

# Report To Our Stockholders

*Editor's note: At the annual stockholders meeting April 18, 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 1979 annual stockholders' meeting of Piedmont Aviation, Inc. to order. First, I want to extend a very cordial welcome to all of you, and particularly to those of you who are not directly associated with the Company. We see quite a number of you here this morning who have come from some distance away to be with us. We appreciate your interest in the Company, as evidenced by your going to the trouble to be with us. We pledge our best efforts to see to it that your indication of interest and confidence is fully merited. The first order of business will be the appointment of our proxy committee. I'll ask Audree Long if he will serve on that committee along with Mr. David Riggan of Ernst & Ernst. If you gentlemen will, please tally the proxies and bring your report back to us after you have completed the tally.

We normally follow the practice of giving you time for questions or comments after we go through some preliminary formalities. We will have several management reports, the report from the proxy committee, and take up the official business that has to be acted on, as indicated to you in the proxy statements. I presume all of you have received those as well as your annual reports, so we won't take up too much of your time repeating what's in all of that. However, we will give you some brief reports on things that might be of interest to you. After that, and after the official portion of the meeting, we will have a period of time at your own leisure to comment on anything you might have in mind that you would like a little elaboration on or ask questions about or make comments on anything not previously discussed during the course of the meeting. Now, we will have a summary of the minutes of our last meeting and ask for approval of those minutes after the proxy committee has returned with its report. Unless there is some request or desire on the part of some of you here that we ask our Senior Vice President and Secretary, Mr. Morton, to read the whole thing, we'll just ask for a synopsis of the minutes of the last meeting. Since there is no request for a full reading of the minutes, Mr. Morton, will you give us a brief summary?

**T. W. Morton:** The last annual meeting of the stockholders of Piedmont Aviation, Inc. was held here in this room on April 19, 1978 at 10:00 o'clock. T. H. Davis, president of the Company, 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, of Piedmont, the Company controller, to serve as the proxy committee to determine the number of shares represented at the meeting. The president then gave a report covering the financial results of 1977 and a number of other items that were considered to be of interest to those people attending. He also called upon R. S. Northington, who gave a report of the general aviation activities during 1977. He called on H. K. Saunders, who reported the recent acquisitions of aircraft and other matters relating to the operation of aircraft in the Company. He called upon K. E. Ross, who gave a review of the traffic growth and other traffic and sales data of the Company for the past year. He called upon W. R. Howard, who discussed the status of air-

line deregulation legislation and also various new route matters which the Company is involved in. At the conclusion of these reports, the chairman called for the report of the proxy committee and they reported that 73.6 per cent of the total outstanding shares of common stock were represented at the meeting. The chairman declared that a quorum was present and advised the first item of business would be the election of a board of twelve directors. He pointed out that the proxies held by management of the Company would be voted for 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'Heron, Jr.; H. K. Saunders; J. F. Watlington, Jr.; M. H. Winger, Jr.; and C. W. Womble. Upon motion made and seconded, these persons were elected to serve on the board of directors for the coming year. Another item of business was the authorization of the Company to purchase up to 30,000 shares of common stock as treasury stock. This item also was adopted. The final item of business was a confirmation of the appointment of Ernst & Ernst as independent auditors for the Company for the coming year. This item was also approved. The chairman then called for questions from those persons who were in attendance and there followed a period of questions and discussion of those questions. The meeting was adjourned at 11:30 o'clock.

**Davis:** Thank you, Mr. Morton. As I indicated, we'll call for approval of the minutes later in the meeting. As you all know from the annual report, and many of you who follow your Company very, very closely during the course of the year, last year was perhaps the greatest year we have had from the standpoint of expansion and growth in two major areas. Number one was the physical expansion of our system, which Mr. Howard will elaborate on in just a minute. In addition, we increased total revenues about 16 per cent up to a total of \$264 million in 1978. To be honest with you, we're not real proud of the results; on the bottom line, as it were, we slipped back a little bit from the previous year when we had earnings of about \$7.5 million. In 1978, earnings were \$5.5 million. Despite that drop, however, 1978 was the second best year we have ever had insofar as net earnings are concerned. As I mentioned, we are not real proud of that and we intend to correct that situation. We are in the process of taking steps which we hope and believe will do just that. There were a number of factors, however, that contributed primarily to the lower 1978 results; not the least of which was the inordinate number of promotional or discount fares which the industry put into effect during the latter part of last year. The extent to which that practice was followed, I think, surprised a lot of them a little sooner than they expected insofar as the deterioration of what we call the yield, that is the revenue per passenger mile that we get from our passengers. As an indication, even though we had received during the course of the year some broad fare increase approvals from the CAB, the proliferation of discount fares was so extensive that the average for all fares at the end of last year was really lower than all the fares at the end of the previous year. As you can well appreciate, with the tremendous increase in costs that all of us have been experiencing during the year, this created substantial problems for many of us. As a matter of fact, during the

last quarter of 1978, if I'm not mistaken, all, with very few exceptions, in the airline industry were reporting reductions in net results as compared to the same quarter in the previous year. This, despite the fact that traffic generally has increased substantially during the course of the year. Having recognized the situation during November or December, we immediately filed for some corrections to this particular fare problem. Thus, we eliminated some of our discounts, cut down on the extent of some of the others, and made adjustments in the actual fares that we were charging in certain markets where we felt adjustments could, and would, be approved by the Civil Aeronautics Board. Unhappily, it takes 90 days before something like this goes into effect. But in any event, we took that action back late in the year so, effective March 10th of this year, we began to realize the benefits. It has already begun to show results.

