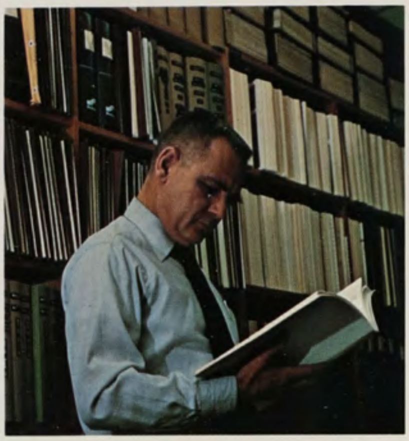
Southern Airways, Inc. 1975 Annual Report

Judy Jordan
Reservations Agent

Hi! I'm one of 2,500 Southern Airways employees. The reason we did so well last year is that we have . . .

...better people...









Highlights

Southern Airways, Inc.

Years ended December 31,		**1975**		1974	Per Cent Increase (Decrease)
Passenger revenues	**$**	**95,666,000**	$	86,821,000	10.2%
Operating revenues	**$**	**117,950,000**	$	108,352,000	8.9
Operating income	**$**	**6,076,000**	$	6,883,000	(11.7)
Net income	**$**	**2,742,000***	$	3,482,000*	(21.3)
Primary earnings per share	**$**	**1.58***	$	2.19*	(27.9)
Revenue per passenger mile	**$**	**0.112**	$	0.104	7.7
In scheduled service Revenue passenger miles		**852,547,000**		832,372,000	2.4
Available seat miles		**1,688,633,000**		1,618,776,000	4.3
Passenger load factor		**50.5%**		51.4%	(1.8)
Revenue passengers carried		**2,935,000**		2,940,000	(.2)
Revenue plane miles flown		**25,534,000**		24,621,000	3.7
Number of employees		**2,519**		2,639	(4.6)

*Includes in 1975 the final settlement of fuel prices and reimbursements made under the Federal Airport Development Aid Program which increased net income by $1,999,000 ($1.13 per share) and in 1974 the tax benefits of net operating loss carryforwards and the cumulative effect of an accounting change which increased net income by $890,000 ($.55 per share). These highlights should be read in conjunction with the Financial Statements appearing elsewhere in this report.

Contents

About the Company

Southern Airways, Inc. is a certificated, scheduled airline, engaged in transportation of persons, property and mail. The Company serves 14 states, the District of Columbia, and, under temporary authority awaiting a permanent route award, the Cayman Islands in the British West Indies. Additionally, the Company operates an extensive charter business throughout the United States and into Mexico, the Bahamas, the Cayman Islands and to Canada.

Southern began scheduled service on June 10, 1949. During 1975, the Company's aircraft flew more than 25 million miles, serving almost 3 million passengers. Aircraft in service include 27 DC9 jetliners and seven Martin 404 piston-engine aircraft. Today, more than 95 per cent of Southern's revenue passenger miles are generated aboard DC9s.

Incorporated in the State of Delaware, Southern is a publicly held corporation with more than 5,600 stockholders residing in 45 states and 10 foreign countries. The Company's stock is traded Over-The-Counter (OTC).

Southern is one of nine "Local Service Carriers" operating in interstate commerce to serve cities of small and intermediate size as well as major metropolitan areas. For rendering air service to small and intermediate-size communities that otherwise could not sustain scheduled service, Southern receives public service revenue (subsidy) from the Federal Government.

On many routes, Southern competes with larger Trunk Carriers. Southern's fares and quality of service are competitive.

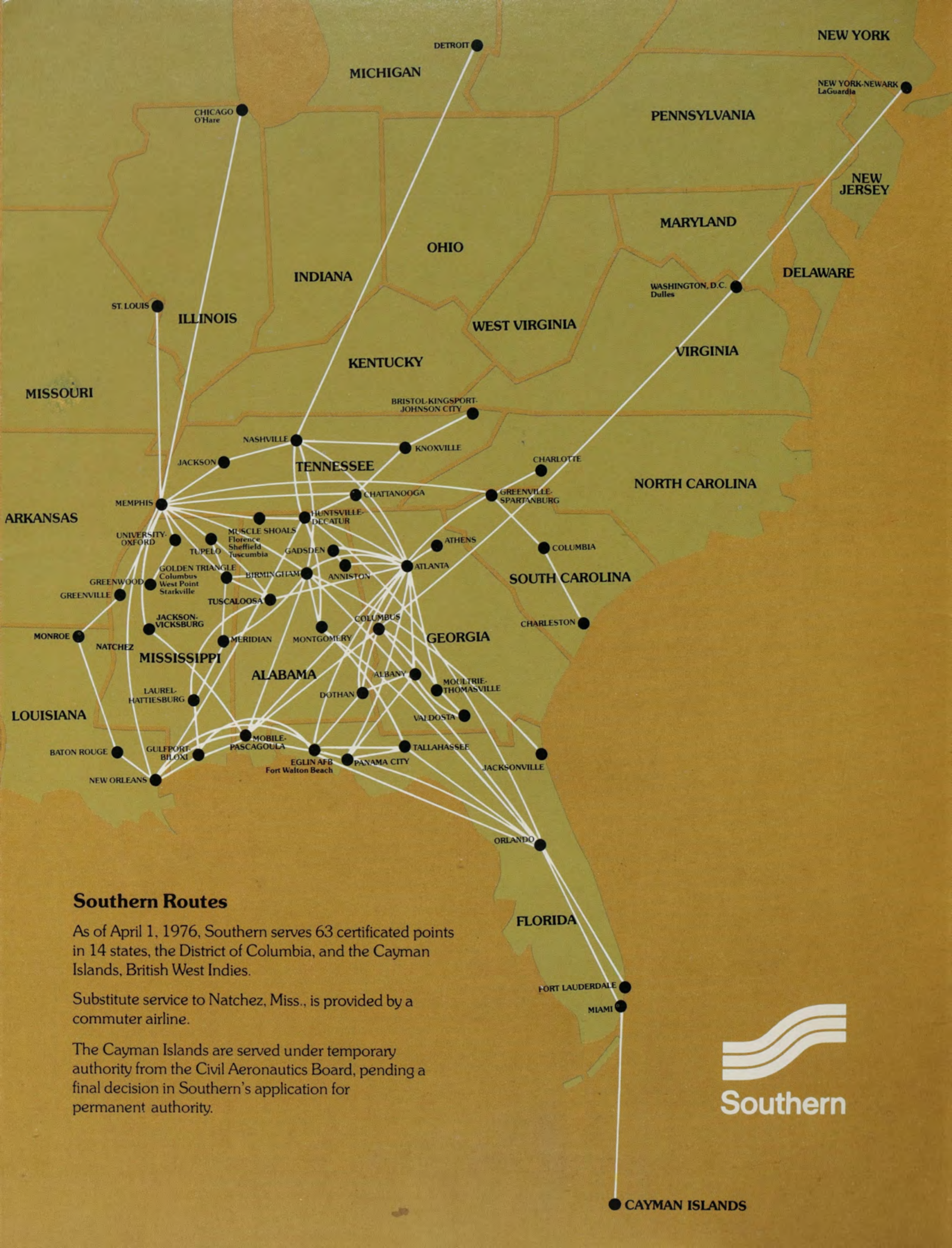
Southern is headquartered at Hartsfield Atlanta International Airport where the Company's Maintenance Base, Reservations Center, Training Center and General Offices are located.

Market Price of Common Stock

Range of high and low bid and asked prices for the Company's Common Stock:

	Bid Prices		Asked Prices	
Year	**High**	**Low**	**High**	**Low**
1974				
First Quarter	4⅛	2¾	4½	3⅛
Second Quarter	5½	3⅝	5⅞	4
Third Quarter	4⅞	3¼	5¼	3⅜
Fourth Quarter	4⅞	2¾	5¼	3⅛
1975				
First Quarter	3¾	2¾	4⅛	3⅛
Second Quarter	3½	3	3⅞	3⅜
Third Quarter	3½	2⅞	3⅞	3¼
Fourth Quarter	3⅛	2⅝	3½	3
1976				
First Quarter	5¾	3	6⅛	3⅜

The foregoing prices do not represent actual transactions. They represent prices between dealers and do not include retail markup, mark-down or commission. There have been no active markets in the Company's convertible preferred stocks, convertible subordinated debentures, or warrants.



Southern Routes

As of April 1, 1976, Southern serves 63 certificated points in 14 states, the District of Columbia, and the Cayman Islands, British West Indies.

Substitute service to Natchez, Miss., is provided by a commuter airline.

The Cayman Islands are served under temporary authority from the Civil Aeronautics Board, pending a final decision in Southern's application for permanent authority.

Report to Stockholders

Frank W. Hulse
Chairman, Chief Executive Officer

Success in today's airline industry does not depend solely upon routes, equipment or volume. Efficiency counts.

The progress reported herein could not have been accomplished without the hard work and loyalty of our employees. Again they have distinguished themselves, and at a time when the airline industry has been faced with increasing costs and insufficient fares. Stockholders can be proud of what our people have done along with the level and quality of service that now is being provided.

As a result of this extra effort, the year 1975 was the second most successful in the Company's history. After tax earnings were surpassed only by 1974, when air travel enjoyed a boom attributable to fuel shortages that converted automobile drivers into airline passengers. In 1975, the number of passengers served was virtually the same as the previous year.

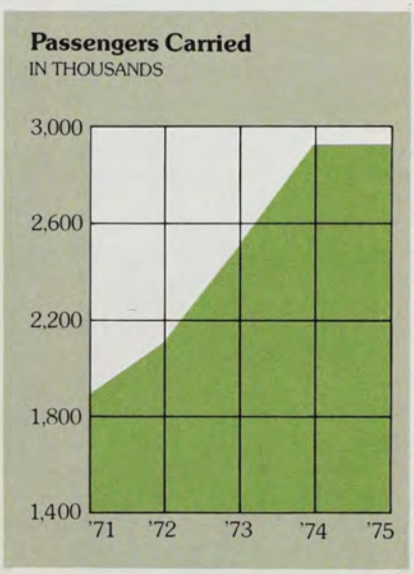
Another contributor to the success of 1975 was tight control of expenses. On a unit cost basis, operating expenses in 1975, exclusive of fuel, increased by less than 5 per cent over 1974.

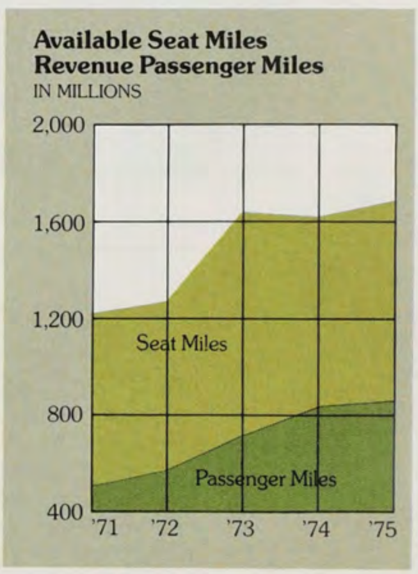
Although the Civil Aeronautics Board granted some fare relief, further increases are necessary. We will continue to press the Civil Aeronautics Board for equitable fare adjustments.

