



ANNUAL
REPORT
1961

THE AIRLINE THAT IS GROWING WITH THE SOUTH

Southern AIRWAYS, INC.

DIRECTORS

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
Brunini, Everett, Grantham & Quin
Vicksburg, Miss.

GRAYDON HALL
Southern Airways, Inc.
Atlanta, Ga.

F. BARTON HARVEY
Alex Brown & Sons
Baltimore, Md.

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

ALTON F. IRBY, JR.
Irby-Adams-Cates Co.
Atlanta, Ga.

HENRY P. JOHNSTON
Radio & Television Consultant
Birmingham, Ala.

G. GUNBY JORDAN
The Jordan Company
Columbus, Ga.

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

FRANCIS D. SCHAS
Bullington-Schas & Co.
Memphis, Tenn.

ELTON B. STEPHENS
Ebsco Industries, Inc.
Birmingham, Ala.

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

GEN. RALPH H. WOOTEN
United States Air Force—Ret.
Memphis, Tenn.

EXECUTIVE COMMITTEE

GRAYDON HALL
FRANK W. HULSE

HENRY P. JOHNSTON
ELTON B. STEPHENS

W. B. WHITE, JR.

OFFICERS

FRANK W. HULSE
President

IKE F. JONES
Vice President

GRAYDON HALL
Vice President—Sales

W. S. MAGILL, JR.
Vice President—Operations

M. LAMAR MUSE
Vice President—Finance

J. KENNETH COURTENAY
Vice President—
Administrative Services

GEORGE F. ESTEY
Secretary

C. H. D. TARRER
Treasurer

GEORGE F. ATTWOOD
Assistant Vice President—
Facilities and Properties

GEORGE M. GROSS
Assistant Vice President—
Maintenance and Engineering

W. BAYNE GRUBB
Assistant Vice President—
Flight Operations

CECIL A. BEASLEY, JR.
Assistant Secretary

W. B. WHITE, JR.
Assistant Secretary

GENERAL OFFICES: Atlanta Airport, Atlanta, Georgia

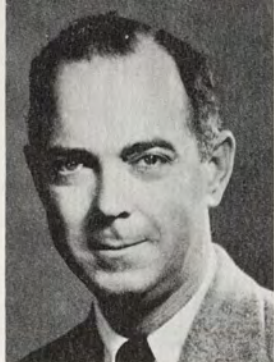
COUNSEL: *White, Bradley, Arant, All & Rose, Birmingham, Alabama*
Kilpatrick, Ballard & Beasley, Washington, D. C.

AUDITOR: *Ernst & Ernst, Atlanta, Georgia*

STOCK TRANSFER AGENT: *First National Bank of Birmingham, Birmingham, Alabama*

ADVERTISING COUNSEL: *Harris & Weinstein Associates, Inc., Atlanta, Georgia*

April 20, 1962



**TO: SHAREHOLDERS,
EMPLOYEES AND FRIENDS**

The year 1961 was the best in Southern Airways' history. Profit after taxes amounted to \$204,349 or 70¢ a share, a record high. During the year, we also established new records for revenue, for passengers carried and for cargo handled. Our system was expanded with the opening of seven new stations bringing the total to 52 which provide service for 61 cities. We added five pressurized Martin-404 aircraft as a part of our fleet modernization program.

Most of the local service airlines, including Southern Airways, started business nearly fifteen years ago on an experimental basis. The importance of this new segment of the air transportation industry was first recognized nationally in 1955 when the Congress enacted legislation granting permanent status to all 13 local carriers. Effective January 1, 1961, the Civil Aeronautics Board established the Class Mail Rate designed to enable the local carriers to earn reasonable profits. Again, the importance of our industry was recognized nationally.

The results of our first year of operation under the Class Rate are reported herein. Under the new rate philosophy, we will be able to make long-term plans which were not possible in the past, and we are confident that we will grow and prosper on a sound financial basis. In the years ahead, we expect to serve even a greater segment of our Southland as the larger airlines gradually give up many of the cities presently served. Our operations will also be extended to serve additional cities of our area as their growth warrants air transportation.

With expanded operations in the years ahead, we are confident that our service will prove more valuable to the traveling public and that this larger operation will provide good returns for our investors.

