

T. H. Davis: We'll call the 1980 annual meeting of Piedmont Aviation, Inc. to order. First of all, I would like to extend a very cordial welcome to all of you. We're delighted to see such a nice turnout. I believe this is the biggest attendance we have had since we've been in business and we appreciate your indication of interest in your Company. At this time, I'd like to introduce my associates here at the head table. On my left is Bill Howard executive vice president of the Company; Bill McGee, senior vice president; Tom Morton, senior vice president-finance; Bob Northington, senior vice president; H. K. Saunders, senior vice president; and Ken Ross, senior vice president.

The purpose of the meeting, of course, is to act on Items 1, 3 and 4 in the proxy statement which has been distributed to you. As announced previously by the board of directors, it is not the intention of the directors to take up Item 2 that was presented to you in the proxy statement for a vote at this meeting. The record date for this meeting is March 7 for stockholders of record on that date, and at that time there were 3,840,356 shares entitled to vote. Are there any stockholders in the audience eligible to vote who have not cast a ballot and who would like to do so at this time so that our voting inspector can properly tabulate them during the course of the meeting? Are there any others that have not previously cast their ballot and would like to do so at this time? The minutes of our 1979 meeting are available, and if there is a desire to do so, we will read them verbatim. Otherwise, I'll ask our secretary to summarize them for you. What is your desire?

A motion has been made and seconded that the reading of the minutes be waived. Is there any objection? There being no objection, the motion is agreed to. Mr. Morton, would you just very briefly summarize the important parts of the last meeting?

T. W. Morton: The last annual meeting of the shareholders of Piedmont Aviation, Inc. was held in this room on April 18, 1979 at 10:00 a.m. T. H. Davis acted as chairman and T. W. Morton acted as secretary for the meeting. The chairman called the meeting to order and appointed David Riggan of Ernst & Ernst and A. F. Long, Company controller, as proxy inspectors to determine the number of shares represented. The president then reviewed the financial and operating results for 1978 and for the first quarter of 1979. There were other discussions by other members of the management of the Company, including a report from Mr. W. R. Howard, who reviewed the provisions of the 1978 Airline Deregulation Act and also reviewed the route expansion program of the Company. Mr. K. E. Ross reviewed the traffic growth and passenger fare matters and other changes made during 1978. Mr. H. K. Saunders reviewed aircraft acquisitions, purchases and other aspects of the operations of the airlines. Mr. R. S. Northington gave a report regarding the operations of the general aviation group.

The chairman then called for a report of the proxy inspectors who reported that there were a total of 2,231,561 shares represented at the meeting, representing 75.86 per cent of the total outstanding shares. The chairman declared that a quorum was present and called for a vote on the board of directors. The following persons were elected: C. G. Brown, Jr.; E. L. Davis, Jr.; T. H. Davis; Rawson Haverty; Lawrence Lewis, Jr.; T. W. Morton; R. S. Northington; E. M. O'Herron, Jr.; H. K. Saunders; J. F. Watlington, Jr.; M. H. Winger, Jr.; and C. W. Womble.

The next item of business was the approval of an amendment of the charter of the Company authorizing the issuance of preferred stock. This item also was passed. Another item presented for voting was the appointment of independent auditors for the year 1979. The firm of Ernst & Ernst, which is now Ernst & Whinney, was appointed independent auditors for the coming year. The chairman then asked for questions from the shareholders who were present. After a period of questions and discussions, the meeting was adjourned at 11:05 a.m.

Davis: Thank you, Mr. Morton. Are there any further questions? By the way, in connection with questions, as those of you who have been here previously will

Report To Our Stockholders

Editor's Note — At the annual stockholder's meeting April 16, a complete transcript was made of the proceedings. The meeting included a number of reports, which we thought employees who were not able to attend might like to read. An actual account of the proceedings, only slightly edited for clarity, follows.

recall, we always want to allocate time at the conclusion of the official portion of the meeting for questions, comments, pro and con, regardless, and a thorough discussion of any aspect of the Company that any stockholder would like to have questions on or further discussion; so, if you'll keep that in mind as we proceed during the course of the meeting, then we will be glad to entertain any discussions or questions at the conclusion of the meeting. Are there any questions at this point specifically related to the minutes of the last meeting? Is there a motion that those minutes be approved?

