

# Republic AIRLINES

---

Annual Report 1984



# Republic Airlines

## Highlights

	1984	1983
Operating Revenues . . . . .	<b>\$1,547,232,000</b>	\$1,511,494,000
Operating Profit (Loss) . . . . .	<b>\$ 100,002,000</b>	\$ (31,017,000)
Net Earnings (Loss) . . . . .	<b>\$ 29,511,000</b>	\$ (111,031,000)
Net Earnings (Loss) per Common Share . . . . .	<b>\$ .75</b>	\$ (4.28)
Revenue per Passenger Mile (Yield) . . . . .	<b>16.63¢</b>	14.41¢
Cash Provided From Operations . . . . .	<b>\$ 132,335,000</b>	\$ (73,821,000)
Stockholders' Equity (Deficit) . . . . .	<b>\$ 8,640,000</b>	\$ (22,381,000)
Revenue Passenger Miles . . . . .	<b>8,594,040,000</b>	9,674,550,000
Passenger Load Factor . . . . .	<b>50.2%</b>	54.4%
Cargo Ton Miles . . . . .	<b>94,773,000</b>	79,679,000
Employees . . . . .	<b>13,400</b>	14,250

## About Republic



Republic Airlines—one of the nation's 11 major carriers—provides convenient, dependable air service to the traveling and shipping public. In 1984, *Fortune* magazine ranked Republic as the 13th-largest transportation company in the United States.

Originally called Wisconsin Central Airlines, the Company inaugurated scheduled service in February 1948. Four years later, the name was changed to North Central to reflect route expansion into new cities in the Midwest. Southern Airways, which began operations in 1949, was merged into the Company in 1979, and the name became "Republic." Hughes Airwest, another 30-year carrier, was acquired the next year.

Today Republic serves more than 100 cities in 34 states. Its 85,000-mile route system extends coast-to-coast, and from Canada to the Cayman Islands in the Caribbean. Major connecting complexes have been developed at Detroit, Minneapolis/St. Paul and Memphis. (See the Republic Airlines system map on page 14.)

In 1984, Republic carried 15.3 million passengers 8.6 billion revenue miles. The airline's 160 aircraft—McDonnell Douglas MD-80s and DC-9s, Boeing 727s, and Convair 580s—make 1,040 departures daily.

Republic's growth and development since the early days result from the efforts of dedicated employees and their legacy of quality airline service.

## Contents

Highlights . . . . .	1
About Republic . . . . .	1
Letter to stockholders . . . . .	2
Management's discussion and analysis . . . . .	4
Ten-year summary . . . . .	4
Year in review . . . . .	10
Route map . . . . .	14
Financial statements . . . . .	16
Auditors' report . . . . .	20
Notes to financial statements . . . . .	21
Supplemental stockholder information . . . . .	26
Board of Directors and Officers . . . . .	inside back cover

## To our stockholders, employees and friends:

Republic Airlines earned \$29.5 million in 1984, the best financial performance in the Company's history. This represents an improvement of \$140.5 million when compared with a loss of \$111 million for the previous year. The operating profit of \$100 million also was a record, in contrast to an operating loss of \$31 million in 1983.

These gains are the result of significant employee commitment to the Company's Partnership Plan, emphasis on route realignment, and lowered operating costs. Employees have been responsive to many changes in the past year. Their dedication and willingness to meet new challenges were crucial to Republic's financial improvement.

Agreements reached under the Plan save \$100 million annually through 1986. They include a 15 percent pay reduction and wage freeze, an 8 percent improvement in productivity, lower pay scales for new hires, and part-time staffing. In turn, employees are receiving stock in the Company and a profit sharing plan that contributes to their future.

Republic's Partnership Plan has several advantages. It provides the time to implement effective marketing programs and improve the airline's competitive position. In contrast, many airlines that asked for employee help received only one-year concessions. Management has been able to change its focus from day-to-day emphasis to a long-range program to enhance the Company's position as a major factor in air transportation.

During 1984, Republic strengthened management, improved its financial structure, and introduced new marketing strategies.

- In April 1984, Daniel F. May was elected Chairman of the Board and Chief Executive Officer. Stephen M. Wolf, who joined the Company in February as Executive Vice President, was named President and Chief Operating Officer. Later, to fill officer positions resulting primarily from retirements, seven experienced airline executives were added to management.
- Emphasis was placed on more effective scheduling. Flights were increased at the three major hubs: Detroit, Memphis, and Minneapolis/St. Paul. Eight markets were added that will become profit generators, each linked with one of the hubs. Service was eliminated at 23 points which did not contribute to overall system integrity. In 1985, nine new markets will be served beginning in April.

- Innovative marketing programs were introduced, including Business First Class—competitive with other carriers' first class service, and only \$15 above full coach fare. The

Company's Frequent Flyer plan was expanded to a partnership with Pan American. Republic and Pan Am's frequent flyer credits are interchangeable. A strategic marketing agreement was entered into with Simmons Airlines, including the purchase of an equity position which will provide additional feeder traffic to Republic's largest hub, Detroit.

- The sale of \$150 million in secured trust notes was planned during the fourth quarter and finalized in February 1985. Proceeds were used to reduce floating-rate bank debt and increase working capital. This also enabled the Company to add three long-range aircraft to the fleet.
- A new advertising agency was selected to promote Republic's quality service and convenient schedules, and to support marketing objectives. This was followed by the introduction of a new corporate identity program to create greater awareness of Republic as a professional, contemporary airline.

The Company gratefully acknowledges the valuable contribution of Alton F. Irby, Jr., a director, who died in December 1984. This prominent Atlanta insurance executive and civic leader had served the airline since 1952.

The accomplishments of the past year extend into 1985. Route restructuring will continue as Republic adds markets that help to develop its three major hubs. We believe the Company is being positioned for substantially improved financial performance in the future.



*Daniel F. May*  
Daniel F. May  
Chairman of the Board and  
Chief Executive Officer

*Stephen M. Wolf*  
Stephen M. Wolf  
President and  
Chief Operating Officer

March 7, 1985

## Management's discussion and analysis

### Results of operations 1984 compared with 1983

The Company achieved record net earnings of \$29.5 million in 1984, compared with a net loss of \$111 million in 1983. The \$140.5 million improvement resulted from an increase in operating revenues of \$35.7 million (2.4%), a decrease in operating expenses of \$95.3 million (6.2%), and a decrease in net other expenses of \$9.5 million (11.9%). The \$100 million operating profit, which increased by \$131 million from the \$31 million operating loss in 1983, was also a record for the Company.

The substantially higher yield (revenue per scheduled passenger mile) of 16.63 cents in 1984 was offset somewhat by a decline in scheduled revenue passenger miles from 9.6 billion in 1983 to 8.5 billion (11.5%) in 1984, but the net effect was an increase of \$27.3 million (2%) in passenger revenues to \$1.4 billion. The decline in revenue passenger miles during 1984 resulted primarily from higher fare levels and fewer promotional programs, as well as a 4.2% decrease in scheduled available seat miles.

In contrast, scheduled revenue passenger miles for 1983, particularly the first six months, were inflated. This resulted from extensive fare wars, special promotions and the requirement that all free travel earned in 1982, under the Company's Frequent Flyer Program, be taken by March 31, 1983. The Company changed its Frequent Flyer Program in 1983 to avoid concentration of passengers using free travel during a particular period.

Average yield increased from 14.41 cents per mile in 1983 to 16.63 cents in 1984, a 15.4% improvement. For the first half of 1983, the airline industry was engaged in widespread fare wars. The Company matched the

deeply discounted fares of competitors to maintain its market share. Also, free flights were offered in certain promotions to stimulate traffic. These activities decreased yield significantly, while generating a high level of revenue passenger miles.

Since the first half of 1983, the Company has been able to maintain higher fare levels in most of its markets. However, yields decreased slightly in the last six months of 1984, to 16.52 cents per mile from 16.74 cents in the first half of the year. This downward trend was caused by matching the discounted fares initiated in some of the Company's markets by new entrants, including low-cost operators.

In January 1985, the Ultimate Super Saver Fare was introduced by a major carrier and matched by others, including the Company. The fare represents a discount of up to 70% from full coach fares with minimum stay and advance reservations requirements, and cancellation penalties. Introduction of this fare is intended to stimulate leisure travel and result in an overall increase in revenue even though yields are lower.

Other operating revenues increased \$7.7 million (16.5%) to \$54.3 million. Increases in charter revenue, space and equipment rental, and ground handling and contract maintenance revenues more than offset the \$9 million reduction in public service revenues. Since October 1, 1983, none of the

cities served by the Company has been eligible for public service revenue.

Salaries and benefits decreased \$74.6 million (12.8%) during 1984. Of this amount, \$8.7 million relates to a change in actuarial assumptions for all defined benefit pension plans. The balance is attributable to the effects of pay reduction and productivity improvement agreements negotiated with all employee groups under the Company's Partnership Plan.

The wage freeze and the 15% pay reduction effective in September 1983, have been extended by agreements with all employee groups. The new contracts contain additional concessions in the form of various productivity improvements or extra wage cuts.

## Ten-year summary

### OPERATIONS (in thousands, except per share)

	1984	1983	1982	1981	1980*	1979	1978	1977	1976	1975
Operating revenues	\$1,547,232	\$1,511,494	\$1,530,668	\$1,448,416	\$ 916,715	\$ 609,230	\$ 487,565	\$ 388,634	\$ 331,315	\$ 281,574
Operating expenses	1,447,230	1,542,511	1,493,445	1,431,960	903,491	581,177	444,756	360,839	312,024	266,083
Operating profit (loss)	100,002	(31,017)	37,223	16,456	13,224	28,053	42,809	27,795	19,291	15,491
Net earnings (loss)	29,511	(111,031)	(39,861)	(46,269)	(24,662)	13,061	24,571	23,038	8,004	8,065
Net earnings (loss) per common share—Primary	.76	(4.28)	(1.99)	(2.30)	(1.19)	.70	1.42	1.38	.48	.48
—Fully diluted	.75	(4.28)	(1.99)	(2.30)	(1.19)	.68	1.31	1.23	.43	.43
<b>OTHER FINANCIAL DATA (in thousands, except per share)</b>										
Current assets	\$ 302,796	\$ 263,067	\$ 328,640	\$ 263,296	\$ 249,010	\$ 144,691	\$ 107,764	\$ 89,088	\$ 71,362	\$ 66,329
Property and equipment—net	761,678	829,830	846,036	882,196	778,375	399,632	314,054	235,671	195,807	158,277
Total assets	1,084,909	1,108,672	1,186,174	1,154,567	1,036,226	549,381	428,424	330,336	271,536	230,612
Total long-term debt and capital lease obligations	675,215	759,395	797,287	722,434	652,257	263,035	196,637	142,648	129,512	102,173
Redeemable preferred stock of subsidiary	28,000	28,000	28,000	28,000	—	—	—	—	—	—
Stockholders' equity (deficit)	8,640	(22,381)	27,938	72,348	117,627	145,514	113,288	89,266	67,247	60,281
Cash dividends per share of common stock	—	—	—	.10	.20	.20	.16	.12	.10	.10
<b>TRAFFIC STATISTICS</b>										
Passengers	15,257,000	17,787,000	18,075,000	16,841,000	13,220,000	12,156,000	11,143,000	9,180,000	8,397,000	7,685,000
Passenger miles (000)	8,594,000	9,675,000	9,231,000	7,641,000	4,760,000	3,847,000	3,364,000	2,584,000	2,304,000	2,054,000
Available seat miles (000)	17,113,000	17,773,000	16,585,000	15,119,000	10,185,000	7,479,000	6,010,000	5,152,000	4,617,000	4,141,000
Passenger load factor	50.2%	54.4%	55.7%	50.5%	46.7%	51.4%	56.0%	50.2%	50.0%	49.6%
Cargo ton miles (000)	95,000	80,000	65,000	51,000	37,000	32,000	28,000	23,000	22,000	19,000

\*From October 1, 1980, Republic Airlines West, Inc., a consolidated subsidiary acquired on that date, is included.

