Board which will include an amount sufficient to provide for amortization of the allowable expense plus a return on the investment.

In our opinion, subject to the explanation contained in the preceding paragraph, the accompanying balance sheet and related statement of income present fairly the financial position of Wisconsin Central Airlines, Inc. at December 31, 1948, and the results of its operations for the period from February 24 to December 31, 1948, in conformity with generally accepted accounting principles applied on a consistent basis.

Alexander Grant & Company
ALEXANDER GRANT AND COMPANY
by *J. H. Obishay*
Partner

Green Bay, Wisconsin
March 5, 1949

