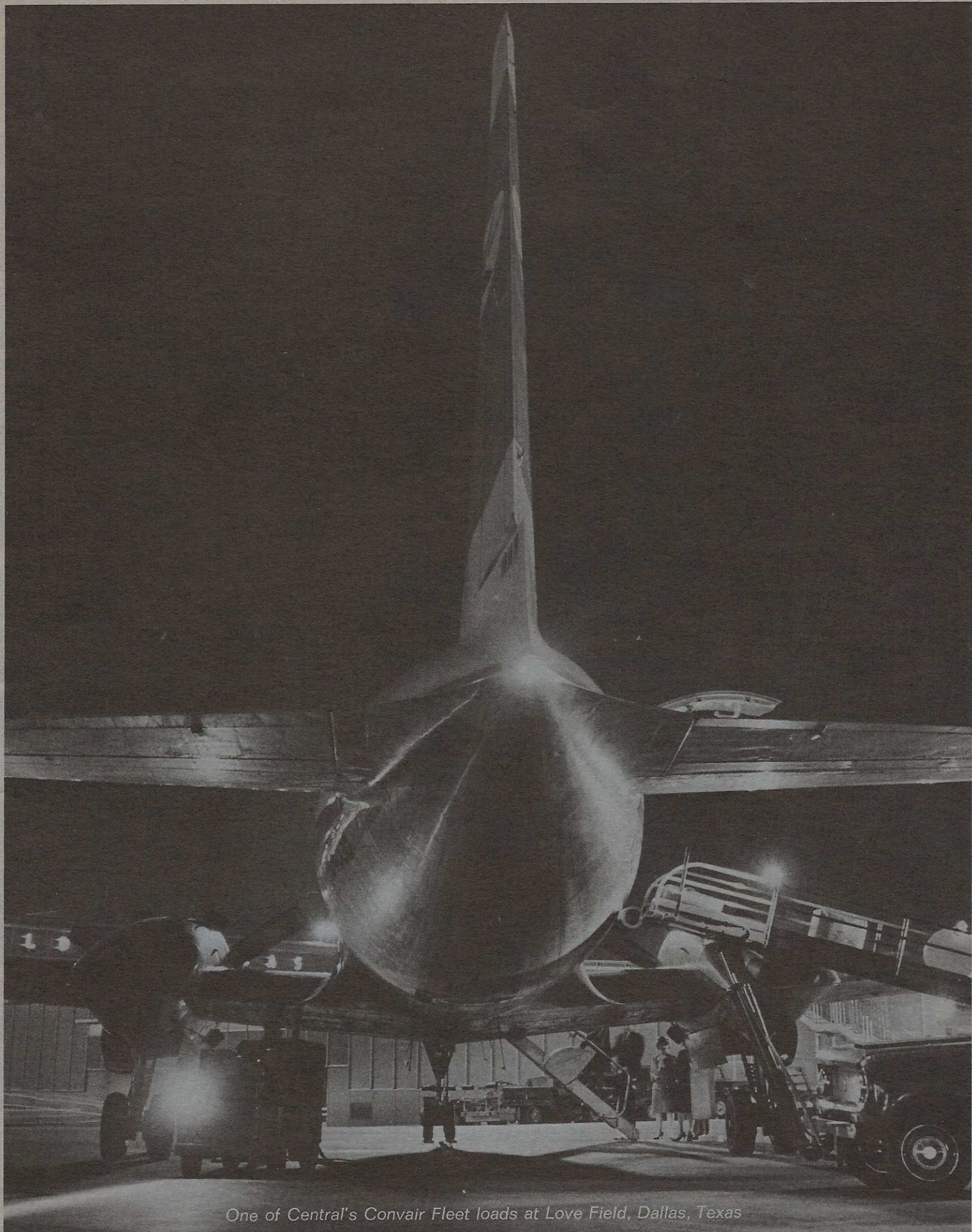




1964
CENTRAL AIRLINES
ANNUAL REPORT



ARKANSAS • Fayetteville • Fort Smith • Harrison • Hot Springs • Little Rock **COLORADO** • Colorado Springs • Denver • Lamar • Pueblo **KANSAS** • Coffeyville • Dodge City • Fort Riley • Garden City • Goodland • Great Bend • Hays • Hutchinson • Independence • Junction City • Liberal • Manhattan • Parsons • Salina • Topeka • Wichita **MISSOURI** • Fort Leonard Wood • Joplin • Kansas City • St. Louis **OKLAHOMA** • Bartlesville • Duncan • Enid • Fort Sill • Guymon • Lawton • McAlester • Muskogee • Oklahoma City • Ponca City • Stillwater • Tulsa **TEXAS** • Amarillo • Borger • Dallas • Fort Worth • Paris



One of Central's Convair Fleet loads at Love Field, Dallas, Texas

DIRECTORS



A. A. (JACK) BRADFORD
Chairman of Board and
Executive Committee
Midland, Texas



L. E. GLASGOW
Fort Worth, Texas



FRED BOSTON
Oklahoma City, Oklahoma



ROBERT S. BRENNAND, JR.
Midland, Texas



J. E. CONNALLY
Abilene, Texas



IRBY L. DYER
Midland, Texas



KEITH KAHLE
Fort Worth, Texas



ROBERT THOMAS
Houston, Texas

OFFICERS

L. E. GLASGOW
President

J. A. COOPER
Vice President,
Planning

H. J. SALFEN
Vice President,
Sales and Marketing

IRBY L. DYER
General Counsel and
Assistant Secretary

C. E. LUNDSTROM
Treasurer and
Assistant Secretary

GENERAL OFFICES:
Greater Southwest
International Airport
Fort Worth, Texas

LEGAL COUNSEL:
Pogue & Neal
Washington, D. C.