In August, your Company recovered a $2 million hijacking ransom held by the Republic of Cuba. The return of these funds had been expected. The effect is explained on page 24 of this report.

As the financial position of the Company continues to improve, dependence upon public service revenue is decreasing. Although this amounted to only 5.1 per cent of revenues in 1975, we expect this support to continue so that we may provide service for small cities with low traffic levels.

Along with the good earning position of last year, preferred stock dividends have been brought up-to-date. We have also purchased $871,000 face value of our 5-3/4% Convertible Subordinated Debentures for sinking fund purposes.





In November, the Board of Directors elected Graydon Hall president, succeeding Frank W. Hulse, who assumed the title of chairman and chief executive officer. George M. Gross was named executive vice president and general manager; Owen L. McRee was named vice president-customer sales and services; and J. Richard Price was elevated to vice president-properties.

During the year Ivan Allen, Jr. of Atlanta, one of the founders of the Company, retired from the Board, in line with his desire to take a less active role in business. He was succeeded by A. L. Maxson, vice president-finance and treasurer.

The success enjoyed during 1975 continues into 1976. Revenue passenger miles flown in January and February were almost 20 per cent over last year. The mild winter improved operating conditions and reduced normal winter losses considerably below the level of last year.

At a time when the airline industry was beset by problems, your Company has completed four years of profitable operations. We have gained the respect of the people we serve. We have expanded our services substantially and have continued to improve our overall operation. Currently, more than 95 per cent of our revenue passenger miles are operated with jet equipment.

Although we still are confronted with inflation, we consider 1976 a year of opportunity and we expect continued growth and profitability.

Respectfully,

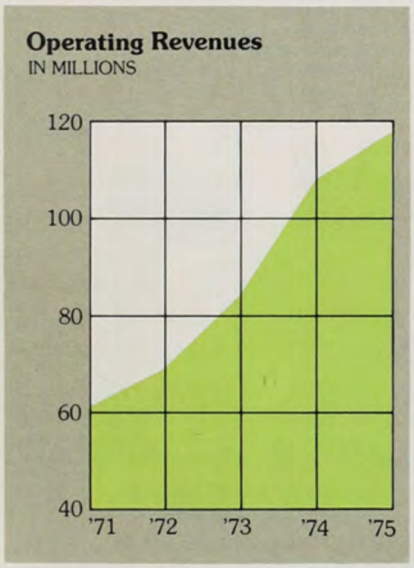
Frank W. Hulse
Chairman

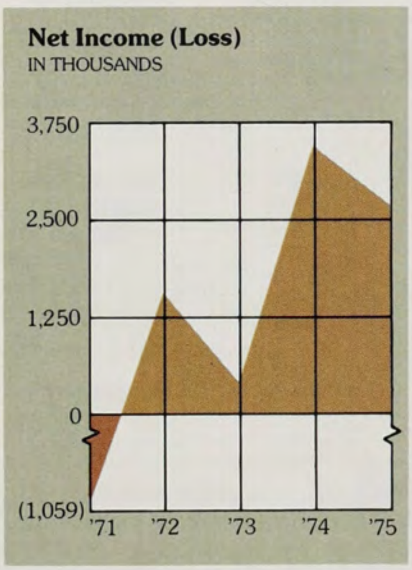
Graydon Hall
President

April 5, 1976

Graydon Hall
President

Some 10,000 travelers depend upon us each day. Our job is to give them a good flight.





Ten Year Operating and Financial Summary

Southern Airways, Inc.

	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Summary of Operations (in thousands, except per share amounts)										
Operating revenues										
Passenger	**$ 95,666**	$ 86,821	$ 65,949	$ 52,052	$ 45,302	$ 37,187	$ 28,050	$ 20,503	$ 17,155	$ 15,184
Charter	**8,208**	6,908	5,358	4,839	4,067	3,835	3,358	1,934	564	519
Public service	**5,961**	6,805	6,814	7,138	6,974	4,823	3,580	4,038	4,255	4,541
Other	**8,115**	7,818	6,488	5,603	4,917	4,563	3,641	3,652	2,949	2,303
	117,950	108,352	84,609	69,632	61,260	50,408	38,629	30,127	24,923	22,547
Operating expenses										
Depreciation and amortization	**4,634**	4,397	3,673	2,559	2,637	2,632	2,396	1,770	1,454	862
Other	**107,240**	97,072	79,447	64,180	58,216	49,556	35,807	27,764	23,537	20,059
	111,874	101,469	83,120	66,739	60,853	52,188	38,203	29,534	24,991	20,921
Operating income (loss)	**6,076**	6,883	1,489	2,893	407	(1,780)	426	593	(68)	1,626
Interest on long-term debt	**2,918**	3,929	3,083	1,362	1,678	1,789	1,720	1,136	585	250
Miscellaneous deductions (income)—net	**(612)**	(623)	(2,023)	(110)	23	(236)	15	(120)	(57)	(115)
Income (loss) before income taxes, extraordinary tax credit and accounting change	**3,770**	3,577	429	1,641	(1,294)	(3,333)	(1,309)	(423)	(596)	1,491
Income taxes (credit)	**1,028**	985	109	450	(235)	—	(487)	(212)	(358)	684
Income (loss) before extraordinary tax credit and accounting change	**2,742**	2,592	320	1,191	(1,059)	(3,333)	(822)	(211)	(238)	807
Tax benefits of net operating loss carryforward	**—**	325	97	409	—	—	—	—	—	—
Cumulative effect of accounting change	**—**	565	—	—	—	—	—	—	—	—
Net income (loss)	**$ 2,742**	$ 3,482	$ 417	$ 1,600	$ (1,059)	$ (3,333)	$ (822)	$ (211)	$ (238)	$ 807
Earnings (loss) per common and common equivalent share (1)										
Primary	**$ 1.58**	$ 2.19	$ .23	$ 1.06	$ (1.02)	$ (3.25)	$ (.80)	$ (.21)	$ (.23)	$ .80
Fully diluted	**$ 1.14**	$ 1.40	$ —	$ .80	$ —	$ —	$ —	$ —	$ —	$ —
Average number of common and common equivalent shares										
Primary	**1,765**	1,599	1,314	1440	1,035	1,025	1,025	1,025	1,025	1,005
Fully diluted	**2,912**	2,913	—	3,099	—	—	—	—	—	—
Financial Position—at year end (in thousands, except per share amounts)										
Current assets	**$ 30,324**	$ 27,214	$ 25,793	$ 15,923	$ 14,336	$ 12,380	$ 12,308	$ 15,754	$ 7,048	$ 7,535
Current liabilities	**24,468**	23,620	21,629	10,399	10,944	12,012	8,707	7,696	6,255	5,130
Property and equipment—net	**34,718**	36,414	36,467	16,987	18,739	20,336	21,086	20,333	21,178	7,958
Long-term debt (excluding current maturities)										
Notes payable	**19,006**	22,687	27,523	9,238	8,535	9,408	9,903	12,228	13,468	5,743
Convertible subordinated debentures	**9,743**	10,178	10,178	11,345	12,682	12,682	12,682	12,682	4,682	5,000
Total stockholders' equity	**12,900**	10,277	7,043	5,514	2,493	915	4,248	5,070	4,849	4,937
Common stockholders' equity (2)	**11,858**	9,171	4,803	3,245	(30)	915	4,248	5,070	4,849	4,937
Common stockholders' equity per common share	**7.50**	5.80	3.40	2.55	(.03)	.89	4.14	4.95	4.73	4.91
Common shares outstanding	**1,581**	1,580	1,413	1,271	1,062	1,025	1,025	1,025	1,025	1,005
Operating Statistics										
Scheduled service										
Passengers carried (thousands)	**2,935**	2,940	2,494	2,101	1,875	1,589	1,377	1,271	1,180	1,052
Available seat miles (thousands)	**1,688,633**	1,618,776	1,643,569	1,279,175	1,222,289	1,111,287	763,748	554,516	483,644	403,666
Revenue passenger miles (thousands)	**852,547**	832,372	721,135	596,197	527,552	430,736	323,472	254,028	222,142	196,366
Passenger load factor	**50.5%**	51.4%	43.9%	46.6%	43.2%	38.8%	42.4%	45.8%	45.9%	48.6%
Breakeven passenger load factor	**48.2%**	49.0%	45.1%	44.9%	44.6%	42.9%	44.8%	47.1%	48.1%	46.6%
Revenue per passenger	**$ 32.55**	$ 29.49	$ 26.41	$ 24.73	$ 24.11	$ 23.36	$ 20.33	$ 16.08	$ 14.49	$ 14.39
Revenue per passenger mile	**11.2¢**	10.4¢	9.1¢	8.7¢	8.6¢	8.6¢	8.7¢	8.1¢	7.7¢	7.7¢
All services										
Available seat miles (thousands)	**1,906,443**	1,803,177	1,798,409	1,418,799	1,336,982	1,228,373	862,388	611,795	498,322	416,738
Cost per seat mile	**6.0¢**	5.8¢	4.6¢	4.7¢	4.6¢	4.3¢	4.5¢	4.9¢	5.0¢	4.9¢
Number of employees at year end	**2,519**	2,639	2,478	2,084	1,994	1,757	1,747	1,538	1,499	1,365

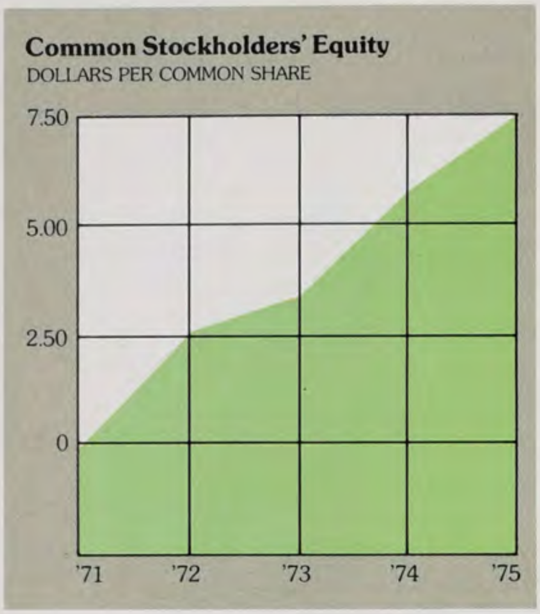
(1) Primary earnings per share include $.20 (1974), $.08 (1973) and $.29 (1972) applicable to tax benefits of net operating loss carryforward and $.35 (1974) applicable to cumulative effect of accounting change.

Fully diluted earnings per share include $.11 (1974), $.08 (1973) and $.20 (1972) applicable to tax benefits of net operating loss carryforward and $.19 (1974) applicable to cumulative effect of accounting change.

(2) After deducting equity of preferred shareholders at $6 per outstanding preferred share plus cumulative dividends at the end of each of the years 1971 (year preferred shares were first issued) through 1975.

