

# Report To Our Stockholders

**EDITOR'S NOTE:** At the annual stockholders meeting April 19th, a complete transcript was made of the proceedings. Since the meeting included a number of outstanding reports and additional interesting information, it occurs to us that our employees who were not able to attend might like to read an actual account of the proceedings. Here it is, only slightly edited for greater clarity:

**Mr. Davis:** I call the meeting to order. I believe this is the largest turnout we have had and also the largest number of proxies. I thank all of you for coming. I would now like to appoint the Proxy Committee: Mr. Jim Smith of Ernst and Ernst, Certified Public Accountants, and Audree F. Long of Piedmont. They will tally our proxies for us. Meanwhile, we will have the reading and approval of our last annual meeting minutes by our secretary, Tom Morton.

**Mr. Morton:** We have the minutes of our last annual meeting and special meeting held in June of last year. We will give an outline of the minutes rather than the lengthy reading of all the resolutions, and if anyone would like to see them after the meeting they are here for their inspection. (Minutes of annual meeting were read in outline form.)

**Mr. Davis:** Suppose we adopt these first and then consider the special meeting. Any question or comments regarding the minutes? If not, is there a motion to adopt the minutes? (Motion made, seconded and passed.)

As Mr. Morton indicated, the special meeting was called, but in the interest of time we will ask Mr. Morton to outline the results. The minutes will be available for anybody's review after the meeting is over. (Mr. Morton read the outline of minutes.)

**Mr. Davis:** Are there any questions, comments, additions or corrections to the minutes? (Motion made, seconded and passed that they be adopted.)

We intend to follow the procedure that we have in the past with brief reports from our vice presidents. We sometimes wonder if we cover everything the stockholders are interested in knowing, but we normally have a question period or discussion period at the close of the meeting to cover anything that is not covered by the various officers of the Company. If you do have questions, please remember them and hold them until the formal part of the program is over and we will have ample time to cover anything you might have in mind.

I think it would be an imposition to cover what was covered in our annual report, a copy of which you have received. The year 1966 was a pleasant and outstanding one in the history of this company, earning a net profit of \$1,922,000, or I could say just a little bit under \$2,000,000 after taxes. It was a year that we are extremely proud of. One of the most encouraging events of last year was that we were able to reduce subsidy revenue, which is paid to the local service airlines to provide service to smaller communities that would not normally generate sufficient traffic for that service. We made history again in being the first local service airline to operate at a profit before subsidy. That does not say that we did not get subsidy because we did in order to assure a fair rate of return on our investment. Without subsidy we made about one million dollars. We are grateful for the employees and their efforts and our stockholders and their efforts and we will continue to try to provide the best service to the public. We could get rid of the subsidy by being ruthless with the service — reducing schedules or deleting small cities — but we want to fulfill our public service responsibilities and we will continue to do it as economically as we can. You will recall, and it was in the minutes, we committed ourselves to a new equipment pro-

gram. Our traffic has grown so fast that we thought we should get jet equipment before the Boeing 737's arrive in 1968. We were able to work out an arrangement with The Boeing Company to lease two 727's on an interim basis. The 727 has three engines versus two engines in the 737, and seating capacity is slightly more: 92 passengers on the 727 and 90 on the 737. Some deliveries of the FH-227B have been made. However, I don't want to cover too much of Mr. Saunders' operations since he will speak later, but we are moving forward with our equipment program.

As mentioned in the minutes, we had a tremendous financing program ahead of us but we are happy to say that we have completed it very satisfactorily, from the bank's standpoint anyway, and very expensive from our standpoint, but under the circumstances of tight money, etc., a good arrangement for all and we are happy to have that worked out.

We are continuing to grow and we see nothing on the horizon to slow down that growth. We were short of capacity on our aircraft and we are short of space here at home. Our office facilities are horribly cramped with three, four and five people in space designed for one, and half our maintenance work is being done on the outside with resulting additional cost.

We have made plans for a new larger headquarters facility for both general office and maintenance. The building will be here on the Smith Reynolds Airport owned by Forsyth County, built by them and leased to Piedmont and amortized over the life of the lease. Bids have been asked from contractors to be turned in the 26th of this month and we hope to begin construction 45 days thereafter. We believe the designs that have been prepared for us represent an extremely fine set of plans for a new facility and I know you will be proud, as we are.