REGISTRAR AND TRANSFER AGENT:
The Mercantile National Bank at Dallas
Dallas, Texas

AUDITORS:
Arthur Young & Company
Dallas, Texas



To the Stockholders, Employees and Friends:

1964 was our 15th year of operation. Net income for the calendar year amounted to \$107,040, compared with \$214,803 for the year 1963.

Earnings fell sharply in 1964, chiefly reflecting costs attributable to the advance preparations necessary to inaugurate services with the Dart Convair aircraft during the latter part of 1965. Such advance preparations involve the acquisition of new property and equipment; the establishment of an adequate maintenance organization; and the training of pilots, mechanics, and operations personnel. Historically, in the air transport industry, an airline experiences a drop in earnings during the period of transition from piston-powered to jet-powered flight equipment.

On March 27, 1964, your Company filed applications with the Civil Aeronautics Board seeking realignment, extension, and improvement of its existing route system. Central's proposals are calculated to produce the following results:

1. Increase by 55% the aircraft miles to be flown.
2. Increase by 33½% Central's aircraft utilization.
3. Increase by 65% the revenue passenger miles and revenue ton miles to be carried.
4. Increase Central's load factor by 7½%.
5. Increase Central's commercial revenue by 64%.
6. Increase Central's operating expense by 37½%.
7. Increase Central's net income after taxes by 45%.
8. Reduce Central's annual subsidy by \$365,000.

It is expected that the Civil Aeronautics Board will render its decision regarding these applications during the year 1965.

Your Company's good fortune in having loyal, capable, and experienced men and women to represent Central augurs well for the future. We deeply appreciate the many contributions they have made to the good reputation of Central Airlines.

We acknowledge with thanks the support and patronage of our many stockholders and friends who so generously aided us during the year.

R. E. Glasgow
President

Anna Paul
Chairman



1. Salaries and Wages, 47.7%; 2. Taxes, 4.0%; 3. Rents, Insurance and Utilities, 6.9%; 4. Services Purchased and other Expenses, 25.8%; 5. Depreciation and Amortization, 2.8%; 6. Material and Supplies, 2.9% 7. Gas and Oil, 9.9%. Total, 100.0%

1964 IN REVIEW

OPERATING RESULTS

Net income for the calendar year 1964 amounted to \$107,040, equal to eight cents per share on the 1,406,289 shares of common stock outstanding at the end of the year. Net income for 1963 was \$214,803 or 16 cents per share on the 1,325,842 shares outstanding at December 31, 1963.

The total earnings accumulated and reinvested in the Business amounted to \$344,383 at December 31, 1964. The common stockholders' equity was \$1,182,725 and the book value per share outstanding at the year end was 84 cents.

Revenues from all sources amounted to \$11,453,320 for 1964, an increase of 7.3 per cent over revenues totaling \$10,677,025 for 1963. Passenger revenue amounted to \$6,440,330, a 14 per cent increase; whereas, subsidy payments were down from \$4,300,927 in 1963 to \$4,257,377, a decrease of \$43,550.

Operating expenses totaled \$11,165,069, an increase of 10.5 per cent over 1963. Increased Convair 240 schedules were a factor in the increase in operating expenses. Revenue ton miles totaled 9,208,021, up 9.6 per cent from 8,403,990; whereas, available ton miles totaled 22,442,986, up 10.9 per cent from 20,245,766. Unit costs per available ton mile and per passenger seat mile decreased slightly.

Central Airlines carried 413,381 passengers in 1964, up 6.9 per cent from 386,699. Revenue passenger miles increased 8.8 per cent over 1963; whereas, seat miles flown increased 12.2 per cent. The percentage of available seats occupied was 38.7 per cent for 1964, compared to 39.9 per cent in 1963.

Air freight ton miles increased 24.6 per cent in 1964, express ton miles increased 22.4 per cent and air mail ton miles increased 6.0 per cent.

ROUTE ALIGNMENT AND AMENDMENT PROPOSALS

In March, 1964, Central filed applications with the Civil Aeronautics Board seeking realignment, extension and improvement of its existing system. In support of the authority requested by Central, fully documented exhibits were submitted along with a motion to expedite consideration of these matters. Central's applications included the realignment of its existing route system, comprised of ten segments, to allow service over an amended system comprised of four segments. The consolidation of these ten segments into four would allow Central improved operating authority through relaxation of existing restrictions. Your Company requested authority to suspend service to two points and to render service at two others through the use of consolidated airports with other neighboring cities. In addition, Central applications requested termination of certain existing trunkline authority at Lawton, Oklahoma; Fort Smith, Hot Springs and Little Rock, Arkansas; Springfield, Missouri and Amarillo, Texas.

Central requested authority to provide service, via an extension of its system, from Little Rock, Arkansas into Memphis, Tennessee; Amarillo, Texas to Albuquerque, New Mexico and between Kansas City and St. Louis, Missouri. Under the amended operating authority requested by Central, non-stop service would be authorized between such points as Amarillo, Texas and Oklahoma City, Oklahoma; Amarillo, Texas and Wichita, Kansas; Wichita, Kansas and Kansas City, Missouri.

