

T. H. Davis: Thank you for coming today. For our Proxy Committee, to tally our proxies, I'll ask Bob Sherrill of Ernst & Ernst and Audree Long, Controller of the Company, if you would serve as members of the Proxy Committee and tally those and bring us a report as soon as you can.

All of you have received, I hope anyway, your annual report and I hope you were pleased with its contents and appearance. On the assumption that you did receive it and did read it, I won't go into too much detail and take up your time today to give you a long, complete report on the results of 1972 other than just to point out a few highlights. Of course the leading one is the fact that 1972 was the most successful year in the history of your Company. Of course, all of us realize that we must have a reasonable earnings in order to continue to do the job that we've set out to do and to make the accomplishments we expect to make. We are indeed pleased with the financial results. As you know, our earnings were the highest in any one calendar year in the history of the Company. For the first time in a good while we are getting up into an area where we regard it as a reasonable return on your investment in the Company. But in addition to that, and somewhat, I think, in many respects of equal significance, is the fact that we had some other developments or achievements that made it a successful year. Not the least of which, of course, is providing gainful employment, and we hope, happy employment for about 3,500 people. We had a reasonable volume of growth both in terms of service rendered and in terms of earnings, as I have already mentioned. In so far as growth is concerned, I think probably one of the most significant factors is our continued growth in service in terms of number of passengers served and number of people served in all of the various Divisions of the Company which enjoyed substantial progress in 1972. Last year I mentioned to you that the Civil Aeronautics Board had recently set up what they call a Department of Consumer Affairs. One of the major functions of that department is to tally the number of complaints that are sent in to the CAB by passengers of all the airlines. These complaints are tallied on the basis of the number of complaints per 100,000 passengers carried so that all the airlines, whether large or small, are pretty much on an even footing and there is no distortion in the figures. The complaints are tallied and they include every complaint, regardless of how legitimate the complaint may be, and regardless of what aspect of the service that is being rendered is being discussed. It could be freight service, passenger handling, telephone handling or any aspect of the services that we provide. And, as I reported to you last year, Piedmont had achieved during the previous January the lowest number of complaints of any airline in the United States, despite the fact that it was during the winter months. I'm extremely pleased to be able to report to you again this year that Piedmont remains in that low position. Now it sounds a little strange to say you're happy to be on the bottom or in the low position, but this is one case where we're proud to, and hope you'll understand that we boast a little bit about the fact that we are the low man on the totem pole, in so far as complaints to the CAB are concerned. During the last 18 or 20 months that the CAB has been doing this, Piedmont has been the low man on the totem pole six times, three or four times within the past calendar year. And, in the months when we were not the lowest, we were only maybe number 2 or number 3 or something like that. When you consider the fact that such a large volume of our business is interline, that is connecting with other carriers, where you have an opportunity for mis-connections and other things that would irritate a passenger it is especially gratifying. It is our responsibility to provide service to the smaller communities, but it means that we do have a number of, a large number of, intermediate stops on many of our flights. We're trying to provide both the multi-stop and the non-stop service as best we can, but in this type of operation, as you will understand, there are many opportunities for us to stomp our toes and unintentionally create some

# Report To Our Stockholders

*EDITOR'S NOTE: At the annual stockholders meeting April 18, a complete transcript was made of the proceedings. Since the meeting included a number of outstanding reports and interesting information, it occurred 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:*

inconvenience for passengers. All those things being considered, I think you will agree with me that we have an extremely able and dedicated group of employees throughout the whole organization. It doesn't fall in the lap of any one group of people, it's across the board. Even if, in the accounting office, for example, billings and collections are not handled properly on charges, credit card transactions and things of that sort, if the passenger writes to the CAB complaining about that, it's recorded just as quickly as any other type of complaint might be recorded. So, every department in the Company has had a part in achieving this record. As I said our business is to provide a good service to the public, to realize respectable earnings and to provide gainful employment for a lot of people. We hope the results of 1972 indicate that we are making progress in these areas.

Now, just a word about what 1973 looks like. We all like to look out into the future and see what we can expect. Frankly, at the moment, about the only real unknown and somewhat major factor in what the results may be for 1973 is what we may be able to achieve in so far as control of costs, and particularly a payroll costs. As you know, the recent airline industry depression during '69, '70 and '71 was in large measure the result of uncontrollable inflation in costs in practically all areas but primarily in personnel. Just as an example, here at Piedmont we have a payroll of about \$40 million a year. A 10% increase on a \$40 million payroll is \$4 million that we have to come up with, in addition to what we had last year, just to break even, so to speak. So, we cannot continue to anticipate and experience that kind of an increase, in my judgment, without two or three things happening. One is unreasonable fare increases which tend to drive passengers away from us, particularly in the short-haul business, back to their automobiles. This then feeds on itself and creates a necessity of cutting back on service which in turn, necessitates cutting back on the number of people, causing furloughs and lay-offs and things of that sort. So we've got to do everything we possibly can to see that some reason is maintained in this area as well as of course in all other cost areas. So as I say, in all other respects from what we see, 1973 looks like a real good year, I'm sure all of you are as clairvoyant as we are if not considerably more so in seeing what the general economy and the overall outlook for progress and growth in this country is, and we feel real confident about what we may expect. As far as the first quarter is concerned, you know that it is traditionally the worst quarter in the year for us and most of the other airlines. Historically, with some few exceptions, we lose money in the first quarter and try to make it back in the other three. This year the loss is going to be aggravated to some degree because of the very substantial cost increases we have been experiencing in order to take care of the security precautions necessary in connection with the anti hi-jacking program. We've had to add a large number of additional people to our staff, particularly in stations, to handle the additional passenger screening that's necessary to eliminate this menace. In addition, of course, we've added other security people on our staff at various locations to see to it that we do the very best job that we can within reason, to see that our Company and our passengers are not subjected to anything other than good service. In other words see-

