Southern Airways, Inc.
1977 Annual Report

Highlights

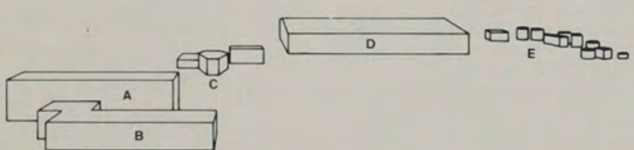
SOUTHERN AIRWAYS, INC.

Year ended December 31	1977	1976	Per Cent Increase
PASSENGER REVENUES	$130,828,000	$115,206,000	13.6
OPERATING REVENUES	$159,511,000	$140,167,000	13.8
OPERATING INCOME	$ 7,524,000	$ 2,492,000	201.9
NET INCOME	$ 8,253,000*	$ 405,000	1,937.8
PRIMARY EARNINGS PER SHARE	$ 4.76*	$ .22	2,063.6
REVENUE PER PASSENGER MILE	$ 0.125	$ 0.117	6.8
SCHEDULED SERVICE REVENUE PASSENGER MILES	1,044,818,000	978,991,000	6.7
AVAILABLE SEAT MILES	2,043,061,000	1,926,166,000	6.1
PASSENGER LOAD FACTOR	51.1%	50.8%	.6
REVENUE PASSENGERS CARRIED	3,457,000	3,245,000	6.5
REVENUE PLANE MILES FLOWN	28,638,000	27,646,000	3.6
NUMBER OF EMPLOYEES	2,922	2,766	5.6

*Includes excess insurance proceeds from the loss of a DC9 aircraft which increased net income by $3.6 million ($2.09 per share). Also includes prior years' mail revenue which increased net income by $500,000 (29 cents per share).

These highlights should be read in conjunction with the Financial Statements and Notes to the Financial Statements appearing elsewhere in this report.

Southern



A General Office
B Reservations Center
C Training Center
D Maintenance Base
E Jet Engine Test Cell, Fuel Facility and Waste Treatment Plant

About the Complex

Southern completed its three-year building program in October 1977, occupying a new General Office and Reservations Center. Completed earlier were a Maintenance Base and Training Center

The facility is located at Hartsfield Atlanta International Airport. It was built to Southern's specifications and leased for 30 years with renewal options. More than 40 acres remain available for expansion.

The Maintenance Base encloses more than 325,000 square feet of hangar and support-shop space. The hangar accommodates simultaneously four large jet aircraft.

The Training Center houses a DC9 flight simulator, with expansion room for an additional simulator or other training aids. Training is conducted in an academic atmosphere.

As protection for the environment, the facility includes a waste treatment plant to ensure that chemicals used in maintaining aircraft do not pollute nearby streams and rivers.

Within this complex work some 1,200 Southern employees. All aircraft are maintained here and reservations calls from throughout the United States are answered here.

This complex has been engineered for human and technical efficiencies to support Southern's growth.

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 the Cayman Islands in the British West Indies. Additionally, the Company operates an extensive charter business throughout the United States and to the Cayman Islands, and to other points in the Caribbean, Canada, Mexico, and the Bahamas.

Southern began scheduled service on June 10, 1949. During 1977, the Company's aircraft flew more than 28 million miles, serving almost 3.5 million passengers. Aircraft in service include 29 DC9 jetliners, seven Metro II turboprops, and two Martin 404 piston-engine aircraft. Today, more than 97 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 5,300 stockholders residing in 45 states and 10 foreign countries. The Company's stock is registered and traded in the NASDAQ/Over-the-Counter Market.

Southern is one of 10 "Local Service Carriers" operating in interstate commerce to serve cities of small and intermediate size as well as in major metropolitan areas. For rendering air services to small and intermediate-size communities that otherwise could not sustain scheduled service, Southern receives public service revenue (subsidy) from the Federal Government.

On the longer haul, more densely traveled routes, where Southern competes with larger Trunk Carriers, the Company does not receive a subsidy. 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 Office 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
1976				
First Quarter	5¾	3	6⅛	3⅜
Second Quarter	5½	4⅞	5⅞	5¼
Third Quarter	6¾	5¼	7⅛	5⅝
Fourth Quarter	5¼	3⅞	5⅝	4¼
1977				
First Quarter	4⅛	3¾	4½	4⅛
Second Quarter	4⅛	3⅝	4½	4
Third Quarter	4⅛	3⅝	4½	4
Fourth Quarter	5	4⅛	5⅜	4½
1978				
First Quarter through March 2	6⅞	5	7¼	5⅜

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

Report To Stockholders

The year 1977 was the most profitable of Southern's 28-year operating history. New highs were attained in all revenue categories. This was the Company's sixth consecutive profitable year.

Net income rose to $8.2 million on revenues of $159.5 million. Per share earnings totaled $4.76. These gains compared with 1976 net income of $405,000 on revenues of $140.2 million and per share earnings of 22 cents. The 1977 profits included nonrecurring gains of $4.1 million.

In every way, the year 1977 was a significantly productive one for Southern. The Company's three-year building program was completed and in October the highly efficient, new office and reservations facilities were occupied. During the year, maintenance activities were expanded to perform increased contract maintenance for other airlines, government agencies, and aircraft operators. A program to modernize the interiors of Southern's DC9 aircraft was undertaken and the "wide-look" cabins already are appearing in the fleet.

We have improved our service at smaller cities with high speed, jet-powered equipment, the Swearingen Metro IIs. This aircraft replaces the obsolete and expensive piston-powered Martin 404.

Sales and marketing efforts continue to be broadened and intensified. Innovative promotional fares place emphasis on pleasure travel along Southern's routes. Special attention is being given to developing outstanding sales people. Indeed, throughout the Company, employee training to improve job

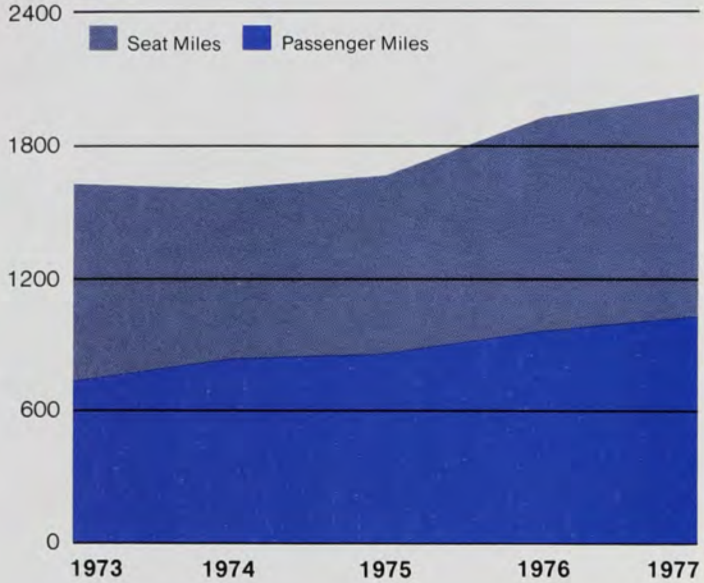
Graydon Hall   Frank W. Hulse

efficiency continues as a major priority. Hundreds of employees undergo advanced courses to upgrade their job knowledge.

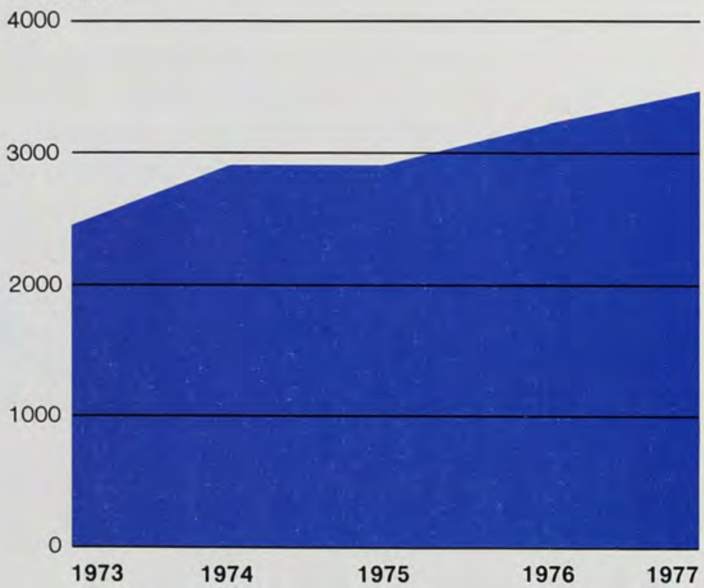
During the year, two new directors joined the Board: David H. Hughes, Orlando, Florida, and Frank M. Young, III, Birmingham, Alabama. Leaving our Board of Directors because of the mandatory retirement age was Sartain Lanier, Atlanta, Georgia. Mr. Lanier has served long and well. Fortunately, we will retain his counsel as he becomes a senior director.

Southern today is processing more applications before the Civil Aeronautics Board than at any time in the Company's history. These proceedings are discussed elsewhere in this Report, but we are happy to say that

Available Seat Miles/Revenue Passenger Miles
IN MILLIONS



Passengers Carried
IN THOUSANDS



Southern has recently been successful in obtaining from the Civil Aeronautics Board two long-sought and valuable route awards. The first grants both Milwaukee, Wisconsin, and Minneapolis-St. Paul, Minnesota, authority from Memphis. The second extends Southern from Memphis to Denver, Colorado, via Wichita, Kansas. Although other carriers also may serve the same markets, these new routes represent significant additions to the Company's system. They provide great challenge and at the same time great opportunity for future growth and profits.

Equipment is being acquired, to serve the newly awarded routes as well as others we expect, and to provide expanded service on our existing system. At the time of this Report, the Company has obtained an option to acquire eight DC9 aircraft currently operated by another airline. Other aircraft acquisitions also are under active consideration.