Respectfully yours,

FRANK W. HULSE
President



**GENERAL
OFFICES,
SOUTHERN
AIRWAYS, INC.**

on May 1, 1962,
will be relocated
in this functional
new building
which is part of
International
Office Park and
faces Southern's
maintenance
facilities at the
Atlanta Airport.



THE YEAR OF ACHIEVEMENT

EARNINGS: The 1961 earnings of \$204,349 represent not only the highest earnings in the history of the Company but mark the resumption of a continuous series of profitable operations beginning in 1953, broken only by a loss for the year 1960 when service was curtailed for four months by a pilot strike. Net earnings plus interest charges represent a return of 9.1% on year end invested capital (stockholders' equity plus long term debt).

REVENUES: Like earnings, both commercial revenues received from the customer for services performed and public service revenues received from the Government for services made available reached new highs in 1961. A 60% improvement in commercial revenues together with receipt throughout the year of public service revenues based on the new Class Mail Rates contributed to the improved earning position.

EXPENSES: As a result of more efficient use of flight equipment and continued vigilant control of ground and indirect expenses, together with a close working relationship between management and employees throughout the year there was an improvement in unit cost per plane mile flown totaling 10.3¢. This improvement was made even though five of the larger and faster Martin-404 aircraft were introduced into the fleet during the latter part of the year. Such an introduction of new equipment is usually accompanied by a period of high costs which were avoided only by excellent advance planning by all departments concerned.



FINANCES: Satisfactory agreements were made during the year with banks, suppliers and private investors for the Company's first substantial long term financing which made possible the purchase of the fleet of Martin "aristocrat" aircraft and related support equipment together with providing the Company for the first time in its history with adequate working capital.

Southern Airways, Inc., has filed a claim with the Civil Aeronautics Board for retroactive public service revenues applicable to the open rate period beginning July 1, 1959 and ending December 31, 1960 in the approximate total amount of \$600,000, of which roughly \$200,000 is applicable to the normal operating period and \$400,000 to the four month period (June 5 to September 29, 1960) during which operations were affected by a pilot strike. This claim is presently being processed by the Civil Aeronautics Board, and every effort will be made to reach a satisfactory settlement during 1962. This claim is not reflected in financial statements included in this report.

THE 1961 REVENUE DOLLAR

SOURCE		DISPOSITION			
53.45 ¢	Passengers	\$ 5,718,046	51.56 ¢ Wages & Salaries	\$ 5,515,237	
4.63	Cargo Carried	494,839	19.23	Materials & Repairs Purchased	2,056,876
.75	Private Charter Flights	79,741	8.94	Services Purchased	956,504
.28	Miscellaneous Services	30,526	8.29	Taxes and Insurance (including \$281,073 for benefit of employees)	886,445
59.11 ¢		\$ 6,323,152	6.11	Rentals, Advertising & Other Items (Net)	654,342
40.89	Public Service Revenue	4,374,136	3.96	Depreciation and Amortization	423,535
			1.91	Retained Earnings	204,349
<u>100.00 ¢</u>	<u>Total</u>	<u>\$10,697,288</u>	<u>100.00 ¢</u>	<u>Total</u>	<u>\$10,697,288</u>



FIVE
YEARS
OF
ACHIEVEMENT

TRAFFIC	1961	1960	1959	1958	1957
Passengers carried	401,711	260,760	258,180	226,230	216,615
Passenger miles flown (000 omitted)	71,300	46,765	45,583	41,818	38,318
Mail ton-miles	290,091	179,054	125,109	111,436	115,057
Express & Freight ton-miles	480,904	288,707	295,662	211,877	132,435
Total revenue ton-miles	7,603,753	4,953,317	4,793,228	4,333,498	3,919,780
Revenue miles flown	8,212,646	5,669,267	4,809,191	4,076,250	3,901,046
Airports served	52	45	35	33	30

FINANCIAL

Revenues —

Commercial	\$ 6,323,152	\$3,964,069	\$3,612,590	\$3,087,814	\$2,494,056
Public service	4,374,136	3,068,190	2,525,815	2,373,221	2,152,077
Total	10,697,288	7,032,259	6,138,405	5,461,035	4,646,133