The Company is seeking authority to provide service over a new segment between the terminal points Kansas City, Missouri and Memphis, Tennessee via the intermediate points Springfield, Missouri and Little Rock, Arkansas.

Central's applications are based on its desire to reduce its dependency

on Federal subsidy support which is to be accomplished by gaining access to traffic volumes sufficient to bear the burden of expenses, thus reducing its volume of subsidy dollar needed.

FLIGHT OPERATIONS AND MAINTENANCE

Central Airlines operated 16 Douglas DC-3's and six Convair 240 aircraft during most of 1964; however one DC-3 was sold in December, 1964. The last of the remaining leased Navy DC-3's was returned in January, 1965.

Two additional Convair 240's were purchased in 1964 and underwent extensive modifications at Central's Fort Worth facility, bringing the total Convair operating fleet to eight.

During the latter months of 1964, Central expanded its maintenance program, performing many of its own maintenance functions, formerly contracted outside the company.

In August, a new maintenance base was opened in Kansas City, making a total of nine, located at key points throughout the system.

Flight operation and maintenance costs throughout the year continued to compare favorably with industry averages.

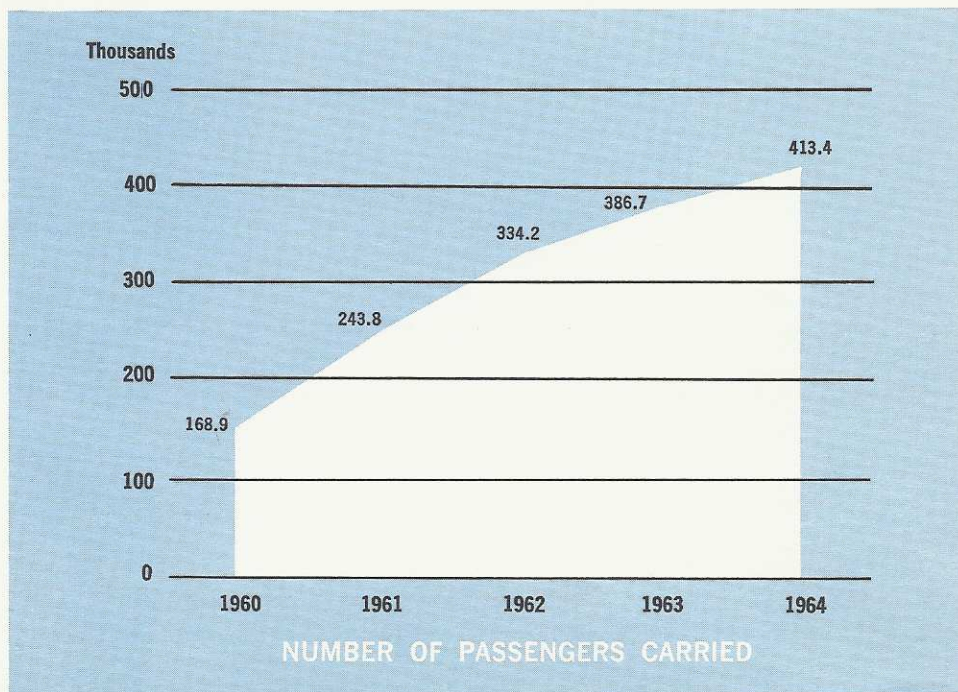
CUSTOMER SERVICES

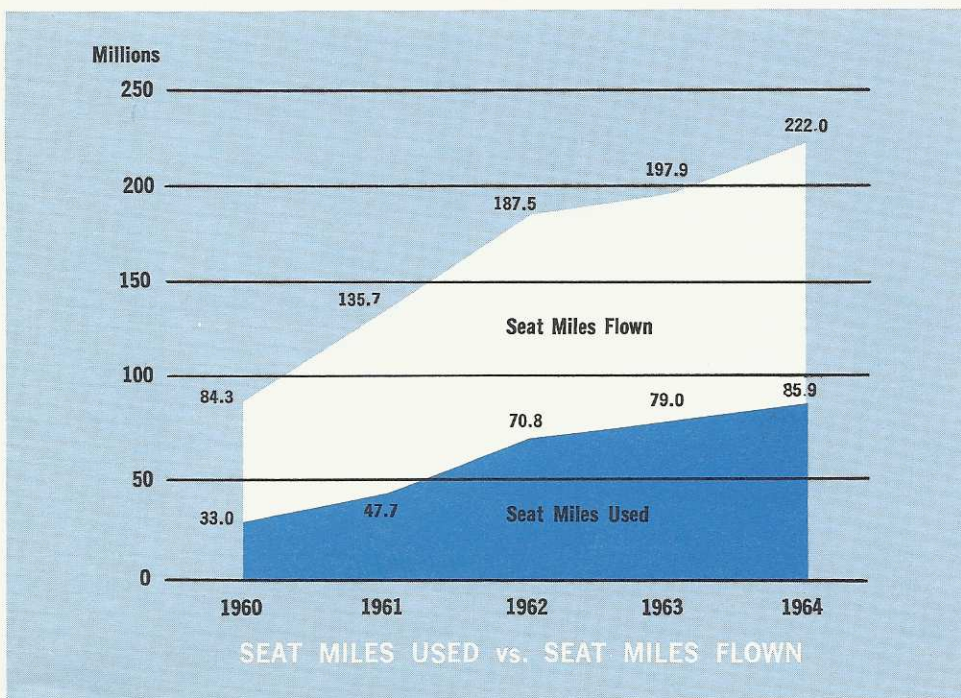
An improved training program was implemented, for all personnel in the reservations offices and stations, during 1964 with "cordiality, courtesy and concern for our customers" as the predominate theme.

