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Accounting practices 1979: Airline industry, illustrative items of current interest from annual reports to the SEC;

Deloitte, Haskins & Sells;

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Haskins+Sells

USA

Accounting Practices 1979 – Airline Industry

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Accounting Practices 1979 – Airline Industry

Illustrative Items of Current Interest from Annual Reports to the SEC

INTRODUCTION

This survey of the 1978 10-K reports of investor-owned air carriers is designed to assist our professional personnel in finding examples of accounting practices and disclosure techniques used by the airlines. It provides information for the airline industry similar to that for all industries published by the American Institute of Certified Public Accountants in Accounting Trends and Techniques.

The illustrations shown herein do not necessarily represent authoritative support for the underlying accounting procedures or reporting practices, and their status must be considered in view of recent pronouncements and interpretations of the Financial Accounting Standards Board, the Securities and Exchange Commission, the American Institute of Certified Public Accountants, and the Civil Aeronautics Board which could affect the manner in which certain items are reflected or disclosed.

Although this survey is intended principally for internal reference purposes by personnel of Deloitte Haskins & Sells, it may be made available to persons outside the Firm having an interest in reporting practices of the airline industry. The Firm welcomes any comments and suggestions regarding this publication for consideration in preparing future editions.

DELOITTE HASKINS & SELLS

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AIRLINES SURVEYED

This survey includes both domestic and international U. S. airlines. The airlines selected are the trunk-carriers and selected supplemental carriers. The survey results reflect the accounting and reporting practices found in the 1978 10-K's of the following airlines:

Alaska Airlines (Alaska)
Allegheny Airlines (Allegheny)
Aloha Airlines (Aloha)
American Airlines (American)
Braniff International (Braniff)
Continental Air Lines (Continental)
Delta Air Lines (Delta)
Eastern Air Lines (Eastern)
Frontier Airlines (Frontier)
Hawaiian Airlines (Hawaiian)
National Airlines (National)
Northwest Airlines (Northwest)
North Central Airlines (North Central)
Ozark Air Lines (Ozark)
Pan American World Airways (Pan American)
Piedmont Aviation (Piedmont)
Southern Airways (Southern)
Texas International Airlines (Texas International)
Trans World Airlines (TWA)
United Airlines (United)
Western Air Lines (Western)

* * * * *

OTHER GENERAL INFORMATION

Reporting Periods - Nineteen of the airlines report on a calendar-year basis while Delta and National report on a June 30 fiscal-year basis.

Note References - Nineteen of the airlines surveyed included specific note references within the financial statements, while all had general references to the notes to the financial statements on each page of the statements.

Presentation of Dollar Amounts - Eleven airlines presented the financial statements in thousands of dollars while ten presented the actual dollar amounts.

Summary of Operations - Thirteen of the airlines surveyed presented five-year summaries while eight presented a ten-year summary.

Where Shares Are Traded - The surveyed airlines are listed on the following exchanges:

New York	14
Pacific	12
American	7
Midwest	7
Nasdaq/Over-the-counter	2
Boston	1
Philadelphia	1

AIRLINE DEREGULATION ACT

In October of 1978, the Airline Deregulation Act of 1978 became law. The effect of this Act is to gradually eliminate the Civil Aeronautics Board and end all controls over rates and fares by 1985.

The Act is based upon the premise that the Civil Aeronautics Act of 1938, which was intended to assure that the public would receive the best possible air transportation services at the lowest costs, had in fact thwarted competition among airlines, and prevented new airlines from entering the industry.

Between now and 1985 new routes can be acquired in one of three ways:

1. Under the "dormant route" authority an airline may claim a route which was authorized to another carrier, but not currently being operated.

2. Under the "automatic market entry" provision an airline may begin service on one new route each year for three years, whether the route is dormant or not.

3. New routes can now be authorized with reduced regulatory delays.

The Act allows air carriers to discontinue service on unprofitable routes with 90 days notice, as long as there are two or more airlines serving the route.

Fares will be completely deregulated by 1982, with the CAB retaining authority over minimum and maximum fares until that time.

