traditionally, as many of you know, we have a little period of time before the close of the meeting for the stockholders to ask any further questions or make any comments, pro, con, or whatever you may have that you would like to bring to our attention. So, you needn't worry about it if we move on and call on our other officers here to bring you their reports. You will have ample opportunity to ask any questions that you may have. Mr. H. K. Saunders is our senior vice president in charge of operational matters, fleet planning and some other things of that sort. Zeke, will you furnish us with your report?

H. K. Saunders: To fill a need that we have had during the past year for added capacity due to new routes and due to our normal growth, we had to get in the market to try and buy some airplanes. Of course, most of you know our main airplane is the Boeing 737. The market on this particular airplane has become extremely tight. It seems like everyone in the world wants them and the prices have gone up to more than double what we paid for our original airplanes. We were faced with this market to try to buy one and we couldn't find one anywhere for a reasonable price. So we had to go to the Boeing 727-100s. As most of you know, the 727 is a three-engine airplane. We purchased four of these last year. We received delivery of three during 1977 and one in January of this year. Although the operating costs are slightly higher on the 727, more so than the 737, it has some offsets that really help. You can buy it for almost half of what a new 737 cost, it has better performance, it's a faster airplane and it has the capability of carrying 19 more passengers. It requires a little longer route than the 737 and we can use it to pretty good advantage on our routes that do require longer stage lengths.

Also, in order to try to protect our need for future capacity, we entered into an agreement with Boeing last year to purchase three new 737s. We get delivery of the first one of these in October of this year; the remaining two in February of next year. Boeing also agreed to accept three of our YS-11s in trade for these three airplanes. To keep our present 737s in a competitive position, we also, at the same time we bought the three new airplanes, purchased from Boeing what is called a new-look interior. We plan to start installing that this summer. It will change the interior so that it will look exactly the same as the brand new 737s when we receive them. It increases the passenger capacity from 94, our present capacity, to 107. This also requires the upgrading of the jet engines to help carry the additional load of these passengers.

We disposed of our last four Fairchild 227s during the past year. They were sold to the U. S. State Department and in turn to the Burmese government. Our people delivered these in the fall of last year.

We also have contracted with Pyramid Airlines of Cairo to sell two of our YS-11 airplanes. We will deliver these next month. One we've been operating for these people for the past several months. It's leased to Amoco Oil Company and Pyramid operates it.

Our airline flight training department continues to grow. We are now furnishing training for somewhere in excess of 25 airlines and companies throughout the world. Some of the customers are Saudia Arabian Airlines, Iran Air, U. S. Air Force, Tan Airlines in South America and the Federal Aviation Administration.

Our corporate maintenance program, which is part of the airline division, has also seen quite a bit of growth in the past year. We are maintaining a large number of airplanes for corporate customers. We are also maintaining a lot of accessories for 227 and YS-11 operators throughout the world.

Davis: Thank you, Colonel. The man responsible for developing our traffic and seeing to it that it's handled properly after we do get it is Ken Ross, senior vice president of the Company.

K. E. Ross: Thank you, Mr. Davis. Ladies and gentlemen, it's a real pleasure to see so many of you here. I won't burden you with a large number of statistics, many of which you have already seen in your annual report. These are listed primarily on the first page. But I do want to mention that our revenue passenger miles reflected a greater growth in 1977 over 1976, as was the case a year earlier. On cargo ton miles, even though the increase was only a 3.4 per cent growth, our total revenues were up 34 per cent. A portion of this, of course, was the adjustment in the mail rate, which is the amount the government pays us for the carriage of mail. The balance was in increased air freight volumes and different rate structure on air freight. Our charter activities increased substantially, which resulted in a 24 per cent increase in revenues over the previous year. Obsiously, that could be built to 100 per cent or 150 per cent because of demand for charter activities which has been tremendous. But, as Mr. Saunders pointed out, our equipment program being such that it is, we have been unable to spare more than one jet aircraft for charter activities — and that only during the winter months, September through April, plus one YS-11.

During the year, the Civil Aeronautics Board approved fare increases amounting to seven per cent. Our latest route award authorizing service between Richmond and New York was finally granted and scheduled flights began on June 14, 1977. I might add that the results of this service have actually exceeded our previous forecast. We're carrying more than 30 per cent of the total traffic in that market. Our service to New York involves two airports, LaGuardia and Newark.

Now you may be interested in knowing how business is in 1978. As Mr. Davis pointed out, our performance factor was very poor during the first quarter of this year, particularly in January and February. About mid-February, things began to improve slightly, and our revenue passenger miles increased ten per cent while our available capacity was up only slightly more than seven per cent. Our newest route award, which involves an exchange with Eastern Air Lines between Louisville and Chicago, started on March 15, 1978. We really do not have a fix on what to expect in that market. However, there has been a 20 per cent increase in the past 15 days over the first 15 days, so we are hopeful that this will prove to be one of our better total traffic markets.

I guess the majority of information that you've seen recently on airlines involved activities by the Civil Aeronautics Board. I will not cover any route aspects, but on the total fare structure the Board is permitting just about any type of fare that a carrier elects to file. To remain competitive, we have had to meet a number of these competitive fares; and naturally we are concerned, as I am sure that most of the other carriers are, that this may have too great an impact upon our yields because, obviously, if we give a 30 per cent discount, then we will have to generate a little more than a 30 per cent traffic growth. It increases our communications costs within our reservations facilities; it increases the number of people that we are required to have to answer the telephones.

In any event, fare reductions have been encouraged by the CAB so we have gone ahead and filed those fares which the industry has filed. In addition, we have filed for some fares which are strictly Piedmont's. We have some special fares already and have had for a number of years. But we will have new fares which will provide discounts up to a total of 40 per cent. We may be faced with a situation where we're going to have to provide a greater discount on these fares.