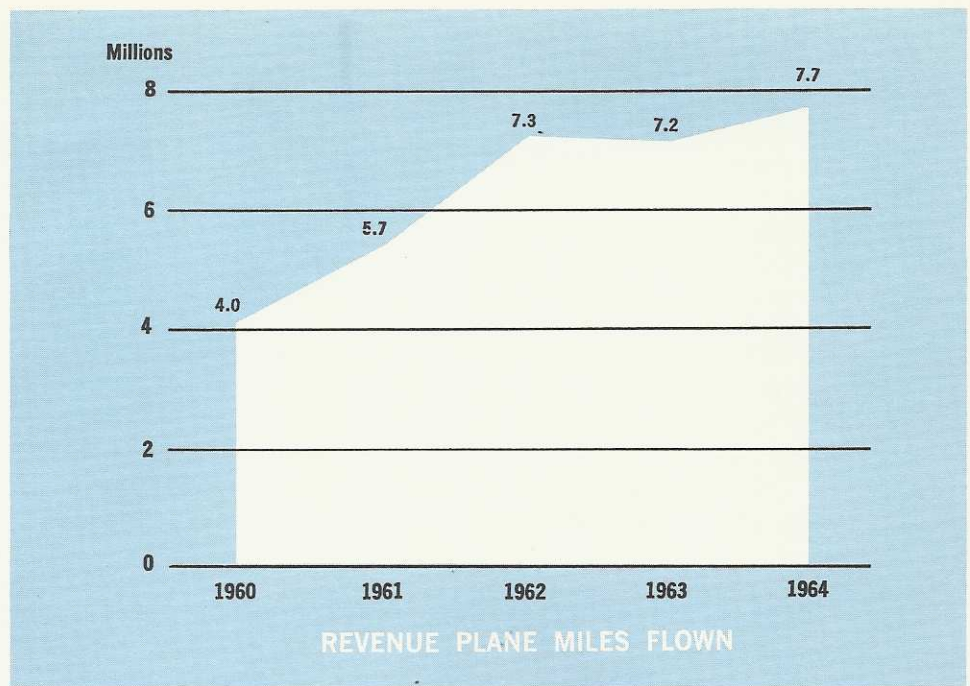
Teletype communications were improved by connection to the Aeronautical Radio, Inc. Electronic Switching Service (E.S.S.). E.S.S. consists of two electronic data processors which control the polling process and switching of teletype messages between Central's circuits and interline circuits of other carriers participating in the electronic switching service. This system gives Central the ability to confirm interline space almost immediately and provide improved service to our passengers.

SALES AND MARKETING

Emphasis was placed on sales training in 1964, with a series of training and marketing sessions being conducted for sales managers. The total marketing concept was advanced with Clergy and Youth Fares, Family Plan







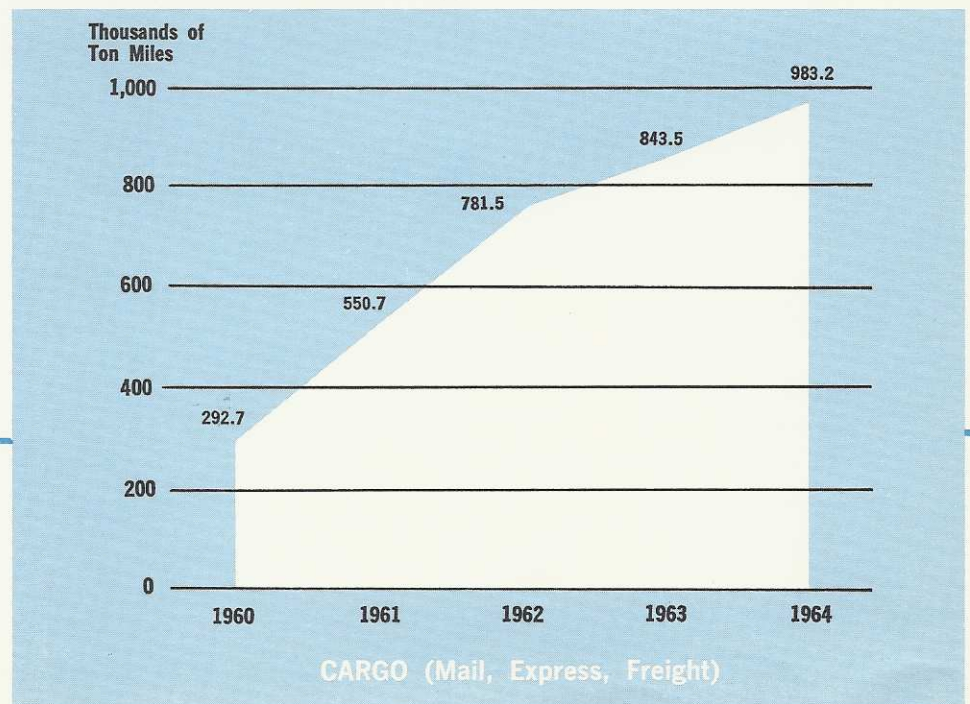
discounts, Central Credit Cards, Tickets-by-Mail service and the Universal Air Travel Plan selected for special sales emphasis throughout the year. Results were gratifying.