The Act is the most significant legislation to affect the industry since regulation in 1938. The ability of the airlines to improve their route structure and adjust fares should contribute to improved air transportation services.

AIRLINE INDUSTRY DATA

(000 OMITTED EXCEPT RANK AND EPS DATA)

	ASSETS		REVENUES		NET INCOME		EPS								
							1977				1978				
	1977	1978	1977	1978	1977	1978	PRIMARY	OTHER	DILUTED	OTHER	PRIMARY	OTHER	DILUTED	OTHER	INDEPENDENT ACCOUNTANT
Alaska Airlines	$ 66,099	$ 92,429	$ 76,518	$ 84,246	$ 3,414	$ 7,231	.80		.75		1.67		1.56		Price Waterhouse & Co.
Rank	20	19	20	20	18	17	18				16				
Allegheny Airlines	386,678(5)	403,615	492,727(5)	566,754	15,859(5)	32,304	2.53(5)		1.72(5)		2.75	1.31(2)	1.99	.83(2)	Peat, Marwick, Mitchell & Co.
Rank	12	12	12	12	10	11	7				9				
Aloha Airlines	44,333(5)	50,284	50,216	60,681	1,215(5)	3,282	.57(5)				1.54				Peat, Marwick, Mitchell & Co.
Rank	21	21	21	21	20	19	19				17				
American Airlines	2,452,936(5)	2,767,718	2,379,117(5)	2,735,508	70,626(5)	134,396	2.14(5)		2.11(5)		4.27		4.00		Arthur Young & Co.
Rank	2	2	2	2	4	2	8				4				
Braniff International	699,523(5)	855,165	784,034(4)	965,303(4)	36,692(5)	45,230	1.83(5)				2.26				Deloitte Haskins & Sells
Rank	8	8	8	7	7	10	9				11				
Continental Airlines	670,416	677,272	657,066(1)	774,673(1)	25,642	49,190	1.77		1.66		3.29		3.03		Peat, Marwick, Mitchell & Co.
Rank	9	10	10	10	9	9	10				5				
Delta Air Lines	1,491,819	1,646,683	1,719,645	2,050,911	92,380	131,127	4.65				6.60				Arthur Andersen & Co.
Rank	6	6	6	6	3	3	2				2				
Eastern Air Lines	1,663,962(5)	1,908,556	2,035,893	2,379,564	27,877(5)	67,257	1.38(5)		1.34(5)		2.91		2.41		Price Waterhouse & Co.
Rank	5	5	4	4	8	6	12				6				
Frontier Airlines	164,346(5)	214,349	234,309	290,811	13,073(5)	16,633	1.70(5)		1.51(5)		2.14		1.91		Ernst & Ernst
Rank	15	14	13	14	12	13	11				12				
Hawaiian Airlines	66,196	79,577	79,487	90,451	634	(699)	.40		.40		(44)		(.44)		Deloitte Haskins & Sells
Rank	19	20	19	19	21	21	20				21				
National Airlines	463,791	452,952	495,391	589,350	3,009	14,402	.35				1.68				Deloitte Haskins & Sells
Rank	11	11	11	11	19	14	21				15				
Northwest Airlines	1,299,451	1,392,865	1,046,355	790,162	92,719	61,841	4.29				2.86				Ernst & Ernst
Rank	7	7	7	9	2	7	3				7				
North Central Airlines	214,451	302,983	229,123	299,053	13,696	22,164	1.11				1.70		1.70		Alexander Grant & Company
Rank	13	13	14	13	11	12	15				14				
Ozark Air Lines	149,836(5)	172,352	190,189	226,216	7,988(5)	8,200	1.18(5)		.96(5)		1.20		.96		Touche Ross & Co.
Rank	16	17	15	15	16	16	14				20				
Pan American World Airways	1,896,636	2,048,303	1,907,453	2,204,788	45,004	118,801	1.06		.83		2.31		1.52		Coopers & Lybrand
Rank	4	4	5	5	6	4	16				10				
Piedmont Aviation	171,513	199,591	180,702	204,460	7,496	5,591	2.95		2.08		2.04		1.48		Ernst & Ernst
Rank	14	15	16	16	17	18	6				13				
Southern Airways	116,593(5)	120,570	159,511	188,512	9,342(5)	2,407	5.39(5)		3.45(5)		1.29		.93		Ernst & Ernst
Rank	17	18	17	17	14	20	1				19				
Texas International Airlines	108,796(5)	194,855	144,787	180,192	8,238(5)	13,151	1.31(5)	.21(2)	1.31(5)	.21(2)	1.32	.85(2)	1.24	.81(2)	Arthur Andersen & Co.
Rank	18	16	18	18	15	15	13				18				
Trans World Airlines	2,336,777(5)	2,386,675	2,374,201	2,540,243	57,262	86,644	3.33(5)		3.23(5)		4.54		4.20		Deloitte Haskins & Sells
Rank	3	3	3	3	5	5	5				3				
UAL	3,393,360(5)	3,697,222	2,891,293	3,423,967	135,090(5)	302,255	3.59(5)	1.82(2)	3.69(5)	1.71(2)	11.93		10.20		Arthur Andersen & Co.
Rank	1	1	1	1	1	1	4				1				
Western Air Lines	574,943(5)	703,940	691,464	834,513	12,724(5)	54,748	.96(5)		.85(5)		2.82	1.27(3)	2.15	.89(3)	Peat, Marwick, Mitchell & Co.
Rank	10	9	9	8	13	8	17				8				
Hughes Air West						Not Reported									Deloitte Haskins & Sells
Rank															

