ANNUAL REPORT 1980

REPUBLIC AIRLINES

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REPUBLIC AIRLINES, INC.

7500 Airline Drive • Minneapolis, Minnesota 55450 • 612-726-7411

Highlights

	1980	1979	1978
OPERATING REVENUES	$ 916,715,000	$ 609,230,000	$ 487,565,000
OPERATING PROFIT	$ 13,224,000	$ 28,053,000	$ 42,809,000
NET EARNINGS (LOSS)	$ (24,662,000)	$ 13,061,000	$ 24,571,000
NET EARNINGS (LOSS) PER SHARE-Primary	$ (1.19)	$ .70	$ 1.42
CASH FLOW FROM OPERATIONS	$ 14,840,000	$ 41,717,000	$ 57,806,000
RETAINED EARNINGS	$ 64,830,000	$ 93,634,000	$ 83,050,000
STOCKHOLDERS' EQUITY	$ 117,627,000	$ 145,514,000	$ 113,288,000
PASSENGERS	13,220,000	12,156,000	11,143,000
PASSENGER MILES	4,760,341,000	3,846,805,000	3,364,094,000
CARGO TON MILES	37,113,000	32,324,000	28,062,000

About Republic

Republic Airlines, one of the nation's largest scheduled carriers, provides safe, dependable air transportation to the traveling and shipping public.

The company, originally called Wisconsin Central Airlines, inaugurated service on February 24, 1948. The name was changed to North Central in 1952. Southern Airways, which began scheduled flights in 1949, was merged into the company in 1979, and the airline then became "Republic." Hughes Airwest, another carrier with over 30 years of experience, was acquired October 1, 1980.

Republic serves nearly 200 cities—more than any other airline in the country. It flies to most of the nation's metropolitan areas and many intermediate-sized cities. The route system extends from coast to coast, and from Canada to Mexico and the Cayman Islands in the Caribbean. (See map on center pages.)

In 1980, Republic ranked seventh among U. S. airlines in passenger traffic, with 13.2 million passengers carried and 4.8 billion passenger miles flown. The company operates one of the largest commercial jet fleets in the world. Its 158 jet-powered aircraft—Boeing 727s, Douglas DC-9s and Convair 580s—make over 1,400 departures daily.

Republic's 15,000 dedicated employees offer the finest type of airline service.

ANNUAL MEETING

Wednesday, April 22, 1981

AUDITORS

Alexander Grant & Company

REGISTRARS &
STOCK TRANSFER AGENTS

Citibank, N.A.
New York, New York 10043

Northwestern National Bank
Minneapolis, Minnesota 55480

STOCK TRADING

Common stock (RAI)

New York Stock Exchange
Midwest Stock Exchange

Warrants (RPALW)

Over the Counter market

To our stockholders, employees and friends:

Republic Airlines firmly established its position as a major U.S. carrier by acquiring Hughes Airwest and taking other significant actions in 1980. Although most financial results were disappointing, the following progress is noteworthy:

- Revenues jumped 50 percent to a record $917 million.
- Republic now serves nearly 200 cities—more than any other airline in the country—on a route system extending across the nation, and from Canada to Mexico and the Caribbean.
- New nonstop service was introduced in 33 markets, providing significantly better connections and through-flights for thousands of travelers.
- Passenger miles reached 4.8 billion, up 24 percent; cargo ton miles rose 15 percent to 37.l million; and 13.2 million passengers were carried, a gain of nine percent.
- Nine new jets—four Boeing 727-200s and five Douglas DC-9-50s—joined the fleet in 1980. The acquisition of Hughes Airwest added another 47 jet aircraft. By the end of March, one DC-9 and three more 727s will have been delivered, bringing the company's fleet to 158 jet-powered aircraft.

The acquisition was an aggressive move which gave Republic established operations at hubs such as Phoenix, Las Vegas, Los Angeles, San Francisco, Seattle/Tacoma, Spokane, Boise and Salt Lake City. The airline also acquired the important California satellite markets of Orange County/Santa Ana/Anaheim, Ontario/Riverside, Burbank, San Jose and Oakland.

Despite these major steps forward, the company was adversely affected by steadily rising jet fuel prices, a troubled national economy, and interest charges on loans tied to the high prime rate.

While revenues reached $916.7 million, expenses totaled $941.4 million, and a net loss of $24.7 million, or $1.19 per share, was sustained. However, the company has only had one other loss in the past 27 years, and still has $65 million in retained earnings. During 1980, Republic generated positive cash flow from operations of $15 million.

The Board of Directors, confirming the company's basic financial strength, declared a cash dividend of $.10 per share payable March 23 to stockholders of record March 9. Republic has paid an annual cash dividend for the past nine years.

Preparations for future growth affected many areas. Schedule times and service patterns were adjusted to accommodate more traffic and increase utilization of aircraft and personnel. Several less efficient aircraft were sold. Facilities for passengers and operations were constructed or improved at many locations. In addition, the quiet, highly-efficient DC-9 Super 80s are to be introduced this summer.

Because fuel is a critical commodity for the company, a wholly-owned subsidiary, Republic Energy, Inc., was formed in September. This firm will primarily seek leasehold interests and drill for oil and gas, concentrating its efforts in known oil regions within the continental United States.

Republic Airlines has undergone dramatic change during the last two years. In fact, the company grew over 300 percent in 15 months. It has accepted the challenges of deregulation, merger, inflation, recession, acquisition, route expansion and intense competition.

Republic's goals, however, remain the same: to provide safe, dependable airline transportation and earn a reasonable profit. By blending growth with commitment to service, a large and capable airline has emerged.

Opportunity lies ahead. Revenues will surpass $1.5 billion this year, and strong cost controls are continuing. The combined effects of recession and inflation are expected to linger through the middle of 1981. When the national economy begins to recover, Republic should return to profitability.

Sincerely,

Hal N. Carr
Chairman of the Board

Daniel F. May
President

March 11, 1981

Financial review

Results of Operations

Annual revenues reached $916.7 million in 1980. This significant achievement makes Republic one of the nation's major airlines.

Republic's revenues increased 50 percent to the record $916,715,000, compared with $609,230,000 in 1979. This substantial gain results from the purchase of Hughes Airwest in October 1980, the introduction of new long-haul service, and fare increases. Republic's revenues were running 28 percent ahead of the previous year prior to the acquisition.

Operating expenses—including depreciation and amortization—rose to $903,491,000, up 55 percent from $581,177,000. Higher fuel prices and labor costs were mainly responsible for the increase. An operating profit of $13,224,000 was attained, although it declined 53 percent from 1979. Other expenses, primarily interest, were $39,826,000, which had been reduced by gains from disposition of equipment. The resulting net loss was $24,662,000, or $1.19 per share. Earnings in 1979 were $13,061,000, or $.70 per share primary.

However, Republic still has $64.8 million in retained earnings. In this important measure of financial position, the company has consistently been one of the leaders in the airline industry. The retained earnings available during 1980 helped the company finance its dynamic pattern of growth and take advantage of the opportunities for expansion now available under airline deregulation.

In addition, the company had a positive cash flow from operations of $14.8 million. This working capital was used for such purposes as deposits for new aircraft, payments on new property and equipment, and expenses associated with the Hughes Airwest acquisition.

In view of the retained earnings on December 31, 1980 and the company's basic financial stability, the Board of Directors declared a cash dividend for the ninth consecutive year. Shareholders of record March 9 will be paid $.10 per share on March 23.

When summarizing the changes since 1978, it is important to emphasize that Republic's operations tripled in the 15-month period between July 1979 and October 1980. Three regional networks were combined to form one national system with traffic feeding from intermediate-sized cities into major hubs. To develop this expansion into an effective system, Republic had to add service connecting major markets, even though economic recession and higher fares were reducing air travel.

Overall results to date are encouraging. Route maturity will produce increased traffic, and the elimination of marginal service will reduce costs. With an improving economy, the company should return to profitability in the second half of the year.

In the accompanying table, the differences in the major factors of change are listed for the year 1980 compared to 1979, and for 1979 compared to 1978.

Under Operating Revenues, the item Passenger Miles reflects new income generated as more passengers flew greater distances on Republic. The differences in Passenger Fares represent inflationary forces on ticket prices. These higher fares were partially offset by discounts to generate additional traffic on certain routes and to meet competition. Public Service Revenues vary because of changes in the factors included in the prescribed formula which compensates airlines for service to smaller cities. Cargo and Other Revenues were affected by rate adjustments.

Operating Expenses during the past two years were greatly influenced by the substantial increase in available seat miles resulting from extensive route expansion and new, large-capacity jets. The 1979 to 1980 change was largely due to the additional aircraft and personnel from Airwest. Labor and Employee Benefits, which comprise 34 percent of operating costs, rose as pay rates and employment increased.

The total cost of Aircraft Fuel soared because prices increased $.15 per gallon in 1980 and $.36 in 1979. As operations expanded, jet fuel usage rose 61.1 million gallons in 1980, and 27.6 million gallons in 1979.

A decline in Operating Profit occurred mainly because of the adverse impact of the worsening economy. Normal traffic increases failed to materialize. Also, the additional capacity from new aircraft did not produce the expected passenger loads.

Other Expenses (Income) consist largely of interest charges on loans tied to the high prime rate, which were incurred to purchase new aircraft. Gains on disposition of equipment and capitalization of interest on advance deposits for aircraft are included in this item.

MAJOR FACTORS OF CHANGE
(Thousands of dollars)

	Differences			
	1980 to 1979		1979 to 1978	
Operating revenues		Percent		Percent
Passenger miles	$125,100	24	$ 86,600	14
Passenger fares	174,800	27	33,000	13
Public service revenues	(4,000)	(15)	9,800	60
Cargo and other revenues	11,600	21	(7,700)	(12)
Net revenue changes	307,500	50	121,700	25
Operating expenses				
Labor and employee benefits	61,000	24	53,900	28
Aircraft fuel	133,700	101	52,400	66
Other operating expenses	127,600	64	30,100	18
Net expense changes	322,300	55	136,400	31
Changes in operating profit	(14,800)	(53)	(14,700)	(34)
Other expenses (income)	23,100	138	4,000	31
Income taxes	(200)	(11)	(7,200)	(32)
Changes in net results	$ (37,700)		$ (11,500)	

Liquidity and Capital Resources

Republic has made major commitments to purchase new, more fuel-efficient jets to replace older planes and expand routes. In 1980, the company's acquisition costs for new aircraft were $119 million, and in 1979 were $88 million. Another $307 million will be expended in 1981 and 1982 (see Fleet Development).

Advance orders require pre-delivery deposits of about one-third of the purchase price. During 1980, internally-generated cash flow from operations and funds from the company's revolving credit agreement were used to make most of these deposits.

The company has historically met capital requirements for aircraft purchases through long-term financing. In 1980, this was accomplished through leveraged leases having 18-year terms with fixed-price purchase agreements, and by long-term bank debt.

Republic is exploring a number of alternative sources of financing for the seven DC-9-80 aircraft due in 1981, valued at approximately $142 million. Discussions are underway, but firm financing commitments have not yet been completed.

In October 1980, the company purchased Hughes Airwest for $38.5 million. Funds for this transaction were provided by long-term bank debt of $24 million and the issuance of $14.5 million in convertible subordinated debentures.

Also, Airwest's loans and financing commitments were consolidated into Republic's long-term debt.

At year-end, total long-term debt was $652.3 million, which includes $397.5 million drawn against a $450-million revolving credit agreement negotiated October 1, 1980. The balance of this credit will be used to pay for certain aircraft being delivered in 1981.