## Management's discussion and analysis (continued)

Amendable contract dates now range from September 30, 1986, to March 31, 1987. The concessions are expected to result in savings of \$100 million annually. Average number of employees during 1984 declined by 5.4% compared with 1983.

Aircraft fuel expense decreased by \$31.5 million (8.1%) due to a drop in the average price per gallon from 88.3 cents to 84.4 cents (4.4%) and a decrease in consumption of 3.8%. Depreciation and amortization increased 4.8% to \$74 million because new aircraft were acquired during 1983.

Other operating expenses increased \$7.8 million (3.4%) in 1984. Of this total, selling and marketing expense (including co-host fees for computer reservations systems) increased \$5.1 million (23.7%). Advertising expense decreased \$7.3 million (22.4%), primarily because numerous promotions initiated in 1983 were eliminated. The major route realignment in 1984, which included new service to eight destinations and suspension of operations at 23 points, contributed to the \$6.4 million increase in personnel and relocation expense, and outside services purchased.

In 1983, \$13 million was realized from the sale of tax benefits. The Company does not expect to be able to sell tax benefits in the future. In 1984, gain on disposition of equipment totaled \$17.3 million, compared with \$920,000 in 1983. Interest expense declined \$850,000 to \$97 million while interest income from temporary cash investments increased \$4.4 million.

The Company had income tax expense of \$15.8 million in 1984. By utilizing tax loss carryforwards, the Company recorded \$15.8 million as an extraordinary item in the financial statements. No income tax expense was reported in 1983 because a net loss was incurred.

### 1983 compared with 1982

The Company had a net loss of \$111 million, compared with a \$39.9 million loss in 1982. The \$71.1 million change was attributable to a decrease of \$19.2 million (1.3%) in operating revenues, an increase of \$49.1 million (3.3%) in operating expenses, and an increase of \$2.9 million (3.8%) in net other expenses.

Although scheduled revenue passenger miles increased to 9.6 billion from 9.2 billion (4.3%) in 1982, yield declined to 14.41 cents from 15.29 cents (5.8%) in 1982, which produced the decrease in passenger revenues. In the fourth quarter of 1982, several airlines began offering deeply discounted fares which the Company was forced to match. While availability of discount fares increased during the first half of 1983, many of the fares did not cover associated costs. To stimulate traffic, free flights were offered to fare-paying passengers in certain promotions and this decreased yield levels.

Other operating revenues were down because of a \$9.7 million decrease in public service revenues. The change reflects withdrawal of service from unprofitable eligible cities and government termination of public service revenue for the remaining eligible cities on October 1, 1983.

Operating expenses increased by \$49.1 million (3.3%) over 1982. Salaries and benefits increased by \$40.9 million. This was due to a 1.8% growth in the average number of employees in 1983 and to wage increases which followed the temporary

10% pay reduction and wage freeze in the first five months of 1982. Effective in September 1983, employees agreed to a 15% pay cut and wage freeze which reduced costs by approximately \$28 million.

Although aircraft fuel consumption increased 5.2%, related expenses were down \$19.4 million because of a 9.4% drop in fuel prices. Average price per gallon was 88.3 cents, compared with 97.5 cents in 1982.

An \$8.8 million increase in the cost of maintenance materials and repairs occurred in 1983 because of the greater number of aircraft engine repairs and modifications completed in order to increase jet engine fuel efficiency. Advertising expense was up \$5 million, compared with 1982, as the Company continued to market its service aggressively and build name recognition.

Net interest expense was down \$2.9 million, largely due to the decreasing prime rate. The cancellation of the Company's obligation to McDonnell Douglas Corporation for six MD-80 aircraft on order resulted in net expenses of \$1.4 million, due to the reversal of capitalized interest on pre-delivery deposits, and \$2 million of other charges.

### Inflation and changing prices

For information concerning the effects of changing prices and inflation on the Company's operations, see "Supplemental stockholder information," page 26.

### Liquidity and capital resources

During 1984, the Company had net earnings of \$29.5 million. As of December 31, 1984, there is \$8.6 million of stockholders' equity, compared with a deficit of \$22.4 million at December 31, 1983. Operations generated cash of \$132.3 million. Cash and short-term cash investments increased to \$123.1 million at December 31, 1984, from \$59.8 million at December 31, 1983, principally from operations.

Since 1981, the Company has supplemented its working capital and conserved cash primarily by the means discussed below.

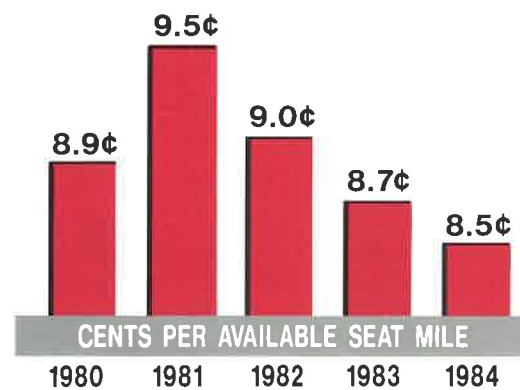
#### 1. Reduction of Salaries and Wages.

In February 1982, a majority of employees agreed to a one-month pay deferral totaling \$24 million which the Company has repaid (\$4.7 million by

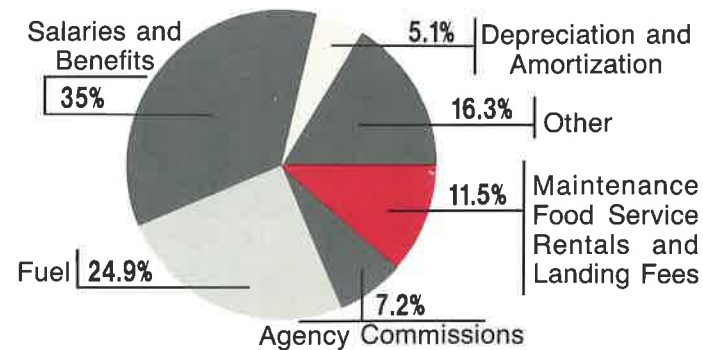
issuing 1,083,469 shares of common stock at market value and the balance in cash). In September 1983, all employees accepted a wage freeze and 15% wage reduction. During 1984, these concession agreements were extended with amendable dates in late 1986 and early 1987 for all employee groups, including management, and contained additional productivity concessions.

In exchange for the concessions, the Company will provide 5,529,195 shares of common stock, 2,170,000 callable warrants to purchase common stock at \$10 per share, and a profit-sharing arrangement in the form of a new class of participating, non-cumulative, non-voting junior preferred stock. The \$72.3 million of preferred stock allows the employees to share in 15% of the Company's profit (operating profit, less interest expense and income taxes) in excess of \$20 million. The profit-sharing distribution cannot exceed \$10.8 million in any one year. These securities will be contributed to one or more trusts for the benefit of employees. The issuance of the securities is subject to compliance with legal and regulatory requirements. In addition, the Company has agreed not

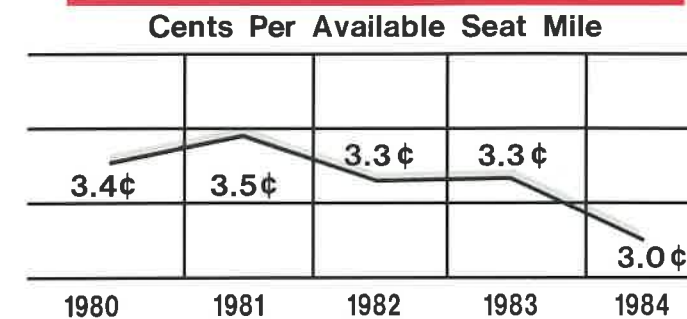
### OPERATING EXPENSES



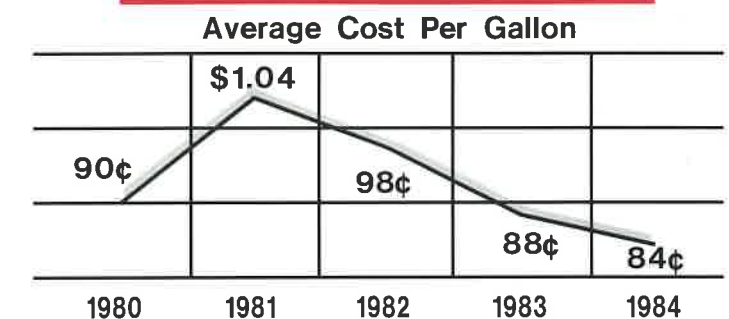
### DISTRIBUTION OF OPERATING EXPENSES - 1984



### LABOR COSTS (Salaries And Benefits)



### JET FUEL PRICE



**Management's discussion and analysis (continued)**

to pay dividends on common stock through December 31, 1986, and to fill one position on the Board of Directors with an individual of national prominence to be chosen by agreement of all the Company's union groups and reasonably acceptable to the Company's Board of Directors. As of the date of this report, the board member has not yet been selected by the union groups.

**2. Pension Contribution Waivers.**

Pursuant to waivers granted by the Internal Revenue Service, the Company deferred pension funding payments totaling \$47.1 million which were due to be paid to pension plans for its employees for the years 1981 and 1982. Payment of the 1981 and 1982 deferred amounts plus interest is being funded over a 15-year period, commencing in 1983.

As part of the recent labor negotiations, the Company and the pilots' union agreed that the Company may terminate the pilots' pension plan. Termination of the plan is subject to the approval of the Internal Revenue Service and the Pension Benefit Guaranty Corporation. In connection with this agreement, the Company has

also received a waiver of the 1983 funding obligation of \$21.8 million for this pilots' pension plan. The Company's obligation to fund its accrued pension liability for the pilots' plan is expected to be eliminated because the assets of the plan are expected to exceed the fully vested benefits, when computed based upon actuarial assumptions appropriate for a plan termination. The elimination of these accrued pension liabilities should result in an aggregate extraordinary gain of approximately \$55-65 million, which is expected to be reported in 1985. As part of this agreement, the Company has established defined contribution retirement and health benefit plans for the pilots to replace the defined benefit plan scheduled to be terminated in 1985. The 1985 expense under the new plans will be comparable to the 1984 expense for similar benefits which was reduced by changes in actuarial assumptions for the defined benefit plan. Contributions for 1983 relating to other pension plans have been funded.