(1) Amounts reclassified. (2) Extraordinary items. (3) Cumulative effect of accounting change. (4) Excludes non-airline revenues. (5) Restated.

AIRLINE INDUSTRY RATIOS - 1978

	CURRENT RATIO (1)	RECEIVABLE TURNOVER (2)	DAYS OF RECEIVABLES (3)	ACCUMULATED DEPRECIATION TO PROPERTY (4)	TIMES INTEREST EARNED (5)	COMMON STOCKHOLDER EQUITY TO TOTAL ASSETS (6)	DEBT TO EQUITY (7)	COMMON STOCK YIELD (8)	PRICE OF STOCK	DIVIDENDS PAID DURING
Alaska Airlines	1.13	10.98	33	22%	11.81	28.0%	1.46	2.06%	$ 4.86	.10
Rank	4	7		20	2	10	8	14		
Allegheny Airlines	1.11	10.84	34	44	3.5	29.7	.99	*	3.13	*
Rank	6	8		5	8	8	12			
Aloha Airlines	1.05	8.16	45	43.5	2.66	22.7	1.54	2.11	4.75	.10
Rank	8	19		7	14	15	5	13		
American Airlines	1.32	7.35	50	49	2.83	26.0	.80	3.01	13.25	.40
Rank	2	21		2	13	12	16	4		
Braniff Airlines	.91	11.89	31	31	2.62	28.0	1.45	2.70	12.75	.345
Rank	14	5		18	15	11	9	6		
Continental Airlines	.68	9.13	40	35	3.01	33.7	.88	3.43	8.75	.30
Rank	20	14		17	10	4	15	2		
Delta Air Lines	.87	12.6	29	41	11.17	44.7	.23	1.65	45.38	.75
Rank	16	4		10	3	3	19	15		
Eastern Air Lines	.73	13.0	28	43	1.9	20.6	1.02	*	8.50	*
Rank	19	3		8	18	16	11			
Frontier Airlines	.95	13.5	27	37	4.7	31.1	.96	1.43	14.00	.20
Rank	12	2		15	5	7	13	16		
Hawaiian Airlines	.68	10.24	36	15	.60	14.5	3.59	2.73	5.50	.15
Rank	21	12		21	21	21	1	5		
National Airlines	.81	14.16	26	44	4.71	45.1	.20	2.70	18.50	.50
Rank	18	1		4	4	2	20	6		
Northwest Airlines	1.64	9.68	38	39.5	33.29	57.0	.13	2.63	28.50	.75
Rank	1	13		12	1	1	21	9		
North Central Airlines	.94	10.68	34	25	3.71	29.6	1.49	2.24	7.13	.16
Rank	13	9		19	7	9	7	12		
Ozark Airlines	.85	10.6	34	33	3.3	24.5	1.50	3.07	4.88	.15
Rank	17	10		17	9	13	6	3		
Pan American World Airways	1.04	8.25	44	46	2.27	31.7	.73	*	6.63	*
Rank	9	18		3	16	5	17			
Piedmont Aviation	1.12	9.10	40	42	1.59	19.6	2.45	2.70	8.88	.24
Rank	5	15		9	19	17	3	6		
Southern Airways	.97	11.58	32	39	1.48	19.6	2.43	*	12.75	*
Rank	11	6		13	20	18	4			
Texas International Airlines	.89	9.02	40	36	2.98	15.7	3.53	2.36	11.88	.28
Rank	15	16		16	11	20	2	11		
Trans World Airlines	1.06	7.8	47	41	2.2	18.9	1.29	*	17.50	*
Rank	7	20		11	17	19	10			
UAL	1.29	8.37	44	54	4.57	31.7	.64	3.60	29.13	1.05
Rank	3	17		1	6	6	18	1		
Western Air Lines	1.01	10.25	36	38	2.96	23.9	.94	2.42	8.25	.20
Rank	10	11		14	12	14	14	10		