Of importance to the Company's future are proposals before Congress to alter significantly the regulation of air carriers. Entry by new carriers, and particularly by the so-called "commuter" and supplemental airlines into new markets, including markets served by Southern, would be greatly liberalized. Lower fares would be encouraged. The present system for payment of subsidy to Southern and other local service carriers would be greatly modified and, in time, terminated. Your management favors regulatory reform insofar as it would make more efficient Civil Aeronautics Board action and insure the best possible service for the traveling public, especially including service for the smaller communities. We are hopeful that the regulatory reform proposals which are enacted into law will avoid unnecessary deregulation and permit the carriers to continue to provide a service universally recognized as the outstanding scheduled service in the world.

Other Federal legislation of vital importance to Southern includes proposals now pending in Congress to permit financial assistance from user charges for air carriers to retrofit their current generation of jet aircraft or replace them with quieter and more fuel-efficient equipment. The objective is, of course, to insure an improved environment through the elimination or reduction of air and noise pollution — an objective which Southern feels justifies funding in one form or another by the Federal government.

Southern's future is bright, indeed. Today, the Company's system extends from the Atlantic Ocean to the Rocky Mountains, from the Canadian Border to the Caribbean. Immediately before us are opportunities we long have sought and challenges as great as any we have ever faced.

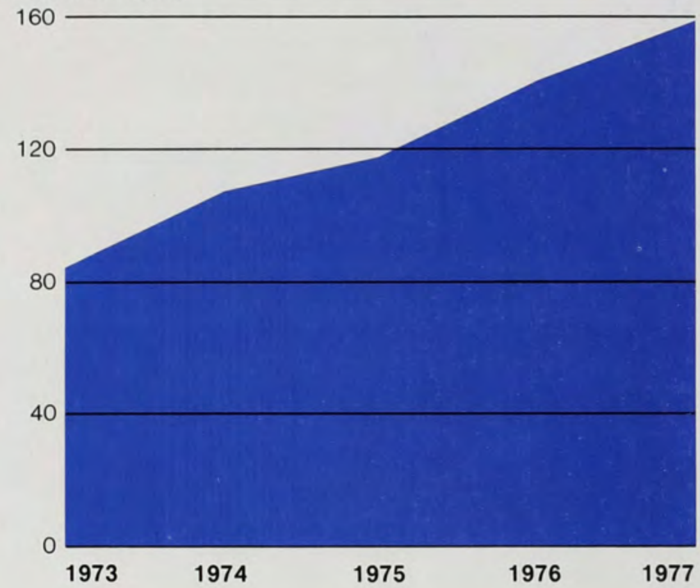
Respectfully,

Frank W. Hulse
Chairman

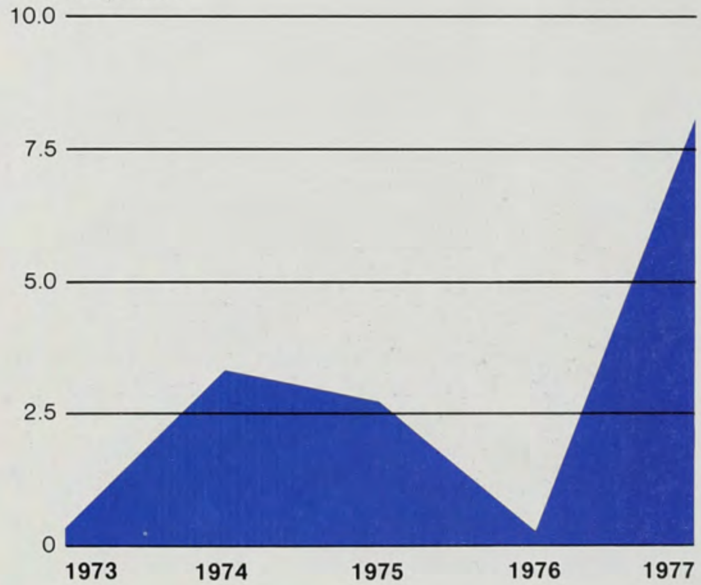
Graydon Hall
President

April 3, 1978

Operating Revenues
IN MILLIONS OF DOLLARS



Net Income
IN MILLIONS OF DOLLARS



Ten-Year Operating and Financial Summary

SOUTHERN AIRWAYS, INC.

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Summary of Operations										
(In thousands, except per share amounts)										
Operating revenues										
Passenger	$130,828	$115,206	$ 95,666	$ 86,821	$ 65,949	$ 52,052	$ 45,302	$ 37,187	$ 28,050	$ 20,503
Charter	9,594	8,803	8,208	6,908	5,358	4,839	4,067	3,835	3,358	1,934
Public service	5,220	5,723	5,961	6,805	6,814	7,138	6,974	4,823	3,580	4,038
Other	13,869	10,435	8,115	7,818	6,488	5,603	4,917	4,563	3,641	3,652
	159,511	140,167	117,950	108,352	84,609	69,632	61,260	50,408	38,629	30,127
Operating expenses										
Depreciation and amortization	7,272	5,381	4,634	4,397	3,673	2,559	2,637	2,632	2,396	1,770
Other	144,715	132,294	107,240	97,072	79,447	64,180	58,216	49,556	35,807	27,764
	151,987	137,675	111,874	101,469	83,120	66,739	60,853	52,188	38,203	29,534
Operating income (loss)	7,524	2,492	6,076	6,883	1,489	2,893	407	(1,780)	426	593
Interest on long-term debt	2,943	2,468	2,918	3,929	3,083	1,362	1,678	1,789	1,720	1,136
Miscellaneous deductions (income) — net	(6,012)	(514)	(612)	(623)	(2,023)	(110)	23	(236)	15	(120)
Income (loss) before income taxes, extraordinary tax credit and accounting change	10,593	538	3,770	3,577	429	1,641	(1,294)	(3,333)	(1,309)	(423)
Income taxes (credit)	2,340	133	1,028	985	109	450	(235)	—	(487)	(212)
Income (loss) before extraordinary tax credit and accounting change	8,253	405	2,742	2,592	320	1,191	(1,059)	(3,333)	(822)	(211)
Tax benefits of net operating loss carryforward	—	—	—	325	97	409	—	—	—	—
Cumulative effect of accounting change	—	—	—	565	—	—	—	—	—	—
Net income (loss) (1)	$ 8,253	$ 405	$ 2,742	$ 3,482	$ 417	$ 1,600	$ (1,059)	$ (3,333)	$ (822)	$ (211)
Earnings (loss) per common and common equivalent share (1)										
Primary	$ 4.76	$ .22	$ 1.58	$ 2.19	$ .23	$ 1.06	$ (1.02)	$ (3.25)	$ (.80)	$ (.21)
Fully diluted	$ 3.07	$ .22	$ 1.14	$ 1.40	$ .23	$ .80	$ (1.02)	$ (3.25)	$ (.80)	$ (.21)
Average number of common and common equivalent shares										
Primary	1,733	1,581	1,765	1,599	1,314	1,440	1,035	1,025	1,025	1,025
Fully diluted	2,800	1,581	2,912	2,913	1,314	3,099	1,035	1,025	1,025	1,025
Financial Position — at year end										
(In thousands, except per share amounts)										
Current assets	$ 34,932	$ 28,306	$ 30,324	$ 27,214	$ 25,793	$ 15,923	$ 14,336	$ 12,380	$ 12,308	$ 15,754
Current liabilities (1)	34,919	25,447	24,366	23,620	21,629	10,399	10,944	12,012	8,707	7,696
Property and equipment — net (1)	69,162	40,651	34,818	36,414	36,467	16,987	18,739	20,336	21,086	20,333
Long-term debt (excluding current maturities) (1)										
Notes payable and other	40,289	21,545	19,006	22,687	27,523	9,238	8,535	9,408	9,903	12,228
Convertible subordinated debentures	8,289	9,307	9,743	10,178	10,178	11,345	12,682	12,682	12,682	12,682
Total stockholders' equity	21,381	13,246	12,900	10,277	7,043	5,514	2,493	915	4,248	5,070
Common stockholders' equity (deficiency) (2)	20,400	12,204	11,858	9,171	4,803	3,245	(30)	915	4,248	5,070
Common stockholders' equity (deficiency) per common share (1)	12.90	7.72	7.50	5.80	3.40	2.55	(.03)	.89	4.14	4.95
Common shares outstanding	1,581	1,581	1,581	1,580	1,413	1,271	1,062	1,025	1,025	1,025
Operating Statistics										
Scheduled service										
Passengers carried (thousands)	3,457	3,245	2,935	2,940	2,494	2,101	1,875	1,589	1,377	1,271
Available seat miles (thousands)	2,043,061	1,926,166	1,688,633	1,618,776	1,643,569	1,279,175	1,222,289	1,111,287	763,748	554,516
Revenue passenger miles (thousands)	1,044,818	978,991	852,547	832,372	721,135	596,197	527,552	430,736	323,472	254,028
Passenger load factor	51.1%	50.8%	50.5%	51.4%	43.9%	46.6%	43.2%	38.8%	42.4%	45.8%
Breakeven passenger load factor	48.5%	50.6%	48.2%	49.0%	45.1%	44.9%	44.6%	42.9%	44.8%	47.1%
Revenue per passenger	$ 37.80	$ 35.46	$ 32.55	$ 29.49	$ 26.41	$ 24.73	$ 24.11	$ 23.36	$ 20.33	$ 16.08
Revenue per passenger mile	12.5¢	11.7¢	11.2¢	10.4¢	9.1¢	8.7¢	8.6¢	8.6¢	8.7¢	8.1¢
All services										
Available seat miles (thousands)	2,290,839	2,167,198	1,906,443	1,803,177	1,798,409	1,418,799	1,336,982	1,228,373	862,388	611,795
Cost per seat mile	6.6¢	6.4¢	6.0¢	5.8¢	4.6¢	4.7¢	4.6¢	4.3¢	4.5¢	4.9¢
Number of employees at year end	2,922	2,766	2,519	2,639	2,478	2,084	1,994	1,757	1,747	1,538

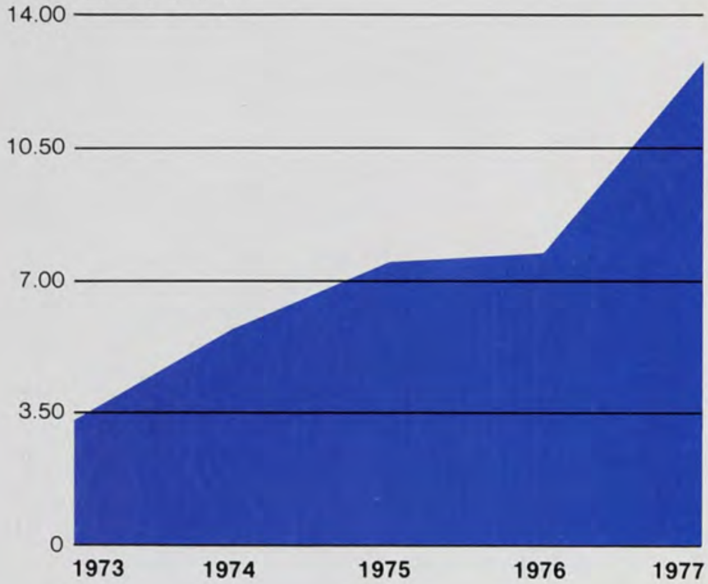
(1) See Note G for effect of compliance with Financial Accounting Statement No. 13 in 1978 and future years.

