

Report To Our Stockholders

Editor's note: At the annual stockholders meeting April 19, a complete transcript was made of the proceedings. The meeting included a number of outstanding reports. We thought employees who were not able to attend might like to read an actual account of the proceedings. Here it is, only slightly edited for clarity.

T. H. Davis: We will call the meeting to order, the 1978 annual meeting of Piedmont Aviation, Inc. I must apologize for the little delay here with mixed emotions. It's not so good to get an airline annual meeting started off behind schedule. But, on the other hand, we are certainly delighted to see such a good representation of our stockholders. This is probably the largest crowd we have ever had for one of our stockholders' meetings. We are most grateful to you for being here and we want to extend a very, very cordial welcome to all of you, and particularly to those of you who are here from out of town. I see quite a number of people that are not our good, loyal Winston-Salem citizens. We are certainly delighted that you are here and appreciative of your interest in your Company. At this time, I would like to appoint a proxy committee to tally the proxies for the meeting. We will have Mr. Audree Long, controller of the Company, and Mr. David Riggan of Ernst & Ernst serve on that committee. You gentlemen will tally the proxies and bring us your report as soon as you can, please.

While we are waiting for our proxy report, we want to bring you up to date with any information that will be of interest to you on the status of your Company. We'll elaborate a little bit on what was included in the annual report with reports from various members of management. In my own case, it is particularly pleasing to have this opportunity to repeat, as it were, the fact that 1977 was the most outstanding year financially, and in many other ways, for your Company. You all received your annual report and it is not my intention to burden you and take up your time to repeat what you have already read. There are a few factors that I would like to cover that might be of some interest to you. Insofar as the results of last year, it could be categorized as the result of a very, very dedicated effort by a lot of good people. Piedmont has certainly been fortunate in having now about 3,600 total employees who have really been out there on the firing line doing a good job. This is evidenced by our continued, very favorable position insofar as passenger complaints are concerned. A lot of you who have been to our earlier annual meetings have heard me expound at some length, and even brag, on the position that Piedmont has traditionally maintained insofar as being one of the best in the industry in this regard. The CAB established several years ago what is called their Office of Consumer Affairs. And, at that time, the Board started a program of tallying the number of complaints they received on the scheduled airline industry. They do it on the basis of number of complaints per 100,000 passengers boarded so that all of us are considered on an equal footing. Traditionally, Piedmont has been in either the best or the next best, or certainly not below the third, position in the entire industry insofar as receiving the fewest passenger complaints are concerned. I must regress to admit that in December, January and February, we back-slid. Out of 20 airlines that the CAB considered, we slipped down to sixth place. This is embarrassing to us and a situation we are not going to tolerate. I am very happy to say that in the last report we came back up to number two. The report is issued monthly. We want you to know the whole truth and nothing but the truth. We did get behind for awhile but, if we keep moving back up into second or third place in the industry on a month-to-month basis, we will wind up taking 1978 in good fashion again. Obviously, that sort of thing has a very direct bearing on our revenues or how many of our customers come back to us. I think the fact that we are able to maintain our position despite the relatively difficult operating conditions we have is notable. By relative, I mean relative to other similar size and similar type of airlines. We serve a territory in and out and across the worst weather and mountainous area that probably

exists in the United States. A lot of people have the feeling that in the Rocky Mountains they have a worse situation than we have back here. But that is not the case. In most instances out there, the valleys are big and they can have runways about ten miles long if they want to, even though the mountains are obviously considerably higher than they are here, and they do have some very severe weather. But their's isn't the type of fog that we have experienced, for example, around here yesterday and today. And this past winter we had more than our share of fog conditions as well as ice, sleet and snow, as many of you are well aware. Again, I think our people are entitled to considerable commendation for sticking in there and rendering a good service to our customers.

It might also be of some interest to you to know what your Company is trying to do insofar as trying to be a good citizen other than rendering the service that we are in business to provide. We want to be a good corporate citizen and, in my judgment, over the years we have been. As best as I have been able to determine insofar as the rest of the industry is concerned, anyway, we are fulfilling these responsibilities in a fine fashion. In some respects, we have been doing considerably more than most in the airline industry. For example, a number of years ago your board of directors saw the wisdom of establishing a foundation, the Piedmont Aviation Foundation. The Company annually, when it is in a financial position to do so, contributes to the Foundation. This program has made it possible for us, during lean years as well as good years, to continue our program of contributing toward worthy projects and undertakings. For example, we serve, as you will recognize I guess, probably more cities than even the larger airlines such as American, or even TWA, Delta and some others. As a consequence, we are called on a little more frequently by each of these communities. Obviously, they each have their own United Way programs, a very commendable undertaking, and an undertaking in which we want to participate. Over the years, we have consistently participated in every United Way campaign on our system. Now, as you can appreciate, that is a pretty good size drain in itself out of what we are in a position to consistently contribute to our Foundation. Our board has been very prudent, in my judgment, from a stockholder standpoint, as well as a personal standpoint.

In addition, the trustees of the Foundation have felt that we should also participate in medical projects. Serving as many cities as we do, obviously there are a number of hospital projects and things of that sort that come up from time to time. There was one not too long ago in the Norfolk area, one in the Tri-Cities area, the Appalachian region, and here in Winston-Salem. They are scattered all over the system, of course, and to the best of our ability we want to help. We recognize that these facilities are also helpful to our own people who are operating and living in these particular cities. We encourage our own people, and I'm real proud of the participation of the individuals in our Company in all of the cities that we serve, as well as here, to participate in these worthy projects.