Dividends on common stock of $.16 per share were paid in 1967 and 1966. No cash dividends on common stock have been paid since 1967. Annual dividends of $.36 per share have been paid on preferred shares since 1972.

Management's Discussion of 1975 and 1974 Summary of Operations



Overview

Net income in 1975 totaled $2,742,000, or $1.58 per share primary, and in 1974, $3,482,000, or $2.19 per share primary. Earnings in both years showed significant improvement over 1973, when net income amounted to $417,000, or 23 cents per share primary.

The record results in 1974 were due principally to the large increase in passenger traffic, which led to a dramatic increase in operating income, from $1,489,000 in 1973 to $6,883,000 in 1974. This unusually large traffic increase was made possible by a 1973 fleet expansion. The jet fleet was increased from 15 to 24 DC9 aircraft. The year 1974 also benefited from the cumulative effect of an accounting change totaling $565,000 and an increase over 1973 in interest income from short-term investments of $531,000.

Income continued to rise in 1975, increasing $150,000 compared with the 1974 results before the favorable impact of the accounting change and the now-exhausted extraordinary tax credit. This increase can be traced to a reduction of $1,011,000 in interest on long-term debt, brought about by principal repayments and decreases in the prime interest rate. The reduction in interest expense was more than adequate to offset a decline of $807,000 in operating income. Operating income in 1975 was benefited by a $2,074,000 credit for the settlement of a fuel price dispute and a $595,000 reimbursement of certain landing fees, both of which are described in Note B of the Notes to Financial Statements.

Operating Revenues

Total operating revenues reached record levels of $117,950,000 in 1975 and $108,352,000 in 1974, up 8.9 per cent and 28.1 per cent, respectively, over the prior years. These gains are most pronounced in passenger revenues, both scheduled service and charter, the principal revenue producers. As a result, both of these classes of revenues have gained slightly as a percentage of total revenues over the past two years, as demonstrated by Table 1, Revenue Composition.

Passenger revenues of $95,666,000 in 1975 represented a 10.2 per cent gain over the prior year while the $86,821,000 in passenger revenues in 1974 reflected a 31.6 per cent gain over 1973.

The unusually large increase in 1974 can be attributed principally to increased traffic levels, with revenue passenger miles increasing by 15 per cent. Management's decision to undertake a 1973 fleet

Table 1 — Revenue Composition
Per cent of Total Revenues

	1975	1974	1973
Passenger:			
Scheduled Service	81.1%	80.1%	77.9%
Charter	7.0	6.4	6.3
	88.1	86.5	84.2
Mail, Freight and Express	4.5	4.7	5.1
Public Service	5.1	6.3	8.1
Other	2.3	2.5	2.6
	100.0%	100.0%	100.0%

expansion proved to be exceedingly timely, making available the added capacity needed to benefit from the surge of passenger traffic in 1974. The diversion from automobile travel to air travel as a result of the gasoline shortage contributed to this demand.

Revenue passenger miles continued to advance slightly in 1975, increasing by 2 per cent over the prior year's record level. The declining traffic in the first half, as a result of the economic recession, was more than offset by increased traffic levels in the second half as the economy improved.

Management reacted quickly to the softening of traffic in early 1975, and temporarily reduced the number of DC9 aircraft in scheduled service. One aircraft was leased until May 1975 to a foreign carrier, while others were reduced in flying time. Approximately 200 employees were temporarily furloughed, many of whom were recalled as traffic improved.

With the current traffic recovery, two additional 100-passenger DC9 (30 Series) aircraft were added to the fleet during the fourth quarter of 1975, with one being placed in service in mid-October and the other in mid-December.

Traffic behavior since 1973 is indicated by Table 2, which reflects total revenue passenger miles (RPMs) by quarter and the increase or decrease in RPMs over the same quarter of the prior year.

The recovery in the second half of 1975 has continued into 1976. RPMs during January and February 1976 totaled 141 million compared with 118 million during the same period of 1975, an increase of almost 20 per cent.

Improved yields, i.e., revenue per passenger mile, also contributed to the improvements in passenger revenues. Yield increased from 9.1 cents in 1973 to 10.4 cents in 1974 and to 11.2 cents in 1975, increases of 14.3 per cent and 7.8 per cent, respectively. These improvements reflect certain fare increases during the period, the elimination of certain discount fares, and an adjustment increasing short-haul fares resulting from the completion of investigation of domestic passenger fares by the Civil Aeronautics Board. This latter adjustment became effective in April 1975.

Charter service continued strong during 1975. Charter service on off-scheduled routes is limited to two per cent of total plane miles flown. This limitation was exhausted by mid-year and an increase for Southern to three per cent was granted by the Civil Aeronautics Board. This enabled the Company to fulfill its charter obligations. As a result, charter revenues increased 18.8 per cent. Southern has applied

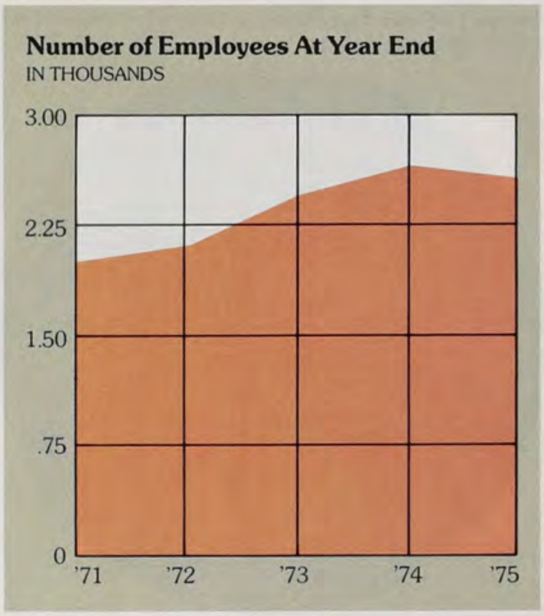
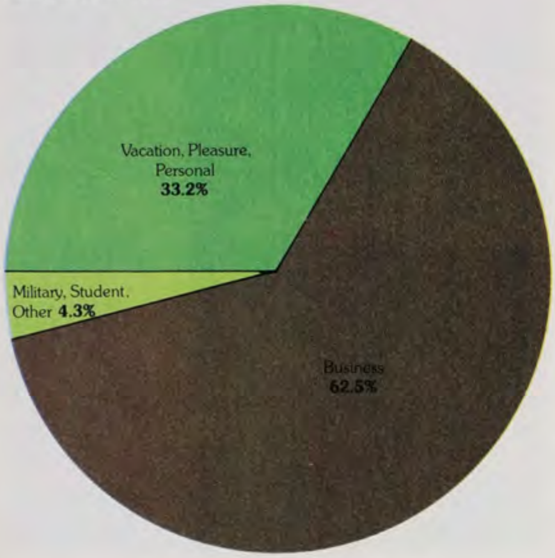


Table 2—Traffic Behavior By Quarter
In Millions of Revenue Passenger Miles (RPMs)

	1975		1974		1973
	Total RPMs	Net Change	Total RPMs	Net Change	Total RPMs
First Quarter	187	− 9	196	+ 54	142
Second Quarter	211	− 9	220	+ 36	184
Third Quarter	224	+ 4	220	+ 18	202
Fourth Quarter	231	+35	196	+ 3	193
	853	+21	832	+111	721

Management's Discussion *continued*

Source Of Passenger Revenue Dollar
FOR THE YEAR, 1975



to the Civil Aeronautics Board for permission to increase 1976 off-route charters to five per cent of the Company's total plane miles and is hopeful that this request will receive favorable consideration.

Southern flies charters for private industry, military and athletic groups, and has recently been active in the One-Stop Inclusive Tour Charter (OTC) market. A number of OTCs will be flown to Grand Cayman, British West Indies, and Cancun, Mexico, during 1976.

Although not increasing as rapidly as passenger growth, freight continues to make a significant contribution to the Company's profitability. During 1975 Southern developed its own air express service, as well as a small package delivery service (SWIFT). These new services have been highly successful and currently are contributing approximately $500,000 per year to freight revenues.

Public service revenues, i.e., government payments to the Company to provide service to certain small communities unable on their own and without financial assistance to support air service, were reduced by $844,000 in 1975, due principally to the discontinuance of service to four cities late in 1974 and a fifth in 1975. In connection with air service for the latter city, the Company provides financial support to a commuter airline to furnish substitute service.

Operating Expenses

Operating expenses increased by $13,074,000 in 1975 (before the fuel price settlement and landing fee rebate) following an $18,349,000 increase in 1974. Of these amounts, $4,119,000 in 1975 and $6,155,000 in 1974 are attributable to increases in fuel prices, which have almost tripled since 1972.

On a unit cost basis, before reduction for the fuel price settlement and landing fee rebate, operating expenses per available seat mile (ASM) increased to 6.01 cents in 1975, up from 5.64 cents in 1974 and 4.58 cents in 1973. The influence of fuel on these unit cost increases is demonstrated by Table 3, Unit Cost Analysis.

Labor costs, which constitute over 40 per cent of total operating expenses, increased by $4,297,000 in 1975 and by $6,574,000 in 1974, chiefly as a result of increased salaries and benefits. Labor costs also were affected by an increase of nine per cent in the average number of employees in 1974, followed by a four per cent decrease in the average number of employees in 1975.

Table 3 – Unit Cost Analysis
Per Available Seat Mile (ASM)

	1975		1974		1973
	Cost Per ASM	% Increase	Cost Per ASM	% Increase	Cost Per ASM
Operating Expenses:					
Fuel	1.08¢	16.1%	.93¢	72.2%	.54¢
Fuel Price Adjustment and Landing Fee Rebate	(.14)		—		—
Other Operating Expenses	4.93	4.7	4.71	16.6	4.04
Total Operating Expenses	5.87	4.1	5.64	23.1	4.58
Non-Operating Charges and Credits – Net	.18		.19		.06
Total Cost	6.05¢		5.83¢		4.64¢

Pension expense increased $480,000 in 1975, to a total of $2,379,000, following a $359,000 increase in 1974. As a result, pension expense now exceeds five per cent of total labor cost, up from 4.4 per cent of total labor cost in 1974. Included in 1975 expense was $43,000 for the new Employee Stock Ownership Plan (ESOP) adopted effective November 1, 1975. Contributions to ESOP in 1976 are estimated at $300,000. Southern adopted ESOP to permit employees to share in the growth of the Company. Southern will make monthly contributions at rates determined annually, based on a percentage of participating employees' regular pay. The amounts contributed will be used to purchase the Company's common stock.

Rental expense increased to $9,601,000 in 1975, up by $1,669,000 over 1974 when a $697,000 increase was experienced. Of the increases, $728,000 in 1975 and $646,000 in 1974 related to property other than aircraft, principally terminal rentals. In addition to a continual program to modernize and expand these other leased properties as required, the Company also is subject to periodic rental increases when leases are renewed or renegotiated, due principally to the inflationary rise in the cost of provided maintenance and operations. The 1975 rentals were further increased by the commencement of rentals on the new Atlanta training facility, effective October 1, 1975.

