

Report To Our Stockholders

EDITOR'S NOTE: At the annual stockholders meeting April 15, 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: Piedmont appreciates all the help of its stockholders with the major problems incurred by the Company during 1969. Just to mention briefly some of those circumstances which contributed to the losses, of the Company's total opportunity for making a profit, nearly one-twelfth was lost during the strike by ALPA. There was the continuation of the horrendous inflationary spiral which affected the entire industry. Further complications were created by the Air Traffic Controllers periodic slow-downs during the course of the year. These were extremely damaging. Other factors were the tremendous increases in interest and depreciation expenses suffered by the Company.

On the plus side of the ledger I am advised by the authorities that the terms of our loans and financing programs are as good, if not better than similar loans by similar corporations.

The General Aviation Activities have been progressing at an encouraging rate and that operation in itself has developed into a 11½ million dollar business.

For a brief word about the future: It is my view that 1970 is the turning point from the adverse trends. We have had two years of losses, the first time in about 19 years as I recall. Our officers and supervisors have discussed among ourselves and we have no intention of letting this get to be a habit at Piedmont. We will take every means to see that this trend is reversed as soon as possible. We have programs underway to accomplish this. This year we are plagued with the air traffic controllers problems, inflation is still with us, and will be for a while, high cost of money will continue to be with us for a while; there will always be problems but we have to cut and fit and see to it that we can turn this cart around. I am confident that we have the caliber of people to do just that.

At this point, I am going to ask Mr. Northington, Senior Vice President in charge of general aviation activities to give you a report since his division made all the money last year.

Mr. Northington: It is easier to make a report when you have had a good report than when you haven't. I guess you have seen the annual report and noticed the general aviation profits for the year, which was one of the best years we have ever had. Our sales increased and we hope that trend will continue. The Central Piedmont Aero division, the Piper distributor, received, as they have for many years, awards of achievement as well as the general aviation division receiving an award from Beech for which they have the distributorship.

Mr. Davis touched a moment ago on the general aviation situation of today. The general aviation picture has had some problems recently. We also have seen, and are seeing today, a somewhat depressed market in aircraft sales. This is a large portion of our business and this is going to be a tough year; however, I am glad to see that in the last few weeks there seems to be some improvement in that area. This is general throughout the U. S., not just in our general area. We feel that we will have a reasonably good profit in 1970 and we are working as hard as we can to do that. We will have a new item to sell in the latter part of the year. Beech has joined forces with the Hawker-Siddeley group and now has a marketing agreement for the marketing of this airplane.

Mr. Davis: Now we will hear

from H. K. Saunders, Senior Vice President responsible for communications, operations, maintenance and several other areas along that phase of operations.

Mr. Saunders: I would like to bring you up to date on the status of our flight equipment. We have just equipped with an all jet fleet and retired all Martin aircraft from scheduled service. We still have 8 Martins that we own but they are operated as charter aircraft. At the present time we have 12 Boeing 737's, 21 YS-11's and 9 FH-227's, an all-jet powered fleet in scheduled service. It is good to report that the air traffic controllers, which Mr. Davis had mentioned earlier, went back to work on Monday.

Mr. Davis: We will now have a report from the gentleman in charge of getting people on the airplanes and making it pay off, Mr. Brown — Senior Vice President in charge of traffic and sales.

Mr. Brown: Just to touch for a moment on the status of the route applications. I will mention some of the major decisions last year and some which should be made in 1970 that are of real significance to us. We have been expecting a final decision almost daily on a route non-stop between Norfolk and New York. In that case we had the good fortune of having the support of the Bureau of Economic Regulation and a favorable examiner's decision — which is about all you can ask for except the final decision which we hope will be out shortly. This route is important for it will give us an opportunity to provide better service south of Norfolk too.

Another major case before the Board for final decision is the case of non-stop service between Columbia and Augusta and Washington and New York. In that proceeding we received a favorable examiner's decision recommending that we be awarded the route. Mr. Kadlec, our Director of Research, advises me that the potential on the Norfolk-New York route alone is such that if we developed only one-third of the traffic it would be our largest. If we carried 15% of the existing market on the Columbia, New York route it would be greater than any market on our present system. This will give you some idea of the importance of the routes.