In addition, we have felt strongly

that we should help the private educational foundations that are established throughout our system. And we felt that one of the best ways is to have a part in the state foundations that most states have set up for private educational institutions. There is one here in North Carolina, one in Virginia, one in West Virginia and South Carolina — they're just all over the system. Each of these states has its own private foundation for private educational institutions of higher learning, primarily. We do participate, each year, in every one of these. These are the types of things we think you, as our stockholders, would want us to assume as responsibilities and to meet them as best we can. From all I have been able to gather in looking at various reports, it's very infrequent that I see the name of any airline other than Piedmont.

We are also trying to be a good citizen insofar as our people and others are concerned. In that connection, I might mention our affirmative action program which has been underway, of course, for several years. I believe we have just received our third or fourth approval of our plan from the Federal Aviation Administration, which is the governmental agency administering our affirmative action program. Of course, we have had some suits. We will probably have some more. It seems like almost anytime we have a program of hiring these days somebody will disagree with it. We can only bring in so many, of course, and we try to do the best job we can within the framework of our affirmative action program. We admit we are not as far along as we want to be, but we're getting there, and we're working hard at it. One recent suit gives a good indication of the caliber or manner in which our people who are responsible for this area of activity, Mr. Wilson, Mr. Welch and their associates, are handling these situations. They are doing a good job. This particular situation involved a young lady who felt that she should bring a class action suit because she just was not, I think, fitted for the job that she was trying to handle. The upshot of it all was that we won the suit. Not only did we win it, but the judge put a provision in there that she should reimburse us for our legal expenses.

I am also real proud of the participation of our people in other projects. Many of you may be familiar with the Junior Achievement program. I think it is one of the finest things that has come along in a long, long time. For several years our Company has sponsored a Junior Achievement company. It's been supervised by some of the employees of our Company. They have taken the ball and run with it, so to speak, and are spending an awful lot of their own time and effort helping high school students learn the free enterprise system in this way. In addition, of course, our employees participate in a lot of Chamber of Commerce programs and many things of that general category.

I'm pleased to be able to tell you that from everything we see now, it looks like 1978 is off to a pretty good start, despite the weather which caused the lowest schedule completion factor we have had since we have been in business, with one exception. We fell down to only a 93 per cent completion in February. That is, for all schedules we were able to complete only 93 per cent. Normally, we run around 98 to 99 per cent. Obviously,

this did have a very depressing effect on our revenues during that period. We must be frank to admit we had Easter in March this year instead of April. So that helped us in the first quarter. We can't take credit for that. But there are other factors that we can take a little credit for. We have been doing our best to control costs. We have recently received some information that indicates that our fuel costs possibly will not be the tremendous burden this year that they have been in the last two or three years. This is obviously an unknown quantity and depends a lot on what the OPEC countries do. But there does seem to be an ample supply, at this point, of jet fuel and other fuels. We are hopeful that maybe that factor will also make it possible for us to bring you at the end of this year another very good and favorable report. We are going to dedicate ourselves to doing just that.

I've done a lot of talking and there are some other gentlemen here who can give you more insight into certain areas that make possible the achievements that we have made and what we want to do in the future. The 1977 results were good in very large measure because of the outstanding performance of our General Aviation Group. That's the group that started this Company in the first place. We diversified to start an airline operation, but we continued our general aviation operations, thank goodness. We have our senior vice president, Bob Northington, to bring you the report on general aviation activities.

R. S. Northington: Thank you, Mr. Davis. As I have heard many people say, it's always easier when you have to get up and give a report when you've had a good year than otherwise. So, as many of you I am sure have read in your annual report, the general aviation activities of your Company, including our subsidiary, Air Service in Greensboro, enjoyed the best year, by far, that we have ever had in the history of your Company. In 1977, the total sales were up 30 per cent over the year before to a total of \$42 million, up from \$32.3 million. That's quite a substantial increase in our area of business. But the most important part was the increase in the net income which was \$704,500 in 1976. In 1977, it was almost \$1.1 million. These increases in sales and profits were generated mainly by the sale of airplanes as well as parts and accessories and fuel sales. Our fuel sales increased considerably. However, it is important that we know that the sales in all of our activities, within general aviation, showed an increase and, of course, this is very important.

As you will recall, a year ago last March, almost two years ago now, we opened an operation in Richmond. It has done quite well and we expect it to have a very good year this year. In October of 1977, we opened a small operation in Charlottesville, Virginia and it's doing quite well. We look for them to have a good year this year.

The first quarter of this year, 1978, looks to be excellent. It may be the best first quarter this area of our operations has ever had. We are forecasting 1978 to be the best year in our history and to exceed last year, which was so good. As I have stated many times before, we have a lot of very fine, hard working, dedicated employees and without them we certainly could not make the progress that we make. And with those people continuing to work hard and the continued support of you, our stockholders, I am sure that we will accomplish our mutual goals in the future. Thank you.

Davis: There might well be a few King Air customers here.

Northington: I hope so.

Davis: See him after the meeting. By the way, I would like to mention that

(Continued on page six)