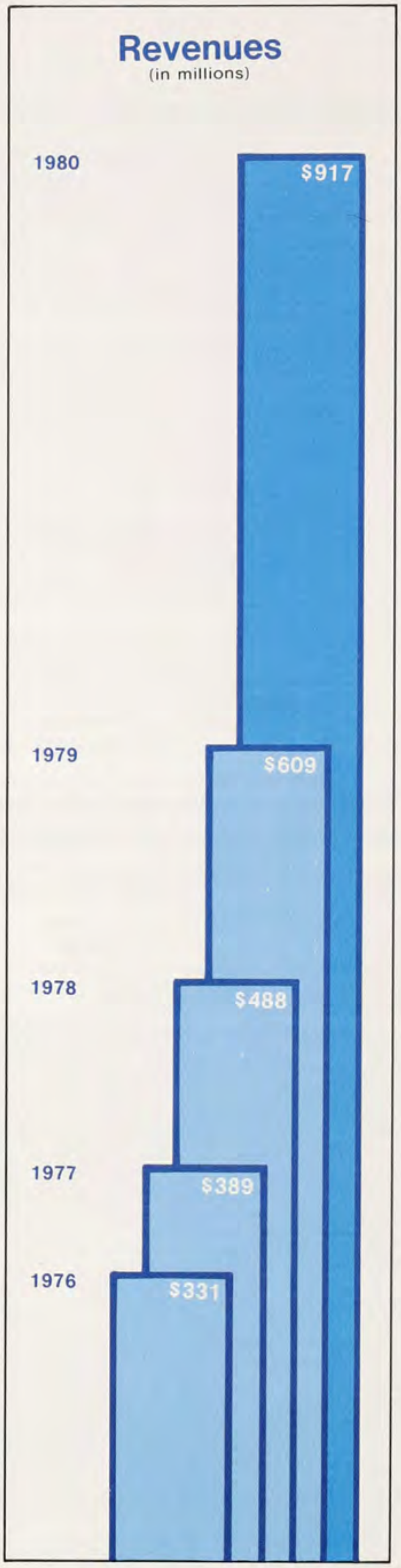
To improve its current financial posture and increase available cash, the company sold $28 million of preferred stock in its wholly-owned subsidiary, Republic Airlines West, Inc. This stock is not convertible to common stock of Republic Airlines, Inc., and was privately placed in March 1981.

As DC-9-80s are introduced and service to several cities is eliminated, some of the less efficient aircraft will be sold. The proceeds should generate additional cash and reduce debt.

Further discussion of the company's operations begins on page 6. Five-year financial and traffic data is summarized on page 25; and supplemental stockholder information, including quarterly statements and the effects of changing prices, can be found on pages 26-28.

While the past year has been a challenging one for Republic—with its transition to a major carrier having to be accomplished in a weak economic climate—the company has developed a strong route system with excellent potential for future earnings.

Expanded service to New York City increased revenues.



The new Atlanta Midfield Terminal has led to significantly improved service at this major hub.

Traffic growth and performance

Republic flew 4.8 billion passenger miles and carried 13,220,195 passengers in 1980. Passenger miles were up 24 percent, while passenger boardings rose nine percent compared with 1979. The airline flew 37.1 million cargo ton miles, a 15 percent gain.

These increases resulted from new long-haul routes, special discounted fares, and Republic's acquisition of Hughes Airwest on October 1, 1980. However, the impact of the depressed national economy and standard fare increases—brought on by rising fuel and labor costs—restricted normal traffic growth during 1980. Business and leisure travel were both adversely affected.

In addition to scheduled service, Republic transported 35,488 passengers on 258 charter trips. These charters went to 42 states and such diverse points as Jamaica and Nassau in the Caribbean, and Zihuatanejo, Mazatlan and Puerto Vallarta in Mexico. During peak travel periods, 211 extra sections of scheduled flights were operated.

A new monthly record was set when 1,468,963 passengers were carried in October 1980. The 66,227 people who flew Republic on November 30 established a new single-day high.

The 37,113,000 cargo ton miles were up because of a 47 percent increase in mail ton miles. This was due to Republic's increased long-haul routes, convenient departure times and excellent handling. Freight and express ton miles remained nearly constant.

To reflect a more comparable year-to-year analysis of traffic results, the statistics of Hughes Airwest can be added to those of Republic from January 1, 1979 through September 30, 1980. Such combined statistics show that revenue passenger miles in 1980 increased eight percent to 7.1 billion from 6.5 billion. Passenger boardings were 17.4 million, up from 17.3 million in 1979. Cargo ton miles rose to 46.2 million from 42.7 million, a gain of eight percent.

The VIP small parcel service remains popular, as 175,000 "Very Important Packages" were entrusted to Republic. The expedited handling offered by VIP has proven valuable for moving important, time-sensitive materials such as medical supplies, legal documents, news film and tape, data processing material, and small parts. VIP service has been extended to Montreal and Toronto.

Republic continued to provide safe, dependable scheduled service in 1980. The airline completed 98.8 percent of its 102,217,000 scheduled miles. Less than four-tenths of one percent of scheduled departures were cancelled for maintenance reasons, and only 1.4 percent were delayed by mechanicals.

The company has always maintained high standards for operating performance, and is consistently a leader in the airline industry. Republic's outstanding record reflects the dedicated work of the personnel involved in the day-to-day operation.

New facilities and services

The Atlanta Midfield Terminal and the Minneapolis/St. Paul Green Concourse highlight the many improvements provided for Republic passengers in 1980.

Hartsfield Atlanta International, the second-busiest airport in the country, opened a $500-million complex designed for rapid transfers between four concourses. Republic occupies 15 gates on Concourse D. The Midfield Terminal offers improved parking, ticketing and baggage claim service, more accessible concessions, comfortable passenger lounges, and jet bridges at all gates to protect passengers from the elements. An innovative automatic train system connects the concourses with the main terminal building.

At Minneapolis/St. Paul, the Green Concourse was extended 800 feet to accommodate Republic's 10 gates and boarding areas. The ground level has offices for Republic flight operations, inflight and customer service personnel. New ticket counter and baggage claim areas will be operational when the terminal expansion is finished this summer.

New or improved Republic facilities were completed in terminals at Eureka/Arcata, Idaho Falls, Salt Lake City, Reno, Oakland, Phoenix, Denver, Houston, Montreal, Lansing, Saginaw/Bay City/Midland, Milwaukee, St. Louis, Huntsville/Decatur and Memphis. Changes are underway in terminals at Brainerd, Eau Claire, Chicago, Columbus (Ohio), Tupelo, Meridian, Baton Rouge, Gulfport/Biloxi and Orlando.

Air freight terminals were constructed or remodeled at Atlanta, Memphis, Tallahassee, Saginaw/Bay City/Midland and Seattle/Tacoma. Cargo facilities are planned for St. Louis and Birmingham.

A major addition to the company's maintenance base at Phoenix was completed in January 1981. Over 268,000 square feet of space is now available for maintenance functions, as well as reservations, sales and other administrative needs.

A $16.5 million expansion of Republic's Main Operations Base in Minneapolis/St. Paul is underway. The project will provide an additional 206,000 square feet of space for maintenance of aircraft, components, ground equipment and facilities, as well as stores and inventory control. Also, a 190,000-square-foot ramp extension has been completed.

SCEPTRE, Republic's computer program for maintenance and corporate data, was upgraded in 1980 to improve its capabilities to schedule aircraft maintenance and track parts inventory. The logic for SCEPTRE was sold to four major airlines and five non-airline corporations for a total of $1,250,000.

Integration of computer operations for the western region is expected by October 1981. To gain the necessary capacity, the company has ordered a third IBM 3033. In addition, a new Systems Network Architecture is being developed to connect hundreds of locations with SCEPTRE and with ESCORT, the airline's reservations system. Airwest formerly contracted for these services with another carrier.

The Seattle central reservations office, which serves Washington, Oregon, Idaho, Montana, Alberta and British Columbia, moved to larger quarters in May 1980. For two consecutive years, Republic has received industry recognition for having the highest number of enplaned passengers per reservations agent. This honor, an important measure of productivity, means that Republic responds to calls effectively and efficiently.

Over 40,000 letters and calls from passengers were answered by the Consumer Affairs Department. After a comprehensive study of Republic's system-wide baggage operation, a new training program is being implemented to improve baggage delivery and reduce damage and loss compensation.

As a result of the Airwest acquisition, Republic now has several contracts to provide technical assistance to foreign airlines which are administered by the Overseas Operations Department. The company has long-term programs in Mauritania (Africa), the Philippines and Argentina to lease aircraft and supply advisory personnel. Also, Republic provides flight training for TOA Domestic Airlines of Japan and purchasing, maintenance and pilot training for the Bank of Mexico.

In 1980, the company completed its contract to provide purchasing services in the Philippines and a major project for Saudia Arabia—supplying aircraft, pilots, mechanics and ground operations support.

Improving facilities and service is an unending process as Republic grows and takes advantage of technological developments. Such changes are essential to sustain a superior air transportation system.

Republic boards over one million passengers annually at Chicago.

Environmental and social programs

As a responsible corporate citizen, Republic Airlines is actively concerned about the environment and the prudent use of natural resources and personnel. To fulfill these obligations, the company becomes directly involved with the diverse needs of a complex society.

Republic's environmental programs encompass many areas. Fuel conservation, noise abatement, and safety all relate to operational matters, yet have wide-spread consequences for the 200 communities served by the company. Employees worked vigorously last year to save fuel, reduce the impact of noise on neighborhoods near airports, and maintain safe, dependable equipment.

The DC-9 Super 80, which Republic introduces in the summer of 1981, will play an important role in meeting environmental requirements. Because of its advanced technological design, the DC-9-80 reduces the high-noise area around airports to one-fifth of the territory affected by comparable aircraft now in use. In addition, it has the lowest fuel consumption per passenger of any commercial jet airliner, up to its maximum range.

The stringent environmental requirements of communities with special situations can be met by this new aircraft and noise-abatement operational techniques. In turn, this will allow Republic to continue operations at highly-desirable, but environmentally-sensitive airports and to consider possible expansion.

Other programs implemented during 1980 not only conserve energy and increase safety, but also result in substantial savings. For example, a central pneumatic system at the new Atlanta Midfield Terminal provides air conditioning, heat, and compressed air for starting jet engines. This system, one of the first of its kind, will save Republic over $800,000 annually.

Conservation also resulted from installation of centrally-located aircraft de-icing systems at Minneapolis/St. Paul, Green Bay/Clintonville, and Milwaukee. A system-wide winter servicing schedule for aircraft has reduced the use of glycol.

Republic's employee programs provide outstanding benefits. Life insurance, medical protection with care for the chemically dependent, and retirement plans offer comprehensive coverage. A stock purchase plan allows employees to buy shares of Republic by payroll deduction, and a suggestion system called "Idea Dollars" pays cash bonuses to those who develop new or better job techniques.

Many employees participate in the company's new Educational Assistance Program which pays half the cost of tuition, books and fees for job-related courses. The company introduced a scholarship program for dependents of Republic employees. The recipients are selected by an independent panel of educators on the basis of academic achievement and need. Each year, ten $1,000 scholarships are awarded for college or technical school.

Some 1,200 new employees were selected in 1980 from 125,000 applicants. Affirmative action plans and equal employment opportunity programs, reviewed and approved by the Federal government, are followed in the hiring process.

Good employees are essential for the company to provide outstanding service. Republic's 15,000 people are highly skilled, and many have extensive experience in the airline industry. They are employed at 200 locations in 34 states, and in Canada, Mexico, and the Caribbean. Five thousand of these professionals were added to the ranks with the acquisition of Hughes Airwest.

In word and action, Republic continues to demonstrate concern for its employees and the cities it serves.