(1) Current Assets/Current Liabilities.
(2) Revenues/Average Net Receivables.
(3) 365 ÷ (2).
(4) Accumulated Depreciation/Property (Flight Equipment).
(5) Income Before Tax and Interest Expense/Interest Expense.
(6) Common Stockholders Equity/Total Assets.
(7) Long-Term Debt/Common Stockholders Equity.
(8) Dividends Per Share/Market Value Per Share at Year End.
(*) No Common Dividends Paid.

FOOTNOTE DISCLOSURES

Table 1-3 summarizes the nature of information frequently disclosed in financial statements and the number of survey companies disclosing such information.

Table 1-3

Types of Disclosure	No.	Types of Disclosure	No.
Accounting policies	21	Purchase commitments	8
Lease commitments	21	Stock options	7
Long-term debt	21	Supplementary income statement information	7
Income taxes	21	Public service revenue	6
Capital stock	18	Mail revenue	5
Quarterly results	18	Mutual aid	4
Pension plan	16	Property and equipment	4
Replacement cost	16	Accounting change	3
Contingencies	13	Business segments	3
Earnings per share	11		

* Footnotes found in two or fewer reports are listed in Table 1-23.

Examples of some of the above footnote disclosures follow:

ACCOUNTING POLICIES - NORTH CENTRAL

Note A - Summary of Significant Accounting Policies - The company, as a regional airline providing scheduled service for passengers, mail and property, is regulated by the Civil Aeronautics Board (CAB) and uses the Uniform System of Accounts and Reports for Certified Air Carriers as required by the CAB. The significant policies consistently followed by the company are:

Flight Equipment Parts and Supplies

These are priced at average cost. An allowance for obsolescence ($1,067,000 in 1978 and $999,000 in 1977) is provided for repairable parts by allocating their cost over the life of the related aircraft.

Prepaid Expenses - Engine Overhaul

The Company reclassifies to a current prepaid expense the estimated portion of the purchase price of flight equipment attributable to its overhaul expected to be consumed within the next twelve months ($5,695,000 in 1978 and $4,530,000 in 1977). Actual overhaul costs are charged to expense as incurred.

Capitalized Interest

To properly reflect their total cost, major additions to flight equipment, ground facilities and expenditures for deferred charges include capitalized interest based on the weighted average interest rate of debt outstanding. Capitalization of interest ceases when projects become operational. The capitalized interest is amortized over the useful lives of the related assets for financial reporting purposes. If capitalized interest had been expensed as incurred for financial reporting purposes, net earnings would have been reduced by approximately $1,357,000 in 1978 and $565,000 in 1977. For income tax reporting purposes, interest is expensed as incurred.

Capitalized Leases

The company accounts for leased property in accordance with Financial Accounting Standards Board Statement No. 13. Accordingly, for financial reporting purposes, certain leases are treated as capital leases while other are treated as operating leases (Note C).