As pointed out in the annual report, 1967, while extremely encouraging from a growth standpoint, offers difficult hurdles to overcome. In that connection our first quarter earnings are down from first quarter earnings last year. Consolidated net earnings for the first quarter of 1967 were \$141,000 after taxes, compared to \$293,000 after taxes, compared to last year, a \$150,000 reduction. The General Aviation activities of the company were responsible for a large part of that profit with the Airline profits being the smaller portion. This is attributable to several things. Substantial wage increases placed into effect the first of the year for all employees are beginning to be absorbed. Interest cost on the extremely large debt in connection with the re-equipment program is with us, and we are having non-recurring indoctrination expenses in putting this new equipment into use. In addition, the CAB has changed its system of subsidy or public service payments this year as compared to the system that was used last year, so that our payments this year will be on a constant level throughout the year, whereas last year payments were high during the first of the year and toward the last of the year we were refunding more than we were billing. That created some imbalance in the picture of first quarter last year versus this year. We hope to conduct our affairs so that we will have a very satisfactory 1967 and the stockholders earn a reasonable return on investment.

At this time Mr. Saunders, vice president, will give his report.

**Mr. Saunders:** Our operation performance was equal to, and particularly in completion of flights, or better than in 1966. Our airframe and engine overhaul times are about the same which is about the limit of the Martin and F-27 except that the Dart increased to 4800 hours between

overhauls. On new equipment, we completed training on one 727 and are in the process of completing transition training to put the second airplane into service April 30. As for the FH-227B, we have two in service and we are installing the interiors and electronic equipment on others. As for the 737, we have six on order and the first 737 was test flown by Boeing a week ago. It is exceeding the engineering data so far. We will begin training on this aircraft in October or November of this year for delivery in March, 1968. We will eliminate a lot of the flight time, about 50 per cent, with the simulator — time that otherwise would have to be in flight.

**Mr. Davis:** Thank you, Mr. Saunders. Now a report from Vice President Brown.

**Mr. Brown:** I am always happy to be in a position to report a good year and I know you realize that from a traffic and sales standpoint 1966 was especially good.

I will cover just a few items. I think the annual report gave you a complete picture of 1966 over 1965 — plane miles up 20 per cent, capacity up 24 per cent due to larger equipment flown over more miles and revenue passenger miles up 22 per cent, an increase in load factor of 7 per cent 1966-1965, from 55% in 1965 to 59% in 1966. This is an extremely high load factor for local service airlines.

In 1966 our passengers traveled an average of 15 miles further on Piedmont. The 1965 average trip was 222 miles while in 1966 it was 237 miles. This may not sound like much but in dealing with large numbers it is important. Our passengers paid \$1 more per ticket in 1966 than in 1965. In cargo and miles of air mail flown we exceeded 1 million ton miles. One million ton miles of air mail is quite a bit — quite a few tickets to quite a few destinations to quite a few people. In 1966 I am happy to report that we inaugurated service over the route to New York. We started off with five round trips using Martin 404 and F-27 aircraft, and on March 15 we increased that to seven round trips, two with 727 jets and others with FH-227's, F-27's and Martin 404's. I hope that you noticed in our advertising what I regard as one of the cleverest ideas ever developed by our advertising agency. "We've Put New York City On The Map — Ours." We have gotten a lot of mileage out of this ad and in New York it has been particularly effective. Our agency deserves quite a bit of credit.

In 1967 traffic has been growing at about the rate of growth in 1966:

Jan. revenue pass. miles up	38%
Feb. revenue pass. miles up	28%
March revenue pass. miles up	34%
Average	33.7% for first quarter.

As indicated, we put the Boeing 727 into service March 15. A fair portion of that service is on the New York run and I have personally been delighted at the passenger appeal and acceptance of this service. The load factor on these jet flights so far is about 50 per cent and I hope that when we put the second 727 on the line April 30, the two units will improve scheduling and make possible an even better load factor.

We were successful in our efforts to obtain authority for Greenville-Spartanburg service. We inaugurated service there April 1, 1967, and we have been quite pleased with the traffic and response. I believe it will be an improvement not only to existing routes but an asset in other route plans in other areas.

I am happy to report that the Memphis-Nashville case is well under way. Exhibits were exchanged early this month and the Examiner's

hearing is set for May 23 of this year. I would be hopeful that under the new atmosphere at the CAB, if we can obtain a favorable Examiner's decision in this case, it might well be that it could be finalized in 1967. That, I believe, brings us up to date with the applications on file with the Board. With New York, Greenville-Spartanburg and Nashville and Memphis, I believe we have reason to be pleased with our program in this area.

**Mr. Davis:** In connection with our growth you may be interested to know that we are flying the equivalent of two and one-half times around the world each day.

We will now have our report on General Aviation — Mr. Northington.