Expenses —

Salaries & wages	5,515,237	4,012,249	3,376,756	2,893,079	2,544,901
Depreciation & amortization	423,535	316,365	187,682	209,582	179,044
Other — (net)	4,554,167	3,035,993	2,552,371	2,211,771	1,888,919
Total	10,492,939	7,364,607	6,116,809	5,314,432	4,612,864

Net Profit or (Loss)	204,349	(332,348)	21,596	146,603	33,269
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Selected Balance Sheet items —

Net working capital	766,344	(504,055)	43,917	123,740	(28,830)
Property & equipment (net)	2,564,881	1,238,651	1,030,008	715,438	623,890
Stockholder equity	\$ 901,470	\$ 689,140	\$ 974,195	\$ 913,956	\$ 731,905
Shares of common stock outstanding	288,000	285,244	252,400	252,400	252,400



Southern

AIRWAYS, INC.

Years ended December 31, 1961, and December 31, 1960

STATEMENT OF INCOME

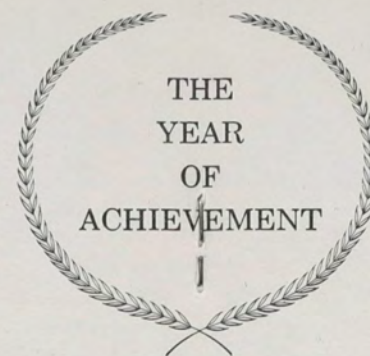
	Year Ended December 31,	
	1961	1960
OPERATING REVENUES		
Passenger and excess baggage	\$ 5,718,046	\$3,621,541
Mail, express, and freight	494,839	306,286
Charter	79,741	10,095
Public service revenue — Note A	4,374,136	3,068,190
Other operating revenues — net	30,526	26,147
TOTAL OPERATING REVENUES	<u>\$10,697,288</u>	<u>\$7,032,259</u>
OPERATING EXPENSES		
Flying operations	\$ 2,913,497	\$2,198,369
Maintenance	2,067,213	1,498,766
Passenger service	580,304	373,264
Aircraft and traffic servicing	2,858,699	2,114,526
Promotion and sales	730,026	622,509
General and administrative	534,314	452,138
Amortization and provision for depreciation	423,535	316,365
TOTAL OPERATING EXPENSES	<u>\$10,107,588</u>	<u>\$7,575,937</u>
	\$ 589,700	\$ 543,678*
OTHER INCOME	27,988	8,793
	<u>\$ 617,688</u>	<u>\$ 534,885*</u>
OTHER DEDUCTIONS		
Interest — principally on long-term debt	\$ 126,523	\$ 34,292
Miscellaneous	8,283	2,018
	<u>\$ 134,806</u>	<u>\$ 36,310</u>
INCOME-LOSS** BEFORE TAXES ON INCOME	\$ 482,882	\$ 571,195**
TAXES ON INCOME		
Provision for taxes on income or estimated refundable taxes on income*	278,533	238,847*
NET INCOME-LOSS**	<u>\$ 204,349</u>	<u>\$ 332,348**</u>

STATEMENT OF SURPLUS

	Year Ended December 31,	
	1961	1960
PAID-IN SURPLUS		
Paid-in surplus at beginning of year	\$ 22,536	\$ 3,122
Add excess of proceeds (\$3.55—\$4.675 a share in 1961 and \$3.55—\$4.00 a share in 1960) over par value (\$3.00 a share) of Common Stock issued — 2,756 shares in 1961 and 32,844 shares in 1960	3,151	19,414
	<u>\$ 25,687</u>	<u>\$ 22,536</u>
EARNED SURPLUS — Notes A, B, and D		
Earned surplus — deficit* at beginning of year	\$192,566*	\$139,782
Net income — loss**	204,349	332,348**
EARNED SURPLUS — DEFICIT* AT END OF YEAR	<u>\$ 11,783</u>	<u>\$192,566*</u>

*Indicates red figures.

See Notes to Financial Statements.