(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 1977.

Annual dividends of $.36 per share have been paid on preferred shares for 1972 through 1977. No cash dividends on common stock have been paid since 1967.

Management's Discussion of 1977 and 1976 Summary of Operations

Common Stockholders' Equity
DOLLARS PER COMMON SHARE



Overview

Net income in 1977 of $8,253,000 ($4.76 per share) was the product of sustained traffic growth, regulatory fare increases and several items of a nonrecurring nature. These positive influences were sufficient to offset the substantial cost increases incurred during the year, particularly the ever-increasing cost of fuel and other goods and services used by the Company. This compared to net income of $405,000 (22 cents per share) in 1976 and $2,742,000 ($1.58 per share) in 1975.

Items of a nonrecurring nature added approximately $4,106,000 ($2.38 per share) to net income in 1977, $145,000 (9 cents per share) in 1976, and $2,079,000 ($1.18 per share) in 1975. Exclusive of the effect of these items, net income would have been approximately $4,147,000 ($2.38 per share) in 1977, compared with $260,000 (13 cents per share) in 1976 and $663,000 (40 cents per share) in 1975.

The pretax effect of one of these items in 1977, the excess of insurance proceeds over the purchase price on the loss of an aircraft, amounting to $5,350,000, is included in Miscellaneous Deductions (Income) in the accompanying Summary of Operations. It accounts for substantially all of the net change in that category between 1977 and 1976. The pretax effect of other such events, a retroactive mail rate adjustment of $1,012,000 in 1977; a $2,074,000 settlement of a fuel price dispute and a $595,000 reimbursement of certain landing fees in 1975, were included in the determination of income from operations.

As a result of increased debt to finance various capital additions, along with an increase in the prime interest rate during the second half of 1977, interest expense increased by $475,000 over 1976. The increase followed a decline of $450,000 in interest expense in 1976 when debt was reduced and the prime interest rate was lower.

Operating Revenues

Total operating revenues reached record levels of $159,511,000 in 1977 and $140,167,000 in 1976, up 13.8 per cent and 18.8 per cent, respectively, compared with prior years.

Passenger revenues of $130,828,000 in 1977 represented a 13.6 per cent gain over the prior year, while the $115,206,000 in passenger revenues in 1976 reflected a 20.4 per cent gain over 1975.

Capacity, as measured by available seat miles (ASMs), was increased by 5.7 per cent in 1977 following a 13.7 per cent increase in 1976. This added capacity was brought about by increases in the number of DC9 aircraft in late 1975 and in 1976; and alterations to increase the capacity of existing DC9 aircraft in 1977. Additionally, the Company purchased seven new Metro II aircraft in 1977. These 18-passenger, jet-powered aircraft are intended primarily to replace the Company's Martin 404 aircraft. The complete phase-out of the Martin 404 equipment is expected to be completed by mid-1978.

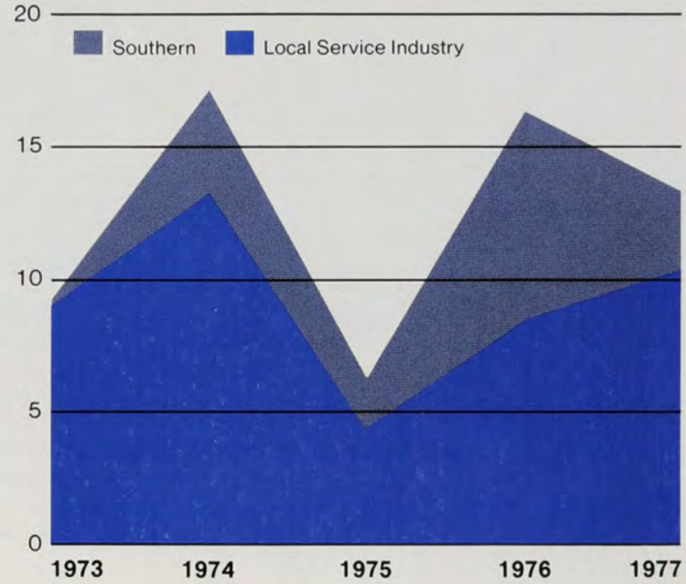
Improved yields (revenue per passenger mile) also contributed to improvements in passenger revenues. Yields increased from 11.2 cents in 1975 to 11.7 cents in 1976 and to 12.5 cents in 1977, increases of 4.5 per cent and 6.8 per cent, respectively. These improvements reflected certain fare increases throughout the period and the elimination of certain discount fares in 1976.

Charter revenues, which increased by $791,000 in 1977 following a $595,000 increase in 1976, have benefited both from the aforementioned increases in capacity and from the Civil Aeronautics Board's relaxation of its limitations on the number of off-system charters scheduled air carriers are permitted to fly. Additionally, charter rates have been adjusted, as required, in line with increasing operating costs.

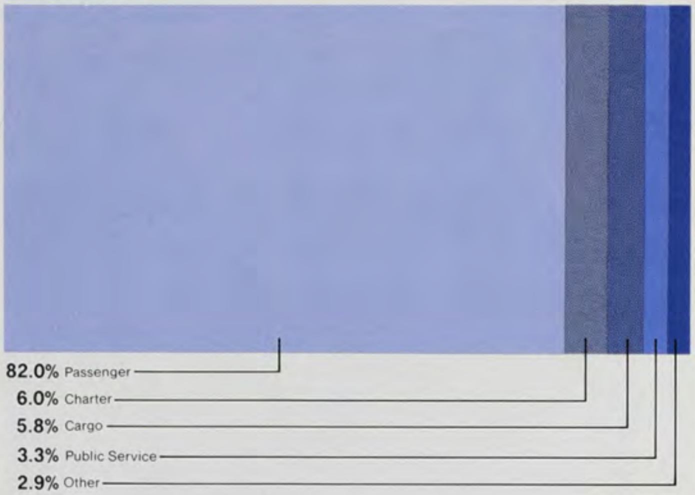
Public service revenues, or government payments to the Company to provide service to certain small communities, were reduced by $503,000 in 1977, following a $238,000 reduction in 1976. In both years,

CAB Rate of Return on Corporate Investment

YEARS ENDED JUNE 30



Source of Revenue Dollar
FOR THE YEAR 1977



the decline resulted from reduced losses in subsidized service and the removal of certain larger cities from subsidy eligibility.

Other revenues increased by $3,434,000 in 1977 and by $2,320,000 in 1976. Included in the 1977 increase was $1,517,000 in additional mail revenue received by the Company under the Civil Aeronautics Board's order establishing temporary rates for the carriage of mail for the period 1973 through 1977 (See Note B of Notes to Financial Statements). This revenue includes $505,000 applicable to the year 1977 and $1,012,000 applicable to the years 1973 through 1976. The remaining increases in Other Revenue result primarily from increases in freight services, contract maintenance activities, sales of training simulator time, sales of inflight beverages and food, and other miscellaneous sales and services.

Operating Expenses

Operating expenses increased by $14,312,000 in 1977, following a $23,132,000 increase in 1976 exclusive of a fuel price settlement and landing fee rebates totaling $2,669,000. Of these amounts, increases of $3,980,000 and $3,117,000 in 1977 and 1976, respectively, are attributable to increases in the unit price of fuel. Increased fuel consumption, as a result of increases in the number of aircraft flown on the system, resulted in further cost increases of $938,000 in 1977 and $1,777,000 in 1976.

On a unit cost basis, operating expenses per available seat mile increased to 6.63 cents in 1977, up from 6.35 cents in 1976 and 6.01 cents in 1975 (before reduction of the fuel price settlement and landing fee rebate totaling $2,669,000).

Labor costs increased by $6,847,000 in 1977 and by $9,450,000 in 1976, primarily as a result of increased salaries and benefits. A nine per cent increase in the average number of employees in 1976 also contributed to the labor cost increase in that year. The total number of employees at the end of 1977 was up considerably over prior year-end levels because of the expansion of in-house aircraft engine overhauls, contract maintenance for other carriers, and a greater volume of flying operations. Nevertheless, the average number of employees throughout the year 1977 increased by less than one-half of one per cent over the 1976 level. There were 2,922 employees at December 31, 1977, compared with 2,766 at December 31, 1976, and 2,519 at December 31, 1975.

Rental expense decreased to $10,734,000 in 1977, $495,000 less than 1976. Rental expense in 1976 increased $1,628,000 above the 1975 level. Of these amounts, aircraft rentals decreased $1,656,000 in 1977 due primarily to the purchase in July of six previously-leased DC9 (10 series) aircraft, and the loss of a leased DC9 (30 series) aircraft in April. In 1976, aircraft rental cost increased by $570,000, brought about mainly by two aircraft being acquired in 1975 under long-term lease arrangements. Occupancy of the new Atlanta Training Center and Engine Test Cell, effective October 1, 1975, and the new Maintenance Base, effective October 1, 1976, increased rentals by $1,314,000 in 1977 and by $924,000 in 1976.