ing that our passengers go where they want to go, instead of some other place that a hi-jacker may select. The CAB and all government agencies recognize the substantial expense increases involved and have indicated all along that they are perfectly willing for us to have fare increases to take care of it. However, it took them a while. Not until April the 1st were we able to get approval of the fare increase, by we, I mean the entire airline industry, to help take care of this additional expense. Therefore, in the first quarter of this year, we had all of this additional unexpected expense loaded on to our operation with no commensurate increase in fares to offset it. So you can understand that in all likelihood the results of the first quarter will be not as good as they were in the first quarter of 1972. Nevertheless, with the fare increase which Mr. Brown may have some comments on a little later, plus the very encouraging 12% increase in traffic that we have experienced in the first three months we believe that the balance of the year should be very encouraging and we are going to bend every effort to see to it that it's one that will be satisfactory from your standpoint.

At this point, and without delving into the areas that some of the reports may include by our other senior officers, I'll ask Mr. Brown to bring us up to date on the developments in so far as routes and other traffic matters are concerned.

C. G. Brown: Thank you, Tom. Good morning. Actually, there's not a great deal new that I'm able to report to you this morning that has not been set forth in the annual report or other sources available to you. I can perhaps give you a progress report on at least one or two of the proceedings before the Civil Aeronautics Board which are currently under way. The first, of course, is the Richmond-New York non-stop proceeding in which Piedmont and one other carrier are applicants. Another carrier, National Airlines, is asking to have its authority in this market cancelled. There is one other party to the proceeding, Eastern Air Lines, which has taken the position, understandably, that National should be permitted to withdraw from the market but no one else should be authorized to serve it. I understand from my associates who participated in the hearing week before last in Washington before the examiner that our case went exceptionally well and they feel quite confident that our position versus our competitor applicant is quite good. It's our general feeling that perhaps the greatest possibility for failure will lie in the area of the Board's present thinking of which I'm sure all of you are aware. That is that they have got to keep the authorization of additional competitive services to an absolute minimum. I think all of us recognize that some years back, in addition to the labor costs and other elements that were involved in those disastrous three years of losses for the industry that, though labor costs may have been the principal feature, I think perhaps excessive competition also contributed. But in any event, that if this additional authority is awarded that Piedmont will be the recipient of that award. I think probably the chances are reasonably good that before this year is out, this case will be decided.

We do have one other proceeding under way which is a little difficult to explain. It's called the route realignment proceeding. As most of you may know, our present route system is made up of quite a number of individual segments. A segment is, well, for example, segment one is from Wilming-

ton to Cincinnati via a number of intermediate points in North Carolina, Tennessee and Kentucky. At the present time, to go from a point on one segment to a point on another segment you must have a point of intersection between the two. I've tried to think of how to explain this without drawing on the wall which they probably wouldn't want me to do. I think if you would just visualize an "X". Make the first mark blue and the second mark red and we'll call the point where they intersect zero. In order to operate a schedule today, from any point on the blue to any point on the red you're got to go by point zero. Now what this route realignment amounts to in essence is taking the red mark and the blue mark and making one line out of it so you can operate between any pair of points on the red or the blue. This would be subject to restrictions against certain types of operations that might involve inherent damage to another existing air carrier. Now, I don't mean to suggest that this is going to be the cure-all to all problems of our company but I do think that it will be of assistance to us. I think it will give us an opportunity to take advantage of some additional markets that now exist without service. I think it perhaps will help us to effect certain economies in that, quite honestly, during the early morning hours and sometimes the late evening hours we are required to route aircraft for non-traffic purposes. By that I mean, you have to get into a maintenance and crew base and sometimes we have to make these so-called stops at point zero, the segment intersection, in order to get the airplane into a base where, from a cost standpoint, if we could take it in more directly without an unnecessary stop simply for certificate purpose, I think it would save us quite a bit of money. My associates inform me that their opinion is that we will have a show-cause order from the CAB very, very shortly, perhaps within weeks, maybe sooner. We anticipate that the Board would issue the show-cause order to allow other parties to demonstrate why they should not approve this revision or realignment of our certificate. The restrictions have been pretty well worked out through discussions and agreements with the other carriers. As far as what lies ahead, I think most of us who are involved in this aspect of the Company's operation still feel that the atmosphere at the Civil Aeronautics Board is first one of few or any routes being added that involve subsidy. Secondly, I don't think there are any routes in existence that I know of that are really capable of subsidy-free profitable operation unless it's those that are competitive. In other words, some other carrier is already in the market. I think in the present atmosphere that it's highly unlikely that the Board is going to offer us much if any additional competitive service within the foreseeable future. I think our greatest opportunity lies in actions similar to that which took place in the West Virginia route case. There Eastern transferred to us their route between Louisville and Washington via Huntington and Charleston, West Virginia. I am not in a position to comment specifically, but I am of the opinion that in the months and years ahead there will be several of these developments, probably in the area that we serve, involving various trunk carriers and ourselves. I think this type of transaction will offer opportunities for the benefit of both parties concerned. Tom, that's pretty much it in that area.

Davis: All right, I should have mentioned earlier that if any of you do have any questions if you'll just jot them down or remember them until we complete all these reports and then everyone will have an opportunity to not only ask questions but also to come forward with any comments that you may have.

Question from stockholder Glenn Anderson: Would Gordon comment on the Nader charges about service to a number of cities on Piedmont's segments?

Brown: Without being facetious, I regard it as more or less McCarthyism under the disguise of consumerism. We are in the process of answering it now. Seriously, Glenn, I think it's one of those situations which is fairly typical of this group where they try to achieve whatever they intend

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