A coordinated radio, newspaper and outdoor advertising campaign brought Central's selling messages to the public throughout 1964. All Central markets were closely analyzed to determine their potential, allowing more meaningful allocation of advertising funds (not increased over 1963) in those markets where the greatest possibility of increasing revenue was indicated.

Accelerated sales efforts were coordinated with travel agents, resulting in 1964 revenue for Central of \$1,132,173. World's Fair, Hawaiian and Sun Break tours, as well as tours for the vacation areas on Central's system, were promoted.

Central's total interline revenue received from connecting carriers in 1964 was \$3,131,398. Interline sales presentations promoting connecting service to Central were scheduled at major off-line consolidated reservations offices of trunk carriers and sales incentive programs were conducted jointly throughout the year.

Concentrated sales effort was given to the soliciting of national, regional



and state conventions through your Company's Convention Calendar bulletins.

Revenue from official military and government travel was \$504,545 in 1964. An additional \$92,717 was received from military standby traffic for a total of \$597,262.

Continuing strong sales effort by Central's staff and field sales personnel was directed at the 87 Joint Airlines Military Traffic Offices (JAMTO's) located on military installations throughout the country, resulting in 1964 revenue of \$695,566. Of the 13 local service carriers, Central ranked third in JAMTO revenue.

Central Airlines transported more than 9.3 million pounds of air cargo during 1964 for \$584,276 revenue, an increase of 8.1 per cent over 1963. The most significant increase was in air freight revenue where a 16.6 per cent gain was realized.

An accelerated campaign to increase air freight sales was initiated the latter part of 1964. Promotional postcards and brochures were distributed to all stations to assist them in this campaign.

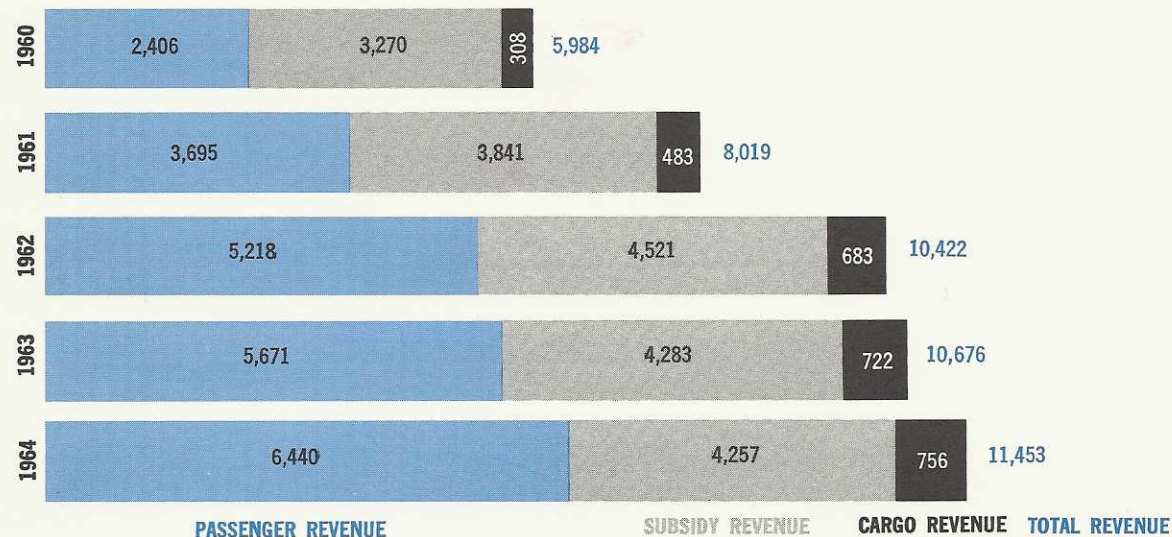
PERSONNEL

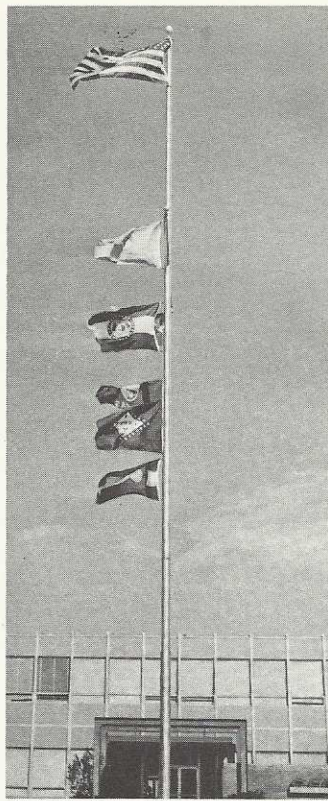
Your Company's employee relations and morale level is reflected in the following longevity figures: of the 863 employees on Central's payroll on December 31, 1964, well over half (61 per cent) or 525 had been with the Company three years or more; 350 had been with the Company five years or more; 163 had ten years of service or more; and 18 had been employed fifteen or more years by Central.