Motion made that they be approved. Is there a second? Is there any objection? The minutes have been approved.

I'd like to appoint Mr. George Corbin as our voting inspector. He'll be assisted by Mr. Audree Long, who will tally the proxies and bring a report later on.

Since our annual report has been distributed to all of you, I think it would be an imposition on you to take up your time to reiterate a lot of the information in that report. Of course, we're extremely pleased to confirm and reiterate the fact that 1979 was, by far, the best year in your Company's history—both from a standpoint of earnings, as well as from a standpoint of operations and services rendered. We had an extremely satisfying year in many respects, and we'll hear a little bit more later on insofar as the growth aspect of the Company is concerned. As I mentioned, in addition to the earnings and the operating record, the growth and size and scope and services rendered were also, by far, a record for your Company.

It occurred to me that instead of rehashing a lot of what you've seen in your annual report that you might be interested in some comments, very briefly, that we made before the New York Society of Security Analysts at a recent meeting when we were invited to come up and make a presentation to them. In preparation for that, we thought perhaps one of the things that would be of more interest and more helpful to the analysts would be what is the difference between Piedmont and other similar organizations? What are the unique features? What are the major distinguishing characteristics that set Piedmont apart, as it were, in a better position than other comparable companies? There were eight major features that we discussed with them at that time. Number one, of course, in our judgment, is the fact that your Company is not a one-shot deal. We are pretty well diversified in many respects. You'll hear a little bit more about that later on in this particular meeting. We have a general aviation division, which, of course, was our original operation before we started the airline division. We have Piedmont Aerospace Institute, a technical training school. In our airline division itself, we have a very substantial outside business aircraft maintenance program maintaining aircraft for many corporations from all over the United States. We do a large volume of work for other airlines. We do training work for several government agencies—the Navy, NASA and foreign countries — pilots from airlines of foreign countries. So, we do not have all our eggs in one basket, by any means. And, as you may recall from your annual report, at least 30 to 35 per cent of our earnings last year, for example, was attributable to these diversified activities that your Company is engaged in. Now, that's not to say that we intend to fragment ourselves too much. All of our activities, as you will note, are related pretty directly to the other activities of the Company, and

they have mutually beneficial aspects and supporting characteristics.

Another feature of your Company that is somewhat unique in the industry is our policy over the years of owning our fleet of aircraft rather than leasing a high percentage of them. Of course, it was necessary for us to have good earnings so we can afford to buy them—or borrow the money to buy them—rather than having to lease them. By having followed that policy, Piedmont has a higher percentage of aircraft actually owned in its fleet than most of the other regional airlines; and, indeed, a lot of the trunk lines. If we had, for example, leased a large number of our 737s 11 years ago when we bought them, we would today be confronted with renewing those leases at the very highly inflated prices that those airplanes are bringing today, which is, in round numbers, about twice what we paid for them originally. Those airplanes are ours. The stockholders of Piedmont own those. We don't have to worry about continuing to pay our money to some leasing organization for them. I must say, in recent months, particularly in light of the extremely unusual and, hopefully, non-continuing high interest rates that prevail in the market, leasing has become a more practical avenue of financing aircraft today than it has been in the past, and we are indeed leasing some. As you will probably notice, we are leasing some of the 737s that we got in 1979 instead of buying them. But, traditionally, over the years, it has been our policy to own the aircraft.

Another feature concerning your Company is our relatively conservative accounting policy. We think that our stockholders should have good, solid dollars represented on the balance sheet when you look at your quarterly and annual reports. We depreciate our jet equipment, for example, over a 12-year period. Most of the airlines depreciate their jet equipment over a 14- or 15-, and even in some instances over a 16-year time span. Which is to say, of course, that policy has the effect of reducing reported earnings in the past few years. We could have reported substantially higher earnings if we had stretched out our depreciation period. But we felt that a more conservative policy and one where you can be sure, almost regardless of what happened, that your values would be there was the wise policy to follow. That conservative accounting policy applies throughout our operation, not only in the depreciation area.

