

FINANCIAL REPORT

FOR THE SIX MONTHS ENDED JUNE 30, 1984



REPUBLIC AIRLINES

To our stockholders:

Republic Airlines earned the largest quarterly profit in the company's history, \$29 million, or 73 cents per share. This resulted from increased revenues, reduced expenses, and a gain from disposition of surplus equipment. Yield (revenue per passenger mile flown) improved 31 percent to 16.95 cents for the second quarter of 1984 compared with last year, when deeply-discounted fares were rampant in the industry.

The company also made significant progress on several fronts, including:

- Long-term agreements with four unions representing mechanics; clerical personnel and station, reservations and passenger service agents; flight attendants; and dispatchers. These agreements are in addition to those previously negotiated with pilots and maintenance supervisors. Under the new contracts, reduced employment costs and increased productivity are assured through the end of 1986.
- Inauguration of nonstop service June 1 to Indianapolis from Detroit, Memphis, and Minneapolis/St. Paul; to Washington, D.C. (Dulles) from Detroit and Memphis; and from Boston to Minneapolis/St. Paul. Additional round trips between Chicago and Minneapolis/St. Paul created a 10-flight "mini-shuttle" service.
- A review of advertising agencies which resulted in Dancer Fitzgerald Sample of New York being chosen as the company's new agency.
- Sale of two surplus DC-9 Series 10 aircraft and equipment, plus the sale and exchange of several airport gates, for a net gain of \$8.9 million.
- Strengthening the management team by naming A. B. Magary Senior Vice President—Marketing and Gary H. Lantner, Vice President and Secretary. Both have extensive airline industry experience.

For the second quarter, revenues reached \$410.5 million, and operating expenses were \$366.8 million, for an operating profit of \$43.7 million. Other expenses were \$14.7 million. Income taxes of \$11.7 million were offset by an extraordinary gain of \$11.7 million (28 cents per share) from utilization of tax loss carryforwards. As a result, net earnings were \$29 million, or 73 cents per share. For the same period of 1983, a net loss of \$43.9 million was incurred, or a loss of \$1.83 per share.

Revenues were \$804.1 million for the first six months of 1984. With operating expenses of \$741.9 million, an operating profit of \$62.2 million resulted. This represents an improvement of \$128.4 million from the \$66.2 million operating loss recorded in 1983. After other expenses of \$37.2 million, income taxes and the offsetting extraordinary gain from tax loss carryforwards, net earnings of \$25 million were achieved, or 68 cents per share. This compares with a net loss of \$102.9 million for the first six months last year, or a loss of \$4.49 per share.

In the second quarter, Republic carried four million passengers and flew 2.2 billion revenue passenger miles, down 16 percent. Unlimited fare cuts artificially stimulated traffic in 1983. May was a record month for cargo, which continues strong growth. Cargo ton miles for the quarter jumped 24 percent.

Republic has reached agreement with all its employee groups on a wage, productivity and stock ownership plan. The plan includes issuing 5.5 million shares of common stock, 2.2 million warrants to purchase common stock, and a profit-sharing program in the form of preferred stock.

As part of the agreement with the pilots, the company intends to terminate the defined benefit pension plans for pilots and replace them with a defined contribution plan, subject to government approvals. The resulting reduction in the company's pension liability of \$55-\$65 million would be recorded as an extraordinary gain in the second half of 1984.

Republic is continuing to stress superior performance. Marketing efforts will focus on building the airline's national identity and increasing its share of passengers at the cities served. Future schedule refinements will add flights in hubs such as Minneapolis/St. Paul, Detroit and Memphis, while redeploying assets from less profitable markets.

The airline is implementing programs to further improve revenues and become more cost efficient. The support shown by our employees is a significant factor in strengthening the company's position in today's highly-competitive, deregulated environment. Every employee will become a Republic stockholder—a personal incentive for instilling pride and ensuring quality service. The momentum from the first six months is helping Republic regain its financial viability. The company is looking forward to the future with renewed vigor and confidence.

Sincerely,



DANIEL F. MAY
Chairman of the Board and
Chief Executive Officer



STEPHEN M. WOLF
President and
Chief Operating Officer

July 26, 1984

REPUBLIC AIRLINES, INC.

and Consolidated Subsidiary

Consolidated Balance Sheets

(unaudited—in thousands)