Really, we should expect 1978 to be a very good year, should there be no deviation in the general economy or a significant decline in our fare yields. So, we are very well pleased with the way traffic has developed, particularly since mid-March. Thank you.

Davis: One of our newer associates, William Howard, senior vice president and assistant to the president, has been kept busy recently in regulatory matters, especially as far as legislation is concerned, and there is considerable legislation pending and has been ever since our meeting a year ago. As you recall, we talked about the deregulation fever then. It is still going on.

W. R. Howard: When Mr. Davis and I spoke a few days ago about the two timely topics I would speak about today, deregulation and pending route awards, we didn't really realize just how timely they were going to be. As you may have heard on ABC News this morning, the deregulation issue is in fact before the Senate this morning as I speak. Probably, before the day is over, we will all know more about deregulation than I can tell you at this moment. In any event, airline deregulation is a timely topic that has caused a great deal of concern, a great deal of discussion, and a great difference of opinion, even among the airlines, during recent months.

The present airline regulation system, as you probably know, really evolves from the Civil Aeronautics Act of 1938 which required proof of public convenience and necessity for airline certification. An airline had to go before the Board and prove that there was a need for the route that they wanted to fly. You were ultimately awarded the certificate if you could prove such a need. Then your rates were controlled, both upwards and downwards, as you operated the routes. The Board, for the most part, kept competition off that route except to the extent really necessary to assure adequate service. We thought then that was a meaningful and intelligent basis for the regulatory framework. We thought so then, as we continue to believe it now. Recently, however, many people, many outsiders, many consumer advocates, feel that the more airlines that enter a market, the lower the fares will be and the more the public will benefit. As a result, there is presently pending in both House and Senate two somewhat different bills that propose to deregulate the airlines. The Senate bill would eliminate the requirement to prove a need at all, providing instead for what they call AME—automatic market entry. It provides for very limited fare increases at the discretion of the carriers, but almost unlimited decreases. On the House side, there is a somewhat similar bill pending differing only slightly from the Senate bill. It would not allow completely automatic market entry, but it would phase out and eliminate the CAB over a period of years. We're convinced that in the long run deregulation would be damaging to the airline system, and adverse to the general public. We are also convinced that overall, the airlines will suffer to some extent from total deregulation. I think that probably some airlines will suffer more than others and there may even be some substantial opportunities for the smaller carriers to gain new and desirable routes. Piedmont may very well be in that posture, as I will show you in a few moments. The CAB is today really involved in its own deregulation program, without waiting for any changes in the law. Therefore, it may not make too much difference whether the proposed law is passed or not—we are going to live with a deregulation experiment for a while at least. The probabilities, I think, are that the Senate will pass the deregulation bill it has before them. The probabilities, I think, are that the House will pass a slightly less objectionable bill, from our standpoint. Then there will be a compromise ultimately reached so that there will be deregulation passed in this session of Congress. At least that's my evaluation of the situation. President Carter has seemingly listed airline deregulation as a "must" on his schedule. No matter what it says, we're going to have a bill that's called deregulation.

The CAB is really moving ahead very fast with a broad, liberal policy of awarding routes in many cases without much regard to whether there is really a "need" for the additional airline. I think that although the deregulation process will work adversely for the industry and for the transportation system, I don't think it necessarily needs to work adversely for us. These last few months we've looked very closely at the route potentials for Piedmont. Obviously, there are lots of possibilities. There are many pairs of points we could file for, which would result in head-to-head competition with major trunks such as American, United, TWA, etc. But there are also some very interesting and desirable possibilities available to us. Generally speaking, with some exceptions, if you reside within the greater Piedmont area today and want to go to Boston, you'll be told that you must go to Washington or New York and change planes and probably change airlines and perhaps even change airports. Not a very good way to go. Similarly, if you talk about going from the Piedmont area to south Florida today, you're told that you must fly to Atlanta and then change to Eastern or Delta and that's the way you get to Florida. Now, Atlanta's a great city. It's a wonderful place to visit and a fine place to live, but it's not a very good place to connect. It's a big terminal and it's getting bigger. And, as time goes on, it's going to be an increasingly unpopular place to connect. Similarly, if you ask about going from the Piedmont area to Dallas, you're told that Dallas is "via Atlanta," etc. Now, all of this gives you some insight into some of the things that we are looking at. We have, at this moment, three routes that we're seeking and perhaps we're fairly close to getting. The Boston route application is basically for Greensboro—Boston, a Richmond-Boston and a New York-Boston route. In each case, we would bypass the New York and Washington areas. This application offers considerable service advantages for a lot of people in this area. I am pleased to report that on Friday last the CAB issued a show-cause order which provided that in the absence of some "good cause" shown in the next 30 days, they will grant this route to Piedmont. Now that is still a hurdle to get over. It doesn't mean it's in our pocket, but it does mean that we have the right to be very optimistic about that situation.

I told you that today was a timely time to talk about two things. As I speak this morning, the CAB is, in one of its sunshine meetings, talking about our Charleston to Miami application. We are hopeful that before the day is over that the CAB will, in its wisdom, agree to grant an exemption to Piedmont to operate Charleston-Miami non-stop. Now the Charleston market itself should be a fairly modest size market. It offers us the opportunity, however, to back it up with one-stop and two-stops from the Piedmont area. What this means is that the passengers from Greensboro, for example, could go from Greensboro to Charleston to Miami, with a brief stop in Charleston, and without changing airlines or airplanes. The Board is holding its sunshine meeting today. Our Charleston-Miami application is item seven on the agenda. Where they are on the agenda right now I do not know, but we certainly have reason to be hopeful and perhaps optimistic over the possibility of getting that route. It makes a great deal of sense and there's not a great deal of op-

(Continued on page seven)