**3. Sale of Tax Benefits, Aircraft and Other Property.**

During the years 1982-1984, the Company received net proceeds of \$30.8 million from the sale of tax benefits for new flight equipment acquired by the Company and \$48.1 million from the disposition of aircraft and other property. Of these net proceeds, \$27.1 million was used to repay indebtedness, \$30.8 million was applied to the purchase of new aircraft, and the balance was used for working capital. Due to changes in the tax laws, the Company is no longer able to sell tax benefits for new property which it acquires.

**4. Issuance of Securities.**

In December 1982, the Company issued \$75 million face value of 10-1/8% Convertible Senior Subordinated Debentures and received net proceeds of \$71 million. In June 1983, through a unit offering of 7,480,000 shares of common stock and 3,740,000 warrants to purchase common stock, the Company received net proceeds of \$58.3 million. The net proceeds of these two offerings were used for working capital.

The Company is highly leveraged. At December 31, 1984, the Company had long-term debt and capital lease obligations, including current maturities, of \$743.6 million. Interest rates float with prime on 49.2% of this debt.

At December 31, 1984, the Company had borrowed the maximum amount available under its Bank Credit Agreement with twelve banks. The borrowings are secured by liens on most Company owned aircraft, engines and ground equipment, and certain accounts receivable. The financial covenants of the Bank Credit Agreement include debt-to-equity ratios and net worth requirements, a cash and short-term cash investments minimum, limitations on capital expenditures and additional debt, and restrictions on the payment of common stock dividends. During most of 1984, the Company obtained monthly waivers of certain financial covenants.

The Company and the participants in the Bank Credit Agreement have amended the financial covenants which,

based on assumed operating results, will allow the Company to remain in compliance over the remaining term of the loan. The minimum tangible net worth requirement—the most restrictive of the financial covenants—is based on projected results of operations. To remain in compliance with minimum tangible net worth requirements for 1985, the Company must achieve net income of approximately \$21 million (exclusive of any extraordinary gain from termination of the pilots' pension plan). In addition, monthly results of operations cannot be below projected results by more than \$15 million in any one month.

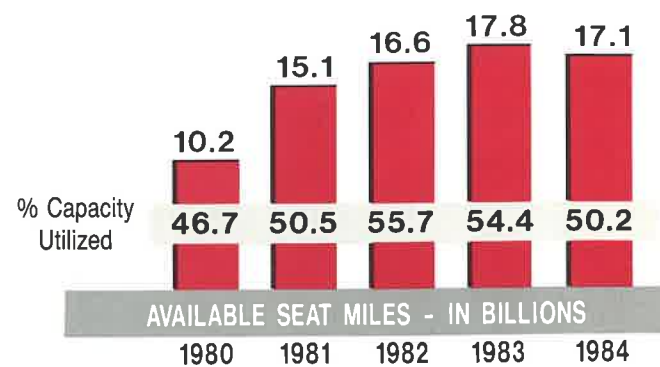
In February 1985, the Company sold \$150 million of Senior Secured Trust Notes (\$75 million due February 1, 1990, at 14.625% and \$75 million due February 1, 1993, at 15.125%). The proceeds were used to prepay \$110 million under the Bank Credit Agreement with the net balance of \$35 million, after expenses of \$5 million, used to increase working capital. The Trust Notes are secured by 31 aircraft

which previously were pledged as collateral under the Bank Credit Agreement and released by the bank participants in consideration of the \$110 million prepayment.

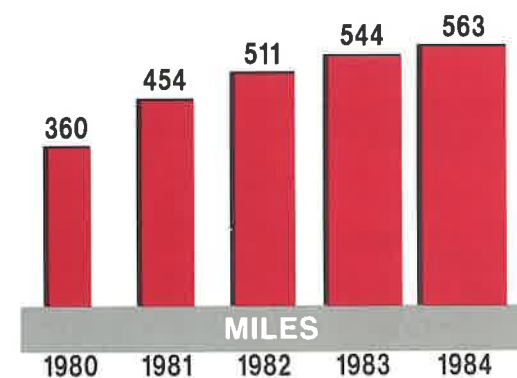
In February 1985, the Company leased three used Boeing 727-200 aircraft for use in scheduled operations which will be accounted for as operating leases. The leases expire in May 1986 and can be extended until December 1986 under certain circumstances.

The Company periodically acquires computer equipment, ground property and equipment, and leasehold improvements. The timing and source of future capital needs cannot be estimated at present. The amount of capital expenditures and debt is subject to restrictions contained in the Bank Credit Agreement.

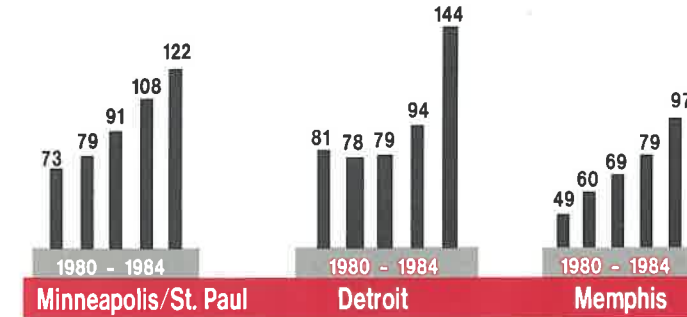
**CAPACITY UTILIZATION**



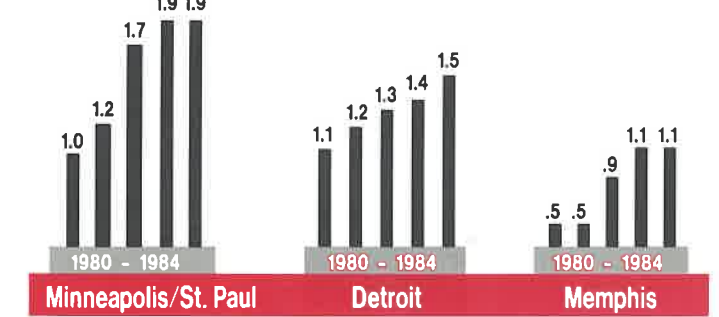
**AVERAGE PASSENGER TRIP**



**DAILY DEPARTURES (December)**



**PASSENGERS (Millions)**



## Year in review

### Strengthening management

Republic Airlines set the stage in 1984 for accomplishing three important goals: strengthened management, improved operations, and innovative marketing. These areas are producing positive results which affect the entire operation.

In April 1984, several changes occurred in the Company's senior management. Hal N. Carr, who guided the airline's progress for 30 years as chairman of the Board of Directors and earlier as president, became chairman of the Executive Committee. Daniel F. May, president and chief executive officer, was named chairman and chief executive officer. Stephen M. Wolf, who joined Republic in February 1984 as executive vice president, was elected president and chief operating officer.

Mr. Wolf, 43, brings to the Company extensive airline expertise in operations and marketing. He has served as president of Continental Airlines and senior vice president-marketing of Pan American World Airways. He was with American Airlines marketing department 15 years and became vice president-Western division.

During 1984, Mr. Wolf has been rebuilding Republic management with talented, experienced industry executives to fill vacancies resulting primarily from retirements. The number of corporate officers has been reduced from 26 to 19.

A. B. Magary, 42, was named senior vice president-marketing. He is responsible for marketing, pricing, scheduling and reservations. He was vice president-sales and marketing at Hyatt International Corporation. Previously, he served Pan Am for 14 years as vice president-marketing, and earlier in a variety of operating and marketing responsibilities.

Arnold J. Grossman, 49, joined the Company as vice president-marketing systems, after a 25-year industry career that included senior positions at Continental and Pan American. W. Thomas Lagow, 43, now Republic's vice president-marketing planning, spent 18 years at Trans World Airlines, becoming vice president-scheduling.

The quality of passenger service offered by Republic in flight and on the ground is the responsibility of Bruce R. Nobles, 38, who was named vice president-customer service. He had been marketing controller at Pan American for two years, after serving 16 years with American.

Gary H. Lantner, 35, formerly with Continental and the Port Authority of New York, was named vice president and secretary. He is in charge of corporate affairs, which includes computer and communications service, corporate budgeting, properties and facilities, purchasing, and a new in-house legal department. Paul C. Jasinski, 39, who has been in the industry 12 years with United Air Lines and Trans World, heads the legal department as general counsel and assistant secretary.

Lee R. Mitchell, 47, joined the Company in March 1985 as vice president-computer and communications service. During his 24 years in this field, he served five years at Flying Tiger Line and four with the International Air Transport Association.

Other changes include the promotion of Gramer D. Foster, 57, a 30-year Republic employee and former line

captain, from vice president-flight to senior vice president-operations, with overall responsibility for Republic's flying operations, as well as the maintenance and engineering division. Raymond W. Sellwood, 56, who joined the airline in 1958 and has served as a line captain and senior director-flying, was named vice president-flight.

Position restructuring has occurred throughout Republic's middle management group. Functions have been combined for efficiency, and some jobs eliminated. Stringent cost controls are in place, and management budgets from a zero base.

Support for the Company by its employees and union leaders has received nationwide attention. Their participation in the Company's Partnership Plan includes agreements on wages, productivity, and stock ownership. Employees display pride and professionalism in their work.

Communications move swiftly throughout the airline. Management is committed to keeping personnel informed about their Company, its problems, and its opportunities. A daily news bulletin sent on the internal communications system, a bi-weekly newspaper to the residence, and a 24-hour telephone message line reach Republic employees and their families.

Human resources are an integral element for profitability. Thousands of Company employees have worked diligently during the six exceedingly difficult years since deregulation of the industry. As a turn is made toward continued profitability, Republic employees are eminently qualified to support and strengthen this progress.

### Marketing effectively

Innovative marketing techniques are being introduced to make the traveling public more aware of Republic Airlines. The Company is emphasizing its quality service and convenient flight schedules. The supporting marketing programs seek to retain the loyalty of present passengers and to persuade new travelers to try Republic.

To promote this marketing strategy, a new advertising agency, Dancer Fitzgerald Sample, New York, was selected in June 1984. As one of the nation's leading agencies, the firm is well-known for the support given such accounts as Toyota and Wendy's, with its attention-getting "Where's the beef?" campaign. Already developed by the agency is Republic's "Perks" program that focuses on amenities for the business passenger.

Republic's primary traffic base is 400,000 business travelers—many of whom fly 30 or more times a year. This important source receives specific attention from the Company's Frequent

Flyer program. In 1984, this was expanded to a partnership with Pan American. Republic's frequent travelers earn credits for free travel on Pan Am, as well as on Republic. Similarly, Pan Am WorldPass members can log mileage on both Pan Am and Republic.

Of special appeal to frequent travelers is the Company's "Business First Class" which offers the comfort and extra service of first class travel at a cost of only \$15 above full coach fare. As more employers prohibit use of first class because of its high cost, Republic's Business First Class stands out as a major transportation bargain.