BALANCE SHEET *December 31, 1961*

ASSETS

CURRENT ASSETS

Cash	\$ 875,310	
U. S. Treasury bills — at cost and accrued interest (maturity value \$600,000)	592,165	
Accounts receivable:		
United States Government — for mail and other transportation — Note A	\$1,007,807	
Airline traffic and other receivables	810,876	1,818,683
Maintenance and other operating supplies— principally at average cost, less allowances of \$9,962 for obsolescence	255,432	
Prepaid expenses	49,767	
TOTAL CURRENT ASSETS		\$3,591,357

INVESTMENTS AND OTHER ASSETS

55,476

PROPERTY AND EQUIPMENT — on the basis

of cost — Note B		
Aircraft and related equipment	\$4,076,361	
Ground property and equipment	877,561	
Work in progress	12,361	
	\$4,966,283	
Less allowances for depreciation and maintenance	2,401,402	2,564,881

DEFERRED CHARGES

Unamortized route extension and development costs	\$ 182,623	
Unamortized long-term debt expense	82,471	265,094
		<u>\$6,476,808</u>

LIABILITIES

CURRENT LIABILITIES

Notes payable	\$ 5,625
Payments on long-term debt due within one year — Note B	657,587
Accounts payable	454,243
Collections and withholdings as agents	904,857
Salaries, wages, and vacation pay	318,590
Accrued advertising, taxes, and other expenses	104,438
Air travel card deposits	65,025
Unearned transportation revenue	35,648
Estimated federal and state taxes on income — Note D	279,000
TOTAL CURRENT LIABILITIES	\$2,825,013

LONG-TERM DEBT — Note B

6% notes payable to banks (less \$539,700 due within one year)	\$1,025,325	
6% notes payable to suppliers (less \$117,887 due within one year)	425,000	
6% subordinated convertible debentures due December 1, 1975	1,300,000	2,750,325

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

Common Stock, par value \$3 a share:		
Authorized — 1,000,000 shares		
Issued — 288,000 shares	\$ 864,000	
Paid-in surplus	25,687	
Earned surplus	11,783	901,470
		<u>\$6,476,808</u>

Contingent liabilities — Notes D and F.
See Notes to Financial Statements.

Southern AIRWAYS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 1961

NOTE A — The Company operates under the authority of a "Certificate of Public Convenience and Necessity for Local or Feeder Service" issued by the Civil Aeronautics Board for a period of unlimited duration. Such certificate entitles the Company to receive mail and public service revenues from the U. S. Government on the basis of rate orders issued by the Civil Aeronautics Board. During the period of eighteen months ended December 31, 1960, the Company was compensated for public service revenues under a temporary rate which is subject to adjustment by the Civil Aeronautics Board either upward or downward upon determination by the Board of a final rate for that period. Effective January 1, 1961, the Company, along with other local service carriers, has received public service revenues based on a permanent class rate order issued by the Civil Aeronautics Board.

NOTE B — 6% notes payable to banks are due in monthly installments of \$44,975 to December 1, 1962 with reduced monthly payments thereafter to September 1, 1966. All aircraft, engines, and related equipment are pledged as collateral for these notes.

6% notes payable to suppliers are due in quarterly installments of \$25,000 (subject to increase or decrease due to earnings or receipt of retroactive mail pay) with the remaining balance due April 30, 1964, except that one of the two suppliers may, at its option, accept shares of Common Stock (at \$4 a share) of the Company for any unpaid balance at December 31, 1963. The Company has executed to each of these suppliers as collateral second mortgages on the equipment pledged to the banks. \$442,887 of the remaining balance is subordinated to the notes payable to banks.

6% subordinated convertible debentures due December 1, 1975 consist of one series dated December 1, 1960 in the amount of \$300,000 and an additional series dated July 1, 1961 in the amount of \$1,000,000. The \$300,000 series is fully subordinated to all indebtedness of the Company for money borrowed, for acquisition of aircraft or other flight equipment, or other indebtedness having a maturity date of more than one year, and the \$1,000,000 series is fully subordinated to each of the 6% notes payable described above and any future bank indebtedness of the Company for money borrowed which has a maturity date of less than five years. Each series of these debentures is convertible into Common Stock of the Company at conversion rates ranging from \$4 to \$10 a share at varying dates and is callable by the Company at premiums ranging from 6% downward.

Each of the agreements relating to notes and debentures places certain restrictions upon, among other things, (1) net current assets, (2) net worth, (3) redemption of the 6% subordinated debentures, and (4) payments relating to capital stock, including dividends. As of December 31, 1961, the Company had met all of these requirements and earned surplus was not restricted.