Depreciation and amortization expense was $4,634,000 in 1975 and $4,397,000 in 1974. The increase in 1975 of $237,000 resulted from the effect (approximately $330,000) on depreciation of certain adjustments to the lives of DC9 rotable parts. This followed a $724,000 increase in 1974, due, predominantly, to the first full year's effect of the 1973 fleet expansion.

Fourth Quarter Operating Results

Operations during the fourth quarter of 1975 included a reduction of expenses of approximately $3,174,000, resulting from the settlement of a fuel price dispute. Of this amount, approximately $2,074,000 was provided in 1974 and approximately $1,100,000 was provided during the five months ended May 31, 1975, the expiration date of the disputed contract. This settlement had the effect of increasing net income for the quarter by approximately $2,309,000 ($1.31 per share primary and 79 cents per share fully diluted). A summary of the fourth quarter operating results appears in Table 4.

Distribution Of Total Expense Dollar
FOR THE YEAR, 1975

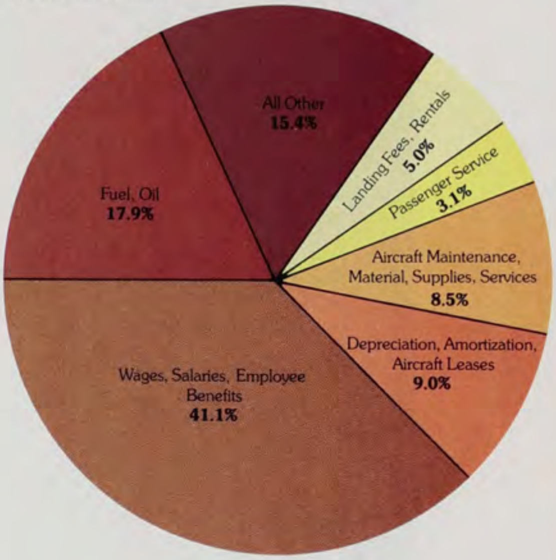


Table 4 — Summary of Fourth Quarter Operating Results
In Thousands, Except Per Share Amounts

	1975	1974
Operating Revenues	$32,288	$ 26,380
Income (Loss) before Income Taxes	$ 3,897	$ (1,489)
Income Taxes	1,045	(415)
Net Income (Loss)	$ 2,852	$ (1,074)
Earnings (Loss) per Common and Common Equivalent Share:		
Primary	$ 1.62	$ (0.78)
Fully Diluted	$ 1.03	$ (0.78)

Patricia E. Cataldo
Station Agent

When we hand you your Southern ticket, we want it to be the beginning of "Many Happy Returns."

Good People Are Doing a Good Job

Southern Airways employees are among the most efficient and dedicated in the airline industry. The Company's 1975 results evidence this.

At a time when the Company and every other airline were faced with rapidly increasing operating costs and fares inconsistent with these rising costs, Southern's 2,519 men and women exerted the extra effort necessary to get the job done.

Employees selected to work for Southern Airways genuinely are interested in the needs of the traveling public. They are carefully trained to accomplish their duties with the thought of serving the customer always being uppermost.

In November 1975, Southern introduced a stock ownership program for its employees. Under the Employee Stock Ownership Plan (ESOP), the Company contributes a percentage of each participant's salary. The funds are placed in a banking trust, with an account maintained for each employee.

The bank, acting as trustee, buys Southern's common shares on the open market on behalf of the participants. The Company now contributes an amount equal to one per cent of each participant's salary. The amount of the contribution may vary from time to time.

This program not only rewards Southern's personnel, but also contributes meaningfully to each employee's retirement.

The ESOP plan is subject to tax qualification by the Internal Revenue Service and approval by the Company's stockholders. Internal Revenue Service sanction has been requested and the program is being submitted to stockholders at the 1976 annual meeting.

The mutual respect for each other held by management and employees further is evidenced by the recent conclusion of labor contracts, satisfactory to both Company and employee. New contracts were signed with pilots, flight attendants, and dispatchers. These contracts continue until January 1, 1978, July 1, 1977 and October 1, 1978, respectively.

Southern's non-contract employees, numbering more than 1,900, have received salary increases in line with industry standards. Southern's salary scale is competitive with other industries.

Further contributing to the welfare of the employee is a comprehensive Company-funded fringe benefit program. Southern personnel and families are provided life insurance, hospitalization, surgery, major medical protection, and dental benefits.

Sick leave is provided and a long-term disability program, paid by the Company, protects employees against income loss when sick or disabled.

Southern's retirement program recently has been expanded. Further, Southern complies with all requirements of the Employee Retirement Income Security Act of 1974.

Vacation and holiday programs for Southern employees recently have been improved and each employee, depending on length of service, receives from two to five weeks annual vacation. Southern employees receive 10 paid holidays annually.

Employee handbooks interpret policies and procedures including the Company's long-time policy of promoting from within. Employee growth opportunities are emphasized and encouraged.

Odie Gressett
Mechanic

We have 500 technicians making sure our flights leave on time and return on time.

Craig A. McCarley
Line Maintenance Mechanic

When a Southern flight takes off, it has been checked, and checked, and checked...

To better qualify for promotion and additional responsibilities, Southern participates in an education assistance plan for employees, paying one-half of tuition and related expenses. As a result, many Southern employees are furthering their education.

Southern personnel have the benefits of a well-managed Federal Credit Union, with assets exceeding $4 million. The organization is employee operated and managed, offering loans and paying interest on deposits.

As is customary in the airline industry, Southern employees and specified family members enjoy air travel benefits.

In an ever continuing effort to keep Southern employees informed about Company programs and the activities and accomplishments of their fellow workers, the employee newspaper, *Southernaire*, is mailed monthly to each employee at home. This encourages family participation in Company activities and assures the employee and each family member of an understanding of all employee and Company events and programs.

Southern's personnel, in turn, have recognized the excellent working conditions afforded them and the respect management holds for them. In return, employee productivity is among the highest in the airline industry.

Southern people have a good job and they do a good job.

An Increased Level of Service Requires Support

The Company's growth during the past five years has necessitated additional facilities for servicing aircraft and training employees. These support facilities, including a Maintenance Base, Jet Engine Test Cell, and Training Center, are located at Hartsfield Atlanta International

Airport. These facilities meet present needs as well as offering an opportunity for future expansion.

In November 1975, the new Training Center was completed and put into operation. The center offers Southern personnel one of the most modern and efficient training facilities in the industry.

Pilot training now is accomplished through utilization of Southern's own computerized flight simulator. This offers exact duplication of the cockpit of a Southern DC9, providing complete jet flight simulation.

In addition to increasing efficiency and improving pilot skills, the simulator availability reduces pilot training costs through decreased travel time and favorable scheduling.

Also contributing to the value of a Company-operated simulator is service contracted to other airlines. The profits from these outside training programs contribute directly to the reduction of Southern's costs.

Other employee training also is provided. Flight attendants undergo much of their four-week program here, receiving additional instruction aboard Southern aircraft. Ground personnel receive formal classroom instruction before completing training at an assigned station.

Programs are being developed to upgrade skill levels of employees throughout the Company. The center's 210 seat auditorium offers a complete in-house facility for group meetings. The 1976 Annual Stockholders Meeting will be held in the new facility.

The Jet Engine Test Cell, part of the maintenance facility, already is operational, enabling jet engines to be tested internally at substantial savings, compared with obtaining this service from outside contractors.

In October 1976, the Company will occupy

Charles A. Rowell
Supervisor, Field Reporting

Southern is more than just a good airline for its customers. It's a good airline for its employees.

E. T. Chick, Jr.
Captain

Last year, Southern saved $850,000 in fuel costs because we flew our DC9s more efficiently.

the new maintenance hangar which completes the $28,000,000 facility in Atlanta. This facility will permit the operation of additional DC9 aircraft without an increased level of spare engines.

The Maintenance Base will make Southern self-sustaining, able to perform internally virtually all maintenance services. Not only will this improve employee efficiency but also overall maintenance costs are expected to be reduced.

The new facility additionally permits Southern to offer contract maintenance services to other airlines.

The Maintenance Base will accommodate all of the Company's central maintenance operations. Now, parts of five buildings are utilized. Because of planned efficiencies, the new facility can be operated at near the same personnel level utilized today.

Advantage Is Being Taken of Growth Opportunities

During the past year, Southern developed additional service on existing routes and established significant new patterns of service.

Detroit and the Cayman Islands, in the British West Indies, were added to the Southern system in December 1974. These points now are prime contributors to both passenger and cargo traffic increases.

Southern is the only airline operating between Detroit and Nashville. In addition to offering four round-trip flights between these cities, Detroit is directly linked south of Nashville with seven Southern-served cities. This high level of service has met wide customer support.

Southern is the United States Flag Carrier to the Cayman Islands, serving the route along with two foreign carriers. Southern operates this service under temporary authority from the Civil Aeronautics Board, but expects favorable approval and a final award from the Board later this year.

Southern's entry into this island resort has been accepted widely by both vacationers and business travelers. Although travel to the Cayman Islands is influenced by the winter vacation season, load factor for 1975 exceeded the system average. This is expected to increase further as a result of sales efforts and the accompanying increased awareness of this island retreat.

In January 1975, the Company began service at Chicago's O'Hare International Airport. Although authorized by the Civil Aeronautics Board to serve both O'Hare and Midway airports, the City of Chicago had withheld permission to utilize the highly desirable O'Hare airport. As a result, prior to 1975, the Company was not able to participate in the connecting business at O'Hare, the world's busiest air terminal.

Authority to operate at O'Hare was obtained late in 1974. During 1975, all but one of Southern's flights to Midway were transferred to O'Hare. The subsequent results evidence the wisdom of this move. Early in 1976, Southern's remaining flight at Midway was discontinued. Five daily flights serve O'Hare to and from Memphis and 16 other system points.

The O'Hare-Memphis segment represents almost eight per cent of the Company's available seat miles. Traffic has responded to make this Southern's number one market. With all of Southern's Chicago flights serving O'Hare, load factor on the routes should continue to increase.

On October 15, service began to Fort Lauderdale. The decision to add Fort

Carolyn S. Owens
Personnel Representative

Southern doesn't just talk about equal opportunity. We believe in it, and we practice it.

Marsha H. Carrico
Computer Operator

Computers never will replace our personal service. They just make our personal service better.

Lauderdale to the Southern system was timely. Although some dilution of Southern's Miami traffic was expected, this did not occur and three daily round-trip flights from Fort Lauderdale have contributed to Southern's penetration of the South Florida market.

Currently, the Company operates 11 daily domestic flights into Miami and Fort Lauderdale, serving over 21,000 passengers monthly just between these two points and Orlando and Tallahassee. From these two South Florida resort cities, Southern offers direct service to such points as Nashville, Birmingham, Memphis, St. Louis, Huntsville-Decatur, Mobile, Montgomery and Jackson, Miss.

