

Southern  *Airways*
Incorporated

REPORT TO



STOCKHOLDERS

●
EMPLOYEES



AND FRIENDS



FIFTH YEAR

of

PROGRESS





NATIONAL SAFETY COUNCIL

1953

AVIATION SAFETY AWARD

TO

SOUTHERN AIRWAYS, INC.

in recognition of its contribution to Safe Air Transportation
having operated 4 years and,
as of December 31, 1953

73,535,000 PASSENGER MILES

without a passenger or crew fatality in
scheduled passenger carrying flight operations

Ned H. Dearborn
President

MANAGEMENT

OFFICERS

FRANK W. HULSE
President

IKE F. JONES
Vice President

NORMAN K. ARNOLD
Vice President - Research

HUGH W. DAVIS
Vice President - Operations

GEORGE F. ESTEY
Secretary - Treasurer

C. M. BRITT
Vice President - Sales

CECIL A. BEASLEY, JR.
Assistant Secretary

W. B. WHITE, JR.
Assistant Secretary

C. H. D. TARRER
Assistant Treasurer

EXECUTIVE COMMITTEE

FRANK W. HULSE
IVAN ALLEN, JR.

HENRY P. JOHNSTON
ELTON B. STEPHENS

W. B. WHITE, JR.

DIRECTORS

IVAN ALLEN, JR.
Ivan Allen-Marshall Co.
Atlanta, Ga.

FRANK W. HULSE
Southern Airways, Inc.
Birmingham, Ala.

R. EUGENE ORR
Knight, Orr & Co., Inc.
Jacksonville, Fla.

J. MURREY ATKINS
R. S. Dickson & Co.
Charlotte, N. C.

ALTON F. IRBY, JR.
A. F. Irby & Co., Inc.
Atlanta, Ga.

W. HERBERT SMITH
W. Herbert Smith Co.
Clover, S. C.

CECIL A. BEASLEY, JR.
Kilpatrick, Ballard & Beasley
Washington, D. C.

HENRY P. JOHNSTON
Birmingham News Company
Birmingham, Ala.

ELTON B. STEPHENS
Elton B. Stephens & Assoc.
Birmingham, Ala.

EDWARD U. BENEKE
The Beneke Corporation
Columbus, Miss.

IKE F. JONES
Ga.-Carolina Paper & Supply Co.
Augusta, Ga.

W. B. WHITE, JR.
White, Bradley, Arant, All & Rose
Birmingham, Ala.

ALEXANDER J. BRUNINI
Brunini, Everett, Grantham & Quin
Vicksburg, Miss.

G. GUNBY JORDAN
The Jordan Company
Columbus, Ga.

GEN. RALPH H. WOOTEN
Mid-South Chemical Co.
Memphis, Tenn.

Stock Transfer Agent

THE FIRST NATIONAL BANK OF BIRMINGHAM

GENERAL OFFICES

Brown-Marx Building
Birmingham, Alabama

OPERATIONS HEADQUARTERS

Municipal Airport
Atlanta, Georgia

TO STOCKHOLDERS, EMPLOYEES AND FRIENDS

OF SOUTHERN AIRWAYS, INC.

The twelve months ended December 31, 1953, was the most successful year to date in your company's history. Despite major operational adjustments required because of revisions in our route system by the Civil Aeronautics Board in the Certificate Renewal Case, we earned a profit during 1953 in an amount that may be regarded as satisfactory under all the circumstances.

In addition to the necessity of major operational adjustments in 1953, the retroactive application of our permanent mail rate to the first quarter of the year also had a depressive effect upon profits. While the Board did not issue the final mail rate order until April 7, 1953, it was nevertheless made retroactive to October 1, 1952. Largely because of the resulting inability of your management to conform scheduling and expense levels to those established by the Board in this mail rate order, the company incurred a loss during the period January 1 through March 31, 1953 of approximately \$35,000. Significantly, we operated at a profit in April and during every succeeding month of the year, earning an amount sufficient to offset the loss during the first quarter and to show a profit for the year of \$31,886.

Although the Renewal Case was tried during 1952, the Board's decision was not issued until April, 1953. Our certificate was extended for approximately five years from February 8, 1952, the original expiration date, through December 31, 1956. Route revisions ordered by the Board in the Renewal Case were placed in effect by your company on June 13 when service was terminated between Columbus, Georgia and Charleston, South Carolina, and at Hattiesburg, Mississippi. On the same date we inaugurated service at Monroe, Louisiana, with two trips per day. On September 27, 1953, this service was increased to four trips per day.

While during 1953 we operated our revised system for some six months, past experience in the industry demonstrates that a substantially longer period is required to properly develop the traffic potential and achieve the maximum commercial revenues which can be expected after major route modifications.