To increase revenues, Republic is relying heavily on improved scheduling—flying when and where the public demands. In 1984, service was inaugurated at eight new destinations: Hartford/Springfield, Buffalo/Niagara Falls, Rochester (N.Y.), Fort Wayne, South Bend, Indianapolis, Oklahoma City and Tulsa, while 23 points that did not contribute to overall system integrity were eliminated. Increased attention was given to strengthening the three major hubs: Detroit, Minneapolis/St. Paul and Memphis. At each of

these travel centers, Republic offers more daily flights than any other carrier.

This year, service to Pittsburgh is being inaugurated April 1. With the major schedule change April 28, eight other markets will be added: John F. Kennedy International Airport, Syracuse, Albany (N.Y.), Erie, Louisville, Little Rock, Shreveport, and Appleton. This expansion will provide even more traffic to the hubs. Detroit departures will increase from 149 to 177; Minneapolis/St. Paul, from 123 to 153; and Memphis, from 97 to 147.

Besides good flight schedules and quality service, the Company is promoting its name and a contemporary corporate image. To build recognition of the word, "Republic," the stylized, dark blue letters are underscored with a brilliant red stripe. A newly designed aircraft exterior features a bright-white plane with the Republic name in large letters below the window line. A red stripe highlights the fuselage, and the underside is painted gray. The tail section also presents the name, underlined by red and gray striping. These corporate colors and the distinctive name are being used at ticket counters and passenger boarding areas, on ground equipment, and for all printed materials.

Complementing the new corporate look are navy blue uniforms for passenger service agents—similar in appearance to the attractive uniforms worn by flight attendants. Station agents, line mechanics, fleet servicers and custodians soon will be wearing new navy uniforms.

The airline has substantial identity outside North America and plans to capitalize on this. With entry into New York's Kennedy airport, the Company will utilize the Pan American terminal and continue to build up service to the Detroit and Minneapolis/St. Paul hubs.



## Year in review (continued)

Republic can then originate traffic destined for Europe and the Middle East by providing convenient connections at New York. Passengers to the United States would be booked on Republic for domestic points not served by Pan Am.

The Company has sales offices throughout Europe, the Middle East, the Far East, Southeast Asia and Australia. Marketing efforts in these areas are generating revenue from visitors bound for the States who otherwise would fly with competitors. This overseas market offers another growth opportunity, as Republic serves every major gateway to the United States.

Although domestic business passengers remain the Company's primary marketing objective, revenue from leisure travelers—at home and from abroad—is an increasing source of income and one that will be stimulated with special fares and promotions throughout 1985.

### Passenger service

One of Republic's major goals is to offer quality service. The Company and its personnel are dedicated to providing friendly, professional attention to all passengers—from the frequent traveler to the "first flyer."

A new concept of flight attendant training has been introduced. It focuses on consistency and quality of service, good communications with passengers and employees, and standardization of procedures. A workshop featuring marketing awareness and service recently was held at the flight crew bases. The program, "Cleared for New Approach," provided unique refresher training. As route expansion results in the hiring of additional flight attendants, each new employee will receive this progressive training approach.

Training is an important element for all employees in presenting a quality image. The efficiency and courtesy of passenger agents and reservations personnel have a positive effect on the passenger. This also contributes to profit because of improved productivity. With the introduction of the Ultimate Super Saver fare in 1985, reservations activity increased 30 percent in a matter of days. Staffing was increased, but the high productivity level of Republic employees lowered the number required.

The Company supports its personnel with sophisticated, state-of-the-art equipment and systems. Some 80,000 passenger calls are handled daily at Company reservations centers. This geographic network permits maximum savings of phone lines and use charges.

When telephone volume increases at a particular reservations center, overflow can be shifted automatically, for minutes or hours, to one of the other cities.

Supplementing Republic's field sales force is a new telemarketing section which provides toll-free 800 lines. This service allows passenger and cargo sales representatives to spend more time making personal calls on customers. Travel agencies and corporate travel departments who need immediate assistance can receive information from experienced marketing people via telephone. The telemarketing plan can also be "reversed"—when the Company wants to distribute information about new fare promotions or new service to travel agents and corporate accounts.

Republic also is enlarging its ticket counters and gate space to upgrade passenger service. At Detroit, the largest system hub, the Company is adding 13 ticket counter positions for a total of 30, increasing the passenger area to 33 boarding gates, and expanding aircraft parking to accommodate 37 planes at one time. Outside the terminal, new curbside baggage check-in is available. At Minneapolis/St. Paul, modifications are underway for expanding the number of gates and improving baggage service to handle increased flight schedules. Memphis will add curbside check-in and will increase jetway gates from 17 to 31. The baggage area is being enlarged to support the growing number of connecting flights.

Republic Executive Suites offer comfortable facilities in the airport terminals at six major cities throughout the system. Many of these are to be enlarged in 1985. Additional Executive Suites are planned to serve an increasing membership—attracted by the convenience and amenities available at a low annual fee.

### Operations update

The Company's 1984 operating performance again was among the highest in the industry. The airline flew 99.1 percent of its 161,074,000 scheduled miles. Contributing to this excellent operating effort was Republic's exacting maintenance program. Only three-tenths of 1 percent of departures were cancelled, and just 1.7 percent were delayed for maintenance reasons.

The Republic fleet of 160 aircraft is maintained at the Main Operations Base in Minneapolis/St. Paul and at the

Atlanta base. The Phoenix base was closed in 1984 because of the size and efficiency of the other facilities and the buildup of the Twin Cities, Detroit and Memphis hubs. The leasehold was transferred to another company early in 1985, which will result in an annual savings of over \$2 million.

The maintenance facilities also are profit generators, performing work for other airlines. Contract maintenance income totals \$10 million annually and is expected to increase as more emphasis is placed on this activity.

Each week Republic's Atlanta base paints a jetliner in the new corporate look. Extensive interior refurbishing is taking place. Already completed are coat closets adjoining Business First Class and updated wide-body interiors in all Boeing 727s and DC-9s.

These aircraft are fuel-efficient on Republic's route structure, especially the two-engine MD-80s and DC-9s. Fuel conservation is a key flight planning function. Operating techniques are continually updated for efficient flight. Aircraft fuel expense remains the Company's second largest outlay. Each one-cent reduction per gallon produces \$4 million savings annually. Fuel management, along with a fuel price reduction of four cents a gallon in 1984, kept these costs in line.

Cost control throughout the Company is an important element in maintaining profitability, and both management and employees have concentrated on this need. Much of the success in reducing costs in 1984 is attributed to the

Partnership Plan which makes every employee a stockholder. Ownership of the Company is a strong incentive for good morale and attention to job performance, resulting in quality airline service. Employees take personal pride in serving Republic's passengers.

### Looking ahead

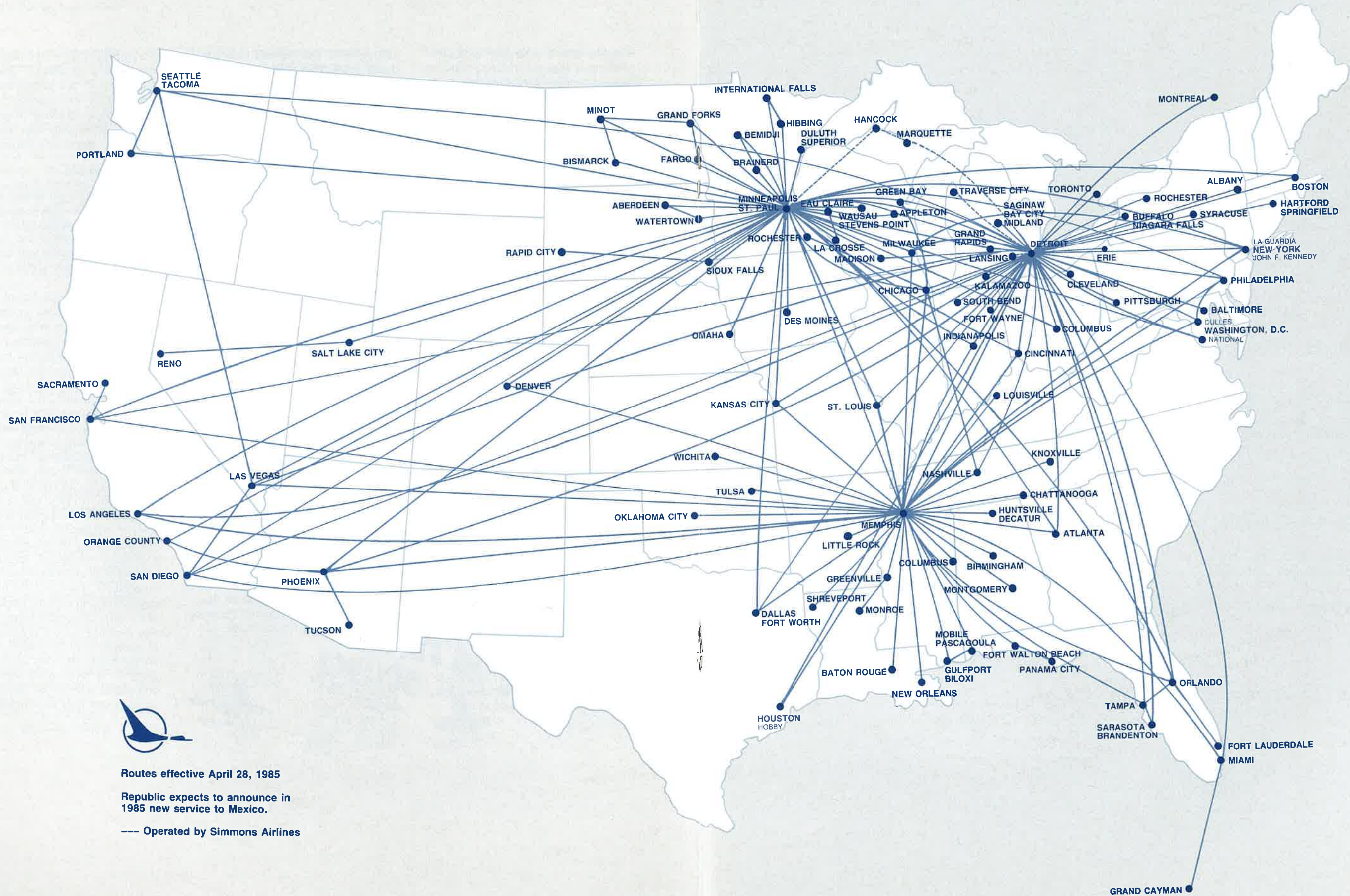
There is some encouragement in the airline industry. The economic recovery has generated a surge of business and pleasure travel, while fuel costs declined significantly and interest rates remained relatively stable during the past two years.

Airlines have been forced to find their respective niches in the marketplace and resolve financial losses. Deregulation made it easy for the entry of new airlines, but also removed guarantees for their existence. Many of these fledgling carriers never got off the ground, and others flew only a short time. The unsuccessful ones based their strategy solely on very low fares, trying to survive with volume. The Company has taken action to defend itself against this competition.