Effective April 1, 1976, a schedule was implemented between Charleston, S.C., and St. Louis. This provides enroute service to and from these points and Columbia, Greenville-Spartanburg and Memphis.

In addition to developing service already authorized, in October 1975, the Company entered into an agreement with United Airlines to replace that carrier between Pittsburgh and Tri-Cities, Tenn.-Va.

Southern believes it can provide more service in the market and will use Tri-Cities as a hub linking down-line points with Pittsburgh. The Civil Aeronautics Board has encouraged route transfers between airlines where the service to the public can be improved and the airlines involved can be strengthened. The matter now is before the Civil Aeronautics Board and approval could come later this year.

Similarly, in March 1976, an agreement was completed for Southern to replace Trans World Airlines' service at Nashville. This would give new authority for Southern between

Nashville and St. Louis and between Nashville and Tampa-St. Petersburg-Clearwater, continuing to Miami-Fort Lauderdale.

This would be Southern's first entry into the Tampa-St. Petersburg-Clearwater market.

This matter also is before the Civil Aeronautics Board and a favorable decision this year is anticipated.

Additionally, the Company is participating in other route proceedings before the Civil Aeronautics Board to extend the system into other profitable markets.

New Customers Are Being Attracted and Retained

System growth has influenced, and has been influenced by, expanded promotional efforts.

Southern long has enjoyed a solid base of business travelers and some two-thirds of the passengers now carried are in this category. The Company now is directing sales and promotional efforts toward attracting the discretionary traveler. Direct focus has been placed on leisure market sales, considered to be the fastest growing area in air travel.

Programs have been introduced to attract vacationers, convention travelers and others in non-business categories. Southern actively markets vacation package tours to such destinations as New Orleans, Nashville, the Gulf Coast, Orlando, Miami and to the Cayman Islands.

These programs are offered by travel agents throughout the country and sales are further stimulated by the Company's advertising and sales force efforts.

Southern's international destination, the Cayman Islands, receives intensive sales

Edward E. Wingate
Manager, Cargo Services

If we don't take care of our customers' cargo, we aren't taking care of our customers.

Sheryl A. Llewellyn
Flight Attendant

Hundreds of Southern employees work hard to get you on board. I work hard so you will come aboard again.

support, promoting not only Southern's service but also the island as a delightful resort. The Company's promotional efforts are contributing to increased tourism and the overall economy in the islands.

Leisure market sales have not been confined only to scheduled service. An extensive charter operation, generating almost seven per cent of the Company's total revenues, offers group travel accommodations to such vacation spots as the Bahamas, Mexico's Cancun and Cozumel, and Canada. Domestic charter service is available throughout the United States as well, serving vacation and commercial customers. During the appropriate athletic seasons, Southern charters serve major university and college teams across the system as well as professional sports organizations throughout the year.

Supporting the Company's sales efforts is an advertising program using both broadcast and print media.

Southern's television commercials have been judged the best in the world in many categories in international competition. The commercials won three Clio Awards, the only campaign to do so.

New uniforms for public contact employees have been designed and will appear this spring. Recently, all Southern people entered into a new grooming program that better portrays them as they are—contemporary and competent.

The changes brought about by growth have been improvements. Unchanged is a long-time realization among Southern employees: the customer is entitled to the best service possible. To ensure this service, Southern people work harder and do their jobs better.

Statement of Income

Southern Airways, Inc.

Years ended December 31,	**1975**	1974
Operating Revenues		
Passenger	**$ 95,666,000**	$ 86,821,000
Mail, express and freight	**5,351,000**	5,136,000
Public service revenue	**5,961,000**	6,805,000
Charter	**8,208,000**	6,908,000
Other	**2,764,000**	2,682,000
	117,950,000	108,352,000
Operating Expenses — Note B		
Flying operations	**41,628,000**	34,690,000
Maintenance	**16,831,000**	16,613,000
Aircraft and traffic servicing	**26,782,000**	24,339,000
Passenger service	**7,490,000**	6,561,000
Promotion and sales	**9,012,000**	8,039,000
General and administrative	**6,053,000**	5,475,000
Depreciation and amortization	**4,634,000**	4,397,000
Other	**1,518,000**	1,355,000
Fuel price adjustment (credit) — Note B	**(2,074,000)**	—
	111,874,000	101,469,000
Operating Income	**6,076,000**	6,883,000
Other Deductions and Income		
Interest on long-term debt	**2,918,000**	3,929,000
Gain on disposal of property	**(40,000)**	(46,000)
Miscellaneous deductions (income) — net	**(572,000)**	(577,000)
	2,306,000	3,306,000
Income before Income Taxes, Extraordinary Tax Credit and Accounting Change	**3,770,000**	3,577,000
Income Taxes — Note D	**1,028,000**	985,000
Income before Extraordinary Tax Credit and Accounting Change	**2,742,000**	2,592,000
Tax Benefits of Net Operating Loss Carryforward	**—**	325,000
Cumulative Effect of Accounting Change — Note B	**—**	565,000
Net Income	**$ 2,742,000**	$ 3,482,000
Earnings per Common and Common Equivalent Share — Note I		
Primary:		
Income before extraordinary tax credit and accounting change	**$ 1.58**	$ 1.64
Extraordinary tax credit	**—**	.20
Cumulative effect of accounting change	**—**	.35
Net income	**$ 1.58**	$ 2.19
Fully Diluted:		
Income before extraordinary tax credit and accounting change	**$ 1.14**	$ 1.10
Extraordinary tax credit	**—**	.11
Cumulative effect of accounting change	**—**	.19
Net income	**$ 1.14**	$ 1.40

See Notes to Financial Statements.

Balance Sheet

Southern Airways, Inc.

ASSETS December 31,	1975	1974
Current Assets		
Cash, including short-term investments of $7,599,000 in 1975 and $8,900,000 in 1974 — Note C	**$11,918,000**	$11,895,000
Accounts receivable		
U.S. Government — transportation and public service revenue	**2,135,000**	1,826,000
Trade receivables, less allowance for doubtful accounts (1975 — $127,000; 1974 — $99,000)	**9,709,000**	8,148,000
	11,844,000	9,974,000
Maintenance and operating supplies, at average cost less allowance for obsolescence (1975 — $1,498,000; 1974 — $1,319,000) — Note A	**5,645,000**	4,577,000
Prepaid expenses	**917,000**	768,000
Total Current Assets	**30,324,000**	27,214,000
Other Assets		
Hijacking payment — Note B	**—**	2,000,000
Equipment purchase deposits	**100,000**	200,000
Miscellaneous	**241,000**	228,000
	341,000	2,428,000
Property and Equipment — on the basis of cost — Notes A, B and C		
Flight equipment	**51,249,000**	50,652,000
Other property and equipment	**6,204,000**	5,392,000
	57,453,000	56,044,000
Less allowances for depreciation and maintenance	**22,735,000**	19,630,000
	34,718,000	36,414,000
Deferred Charges — Note A		
Unamortized preoperating, route extension and development costs	**817,000**	1,117,000
Deferred lease costs	**103,000**	130,000
Unamortized long-term debt expense	**310,000**	353,000
	1,230,000	1,600,000
	$66,613,000	$67,656,000

LIABILITIES December 31,	1975	1974
Current Liabilities		
Accounts payable	**$ 6,213,000**	$ 7,505,000
Collections and withholdings as agent	**8,088,000**	7,237,000
Salaries, wages and vacations	**3,222,000**	3,163,000
Accrued interest payable	**713,000**	956,000
Accrued income taxes—Note D	**1,093,000**	363,000
Accrued taxes and other expense	**939,000**	474,000
Air travel plan deposits	**84,000**	86,000
Current maturities of long-term debt—Note C	**4,116,000**	3,836,000
Total Current Liabilities	**24,468,000**	23,620,000
Long-Term Debt, less current maturities—Note C		
Notes payable	**19,006,000**	22,687,000
Convertible subordinated debentures	**9,743,000**	10,178,000
	28,749,000	32,865,000
Deferred Credits		
Subsidy adjustment—Note B	**—**	600,000
Deferred income taxes—Note D	**496,000**	294,000
	496,000	894,000
Stockholders' Equity—Notes C and E		
Preferred Stock, authorized 2,000,000 shares, issuable in series:		
Series A, $.36 Convertible, $1 par value, voting (liquidation value $6 per share plus cumulative dividends—aggregate of $1,042,000 in 1975 and $1,046,000 in 1974), issued and outstanding 163,781 shares (1975) and 164,431 shares (1974)	**164,000**	165,000
Common Stock, $2 par value, authorized 7,500,000 shares, issued and outstanding 1,580,880 shares (1975) and 1,580,230 shares (1974)	**3,162,000**	3,160,000
Other paid-in capital	**5,124,000**	5,125,000
Retained earnings	**4,450,000**	1,827,000
	12,900,000	10,277,000
Leases, Commitments and Contingencies—Notes G and H		
	$66,613,000	$67,656,000

See Notes to Financial Statements.

Statement of Changes in Financial Position

Southern Airways, Inc.

Years ended December 31,	**1975**	1974
Funds Provided		
From operations		
Income before extraordinary tax credit and accounting change	**$2,742,000**	$2,592,000
Items not requiring outlay of working capital in current period:		
Depreciation	**4,177,000**	3,840,000
Decrease in allowance for maintenance	**(2,000)**	(85,000)
Amortization of deferred charges	**388,000**	546,000
Deferred income tax	**202,000**	294,000
Subsidy adjustment—Note B	**—**	400,000
Total from operations exclusive of extraordinary tax credit	**7,507,000**	7,587,000
Extraordinary tax credit	**—**	325,000
Total from operations	**7,507,000**	7,912,000
Conversions of preferred stock to common stock	**1,000**	168,000
Property and equipment sold, less gain included in operations	**84,000**	521,000
Application of equipment purchase deposit	**100,000**	—
Recovery of hijacking payment less deferred subsidy—Note B	**1,400,000**	—
Reclassification of equipment to inventory	**533,000**	—
	9,625,000	8,601,000
Funds Used		
Additions to property and equipment	**2,431,000**	1,908,000
Utilization of DC9 engine maintenance reserve	**665,000**	1,751,000
Equipment purchase and lease deposits	**—**	200,000
Reduction of long-term notes payable	**4,116,000**	4,836,000
Dividends on preferred stock	**119,000**	248,000
Conversions of preferred stock to common stock	**1,000**	168,000
Increase in deferred charges	**18,000**	30,000
Increase in other assets	**13,000**	30,000
	7,363,000	9,171,000
Increase (Decrease) in Working Capital	**2,262,000**	(570,000)
Working capital at beginning of year	**3,594,000**	4,164,000
Working Capital at End of Year	**$5,856,000**	$3,594,000
Increase (Decrease) in Working Capital by Component		
Cash and short-term investments	**$ 23,000**	$3,826,000
Accounts receivable	**1,870,000**	(4,151,000)
Maintenance and operating supplies	**1,068,000**	1,705,000
Prepaid expenses	**149,000**	41,000
Accounts payable	**1,292,000**	(1,732,000)
Collections and withholdings as agent	**(851,000)**	(1,389,000)
Salaries, wages and vacations	**(59,000)**	(860,000)
Accrued interest, taxes and other expenses	**(952,000)**	(1,131,000)
Air travel plan deposits	**2,000**	6,000
Current maturities of long-term debt	**(280,000)**	3,115,000
Increase (Decrease) in Working Capital	**$2,262,000**	$ (570,000)

See Notes to Financial Statements.