Improvement in your company's traffic generation during 1953 is reflected by the fact that its load factor or percentage of seats occupied was the highest for any year since it commenced operations. This record load factor was achieved despite a 9.25% reduction of total mileage below that in 1952 and despite the fact that, because of the lower total mileage, we carried 7.22% less passengers in 1953 than in 1952. By elimination of our less productive mileage, and constant sales efforts we were able to increase our non-mail revenues from 37.40c per plane mile in 1952 to 39.99c in 1953, an increase of 6.93%.

While increasing its load factor, your company maintained strict control over costs. Although it flew substantially less total mileage and although inflationary pressures continued from all quarters, nevertheless your company held its 1953 per mile operating cost to 105.71c--an amount below the average for the local service industry for the same period. This result was accomplished by a reduction in personnel made possible in no small part through the increasing efficiency of our employees. Thus, at the beginning of 1953 your company had in excess of 475 persons on its payroll and by the end of the year this number had been reduced to 408.

During 1953 the Civil Aeronautics Administration extended the number of hours during which our aircraft may be operated without major overhaul. This extension was based upon

your company's excellent maintenance record. The increase of the overhaul period resulted in making available more time for our maintenance staff to work upon equipment other than that of your company. Services performed during 1953 for owners of several executive airplanes increased considerably your company's revenues from outside service sales.

Pursuant to the provisions of the Internal Revenue Code, no Federal Income Taxes are expected to be due on our 1953 earnings of \$31,886. Further, under the present revenue laws, no taxes are anticipated on future earnings of your company up to \$142,000 provided such profits are obtained within the next four years. Barring changes in the present Federal tax law, profits in coming years may be used to retire a substantial portion of our deficit without payment of any Federal Income Tax.

In the fall of 1953 our Atlanta offices were moved into new quarters in a more convenient location near the main entrance to the Atlanta Airport. The new, air-conditioned facilities are well-suited functionally to our purposes and should substantially improve the company's operating efficiency. I am happy to report that we were able to obtain the space at no increase in rental over that paid for the old offices. You are cordially invited to visit your company's offices at any time you can do so.

During the Christmas season of 1953 your company carried first class mail along with the other local service airlines. Participation by the local service air carriers in the movement of this mail substantially expedited a large volume of mail which would otherwise have moved by surface transportation and at the same time materially improved the Post Office's service to the public. It is believed that the success of this experiment will in time lead to regular transportation of first class mail by Southern Airways.

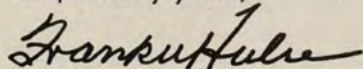
Again in 1953, your company operated with a perfect safety record. The fact that we have earned the Aviation Safety Award from the National Safety Council every year since operations began is a real tribute to the members of our organization.

At December 31, 1953, the original bank loan of \$500,000 made in the second quarter of 1952 had been reduced to \$130,000. No additional loans are contemplated; likewise, no increase in equity financing is planned at this time.

Your management will continue to exercise every possible effort to increase non-mail revenues, control costs and to reduce its dependence upon Government mail pay. Progress made by your company since it commenced operation in June, 1949, is illustrated by statistics on the last page of this report. An aggressive sales campaign is presently in progress and already our load factor is ahead of 1953.

We, of Southern, look forward to the year 1954 with confidence and I personally consider our future brighter than ever.

Respectfully yours,



Frank W. Hulse
President

BALANCE SHEET
S O U T H E R N A I R W A Y S , I n c .
DECEMBER 31, 1953

<u>ASSETS</u>	<u>LIABILITIES</u>
<u>CURRENT ASSETS</u>	<u>CURRENT LIABILITIES</u>
Cash:	Notes payable, including current portion of long-term debt due within one year:
Demand deposits	Secured:
Due from agents	For money borrowed - Note B
Office and station cash funds	For insurance premium - Note C
Accounts receivable:	Accounts payable and accrued expenses:
United States Government:	Trade accounts
For transportation of mail - Note B	Interest, taxes, and insurance
For other transportation	Salaries and wages
Air travel plans, air line traffic, and other trade receivables	Withholding and pay roll taxes
Inventories - at cost:	Rents and landing fees
Repair parts and shop supplies	Other
Other operating supplies	Unearned transportation revenue
Prepayments:	State taxes on income - estimated
Aircraft engine overhaul (unamortized)	
Insurance and interest	
	TOTAL CURRENT LIABILITIES
TOTAL CURRENT ASSETS	LONG-TERM DEBT
	Secured:
<u>INVESTMENTS AND OTHER ASSETS</u>	Note payable to bank for money borrowed, due \$10,000.00 monthly to January, 1955 - Note B
Investments in affiliates - at cost	Less payments due within one year shown as current liability
Account receivable from Employees' Trust Committee and accrued interest	
Service, utility and other deposits	Unsecured:
	Note payable for equipment and supplies - (subordinated) - Note D
<u>PROPERTY AND EQUIPMENT - at cost, less allowances for depreciation and overhaul - Note B</u>	
Hangar (located on leased land)	
Aircraft and related equipment	
Other equipment	
Improvements to rented property	
Less allowances for depreciation and overhaul	
Construction in progress - equipment	
	<u>CAPITAL</u>
<u>DEFERRED CHARGES</u>	Common stock, par value \$3.00 per share:
Unamortized cost of certificate of public convenience and necessity	Authorized, issued, and outstanding
Dues, advertising and other expenses	Paid-in surplus
	Earned surplus - deficit*
	TOTAL LIABILITIES AND CAPITAL
	\$1,023,611.73