	June 30, 1984	December 31, 1983
ASSETS		
CURRENT ASSETS		
Cash and short-term cash investments	\$ 106,652	\$ 59,781
Accounts receivable—less allowances	139,327	119,690
Parts and supplies—less reserves	42,110	49,762
Prepaid expenses and other	35,613	33,834
	<u>323,702</u>	<u>263,067</u>
PROPERTY AND EQUIPMENT		
Flight equipment—at cost	898,012	900,309
Flight equipment leased	157,145	157,145
Ground property and equipment—at cost	111,981	110,003
Ground property and equipment leased	15,626	15,937
	<u>1,182,764</u>	<u>1,183,394</u>
Less accumulated depreciation, amortization	386,735	353,564
	<u>796,029</u>	<u>829,830</u>
DEFERRED CHARGES AND OTHER ASSETS		
	16,465	15,775
	<u>\$1,136,196</u>	<u>\$1,108,672</u>
LIABILITIES		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 60,117	\$ 50,079
Current obligations under capital leases	8,307	7,834
Accounts payable	44,000	41,488
Interline payables and tickets outstanding	92,308	73,478
Accrued compensation and vacation benefits	52,961	57,200
Other accrued expenses	80,918	65,456
	<u>338,611</u>	<u>295,535</u>
LONG-TERM OBLIGATIONS		
Long-term debt—less current maturities	579,122	613,941
Noncurrent obligations under capital leases	140,925	145,454
Long-term pension liability and other	48,822	48,123
	<u>768,869</u>	<u>807,518</u>
REDEEMABLE PREFERRED STOCK OF SUBSIDIARY		
	28,000	28,000
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock, \$.20 par value; 30,639,390 shares outstanding	6,128	6,126
Additional paid-in capital	114,664	114,630
Retained earnings (deficit)	(120,899)	(143,137)
Employee stock to be issued	823	—
	<u>716</u>	<u>(22,381)</u>
	<u>\$1,136,196</u>	<u>\$1,108,672</u>

Consolidated Statements of Operations

(unaudited—in thousands except per share amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	1984	1983	1984	1983
OPERATING REVENUES				
Passenger	\$377,111	\$345,501	\$737,197	\$ 671,485
Cargo	19,907	18,533	39,346	37,320
Other	13,471	10,212	27,564	23,349
	<u>410,489</u>	<u>374,246</u>	<u>804,107</u>	<u>732,154</u>
OPERATING EXPENSES				
Salaries and benefits	126,271	156,562	260,256	308,341
Aircraft fuel	92,954	98,161	186,870	200,229
Maintenance materials and repairs	12,900	14,231	26,628	30,053
Food service	9,089	9,144	17,392	17,889
Rentals and landing fees	20,059	20,128	39,329	39,380
Agency commissions	27,623	26,324	54,024	50,478
Depreciation and amortization	18,284	17,453	36,541	34,551
Other	59,578	59,744	120,841	117,456
	<u>366,758</u>	<u>401,747</u>	<u>741,881</u>	<u>798,377</u>
Operating profit (loss)	43,731	(27,501)	62,226	(66,223)
OTHER EXPENSES (INCOME)				
Interest expense—net of capitalized interest	24,482	23,841	49,177	47,330
Sale of tax benefits	—	(6,621)	—	(6,621)
Gain on disposition of equipment	(8,892)	(32)	(9,657)	(886)
Interest income and other—net	(880)	(764)	(2,262)	(3,007)
	<u>14,710</u>	<u>16,424</u>	<u>37,258</u>	<u>36,816</u>
Earnings (loss) before income taxes and extraordinary item	29,021	(43,925)	24,968	(103,039)
INCOME TAXES (CREDIT)	<u>11,730</u>	<u>—</u>	<u>11,730</u>	<u>(132)</u>
Earnings (loss) before extraordinary item	17,291	(43,925)	13,238	(102,907)
EXTRAORDINARY ITEM				
Effect of utilization of tax loss carryforwards	11,730	—	11,730	—
NET EARNINGS (LOSS)	<u>\$ 29,021</u>	<u>\$ (43,925)</u>	<u>\$ 24,968</u>	<u>\$ (102,907)</u>
EARNINGS (LOSS) PER COMMON SHARE— PRIMARY				
Before extraordinary item	\$.50	\$(1.83)	\$.35	\$(4.49)
Extraordinary item	.35	—	.37	—
Net earnings (loss)	<u>\$.85</u>	<u>\$(1.83)</u>	<u>\$.72</u>	<u>\$(4.49)</u>
EARNINGS (LOSS) PER COMMON SHARE— FULLY DILUTED				
Before extraordinary item	\$.45	\$(1.83)	\$.38	\$(4.49)
Extraordinary item	.28	—	.30	—
Net earnings (loss)	<u>\$.73</u>	<u>\$(1.83)</u>	<u>\$.68</u>	<u>\$(4.49)</u>

Operating Statistics

	Three Months Ended June 30	
	1984	1983
Passengers	4,024,000	4,823,000
Passenger miles	2,246,732,000	2,668,127,000
Available seat miles	4,432,990,000	4,504,038,000
Passenger load factor	50.7%	59.2%
Yield	16.95¢	12.97¢
Cargo ton miles	23,421,000	18,937,000
Scheduled miles completed	99.4%	99.4%
Six Months Ended June 30		
	1984	1983
Passengers	7,936,000	9,546,000
Passenger miles	4,462,842,000	5,221,613,000
Available seat miles	8,834,448,000	8,873,732,000
Passenger load factor	50.5%	58.8%
Yield	16.74¢	12.93¢
Cargo ton miles	45,966,000	37,623,000
Scheduled miles completed	99.0%	99.2%



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