Statement of Stockholders' Equity

Southern Airways, Inc.

Years ended December 31, 1975 and 1974	Preferred Stock $1 Par Value Series A	Preferred Stock $1 Par Value Series B	Common Stock $2 Par Value	Other Paid-in Capital	Retained Earnings (Deficit)
Balance, January 1, 1974	$166,000	$167,000	$2,825,000	$5,292,000	$(1,407,000)
Net income	—	—	—	—	3,482,000
Dividends on preferred stock ($.72 per share)	—	—	—	—	(248,000)
Common stock issued upon conversion of preferred stock	(1,000)	(167,000)	335,000	(167,000)	—
Balance, December 31, 1974	165,000	—	3,160,000	5,125,000	1,827,000
Net income	—	—	—	—	2,742,000
Dividends on preferred stock ($.36 per share)	—	—	—	—	(119,000)
Common stock issued upon conversion of preferred stock	(1,000)	—	2,000	(1,000)	—
Balance, December 31, 1975	$164,000	$ —	$3,162,000	$5,124,000	$4,450,000

See Notes to Financial Statements.

Notes to Financial Statements

Southern Airways, Inc. December 31, 1975

Note A—Summary of Significant Accounting Policies

Property, Equipment, Depreciation and Obsolescence

Provisions for depreciation of property and equipment are computed on the straight-line method calculated to amortize the cost of the properties over their estimated useful life. For DC9 flight equipment the life is 15 years (new equipment) and ten years (used equipment and rotable parts), with a ten per cent salvage value; for ground equipment, the life ranges from three to ten years (see Note B).

The Company is engaged in a program of permanently reducing the use of Martin 404 flight equipment. At December 31, 1975, the Company's investment in Martin 404 flight equipment is fully depreciated except for $442,000 related primarily to engine overhauls, which will be charged to income based on hours flown.

At the time properties are retired, the amounts of costs and allowances for depreciation and maintenance are eliminated from the accounts. Profits and losses on disposals of DC9 flight equipment (exclusive of rotable parts) are credited or charged to income. Proceeds from the disposal of DC9 rotable parts are credited to the allowance for depreciation account. Proceeds from disposal of the fully depreciated Martin 404 flight equipment and rotable parts are included in income.

Expenditures for ordinary maintenance and repairs are charged to expense. Expenditures for major spare parts are capitalized and minor parts are recorded in inventory accounts and charged to expense as used.

A provision for obsolescence of the investment in minor spare parts inventory for DC9 aircraft is made at an annual rate of 4 per cent.

Deferred Charges

Expenditures for preoperating and route extension and development costs are deferred and are amortized over a period of five years from the dates operations of the routes are started. Costs associated with obtaining leased DC9 aircraft are being amortized over the lives of the leases. Deferred charges associated with long-term debt are being amortized over the period of the financing arrangements.

Income Taxes

Income taxes are provided at current tax rates for all items included in the statement of income regardless of the years when such items are reported for tax purposes.

The Company uses the flow-through method of accounting for investment tax credit, and available investment tax credit is recognized to the extent it can be realized or offset against income taxes currently payable or deferred.

Pension Plans

The Company has several pension plans covering substantially all of its employees. There are no unfunded past service costs. The Company's policy is to fund pension costs accrued. At December 31, 1975, the pension fund assets exceeded the actuarially computed value of vested benefits for all plans.

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan (ESOP) for certain of its employees. The Plan was established effective November 1, 1975, and is subject to stockholder and Internal Revenue Service approval. The Company's contributions to the Plan are determined annually at rates related to the base compensation of active participants. It is the Company's policy to fund contributions accrued.

Public Service Revenue

The Company receives public service revenue from the Civil Aeronautics Board for providing service to small and intermediate-size cities on its routes. Amounts received and recognized as revenues are those paid for the period based on the formula then in effect.

Note B—Certain Significant Transactions and Changes Affecting Operating Results

In early 1974, a fuel supplier notified the Company that its contract with the Company was withdrawn and future fuel deliveries would only be made on a spot price basis. Subsequently, the Company filed an action in the Federal District Court seeking a declaration that the supplier must specifically perform under the terms of the contract, which expired May 31, 1975. In January 1976, the Company negotiated a final settlement of the amount due to the supplier under this contract. The amount provided in 1974 as due to the supplier exceeded the final settlement by $2,074,000, and such amount has been included separately in the statement of income for 1975 as a reduction of operating expenses. This final settlement had the effect of increasing net income by approximately $1,500,000 ($.85 per share).

In 1975, the City of Atlanta reimbursed airlines using Hartsfield Atlanta International Airport for certain amounts which the airlines had advanced toward airport expansion through higher landing fees since 1967. These funds were made available to the City under the Federal Airport Development Aid Program. This reimbursement of $686,000 (which includes interest of $91,000) has been included as a reduction of expenses and in interest income for 1975 and had the effect of increasing net income approximately $499,000 ($.28 per share).

On January 1, 1975, the Company redetermined the economic useful life of DC9 rotable equipment and reduced the useful life of these assets from 15 to 10 years. In addition, certain assets ($533,000) were transferred from property to inventory. This change had the effect of increasing the provision for depreciation approximately $330,000 and reducing net income approximately $240,000 ($.14 per share).

In 1973, the Civil Aeronautics Board ("CAB") implemented a subsidy formula which recognized the $2 million ransom payment retained by the Republic of Cuba following a 1972 hijacking. This formula resulted in increased subsidy revenue; however, the Company was required to return to the CAB a proportionate amount of the increased subsidy revenue when the ransom was returned. Following receipt of approximately $2 million from the Cuban Government in 1975, representing payment in full return of the ransom funds, the Company refunded to the CAB approximately $490,000 of the $600,000 which had been deferred at December 31, 1974. General and administrative expenses were reduced by approximately $110,000 for the final subsidy settlement related to the hijacking payment. The settlement resulted in an increase in net income of approximately $80,000 ($.05 per share).

Because of the increased size of its jet fleet, together with changes in engine maintenance technology which permit a progressive maintenance program, the Company changed its method of recording certain maintenance costs of DC9 engines, effective January 1, 1974, to the method of charging all such costs to operations as incurred. In 1973, and prior years, the Company followed the "built-in-overhaul" method of providing airworthiness reserves for certain maintenance costs of DC9 engines. Under this method, the estimated costs of certain specified engine maintenance operations were segregated from those engine costs to be depreciated over the estimated useful lives of the engines. A related maintenance reserve was then accumulated through regular charges to operations based upon hours used. The reserve was reduced when charges were incurred applicable to the provided maintenance operations. A similar method was used for leased engines. The cumulative effect of this change ($565,000) is reflected as a credit in the statement of income for 1974.

Note C—Long-Term Debt

At December 31,	**1975**	1974
Notes payable to banks under credit agreement dated February 20, 1973		
"A" Loans, payable quarterly through 1982	**$15,403,000**	$17,623,000
"B" Loans, payable quarterly through 1979	**7,284,000**	8,900,000
Convertible Subordinated Debentures		
5-3/4% due December 1, 1981	**4,345,000**	4,345,000
6-1/2% due November 1, 1983	**5,833,000**	5,833,000
	32,865,000	36,701,000
Less Current Maturities	**4,116,000**	3,836,000
	$28,749,000	$32,865,000

The "A" and "B" Loans bear interest at the lead bank's prime rate (7.25 per cent at December 31, 1975) plus 1 per cent and 2 per cent, respectively, and are payable in quarterly installments. Substantially all of the Company's assets are pledged as collateral under the terms of the Credit Agreement. Additionally, the "A" Loan is 90 per cent guaranteed by the Federal Aviation Administration.

In connection with the Credit Agreement, the Company maintains average compensating balances, based on bank ledger balances adjusted for treasury tax contributions and uncollected funds, equal to 15 per cent of the average daily balance of the "A" and "B" Loans outstanding. Based upon outstanding borrowings at December 31, 1975, the Company should maintain average compensating balances of approximately $4,685,000, which stated in terms of the Company's book cash balances is approximately $2,518,000. The difference is attributable to average uncollected funds and float. During 1975, the Company maintained average compensating balances of approximately $5,160,000. Compensating balances are not restricted as to withdrawals, serve in some instances as compensation to the participating banks for their account handling function and other services, and additionally serve as part of the Company's minimum operating cash balances.

In February 1976, the Company amended its agreement with the lead bank to provide for a standby credit commitment of $7,452,000 available to December 31, 1976, after which time borrowings under the commitment will be converted to a term loan providing for repayment in quarterly installments over seven years. The loan is subject to approval and guarantee by the Federal Aviation Administration. The Company will pay interest on funds borrowed at 1 per cent over the Corporate Base Rate (Prime) of the lead bank and will pay a fee of 1/2 of 1 per cent per year on the average unused portion of the commitment. The bank will require as compensating balances, net free balances of 15 per cent of the amount of the unused commitment plus 15 per cent to 20 per cent of the amount of any loans outstanding. The funds obtained from the additional financing will be used for the acquisition of two DC9 (30 Series) aircraft expected to be placed into service in mid-1976.

In addition, the Company and the lead bank modified the terms of the "B" Term Loan into a Revolving Credit Loan under which the Company may borrow, repay and reborrow at any time up to the amount of the outstanding commitment. The commitment will be reduced quarterly in an amount equal to the original installments on the "B" Term Loan.

The 5-3/4% Convertible Subordinated Debentures due December 1, 1981, are convertible (until maturity or prior redemption) into common stock at $10.86 per share; are subordinated, generally, to all existing and future indebtedness for borrowed money; are callable at premiums ranging from 2.25 per cent downward; and require annual sinking fund payments beginning December 1, 1976, in an amount equal to 10 per cent of the principal amount outstanding at December 1, 1975. In January 1976, pursuant to an offer tendered in December 1975, the Company purchased $871,000 principal amount of the 5-3/4% Convertible Subordinated Debentures at a price of $750 for each $1,000 debenture plus certain brokerage and other related expenses. These debentures will be used to make sinking fund payments which will become due beginning December 1, 1976.

The 6-1/2% Convertible Subordinated Debentures due November 1, 1983, are convertible (until maturity or prior redemption) into common stock at $10 per share; are subordinated, generally, to all existing and future indebtedness for borrowed money, are callable at premiums ranging from 5 per cent downward; and require annual prepayments beginning November 1, 1978, in an amount equal to 10 per cent of the principal amount outstanding at November 1, 1977, less credit for principal amount converted or called subsequent to November 1, 1977. Also, the Company may make additional voluntary prepayments equal to the required amounts.