Another case, St. Louis, Missouri-Raleigh-Durham, Greensboro-Charlotte-Richmond. We and Eastern were the two applicants for ser-

vice to these areas. The examiner recommended Piedmont for one point only — Richmond and we have asked the Board to review. We believe it will require more than one point, the City of Richmond, to be profitable. I hope we can get the Board to add at least one North Carolina city.

Other cases were touched on in Mr. Davis' letter in the Annual Report. Last year was a dismal one from a great many standpoints but I don't believe too much of that could be assigned to the failure of our business to grow. As the year ended up our increase was 9% but this involved one month with no business at all. The traffic growth per revenue passenger mile was 20%, excepting that period with no operations in both years.

I will have to confess that in late 1969 I was concerned about 1970. All the economists were predicting a slow first 6 months of 1970 or longer. I am happy to report that the first 3 months there are increases in each month in excess of 20%. For the total of 3 months about 24% over last year. This is rather gratifying. Our capacity is not the same as last year — we have to get the load factor back up and I am much encouraged over the first quarter of this year.

Mr. Davis: Thank you, Gordon. We will now hear from the Proxy Committee, Bob Sherrill.

Mr. Sherrill: We have shares represented in person totaling 224,381; by proxy 1,387,466 for a total represented at the meeting of 1,611,847 shares or 76.3%.

Mr. Davis: We have a sufficient quorum to conduct the official business of the meeting. First on the agenda is approval of the 1968 Annual Meeting minutes. Tom Morton, Vice President-Finance and Secretary will bring that report to us. Unless some objection is heard we will ask Tom to summarize the minutes.

Motion made, seconded and approved to accept summary of minutes. Minutes summarized, approved without correction.

Mr. Davis: The full minutes will be available to anyone here at the meeting who care to read them. The next order of business is election of Directors to serve for the coming year. As indicated in the proxy statement, the proposal of the management is to vote the proxies for the directors as shown. Each of these directors has served with distinction and I am happy to make

this comment on one of the nominees, Mr. Alex Galloway who is now President and Chairman of the Board of R. J. Reynolds Tobacco Company, soon Reynolds Industries. He has agreed to serve if elected and it is with considerable pride and happiness that I announce that Mr. Galloway would agree to serve with us in this capacity and I have the honor of submitting his name along with the others for consideration.

Motion made to elect directors nominated; seconded; unanimously approved.

Mr. Davis: I wonder if there is any phase of the operation that we have not covered in our general discussions here. It has been a rather active year and it could be that we have overlooked something that will be of interest to you. If you wish further discussion on any item, . . .

Stockholder Question: Is there any prospect of getting into O'Hare in Chicago?

Mr. Brown: I think there is a recent development, one thing to keep in mind, the interest of the City of Chicago is not basically the exclusion of operations at O'Hare but rather reactivation of Midway. Recently the City of Chicago, after a consultant conducted a study, called the trunk lines in and put a bit of pressure to move some of their service to Midway. The carriers that were involved asked the CAB for permission for meetings to discuss the transfer of service. The Board issued an order last Friday approving these meetings with the City of Chicago and allowed us to attend as an observer and included a provision that they would not approve any agreement produced by the meeting unless all carriers were permitted to serve all airports. This is encouraging insofar as we are concerned. We may be permitted to serve both airports by the end of the year.

Stockholder Question: Is there anything you can tell us about future freight carried by the airlines?

Mr. Brown: I think that in the section that we serve that the air freight business is unlimited. The limitation is our ability to carry it into the market. Since our jets have been introduced we have had increases due entirely to our ability to accommodate rather than our ability to sell it. I believe that in time freight will become a major consideration depending on 2 developments: (1) The nature of our operations may change to more of

a longer-haul operation to make it more economical. One of the principal difficulties of short-haul is the fact that such a high percentage of cost is getting it on and off the aircraft. We are making money because it is added revenue from existing service. (2) More importantly, if, down the road, an aircraft is manufactured that will produce the ton miles, I think in time you will see most carriers operating air freight profitably.

Stockholder Question: Have we received any authority on the application to serve Florida through Miami?

Mr. Brown: That application was heard in the North Carolina Points Investigation non-stop authority between Raleigh-Durham, Greensboro, Charlotte, New York, Miami, Chicago. In that case we were an applicant. We withdrew due to the O'Hare situation and we could not economically support it. The Miami portion is still pending but we did not receive the support of the examiner or Bureau of Economic Regulation. For that reason, I think it would be rather unlikely that it would be granted.