N O T E S T O F I N A N C I A L S T A T E M E N T S

Note A - The Company is engaged in air transportation with respect to persons, property, and mail under authority of a Temporary Certificate of Public Convenience and Necessity issued by the Civil Aeronautics Board, which was originally effective February 8, 1949, and which was renewed under date of April 14, 1953 (with certain modifications) for an additional period expiring December 31, 1956.

Note B - Note payable to bank for money borrowed is secured by ten aircraft and substantially all of the re-

lated equipment, hangar located on land leased until January 11, 1959 (with option of renewal for five years), station and office furniture and equipment, automotive equipment, assignment of air mail pay due from United States Government, insurance policies for \$150,000.00 on life of an officer, and lease under which the Company is lessee of the land on which the hangar is located. The indebtedness is further secured by the guaranty of an officer of the Company.

Under the terms of the loan agreement with the

bank as amended effective January 1, 1954, the Company has agreed, among other things, (1) to maintain net current assets (as defined in the agreement) of \$300,000.00 or 100% of operating expenses (exclusive of depreciation) in the preceding twelve months, whichever is greater; (2) pay no dividends while the note is outstanding; and (3) to maintain a net worth of one and one-fourth times the unpaid principal amount of the note; otherwise the entire balance of the loan may be called by the bank.

Note C - Note payable for insurance premium is

secured by the unexpired portion of such premium.

Note D - Note payable to Southern Airways Company for equipment and supplies in the amount of \$109,403.42 is subordinated to the note payable to bank for money borrowed.

Note E - At December 31, 1953, the Company was contingently liable as endorser of note of Employees' Trust Committee of Southern Airways, Inc. payable to bank, in the amount of \$7,666.62. This note was paid in April, 1954.

SOUTHERN AIRWAYS, Inc.
STATEMENT OF PROFIT AND LOSS

Year ended December 31, 1953

Operating revenues:			
Transportation:			
Passenger			\$1,138,851.38
Mail			2,036,353.60
Express			36,435.37
Excess baggage			5,987.15
Incidental:			
Agency services and rents received - joint facilities			1,333.06
Service sales - net			23,661.15
Other			767.52
	TOTAL OPERATING REVENUES		<u>\$3,243,389.23</u>
Operating expenses:			
Flying operations	\$1,529,280.75		
Ground operations	513,530.72		
Ground and indirect maintenance	257,741.30		
Passenger service	135,041.62		
Traffic and sales	459,360.07		
Advertising and publicity	66,577.88		
General and administrative	233,466.70		
		3,194,999.04	
	OPERATING PROFIT		<u>\$ 48,390.19</u>
Other income:			
Interest earned	\$ 130.16		
Cash discount earned	4,516.31		
Profit on sale of equipment	2,491.81		
Reduction of rents and landing fees accrued for prior years	3,600.00		
Reduction in taxes accrued for prior years	2,951.86		
Sundry	1,510.78		
		15,200.92	
			<u>\$ 63,591.11</u>
Other deductions:			
Interest on long-term debt	\$ 15,646.26		
Other interest paid	3,392.35		
Amortization of route extension and development expenses	4,529.50		
Amortization of cost of renewal of certificate of public convenience and necessity	2,127.15		
Life insurance premiums	2,186.30		
Mail fines	660.48		
Loss on equipment abandoned	1,621.44		
Sundry	41.02		
		30,204.50	
	PROFIT BEFORE TAXES ON INCOME		<u>\$ 33,386.61</u>
Taxes on income - estimated:			
Provision for the year for state income taxes			1,500.00
		NET PROFIT	<u>\$ 31,886.61</u> =====
Provision for depreciation and overhaul of property and equipment included above - \$160,497.27.			

See Notes to Financial Statements.

STATEMENTS OF PAID-IN SURPLUS AND EARNED SURPLUS-DEFICIT

Year ended December 31, 1953

PAID-IN SURPLUS

Balance at January 1, 1953 and
December 31, 1953 - (no change
during year)

\$ 6,200.00
=====

EARNED SURPLUS-DEFICIT

Deficit at January 1, 1953
Credit net profit for the year

\$259,794.89
31,886.61

Deficit - December 31, 1953

\$227,908.28
=====

See Notes to Financial Statements.