NOTE C — Restricted options held by officers as of December 31, 1961, for the purchase of Common Stock of the Company (all of which are presently exercisable) are as follows:

Date Granted	Shares	Option Price	Date of Expiration
May 2, 1955	9,000	\$4.675	May 1, 1965
March 4, 1960	9,900	4.40	December 27, 1962
TOTAL	<u>18,900</u>		

During the year ended December 31, 1961, options were exercised for 1,000 shares at \$4.675 and 600 shares at \$4.40.

ERNST & ERNST
FIRST NATIONAL BANK BUILDING
ATLANTA 3, GA.

Board of Directors
Southern Airways, Inc.
Atlanta, Georgia

We have examined the balance sheet of Southern Airways, Inc. as of December 31, 1961, and the related statements of income and surplus 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. We made a similar examination of the financial statements for the preceding year.

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 surplus present fairly the financial position of Southern Airways, Inc. at December 31, 1961, 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 9, 1962

NOTE D — Representatives of the Internal Revenue Service have examined the Company's income tax returns for the years 1955 through 1958 and have proposed adjustments, relating principally to depreciation rates, which the Company is protesting with the Appellate Division of the Internal Revenue Service. The maximum additional tax, in excess of the amount provided in the financial statements, which would be due for these and subsequent years through 1961 amounts to approximately \$85,000 of which approximately \$52,000 would be recoverable in years subsequent to 1961 as a reduction of any taxes otherwise due for such years.

NOTE E — The cost to the Company of its employee retirement plans amounted to \$60,887 for the year ended December 31, 1961; however, it is not possible at this time to determine future annual costs.

NOTE F — Petitions have been filed by the Air Line Pilots Association International, a labor union representing certain former employees of the Company, alleging that the Company has failed to bargain in good faith. One of these petitions, filed with the Civil Aeronautics Board in Washington, D. C., requests suspension or revocation of the Company's Certificate of Public Convenience and Necessity. The second petition, filed with the Federal District Court in Nashville, Tennessee, seeks damages in the amount of \$1,000,000 and reinstatement of these former employees. The Company denies these allegations and a tentative decision has been issued in the Board case and a memorandum decision in the Court case substantially upholding the position of the Company.

Forty-eight of these former employees have filed individual actions in the Superior Court of Fulton County, Georgia alleging that the Company failed to supply the plaintiffs with descriptions of various pension plans and asking damages ranging from \$50 to \$100 a day from various dates in August 1960. The Company denies any liability in connection with these suits.

THE
 YEAR
 OF
 ACHIEVEMENT

OPERATIONS

The year 1961 was one in which Southern devoted a great deal of its collective energy on the planning, training and work necessary to make the first aircraft equipment change since commencing operations. All departments participated from the initial planning conference in April to the proving flights in October.

The increased mileage flown during the year combined with the step up to Martin aircraft placed an unprecedented load on the Operations Department. It is pleasing to note the enthusiasm with which all employees met their responsibilities. As a result, the overall task was accomplished with a high degree of proficiency at less than the projected cost.

Southern flight crews have continued the perfect safety record of approximately 390 million passenger miles since the start of operations in 1949. The present pilot group has accomplished about 25% of that total. New training programs were instituted during the year at considerable expense in furtherance of the prime consideration of safety.

Flight Dispatch was expanded to provide continuous around-the-clock service. By this action flight activities are more efficiently planned and coordinated, thus better overall performance is obtained.

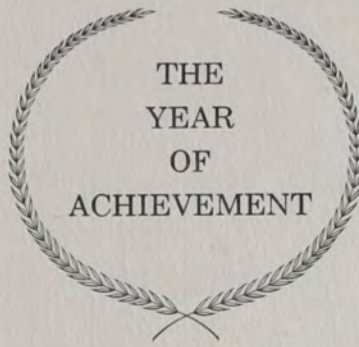
The Maintenance and Engineering Department prepared and conducted, with cooperation from other departments, an excellent training program for all personnel involved in the operation of the Martin-404. Under this program Company employees obtained over 25,000 hours of training.

The Martin aircraft were equipped with the latest model weather radar. A new exterior paint design of simple flowing lines dramatized the trim lines of the airplane.

