



SOUTHERN AIRWAYS, INC.  
 Map of Present System with Proposed Extensions  
 and Pending Applications as Shown in Legend  
 April 28, 1958

MAY 6 1959

**Southern Airways**



**Incorporated**

EXECUTIVE OFFICES BIRMINGHAM, ALABAMA

**TO STOCKHOLDERS, EMPLOYEES AND FRIENDS:**

The audited financial statements of Southern Airways, Inc. for the year ended December 31, 1957, are presented herewith. In reviewing the statements it should be kept in mind that, as pointed out in footnote A to the statements, we have been operating on a temporary mail rate and the results shown in these statements, therefore, to that extent are tentative.

Proceedings have already begun by which the Civil Aeronautics Board will determine a retroactive final Mail Rate. Your Company's management believes that under this new rate mail payments for 1957 (and, in fact, since April 6, 1956 when Southern filed an application for a higher rate) will be adjusted upward to compensate for increased costs not reflected in the temporary rate.

Upon receipt of the new rate I will advise you of its retroactive effect on our financial operating results for 1957.

On September 3, 1957, service between Atlanta and Eglin Air Force Base, Florida was inaugurated under an exemption authority granted by the Civil Aeronautics Board. Traffic over this new route immediately exceeded system average and continues to contribute to higher system load factors.

Air freight service was introduced on December 1, 1957, consistent with the policy of your Company to provide a complete air transportation service. Results to date indicate clearly the acceptance of this service by the shipping public.

Passenger traffic in 1957 increased 15.9% in terms of revenue passenger miles to a new high of 37,500,000. Enplaned passengers increased 13.8% to 215,000, also a record.

During 1957, the Civil Aeronautics Board initiated three area route investigations affecting Southern: the South Central Area Local Service Case, the Southeastern Area Local Service Case and the Piedmont Local Service Area Investigation. Hearings have been held before Civil Aeronautics Board Examiners in the first two of these cases with hearing of the Piedmont Case scheduled for this fall.

A map showing our present system, the new services proposed in the South Central and Southeastern Cases and the applications on file in the Piedmont Case is enclosed. Of greatest importance to Southern, is the Southeastern Case which for the first time is affording the Civil Aeronautics Board and your Company an opportunity to modify on a comprehensive basis Southern's route system. Further, our system should be improved qualitatively to the extent that our approach to self-sufficiency and our future will be greatly enhanced.

The Civil Aeronautics Board decision on the South Central Case is expected this summer, and decision on the Southeastern Case should come by the spring of 1959. The results of the Piedmont Case will probably be known in 1960.

Respectfully yours,

Frank W. Hulse  
President

April 28, 1958

**Southern Airways, Incorporated**

**FINANCIAL STATEMENTS**

DECEMBER 31, 1957

*Balance Sheet*  
**ASSETS**

**CURRENT ASSETS**

Cash		\$ 193,968.94	
Accounts receivable:			
United States Government - for mail and other transportation - Note A	\$ 230,517.45		
Airline traffic and other receivables	<u>284,943.40</u>	515,460.85	
Claim for income tax refund, arising from carry-back of operating loss			3,421.35
Maintenance and other operating supplies - at average cost			114,934.33
Prepaid aircraft engine overhaul, insurance and other expenses		<u>142,563.67</u>	
<b>TOTAL CURRENT ASSETS</b>		\$ 970,349.14	

**INVESTMENTS AND OTHER ASSETS**

**PROPERTY AND EQUIPMENT** - on the basis of cost - Note B

Hangar (located on leased land)	\$ 140,491.16		
Aircraft and related equipment	1,280,197.60		
Other equipment	251,048.57		
Improvements to rented property	54,834.57		
Work in progress	<u>39,428.79</u>		
	\$1,766,000.69		
Less allowances for depreciation and overhaul	<u>1,142,111.22</u>	623,889.47	

**DEFERRED CHARGES**

Unamortized route extension and development costs		<u>35,785.30</u>	
		<u><u>\$1,647,692.84</u></u>	

**LIABILITIES**

**CURRENT LIABILITIES**

Payments on long-term debt due within one year	\$ 113,053.92		
Accounts payable	420,296.11		
Airline traffic and other collections and withholdings as agents	258,094.63		
Salaries, wages, and vacation pay	115,710.04		
Accrued advertising, taxes, and other expenses	41,898.80		
Air travel card deposits	39,525.00		
Unearned transportation revenue	<u>23,993.23</u>		
<b>TOTAL CURRENT LIABILITIES</b>		\$1,012,561.73	

**LONG-TERM DEBT** - Note B

Notes payable to banks in monthly installments aggregating \$9,421.19	\$ 131,053.92		
Less payments due within one year included in current liabilities	<u>113,053.92</u>	18,000.00	

**CAPITAL** - Notes B, C, and D

Common Stock, par value \$3.00 a share:			
Authorized - 400,000 shares			
Issued and outstanding - 252,400 shares	\$ 757,200.00		
Paid in surplus (no change during year)	3,121.78		
Earned-surplus deficit (deduction*)	<u>143,190.67*</u>	<u>617,131.11</u>	
		<u><u>\$1,647,692.84</u></u>	

*Statement of Earned-Surplus Deficit*

Deficit at January 1, 1957	\$ 85,451.63	
Net loss and special credits for the year	<u>57,739.04</u>	
Deficit at December 31, 1957	\$ <u><u>143,190.67</u></u>	

See Notes to Financial Statements.