Republic serves National, Dulles and Baltimore- Washington airports.

The Port of New Orleans, home of Dixieland music, is within easy flying distance of many Republic cities.

Communications

The acquisition of Hughes Airwest by Republic Airlines was the primary communications topic during 1980. From the announcement of the purchase agreement in March until the transaction was completed on October 1, the general public and employees of both companies were kept up-to-date through a wide range of media.

Information was distributed during the spring and summer as the acquisition proceeded. Hundreds of questions from employees were handled by "Direct Approach," a toll-free telephone system which provides answers from top management on a confidential basis. Officers of Republic visited every Airwest location to meet with employees.

In the fall, public relations and advertising campaigns were launched, particularly in the west, to emphasize that Airwest would become part of Republic. Over 2,000 members of the news media received press kits with stories, fact sheets and photos. Advertising was placed with nearly 30 magazines and 70 newspapers. Commercials were carried on 55 television channels and over 180 radio stations. All used the theme "Joining more of America than any other airline."

With the completion of the acquisition on October 1, visual aspects of the change became noticeable almost immediately. Republic identification was on aircraft and passenger ground facilities in just a few weeks. All planes in the fleet are being repainted in the aqua, blue and white corporate design as maintenance schedules permit.

Sales promotion and advertising supported the overall corporate marketing effort for 1980. Individual campaigns highlighted the introduction of new destinations, improved service, and special fares.

An award-winning series of eye-catching posters was created to spotlight Republic's major destinations. The posters depicted throughout this report are among those featured in Republic gate areas and distributed to travel agencies. Larger versions are being used for outdoor advertising.

A new audio-visual presentation about Republic was developed to promote the airline at community and industry functions. Special tour folders describe vacation packages available through Republic for Canadian fishing, and trips to Toronto, Montreal, New York, San Diego, Las Vegas, Colorado, Nashville, New Orleans, Florida and the Cayman Islands.

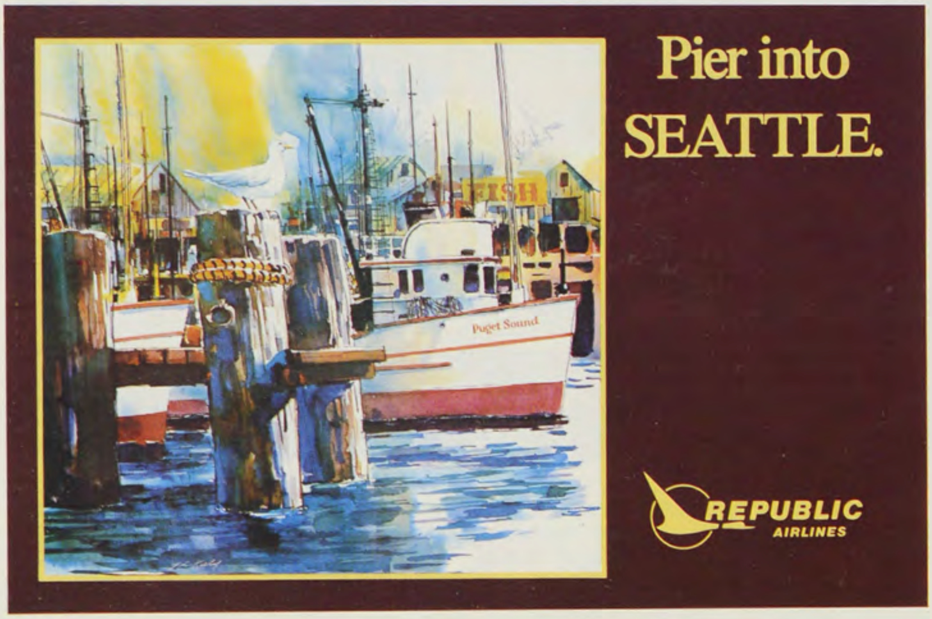
Nearly 75,000 sales calls were made on travel agencies and key commercial accounts. Mailings, meetings and tours also kept these important audiences informed about Republic's rapidly-expanding system.

In 1980, new uniforms were selected for flight attendants, passenger service agents, skycaps and station agents. The new attire is designed to reflect a classic, professional image. The uniforms are already in use and are receiving favorable comments from the traveling public and employees. The entire program will be completed during 1981.

The July issue of *Money* magazine cited Republic for its excellent food and beverage service. Based on a survey of frequent airline travelers, the magazine included two of the company's meals among a dozen superior inflight offerings.

Over 7,000 visitors received guided tours of the airline's facilities across the country. Another 12,000 guests attended public functions in the company's headquarters, located at Minneapolis-St. Paul International Airport.

Through extensive communications efforts, the traveling public and company employees are being kept aware of the identity and progress of Republic Airlines.



Seattle is one of many West Coast cities with Republic service to the east.

Jet fuel outlook

In 1980, concern over jet fuel shifted from availability to cost. Conservation and greater production held supplies steady, but the average price per gallon still escalated from 76 cents to 91 cents, an increase of 20 percent. Republic spends over $1 million a day for fuel, and that amount is nearly 60 percent of the direct operating costs for the company's 158 aircraft.

Since 1973, Republic's fuel prices have risen a precipitous 900 percent. Despite this unavoidable and drastic pressure on expenses, the Civil Aeronautics Board waited until May 15, 1980, to permit prompt compensating fare adjustments. Since then, the airlines have been able to recover fuel costs more rapidly.

To assist the company in meeting future fuel needs, Republic Energy, Inc., a wholly-owned subsidiary, was formed in September 1980. Primary emphasis of the new company is to seek leasehold interests and to drill for oil and gas—concentrating its efforts in known oil regions within the continental United States. The Texas-based subsidiary has attracted a number of highly qualified geologists and engineers, and is conducting exploration in Texas and Louisiana.

The advanced technology built into the new DC-9 Super 80 will help greatly to conserve fuel. The engine and wing designs of the plane contribute to a fuel savings of 20-40 percent over aircraft of comparable size. Republic expects to put the Super 80s in scheduled service this summer.

Flight operating techniques are continually being monitored in an effort to reduce waste and conserve fuel. The airline implemented computer-assisted flight planning, higher average flying altitudes, and on-board performance data computer systems. On the ground, careful selection of runways can save aircraft taxi time. Even a small adjustment has a significant impact. Reducing one minute of taxi time (either in or out) on all of Republic's flight segments could save $2.7 million a year.

Improved ground techniques also contribute to fuel savings. Ground power generators at gates are being added at major airports. More extensive training is being provided for station personnel who handle aircraft and ground support equipment.

Although the jet fuel outlook is uncertain, conservation and technological advances will help protect supplies of this vital commodity.

Fleet development

The Douglas DC-9 Super 80—quietest and most fuel-efficient jet on the market today—joins the Republic fleet in 1981. This 147-passenger aircraft is powered by two new high-technology engines which burn 20-40 percent less fuel than jets of comparable size and operate at noise levels well within Federal standards.

Republic has 14 Super 80s on order. The first is scheduled to arrive in July and will go directly into scheduled service. Six more Super 80s are being added this year; three by November 1. Seven will be delivered in 1982.

The company is continuing its extensive acquisition program which calls for the purchase of 38 jet aircraft in 39 months—from September 1979 to November 1982. Among that group are the 14 new DC-9-80s, ten new DC-9-50s, and seven new Boeing 727-200 tri-jets. During 1980, the company took delivery of five of the DC-9-50s and four of the 727s. The DC-9-50s carry 130 passengers and are ideally designed for medium-length flights. The 727s provide range and capacity for long-haul routes and perform well at high-altitude airports.

With the acquisition of Hughes Airwest on October 1, another 47 jet aircraft—41 DC-9s and six 727s—were added to scheduled operations. Some of the company's less efficient aircraft will be sold as new planes are delivered. In recent months, three Convair 580s, three Fairchild F-27s and seven Swearingen Metro IIs were sold.

Republic operates the seventh-largest commercial jet fleet in the world. It now consists of 158 aircraft—13 Boeing 727s, 125 DC-9s and 20 Convair 580s.

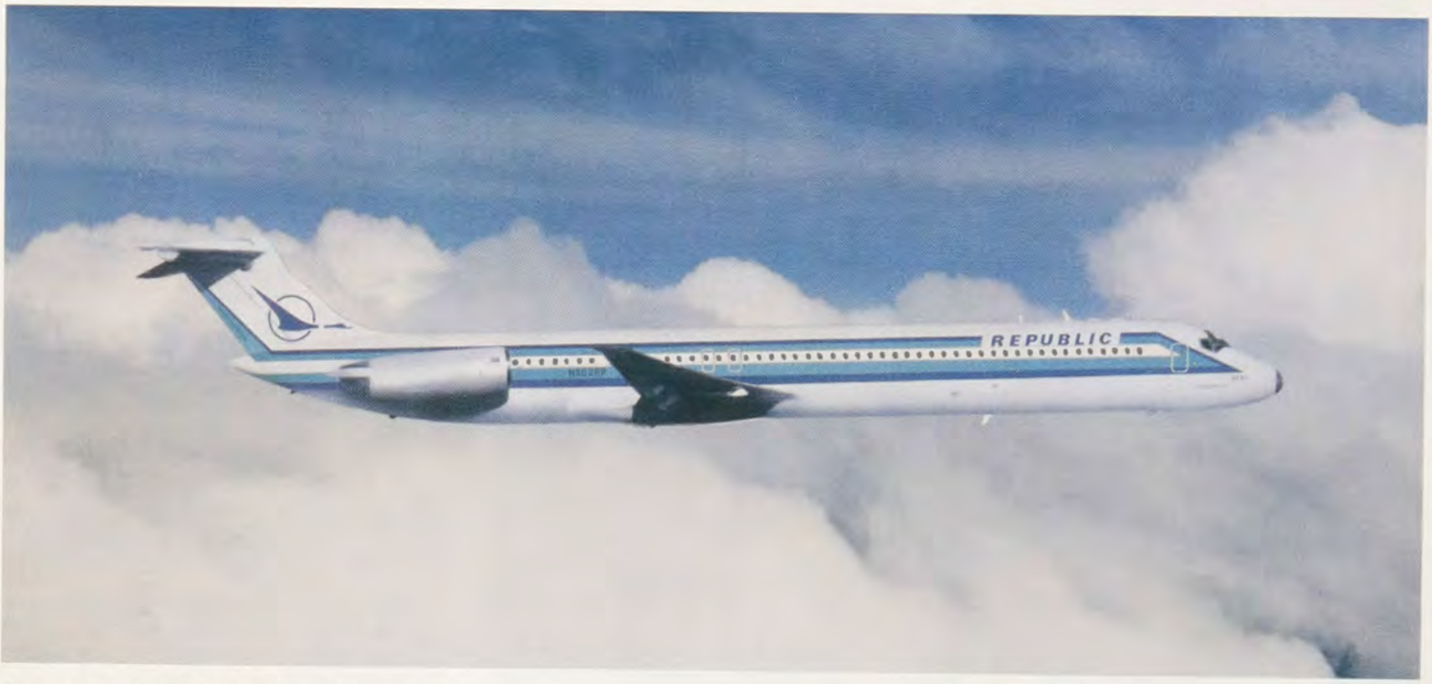
In 1980, wide-body interiors were installed on many of the DC-9-10s, and the aircraft were painted in the new Republic aqua, blue and white color scheme as maintenance schedules permitted. The standard Republic design will be on all former Airwest aircraft by the spring of 1982.

As part of the commitment to the DC-9 Super 80s, the company has ordered the newest state-of-the-art DC-9-80 flight simulator. Republic, the second airline to order this, will add the sophisticated six-axis simulator to those already in use at the company's training center in Atlanta. These devices provide pilots with highly effective, Federally-approved training without using aircraft and costly jet fuel.