A new interior color design was introduced based on the use of contemporary pastel colors. This interior decor is comparable to interiors found on the newest jet equipment and presents a cheerful, comfortable atmosphere to passengers. The use of vinyl paints enabled maintenance to easily install this new interior by refinishing existing material in the airplane. This resulted in improved appearance at minimum cost. Favorable comments from passengers concerning these improvements have resulted in a decision to accelerate this same interior program for the DC-3 fleet. Shop and hangar facilities for all purposes were expanded in a program which is still under way.

All of the programs reflect the progress made and the skills acquired which have established a good foundation for future growth.





MANAGEMENT DEVELOPMENT

Rapid expansion has created a need for additional managerial talent at all levels of the organization. Continuing training programs were established for Southern employees and supervisors which have prepared them for additional responsibilities. Programs were instituted to keep Southern management personnel and employees up to date on current employee relation techniques and to maintain standard personnel policies throughout the Company. Long range management development was assured by utilizing the cooperative education departments of the Georgia Institute of Technology and Auburn University.

In addition to the supervisory and employee training programs there was a continual evaluation of all employees to determine their growth potential and training needs. This is a continuation of Southern Airways' policy to promote employees from within.

There has been a realignment of the Company's organizational structure to include a new department. The Administrative Services Department was created in 1961 to include systems and procedures, economic research and electronic data processing. J. Kenneth Courtenay will head this new department as Vice President—Administrative Services.

Recently the Treasury Department was reorganized and expanded. M. Lamar Muse was elected Vice President—Finance with full responsibility for the operation of this department. Mr. Muse, a Certified Public Accountant, has fourteen years of airline financial experience and will be a valuable asset to the Company. George F. Estey continues as Corporate Secretary and C. H. D. Tarrer was promoted from Assistant Treasurer to Treasurer of the Company.

PERSONNEL

The number of employees increased from 932 at the end of 1960 to 991 at the end of 1961. New procedures and techniques were used to secure the best possible applicants for new positions in the Company. In addition to normal testing and screening procedures, working agreements were set up with the State Employment Departments to assist the Company.

Southern Airways' employee benefit program is the finest of the local service industry. Employee benefits were reviewed and many additions and improvements took place in 1961. The group insurance plan was broadened to provide additional coverage for employees and their families.



SERVICE BEGINS FRIDAY, DECEMBER 1

Now enjoy new comfort aboard

Southern anastograms

More Speed
More Convenience

fly Southern

STEP ASSESS YOUR OWNERSHIP...
 MORE COMFORT...
 MORE SPEED...
 MORE CONVENIENCE...
 MORE CONFIDENCE...
 MORE COMFORT...
 MORE SPEED...
 MORE CONVENIENCE...
 MORE CONFIDENCE...

SALES & SERVICE

The year 1961 was clearly the most significant in Company history. New records were set in passengers carried, mail and cargo handled. The most significant, single advance in the expansion of "Southern Hospitality Service" during 1961 was the purchase of five Martin-404 aircraft. The acquisition of these fast, 40-passenger, pressurized, air conditioned planes enabled Southern to upgrade its corporate image throughout the industry. The planes were christened "Southern aristocrats" and have been widely acclaimed by travelers.

As a result of improved long line telephone techniques, consolidations of reservations offices were made which resulted in improved quality of service and decreased operating costs through more economical personnel staffing. These new services permit residents of principal cities to dial a local number but actually talk to reservations personnel in the central reservations office.

Careful attention has been given to the control of personnel costs throughout the system. Adjustments are made between stations whenever required to maintain adequate staffing in all offices while keeping the overall personnel increases to a minimum. Seven new stations plus new, larger terminals in Atlanta and Nashville were responsible for the bulk of the increase in sales personnel during 1961. Passengers boarded throughout the system increased 53% over 1960 yet sales personnel increased only 6%.

Southern Airways continues to lead all local service carriers in Joint Airlines Military Traffic Offices (JAMTO) revenue. Revenue from these sources amounted to \$608,985 in 1961, an increase of 25% over 1960.

Great emphasis was given on-time performance during 1961. With splendid cooperation between ground and flight crews, an enviable record has been established. This is another concrete example of the increased dependability of "Southern Hospitality Service."

