

Southern Airways, Inc.



*Going Places with the South for **10** Great Years!*



Pictorial Highlights---1949-1959



FIRST FLIGHT — June 10, 1949



FIRST AIR EXPRESS — June 10, 1949



FIRST CLASS MAIL BY AIR — December, 1953



FIRST SYSTEM SALES MEETING — August, 1950



FIFTH ANNIVERSARY — June, 1954



Southern Airways, Inc.

Management

OFFICERS

Frank W. Hulse
President

***C. M. Britt**
Vice President—Sales

C. H. D. Tarrer
Assistant Treasurer

**Resigned February 28, 1959.*

Ike F. Jones
Vice President

****Graydon Hall**
Vice President—Sales

Cecil A. Beasley, Jr.
Assistant Secretary

***Assumes office May 1, 1959.*

W. S. Magill
Vice President—Operations

George F. Estey
Secretary-Treasurer

W. B. White, Jr.
Assistant Secretary

EXECUTIVE COMMITTEE

Frank W. Hulse Henry P. Johnston W. B. White, Jr.
Ivan Allen, Jr. Elton B. Stephens

DIRECTORS

Ivan Allen, Jr.
Ivan Allen Co.
Atlanta, Ga.

J. Murrey Atkins
R. S. Dickson & Co.
Charlotte, N. C.

Cecil A. Beasley, Jr.
Kilpatrick, Ballard & Beasley
Washington, D. C.

Edward U. Beneke
The Beneke Corporation
Columbus, Miss.

Alexander J. Brunini
Bruini, Everett, Grantham & Quin
Vicksburg, Miss.

Frank W. Hulse
Southern Airways, Inc.
Birmingham, Ala.

Alton F. Irby, Jr.
A. F. Irby & Co., Inc.
Atlanta, Ga.

Henry P. Johnston
Radio & TV Consultant
Birmingham, Ala.

Ike F. Jones
Ga.-Carolina Paper & Sup. Co.
Augusta, Ga.

G. Gunby Jordan
The Jordan Company
Columbus, Ga.

R. Eugene Orr
Knight, Orr & Co., Inc.
Jacksonville, Fla.

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

Elton B. Stephens
Ebsco Industries, Inc.
Birmingham, Ala.

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

Gen. Ralph H. Wooten
Chemical Fire & Casualty Ins. Co.
Memphis, Tenn.

STOCK TRANSFER AGENT

The First National Bank of Birmingham

Birmingham, Alabama

Executive Office: Brown-Marx Building, Birmingham, Alabama

General Offices: Atlanta Airport, Atlanta, Georgia



President's Report

To Shareholders, Employees and Friends:

It is a pleasure to report that the calendar year 1958 was the most profitable of your Company's history. Earnings were \$146,602, after taxes, or 58¢ per share. Establishment of a permanent mail rate by the Civil Aeronautics Board, retroactive to April 6, 1956, converted previously reported losses for 1956 and 1957 into profits and, in fact, resulted in your Company showing a profit for each of the past six consecutive years. The deficit of \$143,190 previously reported to you as of December 31, 1957 was converted to a surplus of \$118,186 as of December 31, 1958. Total income of \$5,461,000 in 1958 was an all-time high and exceeded the previous year by some \$815,000, an increase of 18%.

The year 1959 is our tenth anniversary year and, as you will see from this report, our progress has been substantial since the first scheduled flight on June 10, 1949. We plan an extensive program, with events continuing during the entire year, to celebrate the anniversary and to promote the use of your Company's services. Our progress has already received substantial public and official recognition. For example, the Chairman of the Civil Aeronautics Board, the Honorable James R. Durfee, made a special trip to Athens, Georgia to be principal speaker at our tenth anniversary sales meeting in February.

This report includes pictorial presentations on the inside front and back covers which highlight certain of your Company's operations and progress during its first ten years.

In addition to achieving good financial results in 1958, the Company operated successfully in other areas. Again we will be recognized by the National Safety Council for having continued our perfect safety record since the beginning of our operation. Through 1958 we have flown some 237,250,000 passenger miles with a perfect safety record. This distance, it is interesting to note, approximates ten thousand trips around the world at the equator.

Air freight service, inaugurated at the end of 1957, has come to provide an important new source of revenue. We developed in 1958 total freight and express revenues of \$101,000, an amount more than double that obtained in 1957.