Another problem was, of course, start-up costs of as many new services as we did during the year. A new route opening is always a very costly proposition for several reasons, not the least of which is the cost of setting up facilities and making expenditures necessary to establish a new station. There are personnel costs and physical facilities costs and things of that sort. In addition, the developmental stage of any new route takes time for the traffic loads to begin to increase. We've been pretty fortunate in that area in most of our new routes, however, but it does take a few months to develop traffic to its full potential. And, of course, as I've also indicated, we've had very substantial increases in inflationary cost pressures. All of these factors combined resulted in the deterioration of net earnings toward the end of 1978 as compared to the previous year. Our general aviation division saved the day for us. We'll hear a little bit later from Mr. Northington that they had a fantastic year. While the airline earnings were depressed, the general aviation earnings increased very substantially.

Many of you have, I'm sure, heard about or noticed in looking at the stock reports some pretty wild variations in the price of our stock during recent months. If you will recall, we listed our stock on the New York Stock Exchange last year. We have had our specialists on the floor of the New York Stock Exchange, as well as others in the investment banking community, looking for any potential lead or indication as to whether or not there are any single sources that are trying to accumulate Piedmont stock for the purpose of takeover possibilities. Thus far, we have been unable to detect any particular area or individual or company accumulating Piedmont stock for purposes of a takeover, at least to the best of our knowledge. Our specialists on the floor of the Exchange indicate that most of the buying has been what they call retail buying. We would like to interpret that to indicate that the purchasers know a good buy when they see it. In any event, while the woods are full of rumors every day, we see nothing of substance to indicate that there is any definite movement toward takeover at this time.

For several years, it has been my privilege to report to you that your Company has been one of the leaders, if not the leader, insofar as having the fewest passenger complaints of any other certified airline in the country, as tabulated by the CAB's Office of Consumer Affairs.

I regret to say that last year we slid back some. We were not at the top last year. However, we weren't at the bottom either. But, we got down in the medium range and we are not a mediocre organization or "average" company. We don't intend to be just an average-type organization and we intend to correct that. We intend to be better than average. I'm very pleased to report that the last monthly tally I saw from the CAB does indicate that we were back up in second place — second best in the industry. But that's just for one month and we've got to stay in that position or top position through the whole year to wind up 1979 where we want to be and I'm sure that you would like us to be.

What's ahead? From all indications, and from what we see insofar as advanced bookings, passenger traffic and the general aviation business, 1979 should be a good year. There are, however, some very serious problems that we are now, and will be, confronted with. In the area of fuel, we're concerned about fuel price and fuel availability; both are very serious problems for us. Our concern is understandable, as you will recognize, especially when you consider the fact that one cent a gallon increase in our fuel costs increases our total expenses by about \$1 million a year and we have already had notice of two or three increases so far this year. There are a lot of people around trying to convince the oil companies that these prices are going to be higher. There are a lot of forecasts that they are going to raise prices. I don't know why people feel that they have to go out and tell the oil companies that their prices are going to be ten or more cents a gallon higher next year than they are today. What is to be gained by those who are not even in the petroleum business going around making public forecasts as to how high fuel prices will be next year? I suppose if we keep brain-washing the oil companies to the fact that fuel prices are going to be X cents a gallon higher six, eight or ten months from now than they are today, then they won't feel too bad about going ahead and raising them. Our fuel supply is, as I've indicated, presently giving us a problem. In April, some of our major suppliers allocated only about 85 per cent of our requirements. We've had to depend on some additional input from other suppliers from whom we have not previously been getting fuel. But even so, we still had to cut back the weaker flights, the ones where we will inconvenience the fewest number of people. But you can't always, for equipment positioning reasons, just cut out the bad flights and leave all the good ones. Sometimes we have to cut out a bad flight and then the airplane winds up in a position where it has to get back to the maintenance base or something else and we cut out a good flight in order to do that. But, in any event, I do feel that our scheduling department has done a very, very outstanding job in eliminating primarily the weaker flights. In addition to the fuel problems, we, of course, continue to have very serious inflationary cost increases in supplies, services, rents, landing fees, interest expense and personnel costs. At this time, I'd like for Mr. Howard to bring you up-to-date on our route program and any words that he might have to say now that deregulation is a fait accompli, or any other comments. Mr. Howard, senior vice president of the Company.