Another encouraging and distinguishing feature of Piedmont, as compared to most of the other comparable organizations, is our return on equity. For the last five years, Piedmont's return on equity has been 20 per cent. There are very few people in this business that can claim that kind of record. We've been in business 39 years and in only three of those 39 years has Piedmont had a loss. I assure you that we are dedicated to see to it that we maintain that record or maybe even improve on it.

Another distinguishing feature of Piedmont is the fact that we have declared more cash dividends over a longer period of time than any other regional airline and, in fact, many of the trunk lines. Our directors have consistently taken the position that our stockholders, as well as our employees, should be the beneficiaries of the fruits of our labor. When we are able to get a reasonable return on your investment in this Company, you are entitled to get some of that return back in the form of cash dividends. As I mentioned, Piedmont has declared far more dividends than other similar companies.

As a matter of fact, some of the regional airlines have never declared a cash dividend. In addition to the cash dividends that we have been declaring, we have had three stock dividends, as you may recall. We also feel that the benefits we receive as a result of our efforts should be shared with others who are not necessarily stockholders or employees or directors related to the Company. With that in mind, your board of directors established, several years ago, the Piedmont Aviation Foundation so that during thin times, as well as good times, we would be able, on a consistent basis, to participate in worthy charitable, social and civic efforts for all the people. I'm very proud of the fact that your Company shines like a star among other airlines, insofar as participation in these worthy projects throughout the area we serve is concerned. Of course, we participate in each of the United Fund/United Way campaigns all over our system. We participate in the state foundations for independent colleges, many health care and hospital facilities, and other educational institutions, primarily higher education, and many other projects we think you would want us to have a part in to fulfill our responsibilities to others as well as to our stockholders and to our employees.

Another feature that we're extremely proud of is our great record as reflected by the CAB's tally of passenger complaints they receive on all of the airlines. A number of years ago the CAB started a program of tallying the complaints that come from passengers, and each month they report which airline had the fewest complaints, right down the list. And, consistently, Piedmont has been among the top, so to speak, insofar as having the fewest passenger complaints per 100,000 passengers carried of all the airlines in the business. As a matter of fact, over the past five years Piedmont has been exceeded only by Delta and United. There are 16 other airlines below us.

When you consider the character of our operation, relatively short haul in and out of these mountains with a lot of connections and things of that sort, it seems to me that that fact alone speaks for the caliber of the people we have, and that's my eighth point. Piedmont has been extremely fortunate in having some marvelous people with us over the years. That's why we are where we are today; and that's why we're going where we intend to go in the future. Those people made that kind of record possible. I, obviously, don't have any firm figures on it, but I think I can say without fear of contradiction that we probably have a higher seniority level among our people than almost any other airline in the business. It seems to indicate to me they like Piedmont, and Piedmont likes them, and they're out there doing their job. With that kind of background, your board of directors has conferred with your management and feel that we do have substantial opportunities ahead for us. Particularly in this deregulated environment that we are in today. I'm very happy to make the announcement today that your board of directors has approved the purchase of ten additional new 737s for delivery in 1980 and 1981. That public announcement will be made jointly today by the Boeing Company and by Piedmont.

Now, of course, I wouldn't want to mislead you or to have you think that everything is rosy around here. We do have problems. We've had them in the past. Our major one today is, of course, fuel. Supply has eased up a little bit recently. We don't have too much of a problem on that anymore, but the price, as you well know, is going out the roof. Our fuel prices have doubled within the last 12 months. We burn 115 million gallons of fuel a year. So you can reasonably see what each penny a gallon costs, and we have had 45 cents per gallon added to our fuel bill in the last year. So, we are confronted with about \$50 million or so additional cost element in our operating expense. We've really had to get out there and scratch to get the business. Of course, you are well familiar with the problem of interest rates that we are confronted with today, as everyone else is, and the general economic situation. All in all, however, our traffic has been holding up reasonably well. It's just a matter of what happens to the general economy for the balance of this year; but we intend to, as we have in