Other new equipment has enhanced the operating capabilities of the Republic fleet. A "dial-up" system for ground-based weather radar gives Republic pilots instant access to color TV pictures showing inclement weather in any area of the country. This provides pilots with advanced information on en route weather for flight planning purposes.

Omega Navigation Systems are being installed on Republic 727s, giving the crew one of the most sophisticated systems available. In addition to the fuel savings potential, this system permits Republic to operate off shore, beyond the range of conventional navigation aids.

Republic's comprehensive fleet development program will help hold operating expenses down and allow the company to earn a reasonable rate of return on this major investment. At the same time, the traveling public will have versatile, dependable aircraft for years to come.



The quiet, fuel-efficient DC-9 Super 80 joins the Republic fleet this year.

Route development

Tremendous expansion of Republic's route system was accomplished in 1980 by the acquisition of Hughes Airwest and the inauguration of new nonstop service between many major cities.

From Airwest, the company gained established routes with hubs at Phoenix, Las Vegas, Los Angeles, San Francisco, Seattle/Tacoma, Spokane, Boise and Salt Lake City. Among the 46 new cities joining the system were the important California satellite markets of Burbank, Orange County/Santa Ana/Anaheim and Ontario/Riverside in the south; San Jose and Oakland in the north. The acquisition added two Canadian cities—Edmonton and Calgary—and extended Republic's system into Mexico for the first time. The airline now serves Mazatlan and Puerto Vallarta through the Phoenix gateway.

Detroit-Montreal nonstop flights were inaugurated under terms of the amended 1966 Bilateral Air Transport Agreement between the United States and Canada. Republic is the only carrier with authority to provide nonstop service in this market.

Taking advantage of provisions in the Airline Deregulation Act of 1978, Republic introduced new nonstops between 33 city pairs, including Chicago-Nashville, Detroit-New York, Atlanta-New York, Milwaukee-Denver and Burbank-Houston.

As required by the Act, the Civil Aeronautics Board removed most operating restrictions from domestic carriers' routes. With few exceptions, Republic is now able to fly between any two domestic cities on its system. The company also has authority to serve many other U.S. and Mexican cities, and destinations in the Virgin Islands, Puerto Rico, the Bahamas, Bermuda, Barbados, Jamaica, and cities in Central and South America.

All route authority is periodically reviewed to determine where new service will assure orderly growth and the most productive use of the company's resources. Special emphasis is being placed on long-haul "bridge routes" connecting large and medium-sized metropolitan areas throughout the country.

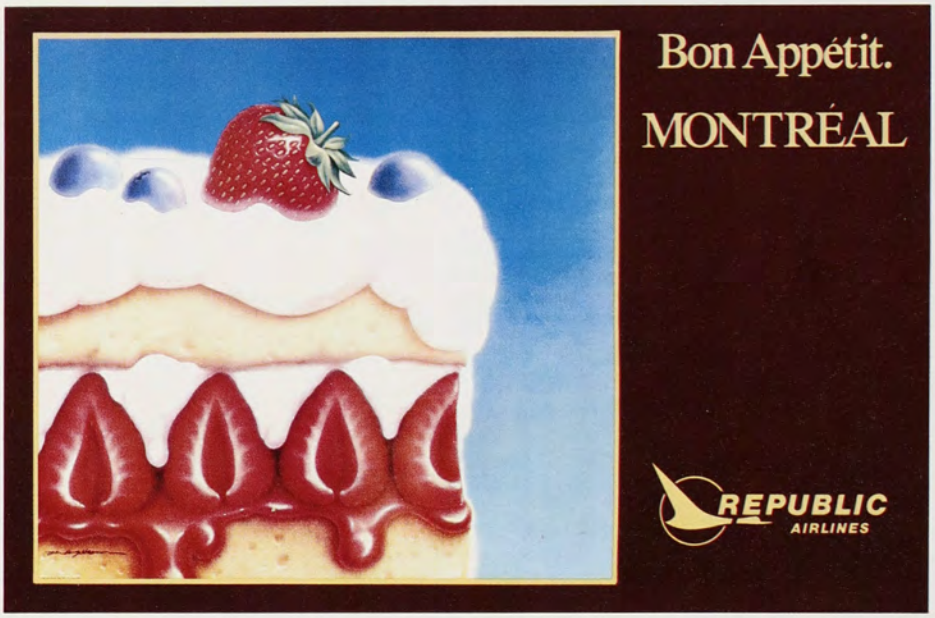
Deregulation and the high cost of fuel has intensified the analysis of current service by all carriers. For example, one major airline curtailed flights at a number of Michigan cities and totally withdrew from others. Republic was able to step in, augment schedules, and actually improve air transportation in these communities.

On the other hand, Republic has had to leave some cities which board only a few passengers on each trip. With such light traffic, even service with 48-passenger Convair 580s is no longer economically feasible. Consequently, Republic has filed applications with the CAB to terminate service at several cities, and additional ones will need to be filed in 1981.

To minimize adverse effects from these withdrawals, Republic actively seeks replacement commuter carriers and provides support for them, such as ground service, facilities, training, joint fares and advertising. This often allows travelers from these cities to conveniently connect with Republic flights. The program is designed to strengthen the company's working relationship with the smaller carriers to assure that the communities Republic has served in the past will continue to receive essential air transportation.

During the last two years, the airline has undergone tremendous change. Its size has tripled, and regulatory conditions have created an entirely different operating environment. Through judicious use of new opportunities, Republic is developing a progressive and profitable route system.

Florida service is designed to attract business and leisure travelers.



Montreal, a new city on the Republic system, is important to future development.

The future

Economic conditions, jet fuel prices, company productivity, and development of Republic markets are the principal factors affecting the future.

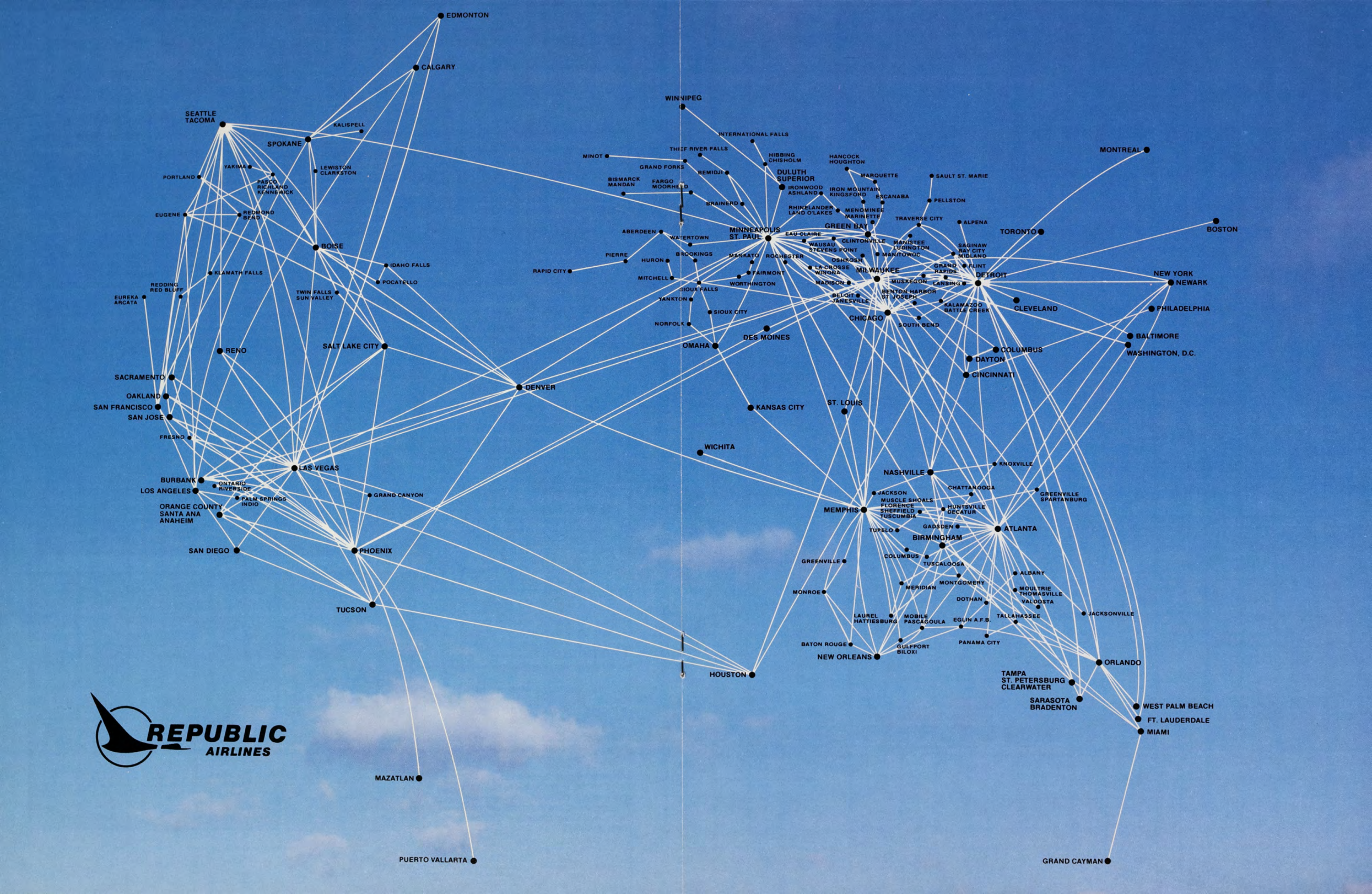
The airline's decision to concentrate on routes of 400-1,500 miles has resulted in tremendous traffic opportunities.

Long-haul flights between major cities lengthen the average miles per flight and average distance per passenger. This lowers operating costs per revenue dollar, which significantly improves profit potential.

Proceeding with this approach, Republic has scheduled April 1981 inaugurals for nonstop flights such as Seattle/Tacoma-Minneapolis/St. Paul, Phoenix-Seattle/Tacoma, Denver-Memphis and Denver-Eugene. All flights have direct or on-line connecting service to other Republic cities. During the year, similar long-haul service will be added in other important markets.

As the nation's recovery process gathers momentum, passenger and cargo traffic will increase, resulting in revenues of over $1.5 billion in 1981.

The past two years have been a time of dynamic transition. Now, with strategic planning and the dedicated efforts of Republic's 15,000 employees, the company will achieve maximum benefit from this unique era of growth and development.