Mr. Davis: Any other questions?

Stockholder Question: Anything to these rumors of mergers?

Mr. Davis: There are no formal discussions as far as Piedmont is concerned.

Stockholder Question: Any results on the first quarter of 1970?

Mr. Davis: It will be a loss quarter. January and February losses moderately, we are doing better than a year ago, but March is not final. Traffic was on a strengthening basis and I hope final figures might possibly show a little profit. The indications are most encouraging this year, but the first quarter will be a loss.

Stockholder Question: Do you have any plans to replace the Fairchild aircraft?

Mr. Davis: Obviously it would be more efficient to have a limited number of aircraft types. The FH-227 is obsolete 5 years prematurely but there is no market to speak of and we will keep operating them.

Stockholder Question: Any outstanding options for jets?

Mr. Davis: No.

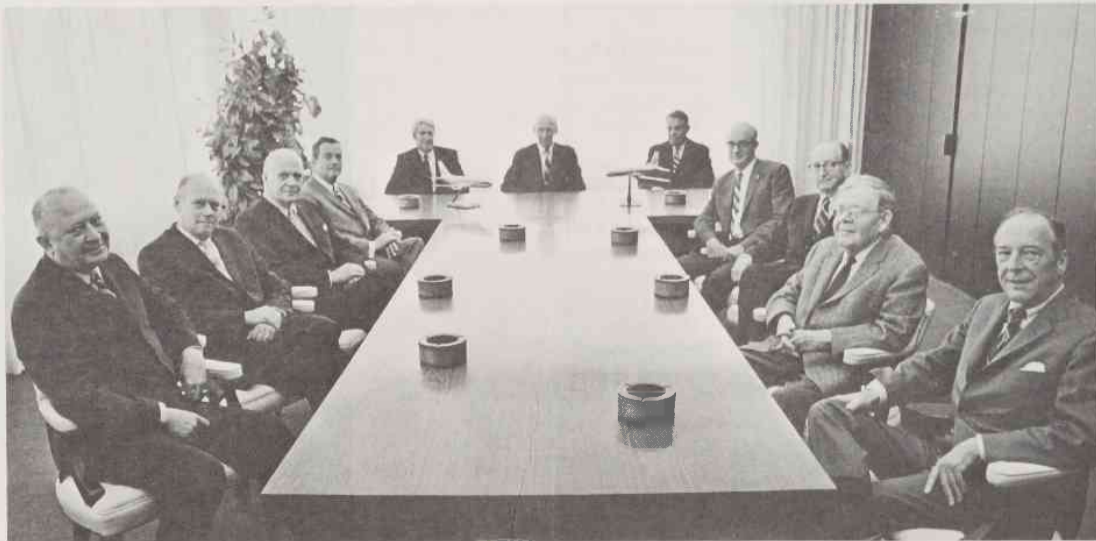
Stockholder Question: What's the status of the Central Reservations System between Piedmont and other carriers?

Mr. Brown: Our program is well under way. The initial step involves the setting up of a CRO here that will operate without the computer. The ultimate system to be in operation about one year from now. We have set up a CRO in the old hangar across the road. Most of the reservations from over the system will be brought into that office. Not all until later this year. We have purchased land on Griffith Road and dirt is now being moved to begin construction of that facility. In March 1971 we will be covering completely for all reservations over the entire system. We are not buying the computer. We are one of three under contract for the computer. I hope that by March of next year this program will be completed.

Mr. Davis: We feel that that move will be a tremendous benefit to the company and the customers. Almost instant confirmation on any airline reservation in the U. S. without calling back, and eliminating some of the human errors that develop because of oversales and undersales and should help out both company and customers.

We appreciate your coming to be with us and your attendance and we hope we can continue to count on your support. Thank you for coming.

Meeting adjourned.



PIEDMONT'S BOARD OF DIRECTORS are shown here, clockwise from left, Ralph W. Gardner, E. L. Davis, Jr., John F. Watlington, R. S. Northington, H. K. Saunders, T. H. Davis, C. G. Brown, Jr., T. W. Morton, W. Frank Dowd, Charles E. Norfleet and new Director, Alex H. Galloway.