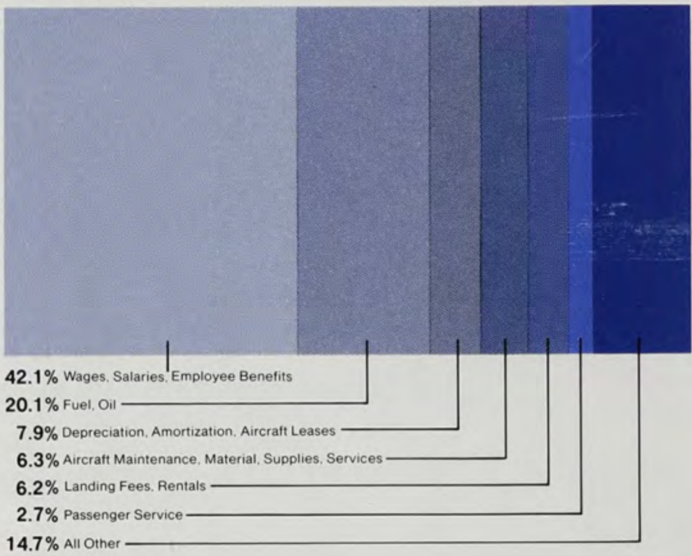
Depreciation and amortization expense was $7,272,000 in 1977 and $5,381,000 in 1976. The $1,891,000 increase in 1977 was due primarily to depreciation on the newly-purchased Metro II aircraft, depreciation for a full year on two DC9 (30 Series) aircraft added in June and August 1976, and additional depreciation applicable to the July 1977 purchase of six previously-leased DC9 (10 Series) aircraft. This followed an increase in 1976 of $747,000 due primarily to the depreciation on the two above-mentioned DC9 (30 Series) aircraft that were acquired in 1976.

Advertising costs leveled off in 1977 after a $794,000 increase in 1976. The 1976 increase was the result of the need to promote new services and to initiate several new sales programs.

Increases in other operating costs, such as outside goods and services and commissions, generally are reflective of the expanded operating levels and inflationary pressures.

Distribution of Total Expense Dollar

FOR THE YEAR 1977



Review of Operations

The highlight of 1977 was significantly improved financial results. This was accomplished as more passengers flew more revenue passenger miles than in any of Southern's 28 previous years. For the first time, revenue passenger miles generated exceeded one billion.

These favorable results tended to overshadow some of the Company's other accomplishments, many of which are expected to have a highly favorable impact on the future.

Among these are:

- *Completion of a three-year building program at Hartsfield Atlanta International Airport;*
- *Introduction of a new jet-powered aircraft fleet to serve existing cities and routes that cannot accommodate Southern's DC9 jetliners;*
- *Implementation of sophisticated reservations communications equipment that improves service to customers;*
- *Increased development of human resources, both among existing employees and in filling staffing requirements with new personnel;*
- *Creating a program, to be carried out in 1978-1979, to modernize further Southern's DC9 fleet with wide-bodied interiors, more comfortable seats, new galleys, and a new interior decor;*
- *Development of a program to provide major maintenance support and services to other airlines and aircraft owners or operators;*
- *Continued aggressive efforts to acquire new routes and to expand operating authority among existing system points;*
- *Establishment of procedures supported by training programs to improve the quality of Southern's service to its passengers and shippers;*
- *Generation of new revenue sources through innovative business development programs, including discount fares designed to attract new customers to flights with unused capacity.*

Many of these accomplishments in turn resulted in satellite programs that are expected to make both immediate and long-range contributions. The completion of Southern's three-year building effort is expected to have many favorable influences on




Orlando's Walt Disney World; the French Quarter in New Orleans; the excitement of New York; St. Louis, its arch and its river; and streetcars that still run in Detroit: all on Southern's routes.

efficiency and cost reduction.

Southern long ago outgrew its maintenance and support facilities in Atlanta. Available hangar and shop space was insufficient to support the requirements of a growing DC9 fleet. Compounding this problem was the impending loss of two hangar buildings, both scheduled to be demolished by the City of Atlanta to create additional parking areas and access roads for the Atlanta Airport. Also, imminent were rental rate increases on the five buildings housing the General Office and reservations personnel. Thus, the development of new facilities was not only economically feasible, but also mandatory. Accordingly, in August 1974, Southern entered into a building program that has produced one of the most efficient airline maintenance and operations centers in the industry.

The last phase of Southern's building program was completed in October 1977, climaxed by occupancy of the General Office and Reservations building. Southern's Consolidated Reservations Center now answers all passenger inquiries generated throughout a 64-city, 14-state domestic route network. (Southern's customers in the Cayman Islands, B.W.I., are answered locally and reservations are confirmed to Atlanta by high speed teletype equipment.) Each Southern reservations agent is supported by a computer system that provides schedules and seat availability to more than 200 daily Southern flights, as well as to the connecting schedules of every domestic carrier in the United States, and many foreign carriers.

Southern's rapid rate of growth frequently has created problems in reservations handling, primarily because of inadequate capacity to handle the large increases in call volume. The new Consolidated Reservations Center incorporates improvements expected to resolve these problems.

Among the improvements in this new facility is a call distributing system that not only directs calls to agent groups where a designated function is provided, but also it generates information as to the number of calls from each city, the level of service offered the caller, the average time each caller waits before being accommodated, and the determination of incoming lines needed at a given time to serve each city. Among other management information provided is the number of reservations agents required for proper staffing at a given time of day. The result of this equipment has been improved efficiency in an already efficient environment.

During January 1978, Southern reservations agents answered 390,684 calls compared with 311,211 in the

Southern's fun: there is golf for duffers, and for champions; remote lakes; and tennis, *everyone*.

corresponding period a year ago, an increase of 25.5 per cent.

Among the other accomplishments made possible by Southern's modern physical plant are those taking place in the Maintenance Base. This structure was completed and occupied late in 1976; it became fully operational early in 1977. Southern always has provided its own airframe maintenance; however, some major components such as jet engines and auxiliary power units were sent to outside contractors. Jet engine work is one of the most expensive elements in maintaining an airline fleet, and an area that offers one of the largest cost-saving possibilities. Accordingly, Southern has developed complete in-house capability for jet engine overhaul and related testing. A collateral benefit of this program is the reduced requirement for spare engines required to compensate for transport and production time required by an external repair center.

Southern's experience in overhauling and refurbishing DC9 aircraft will make an additional profit contribution as a result of an active maintenance program being made available to other airlines and aircraft owners. Southern has selected the name *Advanced Performance* to define the services it is offering for sale. To date, Southern is providing both airframe and engine overhaul support to other airlines, aircraft manufacturers, government agencies, and private aircraft owners and operators.

Advanced Performance is being offered actively to airlines and other aircraft operators throughout the world, supported by advertising and sales efforts.

Other contract services already under way at Southern include time leased for use of the Company's DC9 flight simulator. This is the most modern DC9 simulator in the world, and availability excess to the needs of Southern's own pilots is contracted fully by other airlines or aircraft owners.

Completed in the first phase of Southern's building program was a Training Center, now the focal point for improving technical and passenger-handling skills. In addition to containing Southern's DC9 flight simulator, a DC9 cabin mock-up is available for flight attendant training, while comfortable classrooms house audio-visual training aids to support modern teaching techniques for all personnel.

New employees receive both indoctrination and qualification training in this center. Flight personnel return for recurrent training, and station personnel now are brought to the Atlanta center for instruction in new methods and programs.

Large employee groups are accommodated in a

Relaxation, tranquility, history, and a salute to American music abide along Southern routes.

Diving in the Caribbean Sea off Grand Cayman Island, walking on a secluded beach, or along the Atlantic Coast or the white sands of the Gulf of Mexico, Southern routes beckon water lovers.

250-seat auditorium, also housed in the Training Center. This is the site of the Company's annual stockholders meeting.

More than 45,000 student hours of training were provided in 1977, averaging 23 employees in training every work day of the year. This is expected to increase substantially as Southern is putting increasing emphasis upon training activities to improve the overall quality and consistency of the Company's service. (Southern's simulator and other training facilities leased by other airlines and aircraft owners produced $525,000 in revenues during 1977.)

Although most training facilities are in use throughout the day, the classrooms and auditorium, when not committed, are available to selected civic and business entities, in turn creating good community relations and sometimes additional revenues.

The most significant passenger facility undertaken by the Company is at Hartsfield Atlanta International Airport, where a new terminal is scheduled for completion in January 1981. Within this, Southern will occupy 13 passenger boarding gates, providing more than four times the space now available to the Company within the present terminal. Although located on a concourse more than 4,000 feet from the primary building, people movers will whisk passengers to their flights in less than five minutes. Meanwhile, under way is expansion of present terminal facilities to meet an immediate need. Southern's administrative space at the Atlanta terminal is being relocated to satisfy increased passenger requirements. Currently, Southern enplanes some 600,000 passengers annually in Atlanta, compared with 125,000 served annually 16 years ago when this space was first acquired.

Another facility contributing to an improved level of service for Southern's customers is a recently completed passenger terminal area in St. Louis. This evidences the growth experienced to and from cities outside Southern's original passenger base in the Southeast. St. Louis has become a key destination and origination point, currently ranking among the top ten busiest Southern stations. The improvements there portray this progress.

In addition to ground improvements, two major efforts have taken place related to aircraft. On August 8, 1977, the first Metro II service was inaugurated as part of the planned replacement for the Martin 404 fleet. The selection of the Metro II resulted in the purchase of eight of the aircraft. Initially, four cities, Athens and Moultrie-Thomasville, Ga., and

Anniston and Gadsden, Ala., were introduced to the improved level of service offered by the faster, more fuel-efficient aircraft. Although offering fewer seats compared with the Martin 404s, the increased speed of the Metro II has permitted increased schedule frequency in each of the four markets, offering travelers a greater choice of flight times. In turn, total passengers in these markets doubled during the first quarter of Metro II operation. Subsequently, Metro II schedules have been expanded, with eight cities being served exclusively by the new aircraft. In addition to the initial four points, Greenwood, Tupelo, and University-Oxford, Miss., and Jackson, Tenn., now are served by Metro IIs.