A significant improvement was made in Central's employee benefit program in 1964 with the addition of a major medical provision to the group insurance policy.

Mr. R. S. Brennand, Jr. and Mr. L. E. Glasgow, president of Central Airlines, were named to your Company's Board of Directors in April, 1964.

OPERATING REVENUES (Thousands)





GETTING AIRBORNE TAKES GROUNDWORK!







NATIONAL SAFETY COUNCIL

AWARD
OF
HONOR



1963

presented to

CENTRAL AIRLINES, INC.

for

AN OUTSTANDING

FLIGHT SAFETY RECORD

Howard Pyle
President
National Safety Council

John J. ...
Vice President
for Industry

This National Safety Council plaque was presented to Central Airlines during 1964 in recognition of its contribution to safe air transportation and covered your Company's 1963 operations.

As of December 31, 1963, Central had operated fourteen years and had carried 1,932,945 passengers 378,854,000 miles without a passenger or crew fatality in scheduled passenger services.

Since the period covered by this award, Central Airlines' safety record has continued intact and, at the end of 1964, a total of 2,346,326 passengers had been carried 464,430,000 miles. Central is now in its sixteenth consecutive year of safe operation.



CENTRAL AIRLINES, INCORPORATED**STATEMENT OF INCOME**

Year ended December 31, 1964

OPERATING REVENUES

Passenger	\$ 6,440,330
Public service revenue	4,257,377
Express and freight	390,966
Mail	193,310
Other	171,337
	<u>11,453,320</u>

OPERATING EXPENSES

Operations	7,075,989
Maintenance	2,216,161
Traffic and advertising	865,507
General and administrative	691,830
Depreciation and amortization	315,582
	<u>11,165,069</u>
Operating profit	288,251

OTHER DEDUCTIONS

Interest	52,833
Miscellaneous	6,429
	<u>59,262</u>
Income before income tax	228,989

PROVISION FOR STATE AND FEDERAL INCOME TAX	<u>121,949</u>
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Net income	<u><u>\$ 107,040</u></u>
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See accompanying notes.

CENTRAL AIRLINES, INCORPORATED

BALANCE SHEET

December 31, 1964

ASSETS

CURRENT ASSETS

Cash.....		\$ 780,332
Accounts receivable:		
Airline traffic and other.....	\$1,242,597	
U. S. government.....	<u>714,063</u>	1,956,660
Refundable federal income tax.....		186,449
Replacement parts and operating supplies, at average cost less obsolescence reserve.....		222,177
Prepaid expenses.....		<u>71,106</u>
Total current assets.....		3,216,724

PROPERTY AND EQUIPMENT, at cost

Flight equipment.....	3,750,400	
Ground and other equipment.....	<u>767,540</u>	
	4,517,940	
Less accumulated depreciation and amortization.....	<u>2,128,072</u>	
	2,389,868	
Refundable cash deposits with suppliers (Note 1).....	<u>521,898</u>	2,911,766

ROUTE DEVELOPMENT AND PREOPERATING COSTS,
less accumulated amortization.....

225,421

\$6,353,911

See accompanying notes.

CENTRAL AIRLINES, INCORPORATED**BALANCE SHEET**

December 31, 1964

LIABILITIES AND STOCKHOLDERS' EQUITY**CURRENT LIABILITIES**

Accounts payable.....	\$1,501,731
Airline traffic accounts payable.....	1,180,136
Accrued liabilities.....	638,228
Air travel contract deposits.....	48,850
Unearned transportation revenue.....	30,000
Current maturities of first mortgage equipment note.....	<u>378,000</u>
Total current liabilities.....	3,776,945

LONG-TERM DEBT

5½ % first mortgage equipment note payable, due \$31,500 monthly, plus interest, balance due January 2, 1967, less current maturities.....	1,377,000
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DEFERRED INVESTMENT TAX CREDIT.....	17,241
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COMMITMENTS AND CONTINGENCIES (Notes 1 and 3)**STOCKHOLDERS' EQUITY**

Common stock, 12½¢ par value; 2,000,000 shares authorized, 1,406,289 shares issued (Note 2).....	\$175,786	
Capital in excess of par value.....	662,556	
Retained earnings.....	<u>344,383</u>	<u>1,182,725</u>
		<u>\$6,353,911</u>

See accompanying notes.

CENTRAL AIRLINES, INCORPORATED

STATEMENT OF STOCKHOLDERS' EQUITY

Year ended December 31, 1964

	Common stock		Capital in excess of par	Retained earnings	Total
	12½¢ par value shares	Amount			
Balance at beginning of year	1,325,842	\$165,730	\$476,841	\$482,762	\$1,125,333
Retroactive adjustment of prior years' public service revenues, net of applicable income taxes of \$75,081				(62,683)	(62,683)
Net income				107,040	107,040
5% stock dividend at fair value plus cash paid in lieu of fractional shares	66,273	8,284	173,967	(182,736)	(485)
Exercise of employee stock options	14,174	1,772	11,748	13,520
Balance at end of year	<u>1,406,289</u>	<u>\$175,786</u>	<u>\$662,556</u>	<u>\$344,383</u>	<u>\$1,182,725</u>

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

December 31, 1964

1. COMMITMENTS

The Company has completed arrangements for the modification of its fleet of CV-240's, and for the purchase of an additional aircraft. These commitments are approximately \$5,400,000 in excess of the amounts deposited with the suppliers. The modification program is contingent upon certification by regulatory agencies of a prototype modified aircraft. In addition to the above, the Company will pay installation costs of approximately \$240,000 and certain sales and excise taxes. This program will be financed principally from the proceeds of long-term bank loans now being negotiated.