Added service during 1958 consisted of a new route between Atlanta, Georgia and Memphis, Tennessee, via Huntsville, Alabama (Redstone Arsenal), and a new route between Eglin Air Force Base, Florida (Ft. Walton Beach) and New Orleans, Louisiana, and service to Anniston, Alabama (Fort McClellan). These additions were made after the Department of Defense petitioned the Civil Aeronautics Board to expedite service at these points in the interest of National Defense. Greenwood, Mississippi was added by an exemption order. The Civil Aeronautics Board also awarded your Company a new route from Memphis, Tennessee to New Orleans, Louisiana, via University-Oxford, Greenwood and Jackson, Mississippi and Bogalusa, Louisiana during 1958 in a decision in the proceeding known as the *South Central Area Local Service Case*, which will become effective May 19, 1959. Service over this route will be inaugurated shortly after that date. The Civil Aeronautics Board Hearing Examiner, who conducted the *Southeastern Area Local Service Case*, recommended Southern for a number of new routes. If these recommendations are adopted by the Board, your Company will be awarded eight additional new cities. This will result in a large increase in mileage. Officers of your Company will testify at a hearing starting April 6, 1959, in the *Piedmont Area Local Service Case* which involves several route extensions and improvements for our system.

In 1958 we paid off all outstanding bank loans. A new bank credit of \$400,000 has recently been arranged with the Chase Manhattan Bank and a group of other participating institutions. These include the Union Planters National Bank of Memphis, the Merchants



Southern Airways, Inc.

National Bank of Mobile, and the Trust Company of Georgia of Atlanta. This credit will be used to pay for flight equipment (including our 17th DC-3), for radio and ground equipment purchases and to supply working capital.

The ten percent Federal transportation tax, imposed during World War II, constitutes a real detriment to the use of our services by the traveling public. The principal competition of Southern Airways is the private automobile, which is not subject to this tax. During the current session of Congress, the repeal of this tax would in our opinion result in an increase of total revenues and earnings.

Although our commercial revenues have increased very substantially, we are still dependent upon subsidy and will be for some time to come. For this reason the Civil Aeronautics Board's mail rate policy is of utmost importance to your Company. In this connection, the Board has recently announced that a new mail rate policy for the Local Service Airlines will be established on July 1, 1959, or as soon thereafter as possible.

It is believed that this new program will eliminate long periods of uncertain financial results under temporary mail rates. For the first time Local Service Airlines will be able to formulate plans on a stable long range basis. We will assume further responsibility through more freedom in managerial judgment and in return we will be provided the incentive of a greater return on the stockholders' investment.

Casey M. Britt, who served for some five years as Vice President of Sales, resigned on March 1, 1959 to accept employment outside the airline industry. Graydon Hall, presently Assistant Vice President of Eastern Airlines, and a thirteen year veteran of the airline industry, will assume duties as Vice President of Sales on May 1, 1959.

During the past several months we have test flown three new airplanes in our continued search for suitable equipment to replace the time-honored DC-3. We are confident that, as a result of route improvements and additional routes which will be awarded to your Company in current Civil Aeronautics Board cases, we will be in a position in the near future to use new aircraft over portions of our system.

More than one-half of our 550 employees have spent in excess of five years in the service of your Company. During the calendar year 1959, 63 of our employees will complete their tenth year of service. A great deal of the success of this organization can be attributed to our devoted, loyal employees and I should like to pay tribute to their untiring efforts in helping develop Southern Airways.

Respectfully yours,

President

April 3, 1959



Financial Statements

Balance Sheet

December 31, 1958

ASSETS

CURRENT ASSETS

Cash		\$ 288,723.89
Accounts receivable:		
United States Government—for mail and other transportation	\$ 288,585.24	
Airline traffic and other receivables	501,366.05	789,951.29
Claim for income tax refund, arising from carry-back of prior year operating loss		3,421.35
Maintenance and other operating supplies—at average cost		115,164.69
Prepaid aircraft engine overhaul, insurance, and other expenses		139,188.53

TOTAL CURRENT ASSETS **\$1,336,449.75**

INVESTMENTS AND OTHER ASSETS

25,556.99

PROPERTY AND EQUIPMENT—on the basis of cost—Note B

Hangar (located on leased land)	\$ 140,491.16	
Aircraft and related equipment	1,525,113.31	
Other equipment	282,265.18	
Improvements to rented property	57,692.67	
Work in progress	70,090.00	
	<u>\$2,075,652.32</u>	
Less allowances for depreciation and overhaul	1,360,214.10	715,438.22