Initial introduction of Metro IIs was accompanied by operational problems commonly associated with the addition of a new aircraft into a fleet. Southern is working to resolve these temporary problems, and reaffirms the Company's commitment to continue to provide reliable service to areas not requiring or not capable of supporting 80- or 100-passenger jetliners.

Substantiating Southern's reliance on DC9s as its primary aircraft, has been the decision to acquire the newest version of this aircraft, the DC9-Super 80, scheduled for delivery in the 1980s. Southern expects to purchase four aircraft at a total purchase price exceeding $60 million to replace aircraft currently operated on its more heavily traveled routes. Further, the Company has committed to purchase the two aircraft currently operated under a lease expiring in 1979, and has purchased an option to acquire eight additional used DC9s for delivery in the fourth quarter of 1979.

With the passenger growth, expanded facilities, and an increased fleet of aircraft have come new staffing demands. Southern long has prided itself on being one of the most human resource-efficient airlines in the industry. This is attributed to high employee morale, and has been furthered by the opportunities for advancement created by expansion and profitability.

Parallel to Southern's emphasis on training, is development of procedures to ensure the highest possible level of passenger-related proficiency. Southern's facilities in Memphis, Tenn., have been selected for development of programs to be introduced system-wide. Memphis is Southern's second busiest originating point. In 1977, 430,369 passengers boarded here. In January 1978, Southern operated 55 flights daily from Memphis. Passenger and service areas were expanded two years ago and are among the most attractive and efficient on Southern's system. Ideas

Southern sports: racing in all its forms, and professional sports in all its leagues.

for better passenger handling are put into practice here: those that are proved beneficial become standards for all Southern personnel.

The airline industry is labor intensive, both cost-wise and service-wise and Southern long has recognized that product quality is directly related to people quality. Continuing efforts select the best qualified people for entry positions, providing a base for advancing careers as well as accommodating needs of the Company. Supporting this direction will be a computerized Personnel Management Reporting System now being implemented. Not only will this permit instant display of employee records, but also will assemble data for personnel-related reports that presently require manual compilation. This system includes an employee skills bank that can be searched quickly when position openings occur. In addition to providing the Company with a ready source of advancement-eligible personnel, it will offer Southern's employees the assurance of consideration for each promotion opportunity for which they are qualified.

While tangible improvements are evident, the successful growth of an airline also is dependent upon route improvements and additions. At the beginning of the year, Southern was a participant in six route proceedings; during the year this number increased to 17.

Southern long has sought operating authority for service between Greenville-Spartanburg, S.C., and both Washington, D.C., and New York City. This was authorized in December 1977, enabling the Company to combine existing authority with the new authority resulting in service between Birmingham, Ala., Greenville-Spartanburg, and New York, and along a route from Memphis to Huntsville-Decatur, Ala., to Greenville-Spartanburg, then to Washington and New York, and return.

Permanent operating authority to continue flights to the Cayman Islands, B.W.I., was approved by the British Government late in 1977. Operating authority of unlimited duration already was granted by the U.S. Civil Aeronautics Board.

All other route cases are in procedural stages. These pending routes are outlined on the route map in this Report.

The continuing improvement in Southern's quality of service and expanding routes has opened new areas for sales and marketing efforts. Increased emphasis has been and continues to be placed upon new revenue sources, a major one being the discretionary traveler who can be motivated by an appealing fare. Historically for Southern, Saturday has been a low passenger traffic day. Previously, many flights were not operated on Saturdays, and many operating did so with relatively low load factors. Passengers for these flights have been attracted with special excursion rates requiring part of the travel on a Saturday.

During the last four months of 1977, Southern offered a "Saturday Special" fare at 40 per cent below normal rates. The fare applied to all flights on the domestic system, requiring only that travel begin on a Saturday, end on the following Monday or Tuesday, or on any other Saturday within a 30-day period, with the entire itinerary being planned and paid for before departure. A three-month trial period ended December 10 indicated wide acceptance by the public, with the collateral benefit of improved identity for the Company.

The success of this promotional fare resulted in offering it again between mid-January and mid-March 1978.

Meanwhile, Southern has introduced even more dramatic fare selections, also aimed at attracting new customers.

"Fabulous 50" has been selected as the name for Southern's new 50 per cent discount fare, usable on all flights system-wide, with advance reservations required. Capacity restrictions are imposed to limit the number of seats available at this discount, but the attractiveness of the fare is expected to fill the allotted seats with passengers who otherwise would select surface travel, or not travel at all.

Also receiving increased sales focus are Southern's charter and cargo services.

Southern has become a dominant force in charter sales among scheduled airlines. The nonstop range, up to 1,200 miles, and seating capacity, 80- or 100-passengers, of Southern's DC9 aircraft are particularly appealing to tour operators, and business, military, and athletic team customers. Charter flights are operated throughout the United States, into Canada, Mexico, the Bahamas, to the Cayman Islands, and to other points in the Caribbean. As many charters operate during other than normal scheduled flying times, profitable aircraft utilization can be accomplished by charter usage.

Cargo, long an incremental revenue source for the Company, is gaining in importance and attention. Southern now transports individual items weighing as much as 500 pounds, although many low-weight items such as fruits, flowers and seafood are high-income producers. Growing as a revenue source is Swift, the Company's small package shipping service where expedited treatment is available for items requiring next-flight attention. To make this even more attractive, interline agreements with other airlines offer additional destinations for these priority items.

Whether the customer is a passenger or a shipper, Southern offers a high level of reliable service, competitive rates, and personnel who recognize their obligation to these customers.

Statements of Income

SOUTHERN AIRWAYS, INC.

Year ended December 31,	1977	1976
Operating Revenues		
Passenger	$130,828,000	$115,206,000
Mail, express and freight—Note B	9,325,000	6,848,000
Public service revenue	5,220,000	5,723,000
Charter	9,594,000	8,803,000
Other	4,544,000	3,587,000
	159,511,000	140,167,000
Operating Expenses		
Flying operations	55,106,000	49,802,000
Maintenance	20,962,000	19,337,000
Aircraft and traffic servicing	36,120,000	32,804,000
Passenger service	8,566,000	8,598,000
Promotion and sales	13,047,000	12,246,000
General and administrative	8,555,000	7,633,000
Depreciation and amortization	7,272,000	5,381,000
Other	2,359,000	1,874,000
	151,987,000	137,675,000
Operating Income	7,524,000	2,492,000
Other Deductions (Income)		
Interest on long-term debt	2,943,000	2,468,000
Gain on involuntary conversion and disposal of property—Note B	(5,722,000)	(91,000)
Miscellaneous deductions (income)—net—Note B	(290,000)	(423,000)
	(3,069,000)	1,954,000
Income Before Income Taxes	10,593,000	538,000
Income taxes—Note D	2,340,000	133,000
Net Income	$ 8,253,000	$ 405,000
Net Income per Common and Common Equivalent Share—Note I		
Primary	$ 4.76	$ .22
Fully diluted	$ 3.07	$ .22

See Notes to Financial Statements.

Balance Sheets
SOUTHERN AIRWAYS, INC.

Assets	December 31, 1977	1976
Current Assets		
Cash, including short-term investments of $10,312,000 in 1977 and $3,200,000 in 1976 — Note C	$ 11,005,000	$ 8,131,000
Accounts receivable		
U.S. Government — transportation and public service revenue	2,984,000	1,703,000
Trade receivables, less allowance for doubtful accounts (1977 — $179,000, 1976 — $162,000)	13,677,000	11,492,000
	16,661,000	13,195,000
Maintenance and operating supplies, at average cost less allowance for obsolescence (1977 — $1,063,000; 1976 — $1,717,000) — Note A	6,759,000	6,006,000
Prepaid expenses	507,000	974,000
Total Current Assets	34,932,000	28,306,000
Property and Equipment — on the basis of cost — Notes A, C, G and H		
Flight equipment, including purchase deposits of $3,390,000 in 1977	84,807,000	58,812,000
Other property and equipment	14,325,000	7,865,000
	99,132,000	66,677,000
Less allowances for depreciation and maintenance	29,970,000	26,026,000
	69,162,000	40,651,000
Deferred Charges and Other Assets		
Deferred charges — Note A	1,154,000	949,000
Other assets	565,000	252,000
	1,719,000	1,201,000
	$105,813,000	$70,158,000

See Notes to Financial Statements.

Liabilities and Stockholders' Equity

	December 31, 1977	1976
Current Liabilities		
Trade accounts payable	$ 7,390,000	$ 6,263,000
Salaries, wages and vacations	4,346,000	3,914,000
Accrued interest payable	782,000	567,000
Accrued income taxes	2,014,000	109,000
Accrued taxes and other expenses	3,662,000	3,726,000
Air traffic liability	9,471,000	7,916,000
Current maturities of long-term debt — Note C	7,254,000	2,952,000
Total Current Liabilities	34,919,000	25,447,000
Long-Term Debt, less current maturities — Note C		
Notes payable and other	40,289,000	21,545,000
Convertible subordinated debentures	8,289,000	9,307,000
	48,578,000	30,852,000
Deferred Credits and Other Liabilities		
Deferred income taxes	620,000	391,000
Other	315,000	222,000
	935,000	613,000
Stockholders' Equity — Notes C, E and G		
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 \$981,000 in 1977 and \$1,042,000 in 1976); issued and outstánding — 163,581 shares (1977) and 163,781 shares (1976)	164,000	164,000
Common Stock, \$2 par value, authorized 7,500,000 shares, issued and outstanding 1,581,080 shares (1977) and 1,580,880 (1976)	3,162,000	3,162,000
Other paid-in capital	5,124,000	5,124,000
Retained earnings	12,931,000	4,796,000
	21,381,000	13,246,000
Leases, Commitments and Contingencies — Notes G and H		
	$105,813,000	$70,158,000

Statements of Changes in Financial Position

SOUTHERN AIRWAYS, INC.