Various facilities occupied by the Company are under leases for periods of up to twenty-one years at aggregate annual rentals of \$162,000.

**2. STOCK OPTIONS AND
RESERVATIONS OF
COMMON STOCK**

Under a 1962 employees' stock option plan, there was outstanding and exercisable at December 31, 1964 an option on 1,102 shares at \$0.93 per share (after adjustment for a 5% stock dividend in 1964). This option was exercised in January, 1965. During 1964, options issued under the plan were exer-

cised on 14,174 shares (14,330 shares after adjustment) for a total consideration of \$13,520. Options on 1,102 shares (after adjustment) were canceled.

Also at December 31, 1964 a key employee held an option on 52,500 shares (granted in 1964) at \$1.67 per share (after adjustment). This option is exercisable in cumulative installments of one-fifth per year beginning January 7, 1965 and expires in 1969.

3. CONTINGENCIES

During 1964, the Company's federal income tax returns for the fiscal years 1961, 1962, and 1963 were examined by the Internal Revenue Service which has proposed certain adjustments that would result in additional taxes and interest of approximately \$56,000. In addition, the Civil Aeronautics Board has proposed refunds to the government of \$139,000 (\$67,000 after income taxes) out of public service revenues received by the Company for 1962 and 1963 under a class rate formula prescribed by C.A.B. Upon advice of counsel, the Company plans to contest the adjustments proposed by both Internal Revenue Service and C.A.B. No provision for such amounts has been made in the financial statements at December 31, 1964.

The Board of Directors
Central Airlines, Incorporated

We have examined the accompanying balance sheet of Central Airlines, Incorporated at December 31, 1964, and the related statements of income and of stockholders' equity 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.

In our opinion, subject to such adjustments as may result from the outcome of the contingencies described in Note 3, the statements mentioned above present fairly the financial position of Central Airlines, Incorporated at December 31, 1964 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.

Arthur Young & Company

Dallas, Texas
February 6, 1965

FIVE YEAR FINANCIAL AND STATISTICAL SUMMARY

FINANCIAL	1964	1963	1962	1961	1960
Operating Revenues	\$11,453,320	\$10,677,025	\$10,422,853	\$ 8,019,671	\$ 5,984,580
Operating Expenses	11,165,069	10,099,872	10,025,010	7,851,058	5,688,973
Net Income	107,040	214,803	161,819	166,664	283,728
Earnings per share	7.61¢	16.20¢	25.79¢	31.87¢	54.26¢
Total Assets	6,353,911	5,046,238	5,243,327	4,327,658	2,358,287
Long Term Debt	1,755,000	1,010,000	1,190,000	785,793	190,500

COMMON STOCKHOLDERS' EQUITY

Shares Common Outstanding	1,406,289	1,325,842	627,400	522,878	522,878
Par Value	\$ 175,786	\$ 165,730	\$ 156,850	\$ 130,720	\$ 130,720
Capital Surplus	662,556	476,841	390,718	390,718	390,718
Retained Earnings	344,383	420,079	292,094	172,842	14,343
Stockholders' Equity	1,182,725	1,062,650	839,662	694,280	535,781
Book Value Per Share	\$.84	\$.80	\$ 1.34	\$ 1.33	\$ 1.02