Demand for air travel is continuing to increase in 1985, and in a deregulated environment, the industry is more competitive than ever. Although some of the instability and turbulence has passed, Republic's management and employees are not complacent. The Company is working aggressively to capture market share—utilizing pricing, scheduling, amenities, and customer loyalty programs—and is strengthening its hubs against encroachment by other airlines. Republic is focusing its efforts on attaining a preferential position in the industry and long-term profitability.







## Consolidated balance sheets

(in thousands)

ASSETS	December 31	
	1984	1983
<b>CURRENT ASSETS</b>		
Cash and short-term cash investments	\$ 123,143	\$ 59,781
Accounts receivable-less allowances	109,193	119,690
Flight equipment parts and supplies-less reserves	38,898	49,762
Prepaid expenses and other	31,562	33,834
	<u>302,796</u>	<u>263,067</u>
<b>PROPERTY AND EQUIPMENT-at cost</b>		
Flight equipment	891,776	900,309
Ground property and equipment	113,312	110,003
	<u>1,005,088</u>	<u>1,010,312</u>
Less accumulated depreciation	361,154	310,194
	<u>643,934</u>	<u>700,118</u>
<b>PROPERTY AND EQUIPMENT UNDER CAPITAL LEASES</b>		
Flight equipment	157,145	157,145
Ground property and equipment	16,281	15,937
	<u>173,426</u>	<u>173,082</u>
Less accumulated amortization	55,682	43,370
	<u>117,744</u>	<u>129,712</u>
<b>DEFERRED CHARGES AND OTHER ASSETS</b>	<u>20,435</u>	<u>15,775</u>
	<u>\$1,084,909</u>	<u>\$1,108,672</u>

LIABILITIES	December 31	
	1984	1983
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 59,696	\$ 50,079
Current obligations under capital leases	8,712	7,834
Accounts payable	43,776	41,488
Interline payables and tickets outstanding	84,661	73,478
Accrued compensation and vacation benefits	46,872	57,200
Accrued interest	11,214	11,849
Accrued pension liability	22,464	31,826
Other accrued expenses	26,751	21,781
	<u>304,146</u>	<u>295,535</u>
<b>LONG-TERM OBLIGATIONS</b>		
Long-term debt-less current maturities	538,282	613,941
Noncurrent obligations under capital leases	136,933	145,454
Long-term pension liability and other	68,908	48,123
	<u>744,123</u>	<u>807,518</u>
<b>COMMITMENTS AND CONTINGENCIES (Notes B, D and H)</b>		
REDEEMABLE PREFERRED STOCK OF SUBSIDIARY	28,000	28,000
<b>STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Preferred stock-authorized 25,000,000 shares of \$.01 par value	-	-
Common stock-authorized 60,000,000 shares of \$.20 par value	6,128	6,126
Additional paid-in capital	114,664	114,630
Retained earnings (deficit)	(118,176)	(143,137)
Employee stock to be issued	26,571	-
Unearned compensation for stock to be issued	(20,547)	-
	<u>8,640</u>	<u>(22,381)</u>
	<u>\$1,084,909</u>	<u>\$1,108,672</u>

The accompanying notes are an integral part of these statements.

## Consolidated statements of operations

(in thousands except per share amounts)

	Year ended December 31		
	1984	1983	1982
<b>OPERATING REVENUES</b>			
Passenger .....	\$1,415,583	\$1,388,285	\$1,402,693
Cargo .....	77,318	76,626	72,914
Other .....	54,331	46,583	55,061
	<u>1,547,232</u>	<u>1,511,494</u>	<u>1,530,668</u>
<b>OPERATING EXPENSES</b>			
Salaries and benefits .....	506,905	581,496	540,614
Aircraft fuel .....	359,417	390,937	410,365
Maintenance materials and repairs .....	58,167	58,111	49,353
Food service .....	33,242	34,201	33,811
Rentals and landing fees .....	75,290	76,863	76,188
Agency commissions .....	104,420	102,258	103,546
Depreciation and amortization .....	74,008	70,625	68,818
Other .....	235,781	228,020	210,750
	<u>1,447,230</u>	<u>1,542,511</u>	<u>1,493,445</u>
Operating profit (loss) .....	100,002	(31,017)	37,223
<b>OTHER EXPENSES (INCOME)</b>			
Interest expense .....	97,000	97,852	100,703
Sale of tax benefits .....	-	(13,046)	(17,752)
Gain on disposition of property and equipment .....	(17,316)	(923)	(2,570)
Interest income and other-net .....	(9,193)	(3,869)	(3,297)
	<u>70,491</u>	<u>80,014</u>	<u>77,084</u>
Earnings (loss) before income taxes and extraordinary item .....	29,511	(111,031)	(39,861)
<b>INCOME TAXES</b> .....	15,802	-	-
Earnings (loss) before extraordinary item .....	13,709	(111,031)	(39,861)
<b>EXTRAORDINARY ITEM</b>			
Effect of utilization of tax loss carryforwards .....	15,802	-	-
<b>NET EARNINGS (LOSS)</b> .....	<u>\$ 29,511</u>	<u>\$ (111,031)</u>	<u>\$ (39,861)</u>
<b>NET EARNINGS (LOSS) PER COMMON SHARE-PRIMARY</b>			
Before extraordinary item .....	\$ .30	\$ (4.28)	\$ (1.99)
Extraordinary item .....	.46	-	-
Net earnings (loss) .....	<u>\$ .76</u>	<u>\$ (4.28)</u>	<u>\$ (1.99)</u>
<b>NET EARNINGS (LOSS) PER COMMON SHARE-FULLY DILUTED</b>			
Before extraordinary item .....	\$ .29	\$ (4.28)	\$ (1.99)
Extraordinary item .....	.46	-	-
Net earnings (loss) .....	<u>\$ .75</u>	<u>\$ (4.28)</u>	<u>\$ (1.99)</u>

The accompanying notes are an integral part of these statements.

## Consolidated statements of changes in financial position

(in thousands)

	Year ended December 31		
	1984	1983	1982
<b>CASH AND SHORT-TERM CASH INVESTMENTS AT BEGINNING OF YEAR</b> .....	\$ 59,781	\$125,484	\$ 43,542
<b>FUNDS PROVIDED</b>			
Earnings (loss) before extraordinary item .....	13,709	(111,031)	(39,861)
Add non-cash items:			
Depreciation and amortization .....	74,008	70,625	68,818
Amortization of unearned compensation .....	6,024	-	-
Other .....	1,043	1,966	1,544
Net change in certain working capital items .....	21,749	(35,381)	21,106
Cash provided from (used in) operations, exclusive of extraordinary item .....	116,533	(73,821)	51,607
Extraordinary item-tax loss carryforwards .....	15,802	-	-
Cash provided from (used in) operations .....	132,335	(73,821)	51,607
Net book value of equipment dispositions .....	10,285	2,372	14,635
Cancellation of advance deposits .....	-	3,428	10,416
Increase in long-term obligations .....	2,181	30,887	119,921
Deferral of pension payments .....	22,088	23,010	24,086
Issuance of common stock and warrants .....	36	62,532	1
Other .....	6,386	1,447	1,203
	<u>173,311</u>	<u>49,855</u>	<u>221,869</u>
<b>FUNDS USED</b>			
Additions to property and equipment .....	15,926	59,969	84,291
Payment of long-term obligations .....	75,866	44,985	43,635
Payment of cash dividends on preferred stock .....	4,550	1,820	4,550
Other .....	13,607	8,784	7,451
	<u>109,949</u>	<u>115,558</u>	<u>139,927</u>
<b>INCREASE (DECREASE) IN CASH AND SHORT-TERM CASH INVESTMENTS</b> .....	<u>63,362</u>	<u>(65,703)</u>	<u>81,942</u>
<b>CASH AND SHORT-TERM CASH INVESTMENTS AT END OF YEAR</b> .....	<u>\$123,143</u>	<u>\$ 59,781</u>	<u>\$125,484</u>
<b>INCREASE (DECREASE) IN CASH FROM CHANGES IN CERTAIN WORKING CAPITAL ITEMS</b>			
Accounts receivable .....	\$ 10,497	\$ 1,284	\$ 22,744
Flight equipment parts and supplies .....	10,864	(393)	(1,605)
Prepaid expenses and other .....	2,272	(1,021)	(4,541)
Accounts payable .....	2,288	(12,415)	(2,398)
Interline payables and tickets outstanding .....	11,183	5,341	(16,250)
Accrued expenses .....	(15,355)	(28,177)	23,156
	<u>\$ 21,749</u>	<u>\$ (35,381)</u>	<u>\$ 21,106</u>

The accompanying notes are an integral part of these statements.

## Consolidated statements of changes in stockholders' equity (deficit)

Years ended December 31, 1982, 1983 and 1984  
(in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Employee Stock to be Issued	Unearned Compen- sation
	Shares Issued	Amount				
Balance at January 1, 1982	22,061	\$4,412	\$ 53,811	\$ 14,125	\$ -	\$ -
Cash dividends on redeemable preferred stock	-	-	-	(4,550)	-	-
Issuance of common stock	5	1	-	-	-	-
Net loss for 1982	-	-	-	(39,861)	-	-
Balance at December 31, 1982	22,066	4,413	53,811	(30,286)	-	-
Cash dividends on redeemable preferred stock	-	-	-	(1,820)	-	-
Issuance of common stock and warrants	8,564	1,713	60,819	-	-	-
Net loss for 1983	-	-	-	(111,031)	-	-
Balance at December 31, 1983	30,630	6,126	114,630	(143,137)	-	-
Cash dividends on redeemable preferred stock	-	-	-	(4,550)	-	-
Issuance of common stock	9	2	34	-	-	-
Employee stock to be issued	-	-	-	-	26,571	(26,571)
Amortization of unearned compensation	-	-	-	-	-	6,024
Net earnings for 1984	-	-	-	29,511	-	-
Balance at December 31, 1984	<u>30,639</u>	<u>\$6,128</u>	<u>\$114,664</u>	<u>\$(118,176)</u>	<u>\$26,571</u>	<u>\$(20,547)</u>

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, 1984 and 1983, and the consolidated statements of operations, changes in stockholders' equity (deficit) and changes in financial position for the years ended December 31, 1984, 1983 and 1982. 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, 1984 and 1983, and the results of their operations and changes in their financial position for the years ended December 31, 1984, 1983 and 1982 in conformity with generally accepted accounting principles applied on a consistent basis.

Minneapolis, Minnesota  
February 11, 1985

*Alexander Grant & Company*

## Notes to financial statements

December 31, 1984, 1983 and 1982

### Note A - Summary of Significant Accounting Policies

1. *Principles of Consolidation:* The consolidated financial statements include the accounts of Republic Airlines West, Inc., a subsidiary. All significant intercompany transactions have been eliminated. Republic Airlines West, Inc. adopted a plan of dissolution whereby all of its assets and liabilities will be transferred to Republic Airlines, Inc.