Year ended December 31,	1977	1976
Funds Provided		
From operations		
Net income	$ 8,253,000	$ 405,000
Items not requiring outlay of working capital in current period:		
Depreciation	6,773,000	4,878,000
Allowance for maintenance (deduction)	157,000	(82,000)
Amortization of deferred charges	370,000	396,000
Deferred credits and other liabilities	322,000	15,000
Total from operations	15,875,000	5,612,000
Issuance of long-term debt	29,880,000	8,918,000
Property and equipment dispositions, less gain included in operations	3,717,000	88,000
	49,472,000	14,618,000
Funds Used		
Additions to property and equipment	38,866,000	10,517,000
Utilization of DC9 engine maintenance reserve	292,000	200,000
Reduction of long-term debt	12,154,000	6,815,000
Dividends on preferred stock	118,000	59,000
Increase in deferred charges and other assets	888,000	126,000
	52,318,000	17,717,000
Decrease in Working Capital	(2,846,000)	(3,099,000)
Working capital at beginning of year	2,859,000	5,958,000
Working Capital at End of Year	$ 13,000	$ 2,859,000
Increase (Decrease) in Working Capital by Component		
Cash and short-term investments	$ 2,874,000	$ (3,787,000)
Accounts receivable	3,466,000	1,351,000
Maintenance and operating supplies	753,000	361,000
Prepaid expenses	(467,000)	57,000
Trade accounts payable	(1,127,000)	(638,000)
Salaries, wages and vacations	(432,000)	(692,000)
Accrued interest, taxes and other expenses	(2,056,000)	(459,000)
Air traffic liability	(1,555,000)	(456,000)
Current maturities of long-term debt	(4,302,000)	1,164,000
Decrease in Working Capital	$ (2,846,000)	$ (3,099,000)

See Notes to Financial Statements.

Statements of Retained Earnings
SOUTHERN AIRWAYS, INC.

Years Ended December 31, 1977 and 1976	
Balance January 1, 1976	$ 4,450,000
Net income	405,000
Dividends on preferred stock for 1975 ($.36 per share)	(59,000)
Balance January 1, 1977	4,796,000
Net income	8,253,000
Dividends on preferred stock for 1977 and 1976 ($.36 per share each year)	(118,000)
Balance December 31, 1977	$12,931,000

See Notes to Financial Statements.

Notes to Financial Statements
SOUTHERN AIRWAYS, INC.
December 31, 1977

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 lives. For DC9 flight equipment the life is 15 years (new equipment) and six to 10 years (used equipment) and 10 years for rotable parts, with a 10 per cent salvage value; for Metro II flight equipment, the life is seven years with a 10 per cent salvage value; for ground equipment, the life ranges from three to 10 years.

At the time properties are retired, the amounts of costs and allowances for depreciation and maintenance are eliminated from the accounts. Gains and losses on disposals of flight equipment (exclusive of rotable parts) are included in operations. Proceeds from the disposal of rotable parts are credited to the allowance for depreciation.

Expenditures for ordinary maintenance and repairs are charged to expense. Expenditures for major spare parts are capitalized and minor parts are included in maintenance and operating supplies and charged to expense as used.

A provision for obsolescence is made at an annual rate of four per cent and six per cent for DC9 and Metro II spare parts, respectively.

Deferred Charges

Expenditures for preoperating and route extension and development costs are deferred and are amortized over a five-year period. Costs associated with obtaining leased DC9 aircraft are amortized over the term of the leases. Deferred charges associated with long-term debt are 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 operations 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, 1977, the assets of the pension fund exceeded the actuarially computed value of vested benefits.

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan (ESOP) and a Tax Reduction Act Stock Ownership Plan (TRASOP) for certain of its employees. The TRASOP was established effective November 16, 1977. The Company's contribution to the ESOP is determined annually at rates related to the base compensation of active participants. The TRASOP is funded by the additional one per cent investment tax credit allowed for such plans.

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 Credits Affecting Operating Results

On April 4, 1977, a DC9 aircraft was destroyed during severe weather conditions near Atlanta, Georgia. A number of claims have been made and are expected to be made against the Company for loss of life, injury, and damage to property as a result of this accident. In the opinion of management, the claims are adequately covered by insurance. Insurance proceeds in excess of the purchase price of the leased aircraft and other related costs were $5,350,000 ($3,606,000 or $2.09 per share primary after income tax effect). In October, the Company used a portion of the excess proceeds to acquire aircraft of sufficient capacity to replace the aircraft destroyed.

On December 29, 1977, the Civil Aeronautics Board issued an order establishing temporary rates for the carriage of mail during the period 1973 through 1977 as a continuing part of the Priority and Nonpriority Domestic Service Mail Rates Investigation instituted in December 1970. Under the order, the Company received $1,012,000 of additional mail revenue applicable to the years 1973 through 1976, which is included in mail, express and freight revenue for 1977. The additional revenue had the effect of increasing net income for 1977 by approximately $500,000 (29 cents per share primary).

In January 1976, pursuant to an offer tendered in December 1975, the Company purchased $871,000 principal amount of 5¾% Convertible Subordinated Debentures at a price of $750 for each $1,000 debenture plus certain brokerage and other related expenses. A gain of $200,000 ($145,000 after income taxes — 9 cents per share) resulted from the repurchase. These debentures were used to satisfy sinking fund requirements.

Note C — Long-Term Debt

At December 31,	1977	1976
Notes payable to banks under Credit Agreement		
"A" Term Loans, payable quarterly through 1982	**$10,962,000**	$13,183,000
"B" Revolving Loans, payable quarterly through 1980	**4,000,000**	4,400,000
"C" Term Loans, payable quarterly through 1984	**6,029,000**	6,754,000
Other notes payable		
Term note payable quarterly through 1988	**7,303,000**	—
Term note payable quarterly through 1987	**10,752,000**	—
Promissory note	**2,516,000**	—
Capital lease obligations	**4,963,000**	160,000
Convertible Subordinated Debentures		
5¾% due December 1, 1981	**3,474,000**	3,474,000
6½% due November 1, 1983	**5,833,000**	5,833,000
	55,832,000	33,804,000
Less current maturities	**7,254,000**	2,952,000
	$48,578,000	$30,852,000

Notes payable to banks under the Credit Agreement bear interest at the lead bank's prime rate (7¾ per cent at December 31, 1977), plus one per cent ("A" and "C" Term Loans) and two per cent ("B" Revolving Loan) and are payable in quarterly installments. Substantially all the Company's assets not pledged as collateral under the term notes described below are pledged as collateral under the terms of the Credit Agreement. Additionally, the "A" and "C" Term Loans are 90 per cent guaranteed by the Federal Aviation Administration.

On February 2, 1976, the "B" Loan was converted from a term loan to a revolving credit loan under which the Company may borrow, repay and reborrow through 1981, subject to quarterly reductions in the amount of funds available. The bank has agreed, subject to certain conditions, to expand the "B" Loan commitment to permit additional borrowings of $11,000,000.

The Term note due in 1988 is payable in 40 quarterly installments beginning May 1, 1978, plus interest at prime plus 2½ per cent. The Metro II flight equipment purchased with the loan proceeds is pledged as collateral under the Note.

The Term note due in 1987 is composed of a Class A Note ($1,077,000) and a Class B Note ($9,675,000), both payable in 40 quarterly installments with interest at 10 per cent and 8¼ per cent respectively. The proceeds of the loan were used to purchase six DC9-10 aircraft which previously were leased. These aircraft are pledged as collateral under the terms of the Agreement. Additionally, the Class B Note is 90 per cent guaranteed by the Federal Aviation Administration.

The Promissory note bears interest at prime plus ¾ of one per cent, and is expected to be refinanced under a commitment for long-term financing related to the purchase of four new DC9-80 aircraft. These aircraft are on order and are expected to be delivered beginning in 1980. See Note H.

The 5¾% 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 currently ranging from 1.25 per cent downward; and require annual sinking fund payments on December 1 of each year in an amount equal to $435,000.

The 6½% 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 three per cent downward; and require annual sinking fund payments beginning November 1, 1978, in an amount equal to $583,000.

The terms of the Credit Agreement, the Term note due in 1987, 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, 1977, under the most restrictive requirement, amounted to approximately $3,831,000.

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 the sum of 15 per cent of the average daily balance of the "A" and "B" Loans outstanding, 15 per cent of the unused portion of the "B" Loan Commitment, and 20 per cent of the average daily balance of the "C" Loan outstanding. Based upon outstanding borrowings at December 31, 1977, the Company should maintain average compensating balances of approximately $3,900,000, which stated in terms of the Company's book cash balances is approximately $2,500,000. The difference is attributable to average uncollected funds and float. During 1977, the Company maintained average compensating balances of approximately $4,300,000. The excess of actual compensating balances maintained over the amount required during 1977 may be used to satisfy requirements in future periods. 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.

A summary of minimum principal payments under the Credit Agreement loans, other indebtedness and both issues of convertible subordinated debentures is as follows:

	Credit Agreement Loans	Other Notes Payable	Capital Lease Obligations	Convertible Subordinated Debentures	Total
1978	$ 5,023,000	$ 1,114,000	$ 99,000	$1,018,000	$ 7,254,000
1979	4,626,000	3,844,000	111,000	1,018,000	9,599,000
1980	3,905,000	1,450,000	124,000	1,018,000	6,497,000
1981	3,185,000	1,583,000	139,000	2,754,000	7,661,000
1982	3,046,000	1,729,000	156,000	583,000	5,514,000
Thereafter	1,206,000	10,851,000	4,334,000	2,916,000	19,307,000
	$20,991,000	$20,571,000	$4,963,000	$9,307,000	$55,832,000

A reduction in the "B" Loan Commitment under the Credit Agreement is required 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. The above summary of minimum principal payments includes $1,081,000 applicable to 1978 for this commitment.

Interest capitalized in 1977 relating primarily to equipment purchase deposits amounted to $116,000. If the Company did not have a policy of capitalizing interest, net income would have been reduced by $57,000 (3 cents per share primary) for 1977. Interest capitalized in 1976 was not significant.