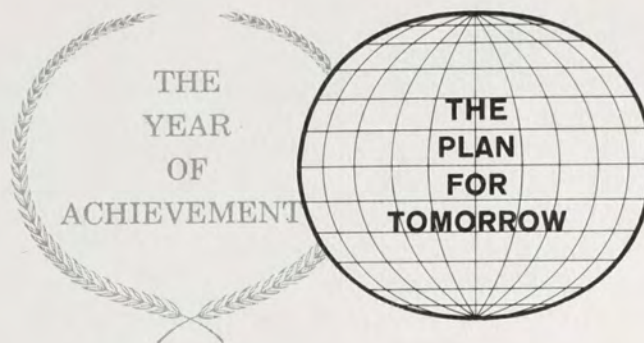
Faster passenger check-in procedures, write-your-own-tickets, and group excursion fares were other sales highlights of 1961.

ADVERTISING

"We've Got Good Connections" has proven to be a most effective advertising slogan, and has recently been the foundation of the Company's advertising program. Accurately descriptive of the type service Southern provides, it has been recognized throughout the country by the traveling public and the airline industry as synonymous with Southern Airways.

In order to obtain the widest possible recognition of the Company's expanding services, the advertising budget was distributed among all system cities on the basis of traffic potential and flight schedules. Southern Airways' advertising appeared in newspapers, trade and consumer publications, on radio, television and outdoor. The continuity of themes throughout all phases of the advertising program was stressed, and careful selection in the placement of all advertising contributed significantly to the success of the 1961 program. Specialized direct mail programs, including monthly issues of the company publication "The Southernaire" with new format and new editorial approach, strengthened efforts to keep the public informed of Southern Airways' progress.

Southern Airways has always enjoyed a fine relationship with the trunk carriers in the exchange of interline business. Indicative of this close relationship is the joint advertising program between Southern and American, Delta, and Eastern Air Lines. Newspaper, radio, television, and outdoor advertising was created to sell the good connections offered by Southern to these carriers, and the excellent increases in interline traffic reflect the merits of this expanding program.



Although the year 1961 was truly the year of achievement, management is confident that this will merely be a base upon which to build a bigger and better Southern Airways in the years ahead.

The laws of economics will force the large airlines to discontinue service in many communities throughout the South. This applies to some communities presently served by Southern Airways as well as many others now served by trunk airlines only. This will provide the largest source of additional business. In some instances where the growth of cities of the area will warrant scheduled airline service, it is anticipated that such cities will be added to routes of the Company.