REPUBLIC
AIRLINES
EDMONTON
CALGARY
SEATTLE TACOMA
KALISPELL
SPOKANE
YAKIMA
PORTLAND
PASCO RICHLAND KENNEWICK
LEWISTON CLARKSTON
EUGENE
REDMOND BEND
BOISE
IDAHO FALLS
POCATELLO
KLAMATH FALLS
REDDING RED BLUFF
EUREKA ARCATA
TWIN FALLS SUN VALLEY
RENO
SALT LAKE CITY
SACRAMENTO
OAKLAND
SAN FRANCISCO
SAN JOSE
FRESNO
DENVER
LAS VEGAS
BURBANK
ONTARIO RIVERSIDE
LOS ANGELES
PALM SPRINGS INDIO
ORANGE COUNTY SANTA ANA ANAHEIM
GRAND CANYON
SAN DIEGO
PHOENIX
TUCSON
MAZATLAN
PUERTO VALLARTA
WINNIPEG
INTERNATIONAL FALLS
THIEF RIVER FALLS
MINOT
GRAND FORKS
HIBBING CHISHOLM
BEMIDJI
BISMARCK MANDAN
FARGO MOORHEAD
DULUTH SUPERIOR
IRONWOOD ASHLAND
BRAINERD
RHINELANDER LAND O'LAKES
ABERDEEN
WATERTOWN
MINNEAPOLIS ST. PAUL
EAU CLAIRE
WAUSAU STEVENS POINT
PIERRE
HURON
BROOKINGS
MANKATO
ROCHESTER
RAPID CITY
MITCHELL
FAIRMONT
WORTHINGTON
LA CROSSE WINONA
MADISON
SIOUX FALLS
YANKTON
SIOUX CITY
NORFOLK
OMAHA
DES MOINES
KANSAS CITY
WICHITA
HANCOCK HOUGHTON
MARQUETTE
IRON MOUNTAIN KINGSFORD
ESCANABA
MENOMINEE MARINETTE
GREEN BAY
CLINTONVILLE
OSHKOSH
MANITOWOC
MILWAUKEE
BELOIT JANESVILLE
CHICAGO
SAULT ST. MARIE
PELLSTON
TRAVERSE CITY
ALPENA
MANISTEE LUDINGTON
SAGINAW BAY CITY MIDLAND
GRAND RAPIDS
FLINT
MUSKEGON
LANSING
DETROIT
BENTON HARBOR ST. JOSEPH
KALAMAZOO BATTLE CREEK
SOUTH BEND
TORONTO
MONTREAL
BOSTON
CLEVELAND
COLUMBUS
DAYTON
CINCINNATI
NEW YORK NEWARK
PHILADELPHIA
BALTIMORE
WASHINGTON, D.C.
ST. LOUIS
NASHVILLE
KNOXVILLE
CHATTANOOGA
GREENVILLE SPARTANBURG
JACKSON
MEMPHIS
MUSCLE SHOALS FLORENCE SHEFFIELD TUSCUMBIA
HUNTSVILLE DECATUR
GADSDEN
TUPELO
ATLANTA
BIRMINGHAM
COLUMBUS
TUSCALOOSA
GREENVILLE
ALBANY
MONTGOMERY
MERIDIAN
MONROE
MOULTRIE THOMASVILLE
DOTHAN
VALDOSTA
JACKSONVILLE
LAUREL HATTIESBURG
MOBILE PASCAGOULA
EGLIN A.F.B.
TALLAHASSEE
BATON ROUGE
GULFPORT BILOXI
PANAMA CITY
NEW ORLEANS
HOUSTON
ORLANDO
TAMPA ST. PETERSBURG CLEARWATER
SARASOTA BRADENTON
WEST PALM BEACH
FT. LAUDERDALE
MIAMI
GRAND CAYMAN

REPUBLIC AIRLINES, INC.

and Consolidated Subsidiary

Consolidated balance sheets

	December 31 1980	December 31 1979
ASSETS		
CURRENT ASSETS		
Cash and short-term investments	$ 50,145,000	$ 13,178,000
Accounts receivable, less allowances	119,873,000	84,820,000
Flight equipment parts and supplies	43,262,000	30,771,000
Prepaid expenses and other	35,730,000	15,922,000
	249,010,000	144,691,000
PROPERTY AND EQUIPMENT–at cost		
Flight equipment	801,171,000	436,734,000
Ground property and equipment	97,995,000	74,177,000
	899,166,000	510,911,000
Less accumulated depreciation and amortization	180,926,000	146,554,000
	718,240,000	364,357,000
Advance payments on equipment	60,135,000	35,275,000
	778,375,000	399,632,000
DEFERRED CHARGES AND OTHER ASSETS	8,841,000	5,058,000
	$1,036,226,000	$549,381,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 21,359,000	$ 18,219,000
Accounts payable	58,435,000	40,183,000
Interline payables and tickets outstanding	70,198,000	37,918,000
Accrued compensation and other expenses	113,215,000	39,910,000
	263,207,000	136,230,000
LONG-TERM OBLIGATIONS		
Long-term debt–less current maturities	652,257,000	263,035,000
Deferred income taxes and other	3,135,000	4,602,000
	655,392,000	267,637,000
COMMITMENTS (notes E and F)	–	–
STOCKHOLDERS' EQUITY		
Common stock–authorized 30,000,000 shares of $.20 par value	4,190,000	4,151,000
Additional paid-in capital	48,607,000	48,109.000
Retained earnings	64,830,000	93,634,000
Treasury stock–at cost	–	(380,000)
	117,627,000	145,514,000
	$1,036,226,000	$549,381,000

The accompanying notes are an integral part of these statements.

Consolidated statements of operations

	Year ended December 31 1980	1979	1978
OPERATING REVENUES			
Passenger	$827,678,000	$527,792,000	$408,243,000
Freight and mail	50,585,000	41,510,000	34,062,000
Public service revenues	22,354,000	26,362,000	16,523,000
Non-scheduled service and other	16,098,000	13,566,000	28,737,000
	916,715,000	609,230,000	487,565,000
OPERATING EXPENSES			
Flying operations	374,079,000	211,260,000	144,106,000
Maintenance	103,713,000	70,436,000	54,774,000
Aircraft and traffic servicing	171,632,000	128,059,000	103,789,000
Passenger service	69,087,000	43,782,000	30,467,000
Reservations, advertising and sales	99,315,000	66,300,000	46,093,000
General and administrative	40,107,000	28,054,000	24,468,000
Other transport-related expenses	5,248,000	3,846,000	11,806,000
Depreciation and amortization	40,310,000	29,440,000	29,253,000
	903,491,000	581,177,000	444,756,000
Operating profit	13,224,000	28,053,000	42,809,000
OTHER EXPENSES (INCOME)			
Interest expense	57,767,000	26,497,000	18,688,000
Less interest capitalized	9,426,000	6,375,000	2,015,000
	48,341,000	20,122,000	16,673,000
Interest income and other – net	(4,403,000)	(1,378,000)	(2,593,000)
Gain on disposition of equipment	(4,112,000)	(2,002,000)	(1,306,000)
	39,826,000	16,742,000	12,774,000
Earnings (loss) before income taxes	(26,602,000)	11,311,000	30,035,000
INCOME TAXES			
Current	140,000	706,000	2,724,000
Deferred	(2,080,000)	(2,456,000)	2,740,000
	(1,940,000)	(1,750,000)	5,464,000
NET EARNINGS (LOSS)	$(24,662,000)	$ 13,061,000	$ 24,571,000
NET EARNINGS (LOSS) PER SHARE			
Primary	$(1.19)	$.70	$1.42
Fully diluted	$(1.19)	$.68	$1.31

The accompanying notes are an integral part of these statements.

Consolidated statements of changes in financial position

SOURCES AND APPLICATIONS OF WORKING CAPITAL	Year ended December 31 1980	1979	1978
SOURCES			
From operations			
Net earnings (loss)	$(24,662,000)	$ 13,061,000	$ 24,571,000
Charges (credits) to operations not using (providing) working capital			
Depreciation and amortization	40,310,000	29,440,000	29,253,000
Deferred income taxes and other	(808,000)	(784,000)	3,982,000
Working capital provided from operations	14,840,000	41,717,000	57,806,000
Net book value of equipment dispositions	23,656,000	2,159,000	7,018,000
Increase in long-term debt	421,475,000	187,797,000	105,998,000
Conversion of debentures to common stock	–	7,864,000	1,031,000
Options and warrants exercised	602,000	13,490,000	462,000
Disposition of treasury stock	7,207,000	–	–
Other	1,878,000	328,000	429,000
	469,658,000	253,355,000	172,744,000
APPLICATIONS			
Acquisition of Hughes Airwest			
Increase in long-term debt (purchase price)	(38,500,000)	–	–
Property and equipment acquired	240,542,000	–	–
Long-term liabilities assumed	(141,223,000)	–	–
	60,819,000	–	–
Additions to property and equipment	202,696,000	116,857,000	114,207,000
Reduction of long-term debt	211,929,000	113,449,000	50,958,000
Conversion of debentures to common stock	–	7,864,000	1,031,000
Payment of cash dividend	4,142,000	2,477,000	2,014,000
Acquisition of treasury stock	6,892,000	–	–
Additions to deferred charges and other assets	5,838,000	1,340,000	2,896,000
	492,316,000	241,987,000	171,106,000
INCREASE (DECREASE) IN WORKING CAPITAL	(22,658,000)	11,368,000	1,638,000
Working capital (deficit) at beginning of year	8,461,000	(2,907,000)	(4,545,000)
Working capital (deficit) at end of year	$(14,197,000)	$ 8,461,000	$ (2,907,000)

NET CHANGE IN WORKING CAPITAL ELEMENTS	1980	1979	1978
Cash and short-term investments	$ 36,967,000	$(20,221,000)	$ 10,151,000
Accounts receivable	35,053,000	38,588,000	3,875,000
Flight equipment parts and supplies	12,491,000	14,548,000	3,231,000
Prepaid expenses and other	19,808,000	4,012,000	1,419,000
Current maturities of long-term debt	(3,140,000)	5,938,000	5,868,000
Accounts payable	(18,252,000)	(14,452,000)	(9,073,000)
Interline payables and tickets outstanding	(32,280,000)	(10,121,000)	(6,128,000)
Accrued compensation and other expenses	(73,305,000)	(6,924,000)	(7,705,000)
INCREASE (DECREASE) IN WORKING CAPITAL	$(22,658,000)	$ 11,368,000	$ 1,638,000

The accompanying notes are an integral part of these statements.

Consolidated statements of changes in stockholders' equity

Years ended December 31, 1980, 1979 and 1978

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	
	Shares Issued	Amount			Shares Held	Amount
Balance at January 1, 1978	16,117,191	$3,223,000	$25,902,000	$60,493,000	134,594	$ 380,000
Cash dividend	–	–	–	(2,014,000)	–	–
Exercise of stock options and warrants	152,546	31,000	431,000	–	–	–
Conversion of debentures	213,093	43,000	988,000	–	–	–
Net earnings for 1978	–	–	–	24,571,000	–	–
Balance at December 31, 1978	16,482,830	3,297,000	27,321,000	83,050,000	134,594	380,000
Cash dividend	–	–	–	(2,477,000)	–	–
Exercise of stock options and warrants	2,650,473	530,000	13,248,000	–	–	–
Conversion of debentures	1,621,013	324,000	7,540,000	–	–	–
Net earnings for 1979	–	–	–	13,061,000	–	–
Balance at December 31, 1979	20,754,316	4,151,000	48,109,000	93,634,000	134,594	380,000
Cash dividend	–	–	–	(4,142,000)	–	–
Exercise of stock options and warrants	196,575	39,000	563,000	–	–	–
Acquisition of treasury stock	–	–	–	–	1,060,240	6,892,000
Disposition of treasury stock	–	–	(65,000)	–	(1,194,834)	(7,272,000)
Net loss for 1980	–	–	–	(24,662,000)	–	–
Balance at December 31, 1980	20,950,891	$4,190,000	$48,607,000	$64,830,000	–	$ –

The accompanying notes are an integral part of these statements.

Auditors' report

Alexander Grant
& COMPANY
CERTIFIED PUBLIC ACCOUNTANTS

MEMBER FIRM
GRANT THORNTON INTERNATIONAL

Stockholders and Board of Directors
Republic Airlines, Inc.

We have examined the consolidated balance sheets of Republic Airlines, Inc. (a Wisconsin corporation) and its subsidiary as of December 31, 1980 and 1979, and the consolidated statements of operations, changes in stockholders' equity and changes in financial position for the years ended December 31, 1980, 1979 and 1978. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Republic Airlines, Inc., and its subsidiary at December 31, 1980 and 1979 and the results of their operations and changes in their financial position for the years ended December 31, 1980, 1979 and 1978 in conformity with generally accepted accounting principles applied on a consistent basis, except for the change in 1979, with which we concur, in the method of capitalizing interest as discussed in note B to the financial statements.