**Mr. Northington:** I am like Mr. Brown in that I am happy to tell you about the General Aviation Division since 1966 was our best year: Sales up 12 per cent over last year which was itself a record year; net income up 34.8 per cent over 1965. The majority of the increase in sales of this division were aircraft sales, accessories and fuel. As in the past, Central Piedmont Aero received awards from Piper and did General Aviation from Beech for outstanding sales achievement. Last year our sales were \$8¼ million and hope to do \$9 million in 1967. The first quarter has been quite good and we hope the rest of the year will be the same way. I would like to introduce to you two people here today that have been very much a part of this success. I introduce Tom Ferguson, manager of our Norfolk operations and also L. P. Wrenn, general manager of Central Piedmont Aero, who have done an outstanding job. Mr. President, thank you.

**Mr. Davis:** We will proceed with the report of the Proxy Committee and take care of the matters of business. Mr. Jim Smith:

Shares outstanding	1,835,945
Shares represented in person	212,025
Shares represented by proxy	1,235,789
Shares not represented	388,031
Total represented	79% of the total shares outstanding.

**Mr. Davis:** We have a quorum and will continue the remaining portion of the business. Your Board of Directors has recommended a stock option plan for key employees. A little history is in order. We had a plan adopted a number of years ago which has long since been allocated. As indicated in the Proxy Statement, we are convinced this is one of the most beneficial and desirable methods of showing those responsible for the development of the Company appreciation for their efforts and we recommend this plan. If there are any questions, please ask them. I can discuss this objectively because under the government regulations I cannot participate in it. We are extremely anxious to have it for the key employees of the Company. Any comment? Is there a motion? (Motion made, seconded and passed.)

(Mr. Smith read the Proxy vote on Stock Option Plan:

In favor of	1,378,945	75.11%
Negative	37,677	2.05%

**Mr. Davis:** Second, we will consider a resolution to purchase stock for two needs, the first being to purchase stock for reallocation under the Stock Option Plan, the second being to fund our deferred compensation plan. This would give the Directors the authority to purchase from time to time of up to 10,000 shares. Of course this is permissible only during this year. It would have to be re-approved if this plan is continued. The Directors recommend approval of this resolution to you.

(Motion for approval and seconded.) Any discussion or questions? (Motion voted on and passed.)

**Mr. Smith:** (Proxy vote on motion:

In favor of	1,378,207	75.07%
Negative	38,415	2.09%

**Mr. Davis:** A two-thirds vote is required and we have well over two thirds.

The next order of business is election of Directors. As indicated in the proxy statement, the management nominated the following to serve during the coming year as Directors. (Names read.) All have served previously with exception of Mr. Charles Myers who is President and Chief Executive Officer of Burlington Industries and who is one of the most capable businessmen in the world. He will make a tremendous contribution. He would not accept without fulfillment of his obligations and getting in there and being a working director. We are extremely happy he has agreed to serve. Are there other nominations? If not, a motion. (Motion made and seconded to elect the directors nominated. Motion passed.)

**Mr. Smith:** (Proxy vote on election of Directors:

In favor of	1,412,900	76.9%
Not voting	3,722	.02%

**Mr. Davis:** Are there any questions, criticisms or comments on the operation of the business that have not been covered?

**Stockholder:** Has Piedmont given any consideration to the student rates which I understand other airlines give?

**Mr. Davis:** Mr. Brown will answer.

**Mr. Brown:** We have given it consideration. Quite honestly, our situation is that throughout the last year we have been pinched capacity-wise and we need more seats and you don't discount a product when in short supply. It may well be that in the next year when we phase in the 737 that we find ourselves in the situation beneficial to ourselves and students to explore students rates, but I don't think at this point it would be wise.

**Stockholder:** Have you given consideration to listing Piedmont on the stock exchanges?

**Mr. Davis:** The Directors are continuing to review that matter from time to time, in fact at each of our meetings. Frankly, we have recently been making a rather thorough investigation in order to have enough information to make an intelligent decision as to whether it is in the best interest of the stockholders. First, we need to know how much "floating" stock is available and things of that sort. We are asking our Transfer Agent to assist in this. There has been no decision to list or not to list at this point. We are waiting for further information to come up with the right answer. Any other questions?

**Stockholder:** You mentioned earlier that your planes fly 2½ times around the world each day. That would leave them half way around the world! How do you get them back? (Laughter)

**Mr. Davis:** At the rate we are getting the jets — they cover a lot of miles in a short time — by the middle of next summer we'll get them back home again! (Laughter) Any other comments?

In closing, let me say that we are deeply grateful for your coming and your support. We arranged to have one of our 727's now used for training to be here. The boys training on it are taking a break and you can take a thorough tour of the jet. It is just outside. If you would like to take a good look at it, Mr. Britt and Mrs. Allen will be your hosts and you may contact them immediately after adjournment. (Meeting adjourned.)