The terms of the Credit Agreement and both issues of convertible subordinated debentures place certain requirements and restrictions upon, among other things, (a) working capital, (b) indebtedness and lease obligations, (c) capital expenditures, (d) net worth and (e) payments relating to capital stock, including dividends. Retained earnings available for the payment of dividends at December 31, 1975, under the most restrictive requirement, amounted to approximately $1,840,000.

A summary of minimum principal payments under the credit agreement loans and both issues of convertible subordinated debentures is as follows:

Year	Credit Agreement Loans	Convertible Subordinated Debentures	Total
1976	$ 3,681,000	$ 435,000	$ 4,116,000
1977	3,420,000	435,000	3,855,000
1978	3,720,000	1,018,000	4,738,000
1979	5,343,000	1,018,000	6,361,000
1980	2,220,000	1,018,000	3,238,000
Thereafter	4,303,000	6,254,000	10,557,000
	$22,687,000	$10,178,000	$32,865,000

Prepayments equal to 25 per cent of net income in excess of $1,500,000 plus 50 per cent of net income in excess of $3,000,000 earned in any fiscal year is required under the "B" Loan. Prepayments due in 1976 under this provision of $311,000 are reflected in the above summary for that year.

Note D—Income Taxes

Income taxes for the years 1975 and 1974 are comprised as follows:

	1975	1974
Current:		
Federal	**$1,309,000**	$1,138,000
State	**155,000**	134,000
Deferred (net of applicable investment tax credit of $227,000 in 1975 and $250,000 in 1974):		
Federal	**169,000**	250,000
State	**33,000**	44,000
Investment tax credit (applicable to current taxes)	**(638,000)**	(581,000)
	$1,028,000	$ 985,000

Deferred income taxes resulted from timing differences in the recognition of revenue and expense for income tax and financial reporting purposes. The sources of these differences in 1975 and 1974 and the tax effect of each were as follows:

	1975	1974
Accelerated depreciation	**$ 791,000**	$ 878,000
Provision for inventory obsolescence for financial reporting purposes in excess of cumulative allowed deductions for income tax purposes	**(111,000)**	(652,000)
Provision for Martin-404 overhaul overhead deducted for income tax purposes in prior years	**—**	282,000
Provision for maintenance reserve	**(166,000)**	—
Other	**(85,000)**	36,000
Investment tax credit	**(227,000)**	(250,000)
	$ 202,000	$ 294,000

The sums of current and deferred Federal income taxes in 1975 and 1974 ($1,705,000 and $1,638,000 before investment tax credit of $227,000 and $250,000 offsetting deferred taxes) equal approximately 48 per cent (the statutory Federal tax rate) of income before taxes after deducting the state tax provision shown above.

Investment tax credit carryovers, which may be used to offset Federal income taxes payable in future income tax returns, aggregate approximately $837,000 and expire in 1978 ($26,000), 1979 ($276,000), 1980 ($220,000), 1981 ($123,000) and 1982 ($192,000). Approximately $477,000 of this amount has been utilized as a reduction of deferred taxes for financial reporting purposes.

Note E—Capital Stock and Options

The Series A Preferred Stock is convertible into common stock on a share for share basis, can be redeemed at the Company's option after July 1, 1976, at $6 per share plus accumulated dividends and is entitled upon liquidation to receive $6 per share plus accumulated dividends. The liquidation preference for the 163,781 shares outstanding at December 31, 1975, including the dividend requirement described below, aggregated $1,042,000 which is $878,000 more than the aggregate par value of such shares.

Each share of preferred stock is entitled to receive annual dividends of $.36 per share cumulative only to the extent of annual net profits. Payment of dividends is also subject to the limitations prescribed by the Indenture Agreements covering the 5-3/4% and 6-1/2% Convertible Subordinated Debentures and to limitations contained in the Credit Agreement (see Note C). The dividend requirement on preferred shares at December 31, 1975, aggregated $59,000, after reduction for the dividend of $119,000 included in accrued expenses and paid to shareholders on January 9, 1976.

Authorized common shares include 1,674,403 shares and 1,675,053 shares reserved at December 31, 1975 and 1974, respectively, for issuance as follows:

	1975	1974
For convertible securities conversions:		
5-3/4% Convertible Subordinated Debentures (Note C)	**400,093**	400,093
6-1/2% Convertible Subordinated Debentures (Note C)	**583,300**	583,300
Series A Convertible Preferred Stock	**163,781**	164,431
	1,147,174	1,147,824
For exercise of outstanding warrants at $6 per share, issued with Series A (290,562 shares) and Series B (166,667 shares) Convertible Preferred Stock	**457,229**	457,229
For options under Qualified Stock Option Plan (45,000 shares) and Employee Stock Option Plan (25,000 shares)	**70,000**	70,000
	1,674,403	1,675,053

At December 31, 1975, there were outstanding options for 45,000 shares of common stock under the Company's Qualified Stock Option Plan, of which 34,000 shares (at $5.25 per share) expire in 1976, 4,000 shares (at $5.81 per share) expire in 1978, 3,000 shares (at $3.50 per share) expire in 1979, and 4,000 shares (at $2.94 per share) expire in 1980. Option transactions in 1974 and 1975 are summarized as follows:

	Number of Shares	Option Price Per Share	Option Price Total
Outstanding January 1, 1974	42,000	$5.25-$11.76	$246,000
Granted	6,000	3.50- 5.25	26,000
Expired	(4,000)	8.69- 11.76	(44,000)
Outstanding December 31, 1974	44,000	3.50- 5.81	228,000
Granted	4,000	2.94	12,000
Cancelled	(3,000)	5.25- 5.81	(16,000)
Outstanding December 31, 1975	45,000	$2.94-$ 5.81	$224,000

The Qualified Stock Option Plan expired on October 26, 1975, except for options which were outstanding at that date.

Options granted under the Plan are intended to constitute "qualified stock options" as defined in Section 424 (b) of the Internal Revenue Code of 1954, as amended. Options are exercisable at not less than 100 per cent of the fair market value of the stock on the date of grant, terminate not later than five years after date of grant, and are not exercisable during the first 24 months after date of grant. Each option is exercisable with respect to one-third of the number of shares at any time after 24 months following date of grant, with respect to an additional one-third after 36 months, and with respect to the balance after 48 months. No options were exercised in 1975 or 1974. Options became exercisable as follows:

Notes to Financial Statements *continued*

Southern Airways, Inc. December 31, 1975

	1975	1974
Number of Shares	**12,667**	12,000
Option Price:		
Per Share	**\$5.25-\$5.81**	\$ 5.25
Total	**\$ 67,000**	\$63,000
Quoted Market Price at Date Exercisable:		
Per Share	**\$2.88-\$3.25**	\$ 3.50
Total	**\$ 37,000**	\$42,000

Options for 35,333 shares (aggregating \$186,000 at option prices) and 24,000 shares (aggregating \$126,000) were exercisable at December 31, 1975 and 1974, respectively.

A total of 25,000 shares of common stock are reserved for issuance to participating employees under an Employees' Stock Option Plan (an employee stock purchase plan as defined by Section 423(b) of the Internal Revenue Code of 1954). This plan is currently inactive and there are no participants.

The Company makes no charge to income with respect to options.

Note F—Pension and Employee Stock Ownership Plans

Pension expense was \$2,379,000 in 1975 and \$1,899,000 in 1974. Expense in 1975 includes \$43,000 for the Employee Stock Ownership Plan adopted during the year (see Note A).

The Plans have been, or are presently being modified to comply with the Employee Retirement Income Security Act of 1974. Compliance with the Act will have no material effect on pension expense in future periods.

On October 1, 1975, the Company, under a negotiated agreement, merged its two pilots' plans, one a defined benefit plan and one a defined contribution plan, into a single defined benefit plan.

Note G—Leases

Total rental expense for all leases amounted to:

	1975	1974
Financing leases (minimum rentals):		
Flight equipment	**\$4,991,000**	\$4,748,000
Other financing leases	**2,132,000**	1,705,000
Other leases:		
Minimum rentals	**1,912,000**	1,093,000
Contingent rentals	**639,000**	443,000
	\$9,674,000	\$7,989,000

Contingent rentals for 1975 consist of charges of \$437,000 for reservations services based upon the number of unduplicated passengers in excess of a specified minimum of \$120,000 per annum and \$202,000 for that portion of the rental charges for a short-term leased aircraft which was based on hours flown. In 1974 the contingent rentals related solely to the reservations services. Rentals received from subleases are immaterial.

Future minimum rental commitments as of December 31, 1975, for all noncancelable leases and for the new maintenance center at the Hartsfield Atlanta International Airport are as follows:

	Financing Leases				
	Flight Equipment	Maintenance Center	Other Financing Leases	Other Leases	Total
1976	\$ 5,901,000	\$ 1,205,000	\$ 1,673,000	\$1,109,000	\$ 9,888,000
1977	5,901,000	2,534,000	1,554,000	519,000	10,508,000
1978	5,901,000	2,534,000	1,227,000	234,000	9,896,000
1979	4,924,000	2,534,000	1,137,000	177,000	8,772,000
1980	2,861,000	2,534,000	1,137,000	109,000	6,641,000
1981-1985	7,287,000	12,673,000	5,409,000	466,000	25,835,000
1986-1990	—	12,673,000	4,960,000	397,000	18,030,000
1991-1995	—	12,673,000	1,747,000	44,000	14,464,000
Remainder	—	24,712,000	366,000	32,000	25,110,000
	\$32,775,000	\$74,072,000	\$19,210,000	\$3,087,000	\$129,144,000

Estimated costs, annual rentals and rental commencement dates for the new maintenance center are as follows:

	Estimated Cost	Annual Rental	Rental Commencement Dates
Land	$ 1,506,000	$ 120,000	January 2, 1974
Phase One Facilities	7,663,000	641,000	October 1, 1975
Phase Two Facilities	20,522,000	1,773,000	October 1, 1976

Cost of the facilities is being financed by the City of Atlanta through the issuance of Airport Extension and Improvement Revenue Bonds in the principal amounts needed to provide monies for the estimated costs shown above, which will be the City's maximum obligation. Cost of improvements in excess of the estimated amount must be borne by the Company. The lease extends to October 1, 2005, and may be renewed at the Company's option for an additional term extending to January 1, 2024.

Most of the Company's other leases do not contain formal renewal options. However, consistent with the prevailing practice in the industry, leases with relatively short terms are generally renegotiated and extended at the conclusion of their terms and leases with relatively long terms generally provide for renegotiation of their provisions at specified intervals throughout their term.

The estimated present values of the net fixed minimum rental commitments for all noncapitalized financing leases are:

	Interest Rates Used					
	Weighted Average		Range		As of December 31,	
	1975	1974	1975	1974	1975	1974
Flight equipment	7.91%	7.45%	5.3%- 9.2%	5.3%- 8.7%	$25,977,000	$22,020,000
Computer and message switching equipment	14.01	12.64	7.5 -23.7	6.8 -23.7	622,000	1,102,000
Airport terminal facilities	5.50	6.34	2.9 - 7.5	2.9 - 7.5	7,264,000	5,001,000
General office, maintenance and training facilities*	7.22	6.52	3.5 - 7.5	3.5 - 7.2	9,754,000	2,187,000
Miscellaneous ground equipment	6.12	6.19	5.1 - 6.8	4.6 - 6.8	9,000	17,000

**Includes land (1975 and 1974) and phase one facilities (1975) for new maintenance center.*

The present values were computed after reducing total rental commitments, where required, by estimated or actual amounts applicable to lessors' payments of taxes, insurance, maintenance and other operating expenses.