Alexander Grant & Company

Minneapolis, Minnesota
February 27, 1981

Notes to financial statements

December 31, 1980, 1979 and 1978

Note A–Summary of Significant Accounting Policies–The company, as an airline providing scheduled service for passengers, mail and property, is regulated by the Civil Aeronautics Board (CAB) and uses the Uniform System of Accounts and Reports for Certificated Air Carriers as required by the CAB. The significant policies followed by the company are:

1. *Principles of Consolidation*: The consolidated financial statements include the accounts of Republic Airlines West, Inc., a wholly-owned subsidiary. (See note C for information concerning the acquisition of Hughes Air Corp. d/b/a Hughes Airwest).

2. *Flight Equipment Parts and Supplies*: These are priced at average cost. An allowance for obsolescence ($6,038,000 in 1980 and $5,099,000 in 1979) is provided for repairable parts by allocating their cost over the life of the related aircraft.

3. *Prepaid Expenses–Engine Overhaul*: The company reclassifies to a current prepaid expense the estimated portion of the purchase price of flight equipment attributable to its overhaul expected to be consumed within the next twelve months ($19,045,000 in 1980 and $10,303,000 in 1979). Actual overhaul costs are charged to expense as incurred.

4. *Capitalized Interest*: To properly reflect their total cost, major additions to flight equipment and ground facilities include capitalized interest based on the interest rate of the related debt outstanding. The capitalized interest is amortized over the useful lives of the related assets for financial reporting purposes. For income tax reporting purposes, interest is expensed as incurred.

5. *Property, Equipment and Depreciation*: Owned property and equipment are stated at cost. Property and equipment acquired under capital leases are stated at the lower of the present value of minimum lease payments or fair market value at the inception of the lease. Depreciation and amortization of property and equipment are provided on a straight line basis over estimated useful lives of 7-18 years for flight equipment and 7-10 years for other property and equipment.

6. *Deferred Charges*: Significant costs, such as major computer software development, traffic promotion related to the inauguration of service over major new routes, and personnel training relating to the introduction of new types of aircraft are deferred and amortized over periods of up to five years.

7. *Passenger Revenues*: Passenger revenue is recognized when the transportation service is provided. Unused ticket sales are included as a current liability.

8. *Pension Costs*: The company has pension plans for substantially all of its employees, and funds its current expense of normal costs. Prior service costs are amortized over varying periods up to 40 years. Pension funding is determined under the unit credit, aggregate frozen liability, and individual entry age normal methods.

9. *Income Taxes*: The company uses the flow-through method of accounting for investment tax credit which reduces income tax expense when the related liability is reduced. Investment credits not applied currently are offset against deferred income taxes to the extent they are applicable to previously deferred taxes becoming payable in the carry-over periods. The company recognizes deferred income taxes resulting from differences in financial and income tax reporting.

Note B–Change in Accounting Method–In the fourth quarter of 1979, the company changed its method of computing capitalized interest to conform with the requirements of Financial Accounting Standards Board Statement No. 34. The company previously capitalized interest based on the weighted average interest rate of debt outstanding. The effect of the change was to increase capitalized interest recognized in 1979 by $895,000 and increase net earnings by $806,000 ($.04 per share primary and fully diluted).

Note C–Acquisition of Hughes Airwest–On October 1, 1980, the company acquired from Summa Corporation and the Estate of Howard R. Hughes, Jr. all of the outstanding stock of Hughes Airwest. The total purchase price for all the stock was $38,500,000 consisting of $24,000,000 cash and $14,500,000 of the company's 13% convertible subordinated debentures. Hughes Airwest was a regional airline operating primarily in the western portions of the United States. The name of the acquired company was changed to Republic Airlines West, Inc. and will continue its operation using the name "Republic Airlines."

The fair value of the net assets acquired exceeded the $38,500,000 purchase price by $44,028,000. This amount has been allocated primarily to flight equipment as a reduction in fair value.

Results of Republic Airlines West, Inc. operations since the acquisition date are included in the Consolidated Statements of Operations. The following data presents on a pro forma basis the combined results of operations as if the acquisition of Hughes Airwest had been effected on January 1, 1979. Pro forma adjustments have been made to record interest on the funds borrowed and assumed to acquire Hughes Airwest, depreciation on the increased values of operating property and equipment, maintenance expense on the direct expense method rather than the accrual method for Hughes Airwest, and income tax adjustments based on pro forma operations (in thousands).

	Year ended December 31 (unaudited) 1980	1979
Operating revenues	$1,238,955	$920,946
Net loss	$(46,051)	$(14,262)
Net loss per share	$(2.22)	$(.81)

Note D–Long-term Debt–Long-term debt at December 31 consists of the following (in thousands):

	1980	1979
Revolving credit agreement (a)	$397,500	$103,382
Quarterly installment notes (b)	71,925	35,279
Equipment Trust Certificates (c)	42,000	43,500
Capital lease obligations (d)	138,912	84,291
Subordinated debentures (e):		
13% due November 15, 1992	14,500	–
6¾% due December 15, 1982	1,646	–
Sundry	7,133	14,802
Total long-term debt (f)	673,616	281,254
Less current maturities (g)	21,359	18,219
	$652,257	$263,035

(a) On October 1, 1980, the company refinanced its existing bank Revolving credit agreement. Under the new agreement, the company may borrow up to a maximum of $450,000,000. Commencing January 1, 1982, and for each calendar quarter thereafter, the total commitment will be decreased by 33 equal quarterly reductions until the termination date of December 1989. A ½% commitment fee is charged on the average daily unused portion of the commitment. Proceeds from this agreement were used to refinance the company's existing Revolving credit agreement, to purchase the stock of Hughes Airwest, to refinance substantially all of Hughes Airwest's existing debt with the balance being used to finance the purchase price of three new B727-200 aircraft scheduled for delivery in early 1981. Interest is to be paid quarterly to each participating bank at ¼% to ½% over the Citibank, N.A. alternative rate. Effective rate at December 31, 1980 was 22%

(b) Consists of various installment notes with final maturity dates from 1986 through 1991 at interest rates ranging from 8⅞% (for notes guaranteed by the Federal Aviation Administration) to 1¼% over the lending banks' prime rate. The effective rate at December 31, 1980 was 22¾%. The aggregate quarterly installment payments will be approximately $3,935,000 including interest in 1981.

(c) The Equipment Trust Certificates require semi-annual sinking fund payments of $2,250,000 in 1981 and 1982, $1,575,000 from 1983 through 1992 and $1,500,000 at maturity in May 1993 plus interest at 9%. The company may make semi-annual optional sinking fund payments beginning in May 1983 up to $1,575,000 and may pay off the remaining balance in full on or after May 1, 1988 at a premium.

(d) In 1980, the company took delivery of five DC-9-50 aircraft under capital lease agreements. The debt obligations relating to the capitalization of these leases were $56,988,000 at December 31, 1980. The obligations are payable in semi-annual installments of approximately $3,062,000 through January 1, 1987 and $3,607,000 thereafter through January 1, 1999 including interest at 9½%.

(e) On October 1, 1980, the company issued $14,500,000 of 13% Convertible subordinated debentures due November 15, 1992 as partial payment for the acquisition of the stock of Hughes Airwest. Interest payments are due semi-annually. Debenture holders may convert the principal to common stock of the company at $15.00 per share. Prior to November 15, 1992, debentures are redeemable beginning on November 16, 1985 at a premium. Sinking fund payments of $1,450,000 are due annually beginning November 15, 1983.

As a result of the acquisition of Hughes Airwest, the company assumed $1,927,000 of 6¾% subordinated debentures due December 15, 1982. Interest is payable semi-annually with a sinking fund payment of $350,000 due December 15, 1981 and the balance due December 15, 1982. Early redemption may be made at a premium of 100.49% of face value during 1981.

(f) Substantially all the flight equipment and spare parts owned and leased by the company are pledged as collateral against the above debt. Among the loan covenants are requirements for the maintenance of debt equity ratios, restrictions on dividend payments and coverage of fixed charges. At December 31, 1980, the company was in compliance with these restrictive covenants.

The company is required to maintain average compensating balances ranging from 5% to 15% of the monthly average loan outstanding or commitment and is required to pay interest ranging from ¼% to ½% over prime on any average compensating balance short fall. During 1980 the company was required to maintain average compensating balances of $32,571,000. At December 31, 1980, the required compensating balances (adjusted for float) were approximately $45,515,000.

Included in Accrued compensation and other expenses at December 31, 1980 was $22,785,000 of accrued interest relating to the above debt.

(g) Current maturities of all long-term debt obligations due in each of the next five years following December 31, 1980 are as follows:

1981	$21,359,000
1982	76,650,000
1983	75,791,000
1984	75,694,000
1985	76,890,000

Note E–Leases–The company has lease commitments for various airport facilities based upon usage and landings, subject to adjustment depending upon the needs of the airport operating authority. The annual lease commitments are not determinable due to the usage and adjustment factors. The company also leases flight equipment, its main operating facilities, its maintenance and training facilities, and other property and equipment.

The following is a summary of property under capital leases included in property and equipment at December 31 (in thousands):

	1980	1979
Flight equipment	$149,928	$84,185
Ground property and equipment	9,961	8,786
	159,889	92,971
Less accumulated amortization	34,291	12,760
	$125,598	$80,211

At December 31, 1980, future minimum rental payments under capital leases and non-cancellable operating leases with initial or remaining terms of more than one year are as follows (in thousands):

Period	Operating Leases	Capital Leases
1981	$ 21,217	$ 18,083
1982	19,819	17,567
1983	18,818	17,186
1984	17,845	16,074
1885	17,424	15,834
1986-2007	265,043	191,376
Total minimum lease payments	$360,166	276,120
Less amounts representing interest		137,208
Present value of future minimum lease payments		$138,912

Total rent expense, including landing fees, was $41,380,000 in 1980, $29,890,000 in 1979 and $25,800,000 in 1978.

Note F–Commitments–The company has advanced cash and notes of $32,974,000 and capitalized interest of $3,861,000 on purchase commitments for ten DC-9-80 aircraft for delivery in 1981 and the first quarter of 1982. In addition, the company has advanced $400,000 and capitalized interest of $60,000 on options for four additional DC-9-80 aircraft to be delivered in 1982. If all fourteen aircraft are purchased, an additional $266,198,000 will be expended prior to and at delivery.

The company has advanced $13,953,000 and capitalized interest of $1,508,000 on purchase commitments for three Boeing 727-200 aircraft to be delivered in the first quarter of 1981. An additional $32,557,000 will be expended prior to delivery.

The company has a purchase commitment on one new DC-9-50 aircraft to be delivered in the first quarter of 1981. The company has advanced $3,445,000 in cash and capitalized interest of $818,000. An additional $8,492,000 will be expended prior to delivery.

The company has advanced $1,377,000 on eight jet engines to be delivered in 1981. An additional $8,510,000 will be expended prior to delivery.

The company has advanced $1,739,000 on the purchase of a DC-9-80 digital flight simulator to be delivered in 1981. An additional $3,190,000 will be expended prior to delivery.