Note D—Income Taxes

Income taxes are as follows:

	1977	1976
Current:		
Federal	$ 3,798,000	$ 361,000
State	530,000	42,000
Investment tax credit	(2,217,000)	(193,000)
	2,111,000	210,000
Deferred:		
Federal	(186,000)	(122,000)
State	(2,000)	(15,000)
Investment tax credit	417,000	60,000
	229,000	(77,000)
	$ 2,340,000	$ 133,000

Deferred income taxes result from timing differences in the recognition of expense for tax and financial reporting purposes. The sources of these differences and the tax effect of each are as follows:

	1977	1976
Accelerated depreciation	**$(390,000)**	$ 25,000
Provision for inventory obsolescence	**295,000**	(51,000)
Provision for maintenance	**(35,000)**	(39,000)
Deferred compensation	**(46,000)**	(61,000)
Other	**(12,000)**	(11,000)
Investment tax credit	**417,000**	60,000
	$ 229,000	$(77,000)

Differences between income taxes and amounts derived by applying the statutory federal income tax rate of 48 per cent to income before income taxes are as follows:

	1977		1976	
	Amount	%	Amount	%
Computed at statutory federal income tax rate of 48 per cent	**$5,085,000**	48	$ 258,000	48
State income taxes, net of federal income tax benefit	**275,000**	3	16,000	3
Capital gains	**(963,000)**	(10)	—	—
Investment tax credit	**(1,800,000)**	(17)	(133,000)	(25)
Other	**(257,000)**	(2)	(8,000)	(1)
	$2,340,000	22	$ 133,000	25

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 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 163,581 shares outstanding at December 31, 1977, aggregated $981,000 which is $818,000 more than the aggregate par value of such shares.

Each share of preferred stock is entitled to receive annual dividends of 36 cents 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 5¾% and 6½% Convertible Subordinated Debentures and to limitations contained in the Credit Agreement and the Term note due in 1987. (See Note C)

During 1977, 200 shares of the Company's preferred stock were converted to 200 shares of common stock.

Authorized common shares include 1,559,963 shares and 1,560,163 shares reserved at December 31, 1977, and 1976, respectively, for issuance as follows:

	1977	1976
For convertible securities conversions:		
5¾% Convertible Subordinated Debentures (Note C)	**319,853**	319,853
6½% Convertible Subordinated Debentures (Note C)	**583,300**	583,300
Series A Convertible Preferred Stock	**163,581**	163,781
	1,066,734	1,066,934
For exercise of outstanding warrants at $6 per share, issued with Convertible Preferred Stock	**457,229**	457,229
For options under Qualified Stock Option Plan (11,000 shares) and Employee Stock Option Plan (25,000 shares)	**36,000**	36,000
	1,559,963	1,560,163

At December 31, 1977, there were outstanding options for 11,000 shares of common stock under the Company's Qualified Stock Option Plan, of which 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 $2.95 per share) expire in 1980. Option transactions during the two years ended December 31, 1977, are summarized as follows:

	Number of Shares	Option Price	
		Per Share	Total
Outstanding January 1, 1976	45,000	$2.94-$5.81	$225,000
Expired in 1976	(34,000)	5.25	(179,000)
Outstanding December 31, 1976 and 1977	11,000	$2.94-$5.81	$ 46,000

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 during the two years ended December 31, 1977. Options became exercisable as follows:

	1977	1976
Number of Shares	**3,667**	2,333
Option Price:		
Per Share	**$2.94-$5.81**	$3.50-$5.81
Total	**$ 15,000**	$ 11,000
Quoted Market Price at Date Exercisable:		
Per Share	**$3.63-$4.50**	$5.00-$5.50
Total	**$ 15,000**	$ 12,000

Options for 6,333 shares (aggregating $34,000 at option prices) and 3,667 shares (aggregating $19,000 at option prices) were exercisable at December 31, 1977, and 1976, 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, Employee Stock Ownership, and Incentive Compensation Plans

Pension expense was $4,032,000 in 1977 and $3,251,000 in 1976, which includes $312,000 in 1977 and $273,000 in 1976 applicable to the Employee Stock Ownership Plan adopted in 1975. The Company has an incentive compensation plan under which approximately $410,000 was accrued in 1977.

Note G—Leases

The Company leases flight equipment, maintenance and training center, general office building, airport terminal space, and other property and equipment.

Other property and equipment includes the following amounts for leases that have been capitalized:

	December 1977	December 1976
Assets	**$5,025,000**	$168,000
Less accumulated amortization	**84,000**	7,000
	$4,941,000	$161,000

Amortization of amounts capitalized as the cost of property and equipment is included in depreciation expense.

The following is a schedule by years of the aggregate future minimum rental payments under capital leases and noncancellable operating leases that have initial or remaining terms equal to or exceeding one year:

	Capital Leases	Operating Leases
1978	$ 667,000	$ 8,053,000
1979	667,000	7,526,000
1980	667,000	6,810,000
1981	667,000	6,381,000
1982	667,000	6,204,000
Subsequent to 1982	12,452,000	79,122,000
Total minimum lease payments	15,787,000	$114,096,000
Amounts representing interest	10,824,000	
Present value of future minimum lease payments	$ 4,963,000	

Rental expense included in operations for 1977 and 1976 was $10,787,000 and $11,299,000, respectively. Contingent rentals and rentals received from subleases are immaterial.

As permitted by Statement of Financial Accounting Standard No. 13, the Company has accounted for leases entered prior to January 1, 1977, in accordance with generally accepted accounting principles existing prior to the issuance of the Statement. The effect of the change to the lease capitalization requirements of Statement No. 13 is not material to the 1977 financial statements.

If the Company were required to restate its financial statements in 1977 as it will be required to do in 1978, to apply Statement No. 13 in accounting for leases, the effect would result in certain leases being capitalized with an increase (decrease) in amounts reflected in the accompanying financial statements as follows:

	December 31 1977	December 31 1976
Property and Equipment—net	**$10,072,000**	$19,947,000
Capital lease obligations		
Current	**2,362,000**	4,706,000
Noncurrent	**10,434,000**	18,594,000
Increase (decrease) in net income	**1,089,000**(a)	(80,000)
Increase (decrease) in earnings per common and common equivalent share—primary	**.63**(a)	(.05)
Retained Earnings	**(1,215,000)**	(2,304,000)
Common stockholders' equity per common share	**(.77)**	(1.46)

(a) Includes increase in net income of $241,000 (14 cents per share primary) applicable to the loss of an aircraft discussed in Note B.

Note H—Other Commitments and Contingencies

The Company has an employment agreement with its Chairman of the Board providing for his employment to December 31, 1979, at an annual salary of not less than $90,000. In addition, upon his retirement, the Company has agreed to pay $4,000 per month to him for life, or not less than 180 months to him and his lineal descendants in the event of his death. Provision for the amount due under the retirement agreement is being made over a five-year period beginning in 1975.

The Company is the defendant in a number of law suits. In the opinion of management there is adequate insurance coverage for those suits that 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 1977.

In October 1977, the Company signed an agreement with McDonnell Douglas Corporation for the purchase of four DC9-80 aircraft (with an option to lease for a term of 14 years) at the approximate cost of $64 million, with delivery during 1980. The financing arrangements have not been completed, although the Company has obtained a manufacturer's guarantee for a portion of a financing package.

The Company, in order to comply with the Aviation Noise Abatement Policy of the Department of Transportation, is required to modify 50 per cent of its DC9 aircraft by January 1, 1981, and have all these aircraft modified by January 1, 1983. The estimated cost to modify these aircraft is approximately $5.6 million. Legislation has been proposed to permit financing of a portion of the cost of compliance with this policy by air carriers from special ticket-tax revenues presently allocated to airport development.

The Company has purchase commitments for delivery in 1978 of three aircraft at the approximate cost of $6,000,000.

Note I—Earnings per Share

Primary earnings per share for 1977 were computed by dividing net income (less preferred dividend requirement and adjusted as described below) by the weighted average number of common and common equivalent shares outstanding during the year—1,732,923 shares. 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 the 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 the 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 for 1977 were determined on the assumption that the weighted average number of common and common equivalent shares were further increased from the beginning of the year by conversion of outstanding convertible debentures and convertible preferred stock—a total of 2,799,826 shares. This calculation also assumes 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.

Primary and fully diluted earnings per share for 1976 were computed by dividing net income, after reduction for the preferred dividend requirement, by the weighted average number of common shares outstanding during the year—1,580,880 shares. Common equivalent shares (described above) and adjustments resulting from their assumed exercise were excluded from the computation of primary earnings per share for 1976 since their inclusion would have increased earnings per share. Similarly, the assumed conversion of convertible securities was excluded from the computation of fully diluted earnings per share for 1976 since the results of such conversions would not have been dilutive.

Note J—Supplementary Information

	1977	1976
Depreciation and Amortization:		
Depreciation of property and equipment	$ 6,773,000	$ 4,878,000
Amortization of deferred charges	370,000	396,000
Provision for inventory obsolescence	240,000	233,000
	7,383,000	5,507,000
Deduct—amounts charged to other expense accounts	111,000	126,000
	$ 7,272,000	$ 5,381,000
Taxes, other than income taxes, charged to operating expenses:		
Payroll taxes	$ 2,498,000	$ 2,352,000
Fuel and oil taxes	1,036,000	881,000
Property taxes	865,000	782,000
Sales and use taxes	473,000	431,000
Other	178,000	175,000
	$ 5,050,000	$ 4,621,000
Rents:		
Rental expense under leases	$10,787,000	$11,299,000
Rental expense charged to other expense accounts—net	(53,000)	(70,000)
	$10,734,000	$11,229,000
Advertising costs	$ 1,676,000	$ 1,712,000

There were no royalties or research and development costs.