2. *Flight Equipment Parts and Supplies:* Spare parts and supplies are priced at average cost. An allowance for obsolescence (\$15,660,000 at December 31, 1984, and \$14,101,000 at December 31, 1983) 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 12 months (\$21,070,000 at December 31, 1984, and \$21,720,000 at December 31, 1983). Actual overhaul costs are charged to expense as incurred.

4. *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 7-20 years for flight equipment and 3-10 years for other property and equipment.

5. *Deferred Charges:* Expenses incurred in connection with the issuance of long-term obligations are deferred and amortized on a straight-line basis over the terms of the related obligations.

6. *Passenger Revenue:* Passenger revenue is recognized when the transportation service is provided. Tickets sold but unused are classified as a current liability.

7. *Pension Costs:* The Company has pension plans covering all employee groups 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.

8. *Income Taxes:* The Company uses the flow-through method of accounting for investment tax credits 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 carryover periods. The Company recognizes deferred income taxes resulting from differences in financial and income tax reporting.

**Note B - Sale of Tax Benefits** - The leasing provisions of the Economic Recovery Tax Act of 1981 allowed the Company to enter into sale-leaseback transactions for income tax purposes involving certain equipment additions. As a result of these transactions, the Company has recognized other income (net of related expenses) of \$13,046,000 in 1983 and \$17,752,000 in 1982. Provisions of these transactions include, among other things, indemnification of the buyer against loss of the stipulated tax benefit amount. The Company does not expect to be able to sell tax benefits in the future.

**Note C - Long-term Debt** - Substantially all flight equipment, spare parts and ground property owned by the Company and certain accounts receivable (\$38,511,000 at December 31, 1984, and \$42,684,000 at December 31, 1983) are pledged as collateral against the long-term debt, consisting of the following at December 31 (in thousands):

	1984	1984 Adjusted for Trust Notes (Note K)	1983
Bank Credit Agreement (a)	\$333,154	\$223,154	\$377,455
Installment notes (b)	140,507	140,507	157,607
Equipment Trust Notes:			
14-5/8% due February 1, 1990 (Note K)	-	72,762	-
15-1/8% due February 1, 1993 (Note K)	-	72,762	-
9% due May 1, 1993 (c)	26,700	26,700	29,850
11-1/2% due July 1, 1998 (c)	7,265	7,265	7,784
Subordinated debentures (d):			
13% due November 15, 1993	13,310	13,310	14,260
10-1/8% due December 15, 2007	73,278	73,278	73,203
Sundry	3,764	3,764	3,861
Total long-term debt	597,978	633,502	664,020
Less current maturities (e)	59,696	59,696	50,079
	<u>\$538,282</u>	<u>\$573,806</u>	<u>\$613,941</u>

(a) The balance at December 31, 1984, will be retired with an initial payment of \$110,000,000 in February 1985 (Note K), quarterly installments aggregating an additional \$36,000,000 in 1985, \$29,000,000 in 1986, \$35,500,000 in 1987, \$38,000,000 in 1988, 1989 and 1990 and a final payment of \$8,654,000 in 1991. The Company is also required to prepay indebtedness under the Bank Credit Agreement to the extent the Company achieves profits in excess of specified amounts and from net proceeds from the disposition of certain flight equipment. Interest is paid monthly to each participating bank at 1/2% over the Citibank, N.A. alternative rate or other rates as negotiated with the individual bank participants. The effective rate at December 31, 1984, was 11-1/4%.

## Notes to financial statements (continued)

December 31, 1984, 1983 and 1982

Among the original loan covenants in the Bank Credit Agreement were requirements for the maintenance of debt to equity ratios and restrictions on dividend payments and capital expenditures. As a result of losses in 1982 and 1983, these covenants were amended to permit the Company to remain in compliance. The most restrictive revised covenant requires the maintenance of minimum tangible net worth, as defined in the Bank Credit Agreement. During most of 1984 the Company obtained monthly waivers of certain covenants. The Company and the banks have executed a letter amendment and agreement dated as of August 1, 1984, which amends the financial covenants and, based on assumed operating results, will allow the Company to remain in compliance over the remaining term of the loan.

The Company is required to maintain average compensating balances of 10% of the monthly average loan outstanding and to pay interest on any compensating balance shortfall at 1/2% over the Citibank, N.A. alternative rate. During 1984 the Company was required to maintain average compensating balances (adjusted for float) of \$37,069,000. At December 31, 1984, the required compensating balance (adjusted for float) was approximately \$34,735,000.

(b) Consists of various installment notes with final maturity dates from 1985 through 1998 at a weighted average interest rate of 15%. The aggregate installment payments in 1985 will be approximately \$37,536,000 including interest.

(c) The Equipment Trust Notes due May 1, 1993, require semi-annual sinking fund payments of \$1,575,000 from 1985 through 1992 and \$1,500,000 at maturity plus interest. The Company may make semiannual optional sinking fund payments up to \$1,575,000 and may pay off the remaining balance in full on or after May 1, 1988, at a premium.

The Equipment Trust Notes due July 1, 1998, require semi-annual sinking fund payments of approximately \$259,000 plus interest at rates ranging from 3/4 to 1-1/2% over the Citibank, N.A. alternative rate. The Company may pay off the remaining balance in full at any time without a premium.

(d) The 13% convertible subordinated debentures due November 15, 1993, have interest payments due semiannually. The debenture holder may convert the principal to common stock of the Company at \$11.84 per share (1,124,155 shares at December 31, 1984) subject to adjustment. The debentures are redeemable at a premium beginning on November 16, 1985. Annual sinking fund payments are \$950,000 in 1985, \$1,220,000 in 1986, \$1,490,000 in 1987, \$1,600,000 in each of 1988 through 1992 and \$1,650,000 in 1993.

The 10-1/8% convertible senior subordinated debentures were issued at 97-1/2% of face value (unamortized discount of

\$1,722,000 and \$1,797,000 at December 31, 1984 and 1983, respectively). The debentures are superior in right of payment to the Company's 13% convertible subordinated debentures. Interest payments are due semiannually, and debenture holders may convert the principal to common stock of the Company at \$10 per share (7,500,000 shares at December 31, 1984). Debentures are redeemable by the Company at a premium through December 15, 1992, and at face value thereafter. Sinking fund payments of \$3,750,000 are due annually beginning December 15, 1992, and continuing through December 15, 2006, with the balance due at maturity.

(e) Current maturities of all long-term debt due in each of the next five years following December 31, 1984, are as follows (in thousands):

	1984	1984 Adjusted for Trust Notes (Note K)
1985	\$59,696	\$59,696
1986	66,155	49,155
1987	72,585	52,085
1988	77,374	55,374
1989	75,558	53,558

**Note D - Leases** - The Company has lease commitments for flight equipment, various airport facilities, its main operating facilities, its maintenance and training facilities, and other property and equipment. The lease commitments for airport facilities are based upon usage and landings and are subject to adjustment depending upon the needs of each airport operating authority and, therefore, certain amounts of the commitments are not determinable.

The Company has capital lease agreements for 19 aircraft. The debt obligations relating to the capitalization of these leases were \$135,034,000 at December 31, 1984. The aggregate payments in 1985 will be approximately \$19,370,000 including interest at a weighted average rate of 9-3/4%.

In addition, the Company has various types of ground property and equipment under capital lease agreements. The debt obligations relating to the capitalization of these leases were \$10,611,000 at December 31, 1984. The aggregate payments in 1985 will be approximately \$3,605,000 including interest at a weighted average rate of 13-1/2%.

At December 31, 1984, future minimum rental payments under capital leases and noncancellable operating leases with initial or remaining terms of more than one year are as follows (in thousands):

	Operating Leases	Capital Leases
1985	\$ 32,330	\$ 22,975
1986	30,676	22,332
1987	25,329	19,316
1988	22,978	19,135
1989	22,555	19,080
Thereafter	297,268	156,923
Total minimum lease payments	\$431,136	259,761
Less amounts representing interest		114,116
Present value of future minimum capital lease payments		\$145,645

**Note E - Income Taxes** - Income tax expense for the years ended December 31 is as follows (in thousands):

	1984	1983	1982
Federal	\$14,253	\$ -	\$ -
State and local	1,549	-	-
	\$15,802	\$ -	\$ -

Deferred income taxes of \$2,020,000 were reinstated during 1984.

Differences between income tax expense and amounts derived by applying the statutory federal income tax rate of 46% to income before income taxes are as follows (in thousands):

	1984	1983	1982
Income tax expense (credit) at statutory			
federal income tax rates	\$13,575	\$(51,074)	\$(18,336)
State and local taxes net of			
federal income tax benefit	1,549	-	-
Non-taxable permanent differences	668	797	1,471
Tax effect of net operating loss carryforwards not recognized	-	50,268	16,732
Other	10	9	133
	\$15,802	\$ -	\$ -

For Federal income tax reporting purposes the Company and its subsidiary file separate tax returns. Republic Airlines, Inc. has, as of December 31, 1984, net operating loss carryovers of approximately \$161,695,000 available to offset future taxable income. Approximately \$21,111,000 expires in 1996, \$22,372,000 in 1997 and \$118,212,000 in 1998. Investment tax credits of \$43,446,000 are available to offset future income taxes payable and expire as follows: \$9,940,000 in 1994; \$17,120,000 in 1995; \$6,035,000 in 1996; \$4,098,000 in 1997; \$2,905,000 in 1998; and \$3,348,000 in 1999.

Republic Airlines West, Inc. has, as of December 31, 1984, net operating loss carryovers of approximately \$75,407,000 available to offset future taxable income. Approximately \$33,643,000 expires in 1994, \$23,674,000 in 1995 and \$18,090,000 in 1996.

Investment tax credits of \$7,179,000 are available to offset future income taxes payable and expire as follows: \$370,000 in 1993; \$4,481,000 in 1994; \$402,000 in 1995; \$1,724,000 in 1996; and \$202,000 in 1997.

For financial reporting purposes, the Company and its subsidiary calculate income taxes on a consolidated basis. On this basis, as of December 31, 1984, there are approximately \$171 million of net operating loss carryovers available to offset future consolidated taxable income and consolidated investment tax credit carryovers of approximately \$39 million 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.

The Internal Revenue Service has examined and cleared the Company's federal tax returns through December 31, 1979. During 1984, the Company reversed various tax liability accruals of approximately \$2 million which resulted from the settlement of an Internal Revenue Service examination.

**Note F - Retirement Plans** - The Company has retirement plans covering all employee groups. Pension expense for 1984, 1983 and 1982 was \$24,726,000, \$36,784,000 and \$35,865,000, respectively. The Company has either made contributions to the plans equal to the amounts accrued for pension expense or has obtained minimum funding waivers from the Internal Revenue Service. In January 1985, the Company received permission from the Internal Revenue Service to fund \$21,815,000 of the 1983 pilots' defined benefit pension costs over not more than 15 years. In December 1983 and September 1982, the Company also received permission to fund \$23,010,000 of 1982 and \$24,086,000 of 1981 pension costs relating to all defined benefit plans over not more than 15 years. The current portion of the long-term pension liability due in 1985 is \$4,157,000 including interest accrued through December 31, 1984.