Note G–Income Taxes–Income tax expense for the years ended December 31, is as follows (in thousands):

	1980	1979	1978
Current income taxes			
Federal	$ –	$ 2,471	$13,521
Investment tax credit	200	(2,090)	(12,322)
	200	381	1,199
State and local	(60)	325	1,525
	140	706	2,724
Deferred income taxes			
Federal	(6,384)	3,153	884
Investment tax credit	4,929	(6,005)	1,795
	(1,455)	(2,852)	2,679
State and local	(625)	396	61
	(2,080)	(2,456)	2,740
	$(1,940)	$(1,750)	$ 5,464

Differences between income tax expense and amounts derived by applying the statutory federal income tax rates of 46% in

1980 and 1979 and 48% in 1978 to income before income taxes are as follows (in thousands):

	1980	1979	1978
Income tax expense at statutory federal income tax rates	$(12,237)	$ 5,203	$14,417
Investment tax credit	5,129	(8,095)	(10,527)
Employee Stock Ownership Plan	1,027	715	552
State and local taxes net of federal income tax benefit	(685)	389	766
Tax effect of net operating loss carryforward not recognized	5,021	–	–
Other	(195)	38	256
	$ (1,940)	$(1,750)	$ 5,464

Deferred income taxes arise from timing differences between financial and tax reporting. The tax effects of these differences are as follows (in thousands):

	1980	1979	1978
Capitalized interest	$(2,899)	$ 2,953	$ 821
Investment tax credit	4,929	(6,005)	1,795
Group insurance	–	(290)	(460)
Capitalized leases	–	(472)	186
Training and development	(685)	498	365
Depreciation	(3,794)	754	186
Other	369	106	(153)
	$(2,080)	$(2,456)	$2,740

For Federal income tax reporting purposes, the company and its subsidiary file separate tax returns. Republic Airlines, Inc. has, as of December 31, 1980, a net operating loss carryover available to offset future taxable income of approximately $37,000,000 expiring in 1989. Investment tax credits of $28,000,000 are available to offset future income taxes payable through 1986 and 1987.

Republic Airlines West, Inc. has, as of December 31, 1980, a net operating loss carryover of approximately $44,000,000 expiring in 1988 and 1989. Investment tax credits of $6,800,000 are available to offset future income taxes payable through 1985, 1986 and 1987.

For financial reporting purposes, the company and its subsidiary calculate income taxes on a consolidated basis. On this basis, there are approximately $10,900,000 of net operating loss carryovers available to offset future consolidated taxable income and consolidated investment tax credit carryovers of approximately $26,000,000 are available to offset future consolidated tax provisions. Any utilization of the pre-acquisition net operating losses or investment credits of Republic Airlines West, Inc. will be recorded as adjustments of the purchase transaction.

Under the Revenue Act of 1978 and existing law, a special provision allows the company to offset its federal tax liability by the following approximate percentages (subject to the availability of sufficient investment tax credits): 1978–100%; 1979–90%; 1980 and 1981–80%; 1982 (and later years)–90%.

The Internal Revenue Service has examined and cleared the company's federal tax returns through December 31, 1976 and is currently examining the federal tax returns through 1979.

Note H–Common Stock, Options and Warrants–At December 31, 1980, 33,175 shares of unissued common stock are reserved for officers and key employees under a plan adopted in 1975. The options (at $3.87 per share) expire in 1981.

Option transactions during the two years ended December 31, 1980 are summarized as follows:

	Number of Shares	Option Price Per Share	Option Price Total
Outstanding January 1, 1979	200,050	$1.40-$4.25	$561,000
Exercised	(89,150)	1.40- 3.38	(236,000)
Expired or cancelled	(1,400)	1.40	(2,000)
Outstanding December 31, 1979	109,500	2.50- 3.87	323,000
Exercised	(76,325)	2.50- 3.87	(195,000)
Outstanding December 31, 1980	33,175	3.87	$128,000

At December 31, 1980 and 1979 there were outstanding warrants to purchase 422,930 and 541,057 shares of common stock, respectively. The warrants outstanding at December 31, 1980 enable the holder to purchase common stock at $2.86 per share and expire in 1981.

In February 1981, the Board of Directors declared a $.10 per share dividend payable on March 23, 1981. The company paid cash dividends of $.20 per share to its stockholders during the first quarters of 1980 and 1979.

Note I–Pension Costs–Pension expense for 1980, 1979 and 1978 was $20,424,000, $14,978,000 and $11,872,000, respectively. The company makes annual contributions to the plans equal to the amounts accrued for pension expense. Changes during 1980 in the actuarial assumptions used in computing pension costs had the effect of reducing the net loss by approximately $3,864,000 or $.19 per share. The accumulated plan

Notes

December 31, 1980, 1979 and 1978 (continued)

benefits and plan net assets for the company's defined benefit plans are as follows (in thousands):

	Jan. 1, 1980
Actuarial present value of accumulated plan benefits	
Vested	$183,062
Nonvested	32,076
	$215,138
Net assets available for benefits	$205,635

The weighted average assumed rate of return used in determining the above actuarial present value of accumulated plan benefits was 7½%

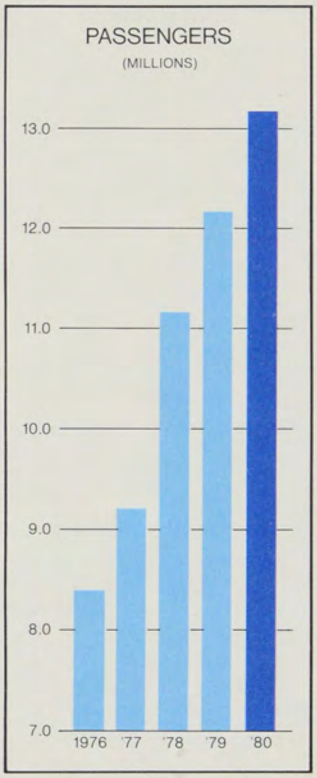
Note J–Net Earnings (Loss) Per Share–Primary and fully diluted loss per share for 1980 was based on 20,722,638 weighted average number of common shares outstanding.

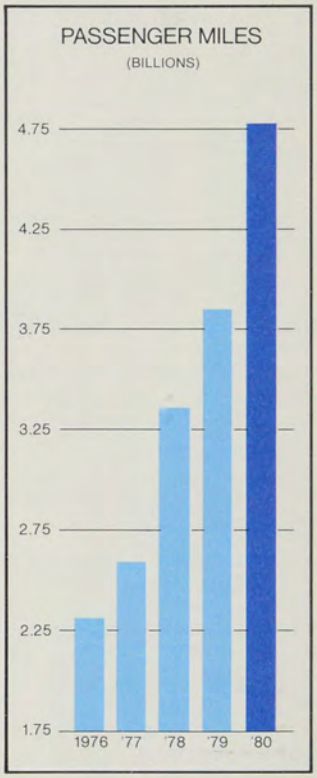
Primary earnings per share for 1979 and 1978 are based on the weighted average number of common and common equivalent shares outstanding (18,561,082 in 1979 and 17,332,195 in 1978). Common equivalent shares result from the assumed exercise of stock options and warrants using the "treasury stock" method.

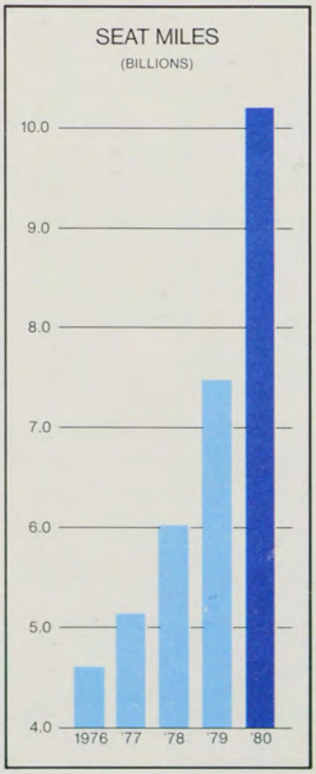
If the debentures converted into common stock during 1979 were assumed converted at the beginning of the period, primary earnings per common and common equivalent share would have been $.67, or a decrease of $.03 per share.

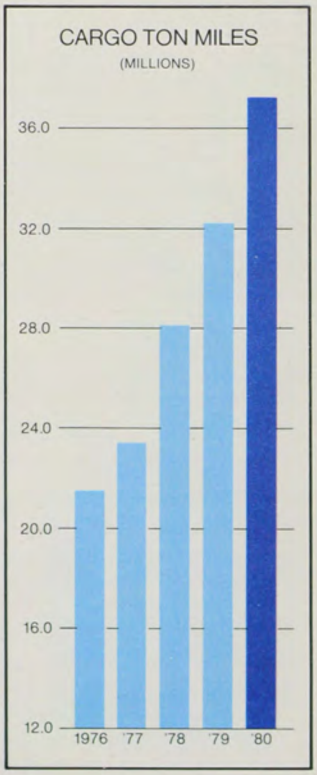
Fully-diluted earnings per share for 1979 and 1978 are based on the assumed issuance of additional common shares (932,131 in 1979 and 1,829,244 in 1978) relating to the conversion of the 5¾% and 6½% debentures, and related interest (net of income tax effect) was added to income for purposes of the calculation.

Five-year summary









OPERATIONS

OPERATING REVENUES	1980	1979	1978	1977	1976
Passenger	$ 827,678,000	$527,792,000	$408,243,000	$317,469,000	$272,365,000
Public service	22,354,000	26,362,000	16,523,000	18,299,000	19,019,000
Other	66,683,000	55,076,000	62,799,000	52,866,000	39,931,000
	916,715,000	609,230,000	487,565,000	388,634,000	331,315,000
OPERATING EXPENSES					
Flying operations and maintenance	477,792,000	281,696,000	198,880,000	169,187,000	146,529,000
Other operating expenses	385,389,000	270,041,000	216,623,000	166,392,000	144,051,000
Depreciation and amortization	40,310,000	29,440,000	29,253,000	25,260,000	21,444,000
	903,491,000	581,177,000	444,756,000	360,839,000	312,024,000
OPERATING PROFIT	13,224,000	28,053,000	42,809,000	27,795,000	19,291,000
OTHER EXPENSES (INCOME)					
Interest expense–net	48,341,000	20,122,000	16,673,000	11,476,000	9,347,000
Other income–net	(8,515,000)	(3,380,000)	(3,899,000)	(9,604,000)	(1,204,000)
	39,826,000	16,742,000	12,774,000	1,872,000	8,143,000
EARNINGS (LOSS) BEFORE INCOME TAXES	(26,602,000)	11,311,000	30,035,000	25,923,000	11,148,000
Income taxes	(1,940,000)	(1,750,000)	5,464,000	2,885,000	3,144,000
NET EARNINGS (LOSS)	$ (24,662,000)	$ 13,061,000	$ 24,571,000	$ 23,038,000	$ 8,004,000
NET EARNINGS (LOSS) PER SHARE					
Primary	$(1.19)	$ .70	$1.42	$1.38	$ .48
Fully diluted	$(1.19)	$ .68	$1.31	$1.23	$ .43

BALANCE SHEET ITEMS

	1980	1979	1978	1977	1976
Current assets	$ 249,010,000	$144,691,000	$107,764,000	$ 89,088,000	$ 71,362,000
Property and equipment–net	$ 778,375,000	$399,632,000	$314,054,000	$235,671,000	$195,807,000
Total assets	$1,036,226,000	$549,381,000	$428,424,000	$330,336,000	$271,536,000
Total long-term debt	$ 652,257,000	$263,035,000	$196,637,000	$142,648,000	$129,512,000
Retained earnings	$ 64,830,000	$ 93,634,000	$ 83,050,000	$ 60,493,000	$ 39,052,000
Stockholders' equity	$ 117,627,000	$145,514,000	$113,288,000	$ 89,266,000	$ 67,247,000
Shares outstanding	20,951,000	20,620,000	16,348,000	15,982,000	15,832,000
Book value per share	$5.61	$7.06	$6.93	$5.59	$4.25
Cash dividends per share	$.20	$.20	$.16	$.12	$.10

STATISTICS

	1980	1979	1978	1977	1976
Passengers	13,220,000	12,156,000	11,143,000	9,180,000	8,397,000
Passenger miles (000)	4,760,000	3,847,000	3,364,000	2,584,000	2,304,000
Available seat miles (000)	10,185,000	7,479,000	6,010,000	5,152,000	4,617,000
Passenger load factor	46.7%	51.4%	56.0%	50.2%	50.0%
Cargo ton miles	37,113,000	32,324,000	28,062,000	23,346,000	21,537,000
Revenue plane miles	101,531,000	80,915,000	70,850,000	61,981,000	58,456,000
Number of employees	14,709	8,982	7,676	6,772	6,366

Supplemental stockholder information

STOCKHOLDER'S DISCLOSURE OF OWNERSHIP

The Civil Aeronautics Board requires that any person who owns as of December 31 of any year or who subsequently acquires ownership, either beneficially or as trustee, of more than 5%, in the aggregate, of the company's common stock shall file with the Board, within the time limits prescribed, a report containing the information required by Section 245.13 of Economic Regulations of the Civil Aeronautics Board, unless such person has previously filed such a report. Any shareholder who believes that he may be required to file such a report may obtain further information by writing to the Director, Bureau of Pricing and Domestic Aviation, Civil Aeronautics Board, Washington, D.C. 20428.