DEFERRED CHARGES

Unamortized route extension and development costs	49,220.64
	<u><u>\$2,126,665.60</u></u>

LIABILITIES

CURRENT LIABILITIES

Notes payable for aircraft purchased—Note B	\$ 151,500.00
Accounts payable	222,301.22
Airline traffic and other collections and withholdings as agents	356,510.00
Salaries, wages, and vacation pay	156,722.51
Accrued advertising, taxes, and other expenses	33,027.51
Air travel card deposits	46,750.00
Unearned transportation revenue	40,898.66
Federal and state taxes on income—estimated	\$ 250,000.00
Less payment made on declaration of estimated federal tax	45,000.00
	<u>205,000.00</u>

TOTAL CURRENT LIABILITIES **\$1,212,709.90**

CAPITAL STOCK AND SURPLUS—Notes B, C, D, and E

Common Stock, par value \$3.00 a share:		
Authorized—400,000 shares		
Issued and outstanding—252,400 shares	\$ 757,200.00	
Installment payments by employees for purchase of stock	35,447.87	
Paid-in surplus	3,121.78	
Earned surplus	118,186.05	913,955.70

\$2,126,665.60

See Notes to Financial Statements.



Southern Airways, Inc.

Statement of Income

Period of three years ended December 31, 1958

	1956	1957	1958
OPERATING REVENUES			
Passenger	\$1,950,077.23	\$2,257,122.77	\$2,799,424.24
Mail (principally subsidy from U. S. Government)—Note A	1,823,635.06	2,252,993.80	2,473,589.20
Express, freight, and excess baggage	75,806.04	71,009.83	127,424.58
Charter	100,886.19	50,234.25	36,851.76
Service sales and other revenues—net	8,433.80	14,772.50	23,745.20
TOTAL OPERATING REVENUES	\$3,958,838.32	\$4,646,133.15	\$5,461,034.98
OPERATING EXPENSES			
Flying operations	\$1,739,309.12	\$1,375,368.88	\$1,504,496.15
Ground and indirect expenses	1,980,490.76	2,897,875.13	3,283,878.73
General and administrative	244,626.22	273,544.88	301,938.43
TOTAL OPERATING EXPENSES	\$3,964,426.10	\$4,546,788.89	\$5,090,313.31
	\$ 5,587.78*	\$ 99,344.26	\$ 370,721.67
OTHER INCOME	11,350.40	4,044.63	1,749.23
	\$ 5,762.62	\$ 103,388.89	\$ 372,470.90
OTHER DEDUCTIONS			
Interest expense	\$ 13,044.50	\$ 8,497.41	\$ 12,804.99
Miscellaneous	5,867.89	1,765.86	3,274.70
	\$ 18,912.39	\$ 10,263.27	\$ 16,079.69
INCOME-LOSS* BEFORE TAXES ON INCOME	\$ 13,149.77*	\$ 93,125.62	\$ 356,391.21
TAXES ON INCOME			
Provision for federal and state taxes (or income tax credits*), exclusive of portion applicable to special items shown below	7,422.82*	59,856.52	192,375.00
NET INCOME-LOSS*	\$ 5,726.95*	\$ 33,269.10	\$ 164,016.21
SPECIAL ITEMS (CREDIT-CHARGE*)			
Gain (loss*) on sale of aircraft and related transactions	\$ 32,956.48	\$ —	\$ 37,413.40*
Less applicable effect on income taxes (credit*)	17,882.37	—	20,000.00*
	\$ 15,074.11	\$ —	\$ 17,413.40*
NET INCOME AND SPECIAL ITEMS	\$ 9,347.16	\$ 33,269.10	\$ 146,602.81
Provision for depreciation and amortization of property and overhaul of aircraft included above	\$ 181,728.82	\$ 210,641.28	\$ 247,577.58

*Indicates red figures.

Statement of Surplus

Period of three years ended December 31, 1958

	1956	1957	1958
PAID-IN SURPLUS			
Balance January 1, 1956, and December 31, 1958 (no change during the period)	\$ 3,121.78	\$ 3,121.78	\$ 3,121.78
EARNED SURPLUS			
Deficit* at beginning of year	\$ 71,033.02*	\$ 61,685.86*	\$ 28,416.76*
Net income and special items	9,347.16	33,269.10	146,602.81
SURPLUS (DEFICIT*) AT END OF YEAR	\$ 61,685.86*	\$ 28,416.76*	\$ 118,186.05

See Notes to Financial Statements.