Note K—Quarterly Results of Operations (Unaudited)

The following is a tabulation of the quarterly results of operations for the years ended December 31, 1977 and 1976:

	Three Months Ended							
	1977				1976			
	Mar. 31	June 30	Sept. 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
	(Thousands of dollars, except per share data)							
Operating revenues	$36,794	$38,556	$40,574	$43,587(b)	$32,045	$35,860	$36,087	$36,175
Operating expenses	36,940	37,177	37,939	39,931	32,650	33,791	34,370	36,864
Operating income (loss)	(146)	1,379	2,635	3,656	(605)	2,069	1,717	(689)
Net income (loss)	(481)	4,296(a)	1,869	2,569(b)	(649)	1,149	827	(922)
Net income (loss) per common and common equivalent share								
Primary	(.31)	2.49(a)	1.09	1.48(b)	(.42)	.65	.47	(.59)
Fully diluted	(.31)	1.59(a)	.73	.95(b)	(.42)	.45	.33	(.59)

(a) Includes excess insurance proceeds from the loss of a DC9 aircraft which increased net income by $3,606,000 ($2.09 per share primary and $1.29 per share fully diluted). See Note B.
(b) Includes mail revenue of $1,391,000 ($682,000 after income taxes—39 cents per share primary and 25 cents per share fully diluted) related to the period 1973 through September 30, 1977. See Note B.

Quarterly earnings per share do not total earnings per share for the year because the computation of earnings per share for certain quarters did not include common stock equivalents which were included in the earnings per share computation on an annual basis.

Note L—Replacement Cost of Property and Equipment (Unaudited)

The Company has estimated certain replacement cost information for flight equipment and other property and equipment, and has presented this information in its annual report to the Securities and Exchange Commission on Form 10-K, a copy of which is available upon request. Form 10-K contains specific information with respect to the approximate replacement cost of flight equipment and other property and equipment at December 31, 1977 and 1976, and the approximate effect which replacement cost would have had on depreciation expense for such years, as compiled in accordance with the rules of the the Commission. Replacing items of property and equipment with assets having an equivalent capacity has generally required a greater capital investment than was required to purchase the assets which are being replaced due to the cumulative impact of inflation.

Note M—Subsequent Event

In March 1978, the Company committed to purchase two DC9 aircraft currently leased. In addition, the Company purchased an option for the purchase of an additional eight used DC9 aircraft. The purchase price of these ten aircraft is approximately $24 million.

REPORT OF ERNST & ERNST, Independent Auditors

Board of Directors
Southern Airways, Inc.
Atlanta, Georgia

We have examined the balance sheets of Southern Airways, Inc. as of December 31, 1977 and 1976, and the related statements of income, retained earnings 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, 1977 and 1976, and the results of its operations and changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Ernst
E&E

Atlanta, Georgia
January 27, 1978
except as to Note M, as to
which the date is March 16, 1978.

Notice to Stockholders of Southern Airways, Inc.

Any person who owns, as of December 31 of any year, or subsequently acquired 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 the 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 those persons who are best qualified without regard to their race, color, religion, sex, age (40-65), national origin, or physical or mental handicap, and not to discriminate against any employee or applicant for employment because he/she is a disabled veteran or Vietnam era veteran.

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-off, Company sponsored training, education, tuition assistance, social and recreational programs, and all Company facilities are administered without regard to race, color, religion, sex, age (40-65), national origin, physical or mental handicap, and will take into consideration those employees who are disabled veterans or Vietnam era veterans.

These practices are designed and implemented to be in concert with the accepted standards and principles of equal opportunity employment.

Directors and Officers

Directors

CECIL A. BEASLEY, JR.
Assistant Secretary,
Southern Airways, Inc. and
Partner-Ballard, Beasley and Nelson
(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

DAVID H. HUGHES
President and Chief Executive Officer
Hughes Supply, Inc.
(Manufacturer and Distributor of
Electrical and Plumbing Supplies)
Orlando, Florida

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.

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

FRANK M. YOUNG, III**
Partner—North Haskell
Slaughter Young & Lewis
(Attorneys)
Birmingham, Alabama

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

JAMES G. GODSMAN
Vice President—Sales

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.
Vice President—
Marketing

RAY W. BURDEN
Assistant Treasurer

JAMES H. ISHEE
Assistant Treasurer
and Controller

J. PHILLIP 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

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

General Information

Counsel

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

Auditors

Ernst & Ernst
Atlanta, Georgia

Stock Transfer Agent

Trust Company Bank
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

Route Applications Pending Before the Civil Aeronautics Board*

Midwest-Atlanta Competitive Service Case
(Atlanta-Detroit)
(Atlanta-Cleveland)
Docket No. 28115

Houston/New Orleans-Yucatan Proceeding
(New Orleans-Merida)
(New Orleans-Punta Cancun)
(New Orleans-Cozumel)
Docket No. 29789

Louisville Service Case
(Louisville-Nashville)
(Louisville-Memphis)
Docket No. 29968

TWA/Southern Route Exchange Case
(Nashville-St. Louis)
(Nashville-Tampa)
(Nashville-Miami/Ft. Lauderdale)
(Tampa-Miami/Ft. Lauderdale)
Docket No. 29001

Service To Brunswick And Savannah Case
(Atlanta-Brunswick)
(Atlanta-Savannah)
(Brunswick-Savannah)
(Brunswick-Jacksonville)
(Savannah-Jacksonville)
Docket No. 30570

Memphis-Denver Nonstop Service Case
Docket No. 29189

Atlanta-Florida Cities Case
(Between and among the following points: Atlanta-Pensacola-Tallahassee-Jacksonville-Gainesville-Tampa/St. Petersburg/Clearwater-Orlando-Melbourne-West Palm Beach-Miami/Fort Lauderdale)
Docket No. 31680

Florida-Atlanta Competitive Nonstop Service Case
(Atlanta-Tallahassee-Daytona Beach-Sarasota/Bradenton-Miami/Fort Lauderdale)
Docket No. 30679

Nashville-Cleveland Subpart M Case
(Nashville-Cleveland)
Docket No. 31116

New Orleans-Orlando Case
(New Orleans-Orlando)
Docket No. 32043

Austin/San Antonio-Atlanta Service Investigation
(Atlanta-Austin)
(Atlanta-San Antonio)
(Austin-San Antonio)
Docket No. 32143

Caribbean Area Service Investigation
(Co-terminal points, New York/Newark-Washington, D.C.-Memphis-Birmingham-Atlanta-New Orleans-Jacksonville-Orlando-Tampa/St. Petersburg/Clearwater-Fort Lauderdale-Miami and Puerto Rico-Turks and Caicos Islands-Haiti-Dominican Republic-U.S. Virgin Islands-Antigua-Martinique-Barbados-Trinidad-Netherlands Antilles-Venezuela)
Docket No. 30697

Proposed routes from:

NEW YORK/NEWARK
WASHINGTON, D.C.
MEMPHIS
BIRMINGHAM
ATLANTA
NEW ORLEANS
JACKSONVILLE
ORLANDO
TAMPA/ST. PETERSBURG/CLEARWATER
FORT LAUDERDALE
MIAMI

to the following points:

PUERTO RICO
TURKS AND CAICOS ISLANDS
HAITI
DOMINICAN REPUBLIC
U.S. VIRGIN ISLANDS
ANTIGUA
MARTINIQUE
BARBADOS
TRINIDAD
NETHERLANDS ANTILLES
VENEZUELA

**As of March 24, 1978*

DESIGNED AND PRODUCED BY STEIN CORPORATE COMMUNICATIONS/ATLANTA


Southern
MINNESOTA
MINNEAPOLIS-ST. PAUL
WISCONSIN
MILWAUKEE
MICHIGAN
DETROIT
NEW YORK
NEW YORK-NEWARK (La Guardia)
IOWA
CHICAGO O'Hare
NEBRASKA
CLEVELAND
OHIO
PENNSYLVANIA
NEW JERSEY
MARYLAND
DELAWARE
ILLINOIS
INDIANA
WEST VIRGINIA
WASHINGTON, D.C. Dulles International
DENVER
COLORADO
KANSAS
WICHITA
ST. LOUIS
MISSOURI
LOUISVILLE
KENTUCKY
VIRGINIA
NASHVILLE
BRISTOL-KINGSPORT-JOHNSON CITY (Tri-Cities)
TENNESSEE
KNOXVILLE
CHARLOTTE
NORTH CAROLINA
OKLAHOMA
ARKANSAS
JACKSON
MEMPHIS
CHATTANOOGA
GREENVILLE-SPARTANBURG
HUNTSVILLE-DECATUR
UNIVERSITY-OXFORD
TUPELO
MUSCLE SHOALS (Florence-Sheffield-Tuscumbia)
GADSDEN
ATHENS
COLUMBIA
GOLDEN TRIANGLE (Columbus-West Point-Starkville)
GREENWOOD
GREENVILLE
ANNISTON
ATLANTA
SOUTH CAROLINA
BIRMINGHAM
TUSCALOOSA
CHARLESTON
GEORGIA
MONROE
JACKSON-VICKSBURG
MONTGOMERY
COLUMBUS
MERIDIAN
*NATCHEZ
ALABAMA
ALBANY
SAVANNAH
MISSISSIPPI
LOUISIANA
TEXAS
LAUREL-HATTIESBURG
DOTHAN
MOULTRIE-THOMASVILLE
BRUNSWICK
MOBILE-PASCAGOULA
VALDOSTA
AUSTIN
BATON ROUGE
PENSACOLA
TALLAHASSEE
JACKSONVILLE
GULFPORT-BILOXI
EGLIN A.F.B (Fort Walton Beach)
PANAMA CITY
NEW ORLEANS
GAINESVILLE
DAYTONA BEACH
SAN ANTONIO
*Substitute service to Natchez, Miss., is provided by a commuter airline.
ORLANDO
TAMPA-ST. PETERSBURG-CLEARWATER
MELBOURNE
FLORIDA
WEST PALM BEACH
SARASOTA-BRADENTON
FORT LAUDERDALE (Hollywood)
MIAMI
PUNTA CANCUN
MERIDA
COZUMEL
MEXICO
GRAND CAYMAN
CAYMAN ISLANDS, B.W.I.
Southern Airways System
Scheduled to begin in Summer 1978
Recommended by Civil Aeronautics Board administrative law judge; awaiting approval by the Board
Pending before the Civil Aeronautics Board
All service, authorizations, and pending routes shown as of March 24, 1978
Caribbean Area Service Investigation

Southern Airways, Inc.
General Office
Hartsfield Atlanta International Airport
Atlanta, Georgia 30320