*Statement of Income*

**OPERATING REVENUES**

Passenger	\$2,262,337.15
Mail (principally subsidy from U. S. Government) - Note A	2,028,872.00
Express, freight, and excess baggage	71,009.83
Charter	50,234.25
Service sales and other revenues - net	<u>14,772.50</u>
	\$4,427,225.73

**OPERATING EXPENSES** - Note F

Flying operations	\$1,375,368.88
Maintenance	861,643.45
Passenger service	208,485.24
Aircraft and traffic servicing	1,261,171.77
Promotion and sales	406,316.88
General and administrative	273,544.88
Depreciation and amortization	<u>179,043.73</u>
	<u>4,565,574.83</u>

**OTHER INCOME**

	<u>4,044.63</u>
	\$ 134,304.47*

**OTHER DEDUCTIONS**

Interest - principally on long-term debt	\$ 8,497.41
Life insurance expense and other deductions	<u>1,765.86</u>
	<u>10,263.27</u>

LOSS BEFORE INCOME TAX CREDIT \$ 144,567.74\*

**INCOME TAX CREDIT**

Estimated refundable taxes on income of prior year, arising from carry-back of loss		<u>5,711.80</u>
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NET LOSS - NOTE A \$ 138,855.94\*

**SPECIAL CREDITS**

Increase in 1956 compensation for mail transportation (subsidy) due to retroactive increase in temporary mail rate - Note A	\$ 61,013.30
Adjustments resulting from final determination of certain prior year expense and other accruals	<u>20,103.60</u>
	<u>81,116.90</u>

NET LOSS AND SPECIAL CREDITS \$ 57,739.04\*

\* Indicates red figures.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE A** - The Company is engaged in air transportation with respect to persons, property, and mail under authority of a Permanent Certificate of Public Convenience and Necessity issued by the Civil Aeronautics Board effective January 24, 1956. Since April 6, 1956, the Company has been compensated for the transportation of mail (subsidy) under temporary rates which are subject to adjustment in a future Civil Aeronautics Board proceeding to determine a final mail rate. The amount of retroactive subsidy which the Company will receive for the period since April 6, 1956, and, therefore, the final net income for periods subsequent to that date, will not be determined until the establishment of the permanent mail rate.

On July 3, 1957, the Company was granted an increase in the temporary rate retroactive to April 6, 1956. Pending final determination of a permanent rate, the portion of this increase which is applicable to 1956 is shown in the statement of income for 1957 as a special credit.

**NOTE B** - Long-term debt includes a 4 1/2% note (payable in monthly installments of \$9,000.00) in the amount of \$126,000.00 secured by thirteen aircraft and substantially all of the related equipment, station and office furniture and equipment, automotive equipment, and insurance policies for \$150,000.00 on the life of an officer.

NOTE B - Continued

Under terms of the loan agreement with the bank, the Company has agreed, among other things, (1) to maintain net current assets of \$300,000.00 (computed without inclusion of the unpaid balance of the loan as a current liability) or 10% of operating expenses (exclusive of depreciation) for the preceding twelve months, whichever is greater; (2) to pay no dividends while the notes are outstanding; and (3) to maintain a net worth of one and one-fourth times the unpaid principal amount of the notes; otherwise the entire balance of the loan may be called by the bank. The restriction relating to maintenance of net current assets has been waived by the bank for the year 1957.

Long-term debt also includes a note (payable in monthly installments of \$421.19) in the amount of \$5,053.92 secured by shop equipment having a net book value of \$9,186.52.

NOTE C - At December 31, 1957, restricted options to purchase Common Stock of the Company were held by officers. One option for 10,000 shares at \$6.05 a share expires May 1, 1960, and options for the other 10,000 shares at \$4.67½ a share expire on May 1, 1965. These options were granted in 1955 and none have been exercised since then.

NOTE D - In January, 1958, the Company's employees completed subscription to 31,000 shares of the Company's \$3.00 par value Common Stock offered to such employees in December, 1957, at \$3.25 a share, the subscription price plus interest to be collected through pay roll deductions over a thirty-six month period. Upon collection of each subscription, the Common Stock account will be credited with the par value of the subscribed shares, and the balance of the proceeds will be credited to paid-in surplus.

NOTE E - During the year 1956 the Company adopted employee retirement plans for a major portion of its employees. Estimated future annual cost of the plans, including the cost of funding the past service benefits over a period of twenty years, on the basis of present employment, is approximately \$66,000.00.

NOTE F - Operating expenses for the year ended December 31, 1957, are classified in accordance with the revised Uniform System of Accounts for Air Carriers, which became effective in 1957. Such revised classification of accounts had no effect on the determination of the net loss for the year.

## ACCOUNTANTS' REPORT

Board of Directors  
Southern Airways, Inc.  
Birmingham, Alabama

We have examined the financial statements of Southern Airways, Inc. as of and for the year ended December 31, 1957. 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.

In our opinion, subject to the effect of any future retroactive determination of mail compensation rates as explained in Note A to the financial statements, the accompanying balance sheet and statements of income and earned-surplus deficit present fairly the financial position of Southern Airways, Inc. at December 31, 1957, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST  
Certified Public Accountants

Atlanta, Georgia  
April 4, 1958