If all financing leases had been capitalized and it was assumed that the estimated present values were amortized on a straight-line method over the terms of the leases and that interest expense was accrued on the outstanding lease obligations at the rates shown above, the increase in expenses would have been as follows:

	1975	1974
Rent expense—net	**$(7,618,000)**	$(6,048,000)
Amortization of leased property	**5,109,000**	4,260,000
Interest expense	**2,920,000**	2,257,000
Income taxes	**(115,000)**	(131,000)
	$ 296,000	$ 338,000

To the extent that the increased expenses were not offset by resultant increases in subsidy revenues and related income taxes, which are indeterminable as to specific amounts, net income would have been decreased.

Landing fees were $1,950,000 in 1975, after reduction for the reimbursement by the City of Atlanta of $595,000 (see Note B), and $2,162,000 in 1974.

Note H—Other Commitments and Contingencies

In connection with the sale of two aircraft in 1973, the Company agreed to indemnify the purchaser against loss to the extent of $350,000 in the event the third party to which the purchaser resold the aircraft should default in payment to the purchaser.

The Company has commitments for the acquisition of two DC9 (30 Series) aircraft valued at approximately $8,000,000. (See Note C for related financing arrangements.)

The Company is the defendant in a number of law suits. In the opinion of management there is adequate insurance coverage for such of those suits as are being defended by the Company's insurance carriers. In the opinion of management, the other suits will have no material effect on the financial statements for 1975.

The Company has an employment agreement with its Chairman of the Board providing for his employment to September 12, 1977, at an annual salary of not less than $55,000. In addition, upon his retirement, the Company has agreed to pay $2,000 per month to him for life or in the event of his death, to his lineal descendants for 180 months. Provision for the amount due under the retirement agreement is being made over a three year period beginning in 1975.

In January 1976, the Company signed a letter of intent to lease a new general office building under a capitalizable lease obligation. This building will be constructed to the Company's specifications. Estimated total cost of the building is approximately $3,700,000.

Note I—Earnings per Share

Primary earnings per share were computed by dividing net income (adjusted as described below and reduced by the preferred dividend requirement) by the weighted average number of common shares and common equivalent shares outstanding during each year—1,765,168 shares in 1975 and 1,598,882 shares in 1974. Common equivalent shares comprise that number of common shares issuable upon exercise of stock options and warrants in excess of 20 per cent of the number of common shares outstanding at the end of each year. Proceeds from the assumed exercise of the options and warrants in excess of the amount which would have been required to purchase 20 per cent of the outstanding common stock at the average market price during each year were assumed to have been applied to debt reduction and the related interest, net of income tax effect, was added to income for purposes of the calculation.

Fully diluted earnings per share were determined on the assumption that the weighted average number of common and common equivalent shares were further increased from the beginning of each year by conversion of outstanding convertible debentures and convertible preferred stocks—a total of 2,912,407 shares in 1975 and 2,913,090 shares in 1974. These calculations also assume no preferred dividend requirement, and interest, net of income tax effect, related to the debentures assumed converted was added to income for purposes of the calculation.

Note J—Supplementary Information

	1975	1974
Depreciation and amortization:		
Depreciation of property and equipment	**$4,177,000**	$3,840,000
Amortization of deferred charges	**388,000**	546,000
Provision for inventory obsolescence	**202,000**	113,000
	4,767,000	4,499,000
Deduct—amounts charged to other accounts	**133,000**	102,000
	$4,634,000	$4,397,000
Taxes, other than income taxes, charged to operating expenses:		
Payroll taxes	**$1,874,000**	$1,785,000
Fuel and oil taxes (a)	**723,000**	237,000
Property taxes	**652,000**	427,000
Sales and use taxes	**360,000**	333,000
Other	**154,000**	138,000
	$3,763,000	$2,920,000
Rents:		
Rental expense under leases—Note G	**$9,674,000**	$7,989,000
Portion of gross lease rentals not charged to rent expense in accordance with CAB classifications and miscellaneous rentals—net	**(73,000)**	(57,000)
	$9,601,000	$7,932,000
Advertising costs	**$ 918,000**	$1,189,000

There were no royalties or research and development costs.

(a) In January 1975, the Company changed its definition of items classified as fuel taxes to comply with the Civil Aeronautics Board's definition of fuel taxes. This change resulted in approximately $500,000 being classified as fuel taxes in 1975, which had been previously classified to other accounts.

Report of Independent Accountants

Board of Directors
Southern Airways, Inc.
Atlanta, Georgia

We have examined the balance sheet of Southern Airways, Inc. as of December 31, 1975, and December 31, 1974, and the related statements of income, stockholders' equity and changes in financial position for the years then ended. 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 financial statements referred to above present fairly the financial position of Southern Airways, Inc. at December 31, 1975, and December 31, 1974, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1974, in the method of recording certain DC9 engine maintenance costs, as described in Note B of Notes to Financial Statements.

Ernst + Ernst

Atlanta, Georgia
February 13, 1976

Notice to Stockholders of Southern Airways, Inc.

Any person who owns as of December 31 of any year, or subsequently acquires ownership, either personally or as a trustee, of more than five per cent (5%) in the aggregate of any class of capital stock or capital of Southern Airways, Inc. shall file with the Civil Aeronautics Board a report containing the information required by Part 245.12 of the Board's Economic Regulations. This report must be filed on or before April 1 of each year as to the capital stock or capital owned as of December 31 of the preceding year; and in the case of capital subsequently acquired, a report must be filed within ten (10) days after such acquisition, unless such person has otherwise filed with the Civil Aeronautics Board a report covering such acquisition or ownership.

Any bank or broker covered by this provision, to the extent that it holds shares as trustee on the last day of any quarter of a calendar year, shall file with the Civil Aeronautics Board within thirty (30) days after the end of the quarter, a report in accordance with the provisions of Part 245.14 of the Board's Economic Regulations.

Any person required to report pursuant to these provisions who grants a security interest in more than five per cent (5%) of any class of the capital stock or capital of an air carrier, shall within thirty (30) days after granting such security interest, file with the Civil Aeronautics Board a report containing the information required in Part 245.15 of the Economic Regulations.

Any stockholder who believes that he may be required to file such a report may obtain further information by writing to the Director, Bureau of Operating Rights, Civil Aeronautics Board, Washington, D.C. 20428.

Equal Opportunity Policy

It is the policy and practice of Southern Airways, Inc. to recruit, hire and promote qualified applicants regardless of their race, color, religion, sex, age, national origin, or physical handicap.

To further this objective, the Company has established procedures to insure that all personnel actions such as compensation, benefits, transfers, lay-offs, returns from lay-offs, Company sponsored training, education, tuition assistance, social and recreational programs, and all Company facilities are administered without regard to race, color, religion, sex, age, national origin, or physical handicap.

Directors, Officers, and General Information

Directors

Cecil A. Beasley, Jr.
Assistant Secretary,
Southern Airways, Inc. and
Partner—Ballard & Beasley
(Attorneys) Washington, D.C.

George M. Gross
Executive Vice President and
General Manager,
Southern Airways, Inc.

Graydon Hall*
President,
Southern Airways, Inc.

F. Barton Harvey, Jr.
Partner—Alex. Brown & Sons
(Investment Bankers)
Baltimore, Maryland

Frank W. Hulse*
Chairman of the Board and
Chief Executive Officer
Southern Airways, Inc.

Alton F. Irby, Jr.
Chairman of the Board
Fred S. James & Company of
Georgia, Inc. (Insurance Agents
and Counselors)
Atlanta, Georgia

Henry P. Johnston
Radio and Television Consultant
Birmingham, Alabama

G. Gunby Jordan*
Chairman of the Board
The Jordan Company (Construction)
Columbus, Georgia

Sartain Lanier**
Chairman of the Board
Oxford Industries, Inc. (Textile
Manufacturer)
Atlanta, Georgia

A. L. Maxson
Vice President—Finance
and Treasurer,
Southern Airways, Inc.

R. Eugene Orr
President—Orr & Company, Inc.
(Mortgage Bankers)
Jacksonville, Florida

G. Frank Purvis, Jr.**
Chairman of the Board and Chief
Executive Officer—Pan American
Life Insurance Company
New Orleans, Louisiana

F. D. Schas†
Retired Investment Counselor
Memphis, Tennessee

Elton B. Stephens*
Chairman and Founder
EBSCO Industries, Inc.
(Diversified Multinational Sales
Corporation and Metals Manufacturing)
Birmingham, Alabama

Richard A. Trippeer, Jr.**
President—Union Planters
National Bank
Memphis, Tennessee

Wm. Bew White, Jr.*
Assistant Secretary,
Southern Airways, Inc. and
Partner—Bradley, Arant, Rose & White
(Attorneys)
Birmingham, Alabama

**Member of Executive Committee*
***Member of Audit Committee*
† Senior Director

Officers

Frank W. Hulse
Chairman and Chief
Executive Officer

Graydon Hall
President

George M. Gross
Executive Vice President
and General Manager

J. Kenneth Courtenay
Vice President—Economic
Regulations and Secretary

A. L. Maxson
Vice President—Finance
and Treasurer

Owen L. McRee
Vice President—Customer Sales
and Services

J. R. Price
Vice President—Properties

Victor C. Pruitt
Vice President—
Technical Services

T. M. Shanahan
Vice President—Flight

Thomas A. Wiley, Jr.
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Ray W. Burden
Assistant Treasurer

James H. Ishee
Assistant Treasurer and
Controller

J. Philip Day
Assistant Vice President—
System Planning

William E. Oakes
Assistant Vice President—
Economic Research

Cecil A. Beasley, Jr.
Assistant Secretary

Mary C. Hayes
Assistant Secretary

Wm. Bew White, Jr.
Assistant Secretary

General Information

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General Offices:
Hartsfield Atlanta International Airport
Atlanta, Georgia 30320**

Counsel
Bradley, Arant, Rose & White
Birmingham, Alabama
Ballard & Beasley
Washington, D.C.

Auditors
Ernst & Ernst
Atlanta, Georgia

Stock Transfer Agent
Trust Company Bank
Atlanta, Georgia

*Designed and printed by
Stein Printing Company
Atlanta, Georgia*

Form 10-K
A copy of the Company's Annual Report to the Securities and Exchange Commission on Form 10-K is available to the Company's securities holders, without charge, on request to:

Mr. A. L. Maxson
Vice President—Finance and Treasurer
Southern Airways, Inc.
Hartsfield Atlanta International Airport
Atlanta, Georgia 30320

Southern

...doing a better job!









Southern