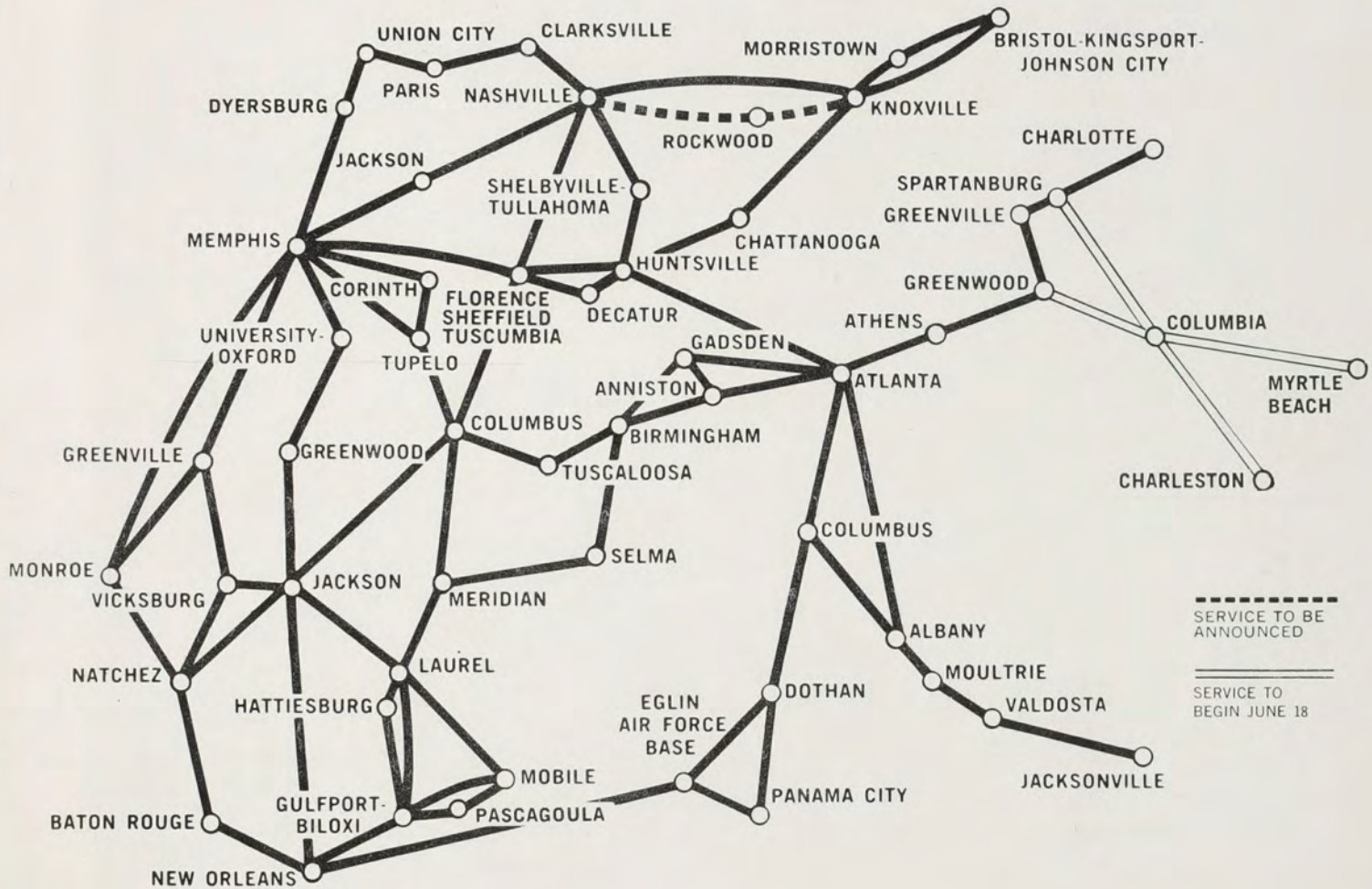
Management envisions that the strengthening of the present system by these additional sources of revenue will permit a gradual reduction in public service revenue provided by the Federal Government. Although such revenue is for the direct benefit of smaller communities, the Company nevertheless is using its best efforts to reduce dependence upon this source of income.

The modest program begun in 1961 with the addition of five pressurized Martin-404 aircraft will be continued until modern equipment is in use on all route segments that economically support such aircraft. Douglas DC-3 equipment will continue to serve a number of the smaller communities for some years ahead.

The Civil Aeronautics Board has undertaken a program of liberalized operating authority for all local airlines. Broadening of this authority will permit Southern Airways to improve service in many areas.

Occupancy of the new office building will improve operating efficiency to a substantial degree. Whereas offices are now located in several different buildings, in some instances three miles apart, the new location will give all offices ready access to each other. It is estimated that increased efficiency will more than pay for the added cost of this facility.

Strengthening in the management team, outlined elsewhere herein, will help all employees give better service to the public. Management recognizes that the Company has a most valuable asset in the working force who are eager to do an outstanding job for the traveling public. A continuing program of employee improvement will always be given high priority by management.



ROUTE EXPANSION AND DEVELOPMENT

During the first half of 1961, seven new stations were opened, namely: Clarksville, Dyersburg, Morristown, Union City and Paris in Tennessee and Corinth and Pascagoula in Mississippi. With these additions, the Company now serves 61 cities through 52 stations and operates 5,290 route miles. Except for Rockwood, Tennessee, whose airport is under construction, service has been inaugurated at all points awarded in the Southeastern Area Local Service Case.

Substantial new route awards were granted

in the Piedmont Area Local Service Case which was decided in March of 1962. Service over these new routes will be inaugurated June 18, 1962 and will operate between Atlanta and Columbia, the state capital, and on to Charleston, South Carolina's principal seaport, and to Myrtle Beach, the largest recreation area in the state. Myrtle Beach, Charleston and Columbia will also be connected with Greenville and Spartanburg. This decision granted liberalized operating authority that will permit direct service between these points.