Notes to Financial Statements

December 31, 1958

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. On October 2, 1958, the Civil Aeronautics Board issued an order fixing permanent rates for the transportation of mail (subsidy) for the period since April 6, 1956.

The amounts previously reported on statements of income for the years 1956 and 1957 have been changed to allocate to the appropriate year, the effect of these new permanent rates, the adjustment of certain expense accruals related thereto, and the applicable effect on taxes on income. These changes are summarized as follows:

	Earned-Surplus Deficit* at January 1, 1956	Net Income (Losses**) and Special Items	
		Year Ended Dec. 31, 1956	Year Ended Dec. 31, 1957
AS PREVIOUSLY REPORTED	\$ 80,411.88*	\$ 5,039.75**	\$ 57,739.04**
Add (deduct):			
Allocation of 1958 transactions affecting income of prior years:			
Final determination of permanent mail rate	-0-	(50,505.96)	224,121.80
Adjustment of certain related expense accruals	-0-	-0-	18,785.94
Allocation of items reported in prior years as Special Items:			
Retroactive increase in temporary mail rate	-0-	61,013.30	(61,013.30)
Adjustment of certain related expense accruals	4,040.00	15,939.12	(19,979.12)
Restoration of over-provision for income taxes of the year 1955	5,338.86	-0-	(5,338.86)
Applicable income tax effect of the foregoing allocations	-0-	(12,059.55)	(65,568.32)
AS ADJUSTED	\$ 71,033.02*	\$ 9,347.16	\$ 33,269.10

Note B—The notes payable for aircraft purchased were paid on January 19, 1959.

On January 17, 1959, the Company entered into a loan agreement with a bank providing for (1) a maximum loan of \$400,000.00, to be drawn any time prior to May 31, 1959; (2) the total amount borrowed to be evidenced by a 5¼% long-term note dated June 15, 1959, payable in monthly installments of \$15,000.00 for the first 14 months, with reduced monthly payments thereafter. As a part of this arrangement, the Company has executed a chattel mortgage on all aircraft, engines, and related parts and flight equipment and has agreed, among other things, (1) to maintain net current assets of \$475,000.00 (computed without regard to the unpaid balance of the loan) or 10% of operating expenses for the preceding twelve-month period (exclusive of depreciation) whichever is greater, and (2) to pay no dividends or other payments relating to capital stock while the loan remains unpaid.

Note C—At December 31, 1958, restricted options to purchase 20,000 shares of 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 has been exercised.

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 completion of collection for these subscriptions, 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—In an examination of the Company's federal income tax returns for the years 1955 and 1956, now in progress, the representative of the Internal Revenue Service has indicated adjustments which would result in additional taxes of approximately \$47,000.00. The Company is contesting these adjustments and no provision has been made for any additional tax pending final settlement.

Note F—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 \$80,000.00. The Company has also agreed to an additional plan to become effective on June 1, 1959, under which annual cost will be increased by approximately \$15,000.00 for the first year.



Accountants' Report

ERNST & ERNST

FIRST NATIONAL BANK BUILDING

ATLANTA 3, GA.

ACCOUNTANTS-AUDITORS
MANAGEMENT SERVICES

OFFICES IN PRINCIPAL CITIES
ASSOCIATES IN FOREIGN COUNTRIES

Board of Directors
Southern Airways, Inc.
Birmingham, Alabama

We have examined the financial statements of Southern Airways, Inc. for the period of three years ended December 31, 1958. 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, the accompanying balance sheet and statements of income and earned surplus present fairly the financial position of Southern Airways, Inc. at December 31, 1958, and the results of its operations for the period of three years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst

Certified Public Accountants

Atlanta, Georgia
March 19, 1959



Southern Airways, Inc.

10 Years of Progress

1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
NON-MAIL REVENUE PER REVENUE PLANE MILE									
13c	21c	33c	37c	40c	47c	55c	61c	62c	73c
AVERAGE REVENUE PASSENGERS PER REVENUE PLANE MILE									
2.14	3.59	5.72	6.21	6.40	7.32	8.60	9.21	9.74	10.23
AVERAGE REVENUE TONS PER REVENUE PLANE MILE									
.25	.39	.60	.65	.67	.76	.89	.95	1.00	1.06
REVENUE SCHEDULED PLANE MILES FLOWN									
819,240	1,831,379	3,006,048	3,330,568	3,011,871	3,060,801	3,263,651	3,513,500	3,850,069	4,041,246
1ST YEAR	2ND YEAR	3RD YEAR	4TH YEAR	5TH YEAR	6TH YEAR	7TH YEAR	8TH YEAR	9TH YEAR	10TH YEAR