In 1984 the assumed rate of return used in determining the actuarial present value of accumulated benefits for all defined benefit pension plans was increased from 7-1/2% to 8-1/2%. The effect of this change was to increase 1984 net earnings by approximately \$8,714,000 or \$.25 per share and to decrease the present value of plan benefits by approximately \$35,542,000.

Changes during 1982 in the actuarial assumptions used in computing pension costs had the effect of reducing the 1982 net loss by approximately \$2,980,000 or \$.14 per share. Also in 1982, plan improvements and early retirement pension benefits had the effect of increasing the present value of plan benefits approximately \$44,665,000 and increasing the 1982 net loss approximately \$3,705,000 or \$.17 per share.

## Notes to financial statements (continued)

December 31, 1984, 1983 and 1982

During 1984 the pilots and the Company agreed to terminate the pilots' defined benefit pension plan. This plan is expected to be terminated during 1985. At January 1, 1983, the latest available actuarial valuation date for the pilots' plan, the accumulated plan benefits and plan assets, adjusted for the change in assumed rate of return to 8-1/2%, were as follows (in thousands):

Actuarial present value of accumulated plan benefits:	
Vested .....	\$174,214
Nonvested .....	23,801
	<u>\$198,015</u>
Net assets available for benefits .....	<u>\$192,686</u>

The pilots and the Company further agreed to establish a Voluntary Employee Benefit Association (VEBA) and a defined contribution retirement plan. Effective July 1, 1984, the Company started contributions to the VEBA which provides coverage for long-term disability claims, health care and survivor benefits. Effective January 1, 1985, the Company will make contributions to the defined contribution retirement plan in an amount equal to 19.1% of pilots' monthly gross wages, recalculated in November of each year, reduced by contributions to the VEBA. During 1985, the 19.1% annual amount to be allocated between the VEBA and the defined contribution plan is expected to be approximately \$21 million which is comparable to the 1984 expense for similar benefits provided to the pilots.

The accumulated plan benefits and plan net assets for all of the Company's defined benefit plans, except the pilots' plan previously discussed, were as follows (in thousands):

	January 1	
	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested .....	\$124,944	\$128,517
Nonvested .....	3,790	5,501
	<u>\$128,734</u>	<u>\$134,018</u>
Net assets available for benefits .....	<u>\$114,023</u>	<u>\$ 94,290</u>

In addition to providing pension benefits, the Company provides certain health care benefits for retired employees. Substantially all of the Company's employees continue to be eligible for those benefits if they reach retirement age while working for the Company. The cost of retiree health care is recognized as expense as claims are incurred. For 1984, those costs totaled approximately \$1,800,000.

**Note G - Warrants, Options and Stock Appreciation Rights** - During the second quarter of 1983, the Company issued 3,740,000 warrants in connection with a unit offering of common stock and warrants. The warrants, all of which were outstanding at December 31, 1984, enable the holders to purchase common stock at \$10 per share through May 15, 1986.

In 1982 the Company granted 155,500 warrants to certain lenders in consideration of the debt restructuring of the Bank Credit Agreement and the 13% convertible subordinated debentures due November 15, 1993. The warrants, all of which were outstanding at December 31, 1984, enable holders to purchase common stock at \$8 per share through August 26, 1990.

On September 1, 1983, an officer of the Company was granted an option to purchase 25,000 shares of common stock at \$4.25 per share. The option terminates on August 31, 1988. At December 31, 1984, the entire option was outstanding.

On February 24, 1984, an officer of the Company was granted an option to purchase 95,000 shares of common stock at \$4.125 per share. The option becomes exercisable as follows: 50,000 shares on February 20, 1985, and 45,000 shares on February 20, 1986. The option expires February 24, 1992.

Stockholders approved a Stock Option and Stock Appreciation Right Plan (the "Plan") at the annual meeting in April 1984. The Plan provides that options and/or stock appreciation rights may be granted to officers and key employees of the Company. An aggregate of 750,000 shares of common stock is reserved for issuance under the Plan upon exercise of options and stock appreciation rights.

Amounts payable upon the exercise of stock appreciation rights are payable in cash or shares of common stock, as the Company may determine at the date of grant. A maximum of 750,000 options and 750,000 stock appreciation rights may be granted under the Plan. Grants outstanding under the Plan at December 31, 1984, were as follows: 412,550 stock options at a weighted average exercise price of \$3.63 and 363,550 stock appreciation rights at a weighted average base price of \$3.64. As of December 31, 1984, 50,000 options at \$3.75 and 35,000 stock appreciation rights (exercisable for cash or common stock) at \$3.75 were exercisable. One-third of the remaining stock options and stock appreciation rights (exercisable for cash only) become exercisable on each June 22 of 1985, 1986 and 1987. All of the stock options and stock appreciation rights granted under the Plan through December 31, 1984, expire on various dates during 1994. Assuming any future stock appreciation rights are exercisable for cash only, as of December 31, 1984, an additional 386,450 stock appreciation rights were grantable and there were 302,450 shares available for stock option grants under the Plan. No stock options or stock appreciation rights were exercised during 1984.

**Note H - Employee Stock Agreement** - At December 31, 1984, all of the Company's employee unions had ratified amended labor agreements. The agreements provide for the extension of a 15% pay reduction and wage freeze through the contract amendable dates ranging from September 30, 1986, through March 31, 1987. Other terms of the agreements include additional wage and/or productivity concessions equivalent to 8% of payroll and certain pension plan changes. The Company's management employees are participating in similar concessions. In exchange for the concessions, the Company has agreed to issue 5,529,195 shares of common stock, 7,230 shares of a new class of participating, non-cumulative, non-voting junior preferred stock and 2,170,000 callable warrants to purchase common stock at \$10 per share. The shares and warrants will be issued to one or more trusts for the benefit of employees.

The preferred shares will not be publicly traded and represent a form of profit-sharing arrangement. The face amount will be \$10,000 per share, or a total of \$72,300,000. Participation will be through redemption (at the face amount) of the preferred stock at the rate of 15% of the Company's annual profit (as defined) in excess of \$20 million, commencing with the year 1985 (payable in 1986) and thereafter until the face amount has been fully redeemed. The maximum participation in any one year will be limited to 15% of the original face amount. For purposes of determining participation, "profit" will be consolidated operating profit less interest expense and income taxes, as reported in the Company's Annual Report to Stockholders. The preferred shares will have liquidation preferences equal to a multiple of the face amount, less all payments made thereon, of 150% in 1985 and 200% in 1986 and thereafter.

The warrants will be callable at 150% of the exercise price. One-half of the warrants will be exercisable at any time from the date of issue through September 29, 1986. The remaining warrants will be issued subsequent to September 30, 1986, if the 8% concessions described above have been provided, and will be exercisable at any time after date of issue and prior to the anniversary date of issue in 1990.

The estimated value of the securities described in the preceding paragraphs is \$26,571,000 and will be amortized as additional compensation expense over the duration of the underlying employee agreements. During 1984, the Company recorded amortization of \$6,024,000.

The Company has also agreed to fill one position on the Board of Directors with an individual of national prominence to be chosen by agreement of all the union groups and reasonably acceptable to the Company's Board of Directors. This Board member has not yet been selected by the union groups. The agreements also prevent the Company from paying dividends on common stock through December 31, 1986.

**Note I - Net Earnings (Loss) Per Common Share** - Primary earnings per common share for 1984 was based on the weighted average number of common and common equivalent shares outstanding of 34,139,472. Common shares outstanding include 5,529,195 shares to be issued pursuant to employee stock agreements (Note H). Common equivalent shares resulted from the assumed exercise of stock options. Fully diluted earnings per common share was based on the assumed issuance of 228,975 additional common shares relating to the stock bonus plan for pilots and conversion of stock options. Primary and fully diluted loss per common share for 1983 and 1982 were based on the weighted average number of common shares outstanding of 26,720,591 and 22,026,966, respectively. The net earnings were reduced or net loss was increased by preferred dividend requirements of \$3,640,000 in 1984, \$3,337,000 in 1983 and \$3,943,000 in 1982 prior to computing the per common share amount.

**Note J - Preferred Stock and Redeemable Preferred Stock of Subsidiary** - During 1983, the Company authorized 25,000,000 shares of \$.01 par value Preferred Stock. As of December 31, 1984, no preferred shares have been issued. These preferred shares are issuable in series with terms to be designated by the Board of Directors. The Company expects to issue shares of this Preferred Stock to the holders of the Republic Airlines West, Inc. Redeemable Preferred Stock (discussed in the following paragraph) upon the dissolution of Republic Airlines West, Inc.

The Company's subsidiary, Republic Airlines West, Inc., has authorized 500,000 shares of \$100 par value Cumulative Preferred Stock. In February 1981, the subsidiary issued 280,000 shares in a private placement with McDonnell Douglas Corporation in connection with aircraft acquisition and financing transactions. Cumulative dividends are payable quarterly at an annual rate of \$13 per share through April 1985, \$16 per share from May 1985 to January 1990, \$18 per share from February 1990 to January 1993 and \$20 per share thereafter. The shares are callable at any time at \$100 per share plus all unpaid dividends. The liquidation preference is \$100 per share plus unpaid dividends before any distribution to Republic Airlines, Inc. Quarterly sinking fund redemption, consisting of 2-1/2% of the outstanding shares at a price of \$100 per share plus dividends unpaid to the redemption date, begins on April 30, 1987, and is calculated to retire all preferred shares by April 30, 1997. In case of default, including failure to pay dividends, the shareholder can require the Company to purchase all or any portion outstanding at \$100 per share plus all unpaid dividends. Effective with an amendment dated June 14, 1984, the shareholder can require the Company to purchase 17,500 shares quarterly beginning February 1, 1985. The Company may also be required to purchase up to 55,200 shares in the event of a prepayment of the debt outstanding under the Bank Credit Agreement. McDonnell Douglas

## Notes to financial statements (continued)

December 31, 1984, 1983 and 1982

waived its right to redeem these shares in connection with the \$110 million prepayment made to the banks on February 6, 1985 (Note K).

**Note K - Subsequent Events** - On February 6, 1985, the Company sold \$150 million of Senior Secured Trust Notes at approximately 97% of face value (discount of \$4,476,000 which will be amortized over the life of the notes) with maturities of \$75

million on February 1, 1990, and February 1, 1993. The trust notes due in 1990 have an interest rate of 14-5/8%, and the trust notes due in 1993 have an interest rate of 15-1/8%. Of the net proceeds from the sale, \$110 million was used to retire Bank Credit Agreement indebtedness. The remainder was used for general corporate purposes. The Senior Secured Trust Notes are secured by aircraft which had been collateral under the Bank Credit Agreement.

## Supplemental stockholder information

### EFFECTS OF CHANGING PRICES (unaudited)

#### Basis of preparation of 1984 supplemental data

As required by Financial Accounting Standards Board Statement No. 33, "Financial Reporting and Changing Prices," and amended by Statement No. 82, the Company has provided supplemental information concerning the effects of changing prices on its financial statements. The disclosures are intended to address the specific price changes in the individual resources used by the Company.