ARRON
ATLANTA
BALTIMORE
BIRMINGHAM
BOSTON
BUFFALO
CANTON
CHICAGO
CINCINNATI
CLEVELAND
COLUMBUS
DALLAS
DAYTON
DENVER
DETROIT
ELIZABETH
FORT WORTH
GRAND RAPIDS
HOUSTON
INDIANAPOLIS
KANSAS CITY
LOS ANGELES
LOUISVILLE
MEMPHIS
MIAMI
MILWAUKEE
MINNEAPOLIS

ERNST & ERNST

ACCOUNTANTS AND AUDITORS
SYSTEM SERVICE

ATLANTA

FIRST NATIONAL BANK BLDG.
DELIVERY ZONE 3

NEW ORLEANS
NEW YORK
PHILADELPHIA
PITTSBURGH
PORTLAND, ME.
PROVIDENCE
READING
RICHMOND
ROCHESTER
ST. LOUIS
ST. PAUL
SAN ANTONIO
SAN FRANCISCO
SEATTLE
TOLEDO
WASHINGTON
WINSTON-SALEM
YOUNGSTOWN

TORONTO, CANADA

CORRESPONDENT AT
LONDON

CABLE ADDRESS
"ERNSTAUDIT" N. Y.

Board of Directors
Southern Airways, Inc.
Birmingham, Alabama

We have examined the balance sheet of Southern Airways, Inc. as of December 31, 1953, and the related statements of profit and loss and surplus-deficit for the year then ended. Our examination was 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.

Prepayments of aircraft engine overhaul, insurance and interest, which in the previous year were classified as deferred charges, are included in the balance sheet under current assets; and unearned transportation revenue, previously classified as deferred income, is included in the balance sheet under current liabilities in accordance with the general practice adopted by the airline industry in compliance with the uniform system of accounts prescribed by the Civil Aeronautics Board.

In our opinion, the accompanying balance sheet and statements of profit and loss and surplus-deficit present fairly the financial position of Southern Airways, Inc. at December 31, 1953, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied, except as mentioned in the preceding paragraph, on a basis consistent with that of the preceding year.

Ernst & Ernst

Certified Public Accountants

Atlanta, Georgia
April 14, 1954

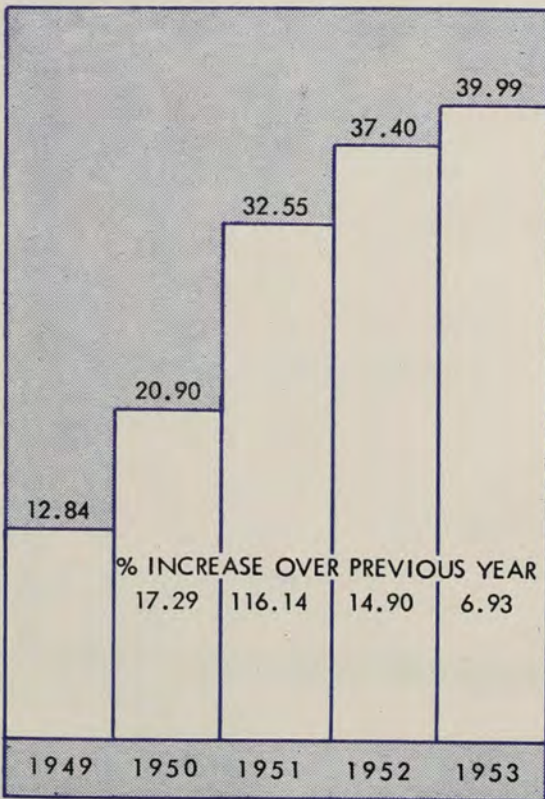
COMPARATIVE OPERATING STATISTICS

BY CALENDAR YEARS

	1949	1950	1951	1952	1953
REVENUE PLANE MILES	854,082	1,860,748	3,070,576	3,330,568	3,022,365
REVENUE PASSENGERS	10,665	38,117	96,572	121,065	112,328
REVENUE PASSENGER MILES	1,753,268	6,565,645	17,186,342	20,670,139	19,286,489
PASSENGER LOAD FACTOR	9.84	17.08	27.19	29.54	30.49
MAIL TON MILES	18,495	48,771	86,011	86,387	80,050
EXPRESS TON MILES	15,765	44,546	79,359	88,403	73,507
% SCHEDULED MILES COMPLETED	94.34	96.92	97.54	98.47	97.68

TOTAL NON MAIL REVENUE

Cents Per Revenue Plane Mile



PASSENGER REVENUE

Cents Per Revenue Plane Mile