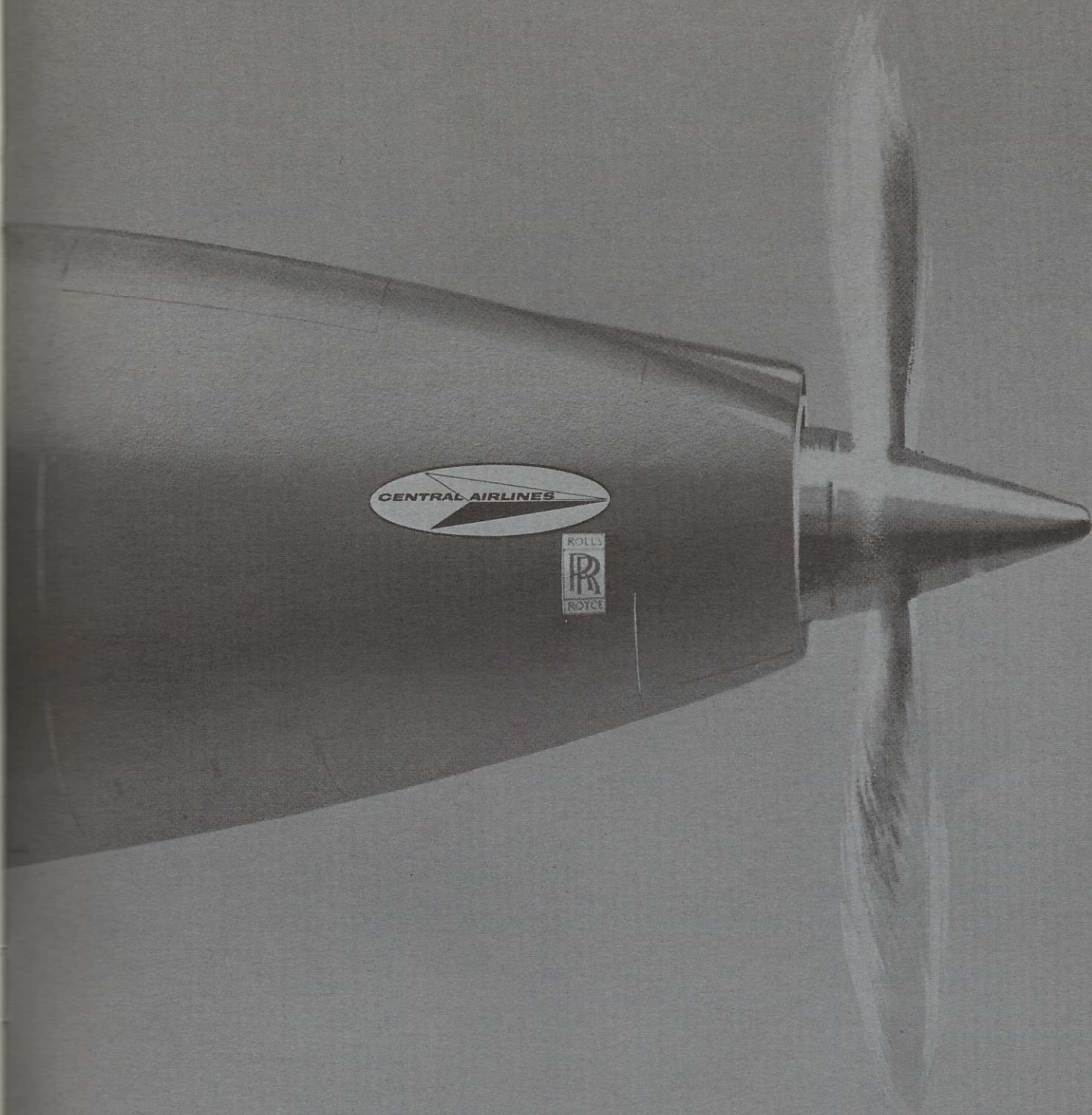
OPERATIONAL STATISTICS

Revenue Plane Miles	7,726,276	7,238,320	7,293,760	5,742,940	4,028,960
Available Ton Miles	22,442,986	20,245,766	20,609,963	15,165,603	9,669,505
Revenue Ton Miles	9,208,021	8,403,990	7,506,879	5,124,586	3,455,679
Revenue Passengers Carried	413,381	386,699	334,208	243,847	168,863
Passenger Seat Miles (000)	222,040	197,899	187,463	135,664	84,300
Revenue Passenger Miles (000)	85,941	78,982	70,364	47,739	33,007
Passengers Per Mile	11.1	10.9	9.6	8.3	8.2
Percentage of Seats Occupied	38.7	39.9	37.5	35.2	39.2

OPERATING EXPENSES

Per Available Ton Mile	49.7¢	49.9¢	48.6¢	51.8¢	58.8¢
Per Revenue Ton Mile	121.3	120.2	133.5	153.2	164.6
Per Passenger Seat Mile	5.0	5.1	5.3	5.8	6.7
Per Revenue Passenger Mile	13.0	12.8	14.2	16.4	17.2

The financial results and stockholders' equity for the years 1961 through 1963 have been restated to reflect out-of-period adjustments.



LOOKING FORWARD TO '65





CENTRAL AIRLINES ENTERS THE JET AGE

When the jet-powered Dart Convair is placed into service this year, your Company will become the world's first airline to fly this modern, jet-prop aircraft.

Central is now in the process of converting its fleet of ten Convair 240's into high performance turbo-prop equipment, using Rolls Royce Dart-10 engines. The first converted aircraft is expected to be completed and placed into service in the fall of 1965. The remaining aircraft will be readied on a monthly basis, with the entire fleet converted by mid-1966.

The conversion of Central's fleet into jet-prop Dart Convairs will substantially increase the Convair service presently being offered to the traveling public in the Company's six-state area.

The Dart Convair conversion requires a minimum of modification, since installation of the Rolls Royce Dart engines necessitates few airframe changes. The converted aircraft will be more economical to operate than the present piston powered CV-240. Competitive life will be 15 or more years. Power and payload will be greater. The 3025 horsepower Dart engines increase cruising speed by 50 miles per hour and payload by 1800 pounds. Increased takeoff and landing weights permit practically unrestricted operation, making it possible for the Dart Convair to operate economically into most of the 41 cities served by Central.

The inherently lower noise level of the turbine engines has been reduced even more by positioning the engines and propellers farther from the fuselage, providing a smoother, quieter ride. And, since the Dart can fly economically at any altitude between sea level and 20,000 feet, it is often able to avoid rough weather.

The conversion will include a built-in auxiliary power unit for starting engines and an air conditioning unit to provide cool cabin comfort on the ground as well as in the air.

The combination of increased speed, greater reliability, reduced vibration and a quieter cabin is expected to attract more passengers and increase passenger revenue for Central Airlines. The increase in the cargo carrying capacity of the airplane will contribute much toward the expansion and profitability of cargo services.

The public will learn of Dart Convair advantages to travelers through special advertising and promotion, for which a supplemental budget has already been approved.