Pictorial Highlights---1949-1959



PERMANENT CERTIFICATION — December, 1955



AIRFREIGHT SERVICE — December, 1957



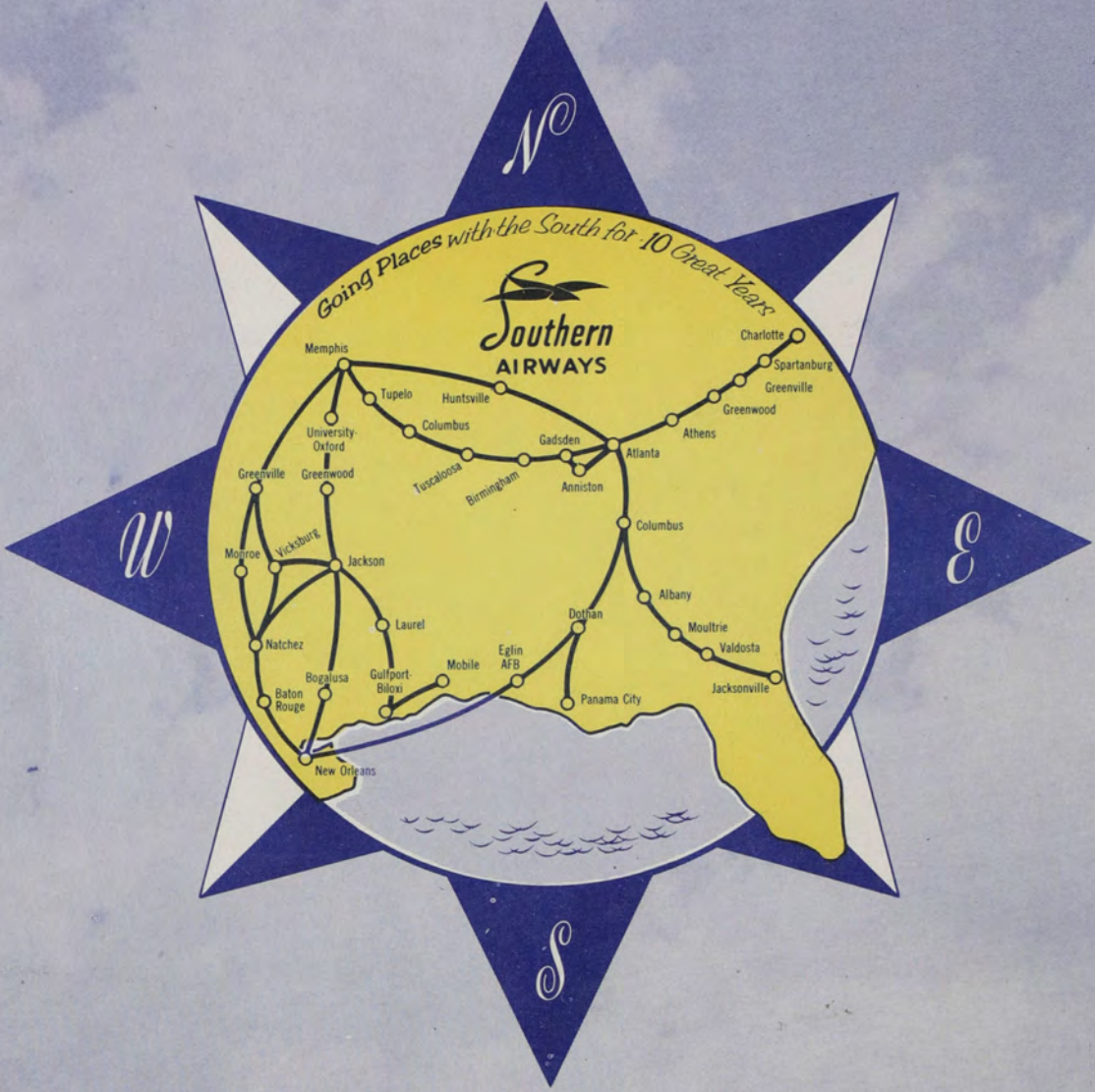
MILLIONTH PASSENGER — August, 1957



FIRST TEN-YEAR SERVICE AWARD — January, 1959



SYSTEM SALES CONFERENCE — February, 1959



Going Places with the South for 10 Great Years

Southern
AIRWAYS