LABOR AGREEMENTS

Among the agreements the airline has with six labor unions, one is amendable in 1981, three in 1982, and two in 1983. The company expects to reach equitable agreements with these unions.

FORM 10-K REPORT

For the Form 10-K report to the Securities and Exchange Commission, write to Mr. A. L. Maxson, Senior Vice President-Finance, Republic Airlines, Inc., 7500 Airline Drive, Minneapolis, MN. 55450.

COMMON STOCK INFORMATION

The following tabulation sets forth the price range for the company's common stock which is traded on the New York Stock Exchange and the Midwest Stock Exchange.

	1980		1979	
	High	Low	High	Low
1st Quarter	8	5½	8	5⅞
2nd Quarter	6⅜	5¾	7⅜	6
3rd Quarter	9	5¾	9⅝	6½
4th Quarter	8⅛	5¼	8⅝	5⅜

In February 1981, the Board of Directors declared a $.10 per share dividend payable March 23, 1981 to shareholders of record on March 9, 1981. The company paid cash dividends of $.20 per share to its stockholders during the first quarter of 1980 and 1979. Under the restrictive convenants contained in the Revolving credit agreement dated October 1, 1980, the company cannot declare cash dividends or acquire its own capital stock if the aggregate amount exceeds $5,000,000 plus one-half of net earnings arising after January 1, 1981. At February 25, 1981, the company had 31,123 holders of common stock.

QUARTERLY STATEMENTS OF OPERATIONS

(unaudited–in thousands of dollars except per share amounts)

	1980 Three Months Ended				1979 Three Months Ended			
	December 31*	September 30	June 30	March 31	December 31	September 30	June 30	March 31
OPERATING REVENUES								
Passenger	$307,732	$192,584	$177,455	$149,907	$137,781	$142,689	$137,014	$110,308
Public service revenues	5,113	5,912	5,715	5,614	5,668	9,309	7,896	3,489
Other	23,928	14,139	14,337	14,279	12,520	12,704	14,090	15,762
	336,773	212,635	197,507	169,800	155,969	164,702	159,000	129,559
OPERATING EXPENSES								
Flying operations and maintenance	166,163	107,903	106,893	96,833	80,666	75,177	66,335	59,518
Other operating expenses	140,447	87,206	82,834	74,902	74,007	71,882	66,362	57,790
Depreciation and amortization	14,558	9,263	8,702	7,787	5,420	7,381	8,404	8,235
	321,168	204,372	198,429	179,522	160,093	154,440	141,101	125,543
OPERATING PROFIT (LOSS)	15,605	8,263	(922)	(9,722)	(4,124)	10,262	17,899	4,016
OTHER EXPENSES (INCOME)–NET	15,244	8,830	9,284	6,468	3,532	4,104	4,611	4,495
EARNINGS (LOSS) BEFORE INCOME TAXES	361	(567)	(10,206)	(16,190)	(7,656)	6,158	13,288	(479)
Income taxes	250	1,769	(1,530)	(2,429)	(4,910)	607	2,880	(327)
NET EARNINGS (LOSS)	$ 111	$ (2,336)	$ (8,676)	$ (13,761)	$ (2,746)	$ 5,551	$ 10,408	$ (152)
NET EARNINGS (LOSS) PER SHARE								
Primary	$.01	$(.11)	$(.43)	$(.67)	$(.14)	$.29	$.60	$(.01)
Fully diluted	$.01	$(.11)	$(.43)	$(.67)	$(.14)	$.29	$.55	$(.01)
DIVIDENDS PER SHARE				$ .20				$.20

*Operations for the quarter ended December 31, 1980 include the operations of Republic Airlines West, Inc., a wholly-owned subsidiary acquired on October 1, 1980.

CONSOLIDATED STATEMENT OF OPERATIONS —ADJUSTED FOR CHANGING PRICES

Year ended December 31, 1980 (in thousands—unaudited)

	As Reported in the Primary Statements	Adjusted for General Inflation	Adjusted for Changes In Specific Prices (Current Cost)
Total operating revenues	$916,715	$916,715	$916,715
Depreciation and amortization expense	40,310	53,551	67,241
Other operating expenses	863,181	864,630	864,630
Other expenses—net	43,938	43,938	43,938
Gain on disposition of equipment	(4,112)	(2,946)	(4,406)
Provision for income taxes	(1,940)	(1,940)	(1,940)
	941,377	957,233	969,463
Loss from operations	$ (24,662)	$ (40,518)	$ (52,748)
Gain from decline in purchasing power of net amounts owed		$ 56,090	$ 56,090
Increase in specific prices (current cost) of inventory and property and equipment held during the year*			$402,743
Effect of increase of general price level			320,371
Excess of increase in specific prices over increase in the general price level			$ 82,372

*At December 31, 1980, current cost of inventory was $47,370,000, and the current cost of property and equipment, net of accumulated depreciation and amortization, was $1,271,691,000.

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA —ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In average 1980 constant dollars, in thousands except per share and price index amounts—unaudited)

	Year ended December 31				
	1980	1979	1978	1977	1976
Total operating revenues—at historical costs	$916,715	$609,230	$487,565	$388,634	$331,315
Total operating revenues—in average 1980 dollars	$916,715	$691,619	$615,819	$528,457	$479,581
Historical cost information—adjusted for general inflation					
Net loss from operations	$ (40,518)	$ (195)	–	–	–
Net loss from operations per common share	$ (1.96)	$ (.01)	–	–	–
Equity in net assets at year-end	$255,531	$238,656	–	–	–
Current cost information					
Net loss from operations	$ (52,748)	$ (6,971)	–	–	–
Net loss from operations per common share	$ (2.55)	$ (.34)	–	–	–
Excess of increase in specific prices over increase in the general price level	$ 82,372	$ 20,684	–	–	–
Equity in net assets at year-end	$648,656	$356,509	–	–	–
Gain from decline in purchasing power of net amounts owed	$ 56,090	$ 37,986	–	–	–
Cash dividends declared per common share—historical	$ .20	$ .20	$ .16	$ .12	$ .10
Cash dividends declared per common share—in average 1980 dollars	$ .20	$ .23	$ .20	$ .16	$ .14
Market price per common share at year-end—historical	$ 6.00	$ 6.00	$ 7.12	$ 5.00	$ 3.88
Market price per common share at year-end—in average 1980 dollars	$ 6.00	$ 6.81	$ 8.99	$ 6.80	$ 5.62
Average consumer price index	246.8	217.4	195.4	181.5	170.5

NOTE: Certain data for years prior to 1979 have been omitted as permitted by FASB No. 33.

EFFECTS OF CHANGING PRICES (unaudited)

Basis of preparation of 1980 supplemental data

As required by Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the company has provided supplemental information concerning the effects of changing prices on its financial statements. The disclosures are intended to address two different aspects of an inflationary environment: (1) the effect of a rise in the general price level on the exchange value or purchasing power of the dollar (called "general inflation") and (2) the specific price changes in the individual resources used by the company.

The supplemental information on changing prices does not reflect a comprehensive application of either type of inflation accounting. During the experimental period, the FASB decided to focus on those items most affected by changing prices, that is: (1) the effect of both general inflation and specific price changes on inventories and property and equipment and the related impact on earnings or loss, and (2) the effect of general inflation on monetary assets and liabilities.

Loss from operations

The net loss as reported in the primary statements represents the amount reported on the historical cost basis of accounting. Net loss adjusted for general inflation represents the historical amounts of revenues and expenses stated in dollars of the same (constant) general purchasing power, as measured by the average level of the Consumer Price Index (CPI) for 1980. Under this measurement method, historical amounts of depreciation expense, gain on equipment dispositions, and spare parts inventory are adjusted to reflect the change in the level of the CPI since the date the properties were acquired.

Current cost accounting attempts to deal with a different issue than earnings or loss adjusted for general inflation. The specific prices of the company's goods and services have risen at a different rate than the general inflation rate as measured by the CPI. The net loss adjusted for changes in specific prices (current cost) measures spare parts inventory, property and equipment, and gain from disposition of equipment at current cost (rather than historical cost) at the balance sheet date.

Income taxes

The provision for income taxes included in the supplemental statement of operations is the same as reported in the primary financial statements. Present tax laws do not allow deductions for higher depreciation adjustments for the effects of inflation. Thus, taxes are levied on the company at rates which, in real terms, exceed established statutory rates. During periods of persistent inflation and rapidly increasing prices, such a tax policy effectively results in a tax on shareholders' investment in the company.

Purchasing power gain from holding net monetary liabilities during the year

When prices are increasing, the holding of monetary assets (e.g., cash and receivables) results in a loss of general purchasing power. Similarly, liabilities are associated with a gain of general purchasing power because the amount of money required to settle the liabilities represents dollars of diminished purchasing power. The net gain in purchasing power is shown separately in the accompanying supplemental data. The amount has been calculated based on the company's average net monetary liabilities for the year multiplied by the change in the CPI for the year. Such amount does not represent funds available for distribution to shareholders.

Current cost measurements

Current cost calculations involve a substantial number of judgments as well as use of various estimating techniques that have been employed to limit the cost of accumulating the data. The data reported should not be thought of as precise measurements of the assets and expenses involved, but instead represent reasonable approximations of the price changes that have occurred in the business environment in which the company operates.

Current cost asset amounts were derived principally through a reference guide to current selling prices supplied by the Air Transport Association. Current cost depreciation is based on the average current cost of property and equipment during the year. Depreciation expense was computed by applying the ratio of historical depreciation expense to average historical asset cost to the average current cost of these assets. The result should be approximately the same as would be calculated using the depreciation methods used in preparing the primary financial statements.

Current cost does not purport to represent the amount at which the assets could be sold.

Increases in current cost adjusted for general inflation

Under current cost accounting, increases in specific prices (current cost) of spare parts inventory and property and equipment held during the year are not included in the loss from operations but are presented separately. The current cost increase is reduced by the effect of general inflation measured by applying the annual rate of change in the CPI to the average current cost balance of spare parts inventory and property and equipment.

Five-year comparison of selected financial data

As described above, the determination of net assets reflects a partial application of the two inflation accounting methods. Other assets, consisting primarily of deferred charges, have not been adjusted for general inflation, nor specific price changes. In addition, noncurrent payables have not been converted to reflect specific price changes (i.e., changes in interest rates).

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Assistant Secretary

REPUBLIC AIRLINES, INC.
MINNEAPOLIS, MINNESOTA 55450