Data developed in compliance with Statement No. 33 is of an experimental nature. Calculations derived from the application of Statement No. 33 involve a substantial number of assumptions and estimates, and may not reflect the most accurate reporting of the effects of specific price changes on the Company.

The net earnings as reported in the primary statements represent the amount reported on the historical cost basis of accounting. The net loss adjusted for changes in specific prices (current cost) measures spare parts inventory, property and equipment and loss from disposition of equipment at current cost (rather than historical cost) at the balance sheet date.

The gain from the decline in purchasing power was determined by calculating the changes in monetary assets and liabilities by utilizing the change in the Consumer Price Index for the year.

In times of inflation, there is a purchasing power loss in holding monetary assets such as cash and receivables and a purchasing power gain in holding monetary liabilities such as debt and payables.

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 as 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.

Current tax laws do not recognize deductions for current cost of depreciation and amortization expense, therefore, income taxes provided are reported in historical dollars as required by Statement No. 33.

## CONSOLIDATED STATEMENT OF OPERATIONS —ADJUSTED FOR CHANGING PRICES

Year ended December 31, 1984 (in thousands—unaudited)	As Reported in the Primary Statements	Adjusted for Changes in Specific Prices (Current Cost)
Total operating revenues	\$1,547,232	\$1,547,232
Depreciation and amortization expense	74,008	175,909
Other operating expenses	1,373,222	1,374,853
Loss (gain) on disposition of equipment	(17,316)	18,546
Other expenses-net	87,807	87,807
Provision for income taxes	15,802	15,802
Extraordinary item	(15,802)	(15,802)
	<u>1,517,721</u>	<u>1,657,115</u>
Net earnings (loss)	\$ 29,511	\$ (109,883)
Gain from decline in purchasing power of net amounts owed		\$ 34,507
Increase in specific prices (current cost) of inventory and property and equipment held during the year*		\$ 203,484
Effect of increase in general price level		127,813
Excess of increase in specific prices over increase in general price level		<u>\$ 75,671</u>

\*At December 31, 1984, current cost of inventory was \$41,387,000, and the current cost of property and equipment, net of accumulated depreciation and amortization, was \$1,904,749,000.

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

(In average 1984 constant dollars, in thousands except per share and price index amounts—unaudited)

	Year Ended December 31				
	1984	1983	1982	1981	1980
Total operating revenues—in average 1984 dollars	\$1,547,232	\$1,575,824	\$1,647,149	\$1,654,193	\$1,155,551
Current cost information:					
Net loss from operations	\$ (109,883)	\$ (213,077)	\$ (126,634)	\$ (118,763)	\$ (66,490)
Net loss from operations per common share	\$ (3.20)	\$ (8.10)	\$ (5.93)	\$ (5.71)	\$ (3.21)
Excess of increase in specific prices over increase in general price level	\$ 75,671	\$ 79,678	\$ 72,035	\$ 143,132	\$ 103,833
Equity in net assets at year end	\$1,193,579	\$1,183,631	\$1,222,129	\$ 987,410	\$ 817,654
Gain from decline in purchasing power of net amounts owed	\$ 34,507	\$ 35,087	\$ 35,920	\$ 78,329	\$ 70,703
Cash dividends declared per common share—in average 1984 dollars	-	-	-	\$ .11	\$ .25
Market price per common share at year end—in average 1984 dollars	\$ 5.30	\$ 3.84	\$ 8.38	\$ 4.56	\$ 7.22
Average consumer price index	311.1	298.4	289.1	272.4	246.8

## Supplemental stockholder information (continued)

### FORM 10-K REPORT

For the Form 10-K report filed with the Securities and Exchange Commission, write 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.

	1984		1983	
	High	Low	High	Low
1st Quarter	\$5-1/4	\$3-3/4	\$10-1/8	\$7-1/2
2nd Quarter	4-1/8	3-1/4	9-3/8	6-3/4
3rd Quarter	5-1/8	3-5/8	7-7/8	3-3/4
4th Quarter	5-3/4	4-1/2	5-1/8	3-1/2

The Company has not paid any cash dividends on common stock since 1981. The terms of the Bank Credit Agreement, as amended, restrict payment of dividends on or the repurchase of common stock until certain financial loan covenants are met. Under the employee stock agreement, the Company cannot pay dividends on common stock through December 31, 1986. At February 26, 1985, the Company had 36,494 holders of common stock.

### QUARTERLY SUMMARIES OF OPERATIONS

(unaudited-in thousands except per share amounts)

	1984				1983			
	Three Months Ended				Three Months Ended			
	December 31	September 30	June 30	March 31	December 31*	September 30	June 30	March 31
Operating revenues	\$357,611	\$385,514	\$410,489	\$393,618	\$386,381	\$392,959	\$374,246	\$357,908
Operating expenses	348,334	357,015	366,758	375,123	359,052	385,082	401,747	396,630
Operating profit (loss)	9,277	28,499	43,731	18,495	27,329	7,877	(27,501)	(38,722)
Earnings (loss) before extraordinary item	(5,667)	6,138	17,291	(4,053)	4,037	(12,161)	(43,925)	(58,982)
Net earnings (loss)	(10,032)	14,575	29,021	(4,053)	4,037	(12,161)	(43,925)	(58,982)
Net earnings (loss) per common share-								
Primary:								
Before extraordinary item	(.18)	.15	.50	(.16)	.10	(.44)	(1.83)	(2.70)
Net earnings (loss)	(.30)	.38	.85	(.16)	.10	(.44)	(1.83)	(2.70)
Fully diluted:								
Before extraordinary item	(.18)	.14	.42	(.16)	.10	(.44)	(1.83)	(2.70)
Net earnings (loss)	(.30)	.36	.73	(.16)	.10	(.44)	(1.83)	(2.70)

\*Year-end adjustments resulting from changes in estimates of various benefit accruals increased net earnings by approximately \$6,100,000.

### ANNUAL MEETING

Wednesday, April 24, 1985

### REGISTRARS AND TRANSFER AGENTS

Norwest Bank Minneapolis, N.A.  
Minneapolis, Minnesota 55480  
Norwest Trust Company  
New York, New York 10005

### SECURITIES LISTED

Common Stock (RAI)  
New York Stock Exchange  
Midwest Stock Exchange  
Warrants (RAIW)  
New York Stock Exchange  
10-1/8% Convertible Senior Subordinated Debentures (RAIK)  
New York Stock Exchange  
Trustee:  
First Trust Company of Saint Paul  
Saint Paul, Minnesota 55101

### AUDITORS

Alexander Grant & Company

## Board of Directors

DANIEL F. MAY  
Chairman of the Board and  
Chief Executive Officer  
Republic Airlines, Inc.

CECIL A. BEASLEY, JR.  
Partner-Ballard and Beasley  
(Attorneys)  
Washington, D.C.

ERIC BRAMLEY  
Retired Editor  
Aviation Daily  
(Aviation industry news service)  
Wild Rose, Wisconsin

HAL N. CARR  
Chairman of the Executive Committee  
Republic Airlines, Inc.

G. F. DECOURSIN  
Chairman of the Board  
April Graphics  
(Commercial graphic arts)  
Irving, Texas

DAVID H. HUGHES  
President  
Hughes Supply, Inc.  
(Electrical and plumbing supplies)  
Orlando, Florida

FRANK W. HULSE  
Retired Vice Chairman of the Board  
Republic Airlines, Inc.

G. GUNBY JORDAN  
Retired Chairman of the Board  
The Jordan Company  
(Construction)  
Columbus, Georgia

JOHN M. LAWRENCE III  
Partner-Lawrence, Thornton,  
Payne, Watson & Kling  
(Attorneys)  
Bryan, Texas

WILLIAM R. LUMMIS  
Chairman of the Board and President  
Summa Corporation  
(Real estate investments, aviation,  
hotels and recreation)  
Las Vegas, Nevada

MORTON B. PHILLIPS  
Chairman of the Board and President  
OMI, Inc.  
(Business investments)  
San Francisco, California

G. FRANK PURVIS, JR.  
Chairman of the Board  
Pan American Life Insurance Co.  
New Orleans, Louisiana

WILLIAM E. RANKIN  
Retired Vice Chairman of the Board  
Summa Corporation  
(Real estate investments, aviation,  
hotels and recreation)  
Las Vegas, Nevada

HENRY M. ROSS  
President  
Ross Industries, Inc.  
(Machinery manufacturer)  
Midland, Virginia

BERNARD SWEET  
Retired Vice Chairman of the Board  
Republic Airlines, Inc.

RICHARD A. TRIPPEER, JR.  
Chairman of the Board  
Union Planters Corporation and  
Union Planters National Bank  
Memphis, Tennessee

WM. BEW WHITE, JR.  
Of Counsel-Bradley, Arant, Rose & White  
(Attorneys)  
Birmingham, Alabama

KENNETH B. WILLETT  
Chairman of the Board  
First Financial Savings and  
Loan Association  
Stevens Point, Wisconsin

STEPHEN M. WOLF  
President and Chief Operating Officer  
Republic Airlines, Inc.

FRANK M. YOUNG III  
Partner-North Haskell Slaughter  
Young & Lewis  
(Attorneys)  
Birmingham, Alabama

### Executive Committee

HAL N. CARR, Chairman  
G. F. DECOURSIN  
FRANK W. HULSE  
DANIEL F. MAY  
WM. BEW WHITE, JR.  
KENNETH B. WILLETT  
STEPHEN M. WOLF

### Audit Committee

ERIC BRAMLEY, Chairman  
G. FRANK PURVIS, JR.  
HENRY M. ROSS

### Stock Option Committee

RICHARD A. TRIPPEER, JR., Chairman  
HAL N. CARR  
DAVID H. HUGHES

## Officers

DANIEL F. MAY  
Chairman of the Board and  
Chief Executive Officer

STEPHEN M. WOLF  
President and Chief Operating Officer

DORMAN W. ATWOOD  
Senior Vice President-  
Maintenance and Engineering

GRAMER D. FOSTER  
Senior Vice President-Operations

A. B. MAGARY  
Senior Vice President-Marketing

A. L. MAXSON  
Senior Vice President-Finance

HENRY W. BARKHAUSEN  
Vice President and Treasurer

JOSEPH W. ETEL  
Vice President-Personnel

ARNOLD J. GROSSMAN  
Vice President-Marketing Systems

W. THOMAS LAGOW  
Vice President-Marketing Planning

GARY H. LANTNER  
Vice President and Secretary

LEE R. MITCHELL  
Vice President-Computer  
and Communications Service

BRUCE R. NOBLES  
Vice President-Customer Service

RAYMOND W. SELLWOOD  
Vice President-Flight

MICHAEL D. MEYER  
Controller

PAUL C. JASINSKI  
General Counsel and Assistant Secretary

WALTER E. NIELSEN  
Assistant Treasurer

GLORIA B. OLSEN  
Assistant Secretary

RALPH STRANGIS  
Assistant Secretary



---

---

# **Republic Airlines**

7500 AIRLINE DRIVE MINNEAPOLIS, MINNESOTA 55450  
612/726-7411