Depreciation

Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives on a straight line basis for financial and tax reporting purposes. Flight equipment is being depreciated to estimated residual values (15% of cost): Convair 580 based principally on a common retirement date of December 1983 and DC-9 based on 15 year lives.

Deferred Charges

Expenditures for route development are deferred and amortized over the life of temporary certificates, or five years for permanent certificates. Major computer software development is deferred and amortized over a five-year period. Certain of these expenditures are expensed when incurred for tax reporting purposes.

Passenger Revenues

Passenger revenue is recognized when the transportation service is provided. Unused ticket sales are included as a current liability.

Pension Costs

The company has pension plans for substantially all of its employees, and funds its current expense of normal costs and amortization of prior service costs over 40 years. Pension funding is determined under the unit credit and aggregate frozen liability methods (Note H).

Income Taxes

The company uses the flow-through method of accounting for investment tax credit which reduces income tax expense when the related liability is reduced. Investment credits not applied on tax returns are offset against deferred income taxes to the extent they are applicable to deferred taxes becoming payable in the carry-over periods. The company recognizes deferred income taxes resulting from differences in financial and income tax reporting (Note 1).

ACCOUNTING POLICIES - WESTERN

Note 1. Summary of Significant Accounting Policies

Property and Equipment

Property and equipment, exclusive of residual values, are depreciated over estimated useful lives by the straight-line method. Leases primarily for flight equipment are classified and accounted for as capital leases under SFAS No. 13. All financial data for periods prior to 1978 have been restated to retroactively reflect these capital leases from the inceptions of the leases. FASB Interpretation No. 23, effective December 1, 1978, requires that leases of terminal space and other airport facilities owned by governmental authorities be classified as capital leases unless all conditions for exemption are met. Because of the early adoption of SFAS No. 13, Western has accounted for such leases entered into prior to December 1, 1978 as operating leases. (See Note 2.) Maintenance and repairs are expensed as incurred. Major renewals and betterments are charged to property and equipment accounts.

Preoperating Costs

Significant costs, such as those for traffic promotion and personnel training, related to the inauguration of service over major new routes and to the introduction of new types of aircraft are deferred and amortized over five years.

Interest Capitalized

Interest related to deposits on aircraft purchase contracts is capitalized and amortized over the useful lives of the aircraft.

Investment Credits

Effective January 1, 1978, investment credits are reflected as a reduction of federal income tax expense, subject to statutory limitations, in the year during which the credit arises or is allowable based on financial statement earnings. For previous periods, investment credits generated by acquisition of assets to the extent used to reduce federal income tax liability were amortized to income on a straight-line basis over the useful lives of the related assets. (See Note 7.)

Obsolescence of Expendable Parts

An allowance for obsolescence of expendable parts is accrued over the useful lives of the related aircraft types.

Airline Traffic Liability

Passenger ticket sales are recorded as a current liability until recognized as revenues for services provided by Western, refunded, or until billed by other carriers for transportation provided by them. The related receivable and payable accounts for prior years have been reclassified to conform with the financial statement presentation in 1978.

SUMMARY OF DISCLOSURES:

The nature of information disclosed in summaries of accounting policies and the number of survey companies disclosing such information follows:

Table 1-4

Passenger revenue recognition	18
Property and equipment	18
Capitalized interest	16
Income taxes	16
Pension plan	13
Principles of consolidation	11
Earnings per share	8
Inventories	6
Capital leases	5
Deferred charges	5
Foreign currency transactions	5
Preoperating costs	4
Depreciation	3
Spare parts and supplies	3
Investment tax credit	3
Maintenance and repairs	3

There are numerous items which are not included in the above listing which appeared in two or less reports. For such items see the Examples of Accounting Policies Disclosure.

LEASE COMMITMENTS - AMERICAN

4. Leases

American leases various types of property, including aircraft, passenger terminals, ground equipment and various other supporting facilities.

Rental expense, net of sublease income, was $52,700,000 in 1978 and $49,400,000 in 1977. In addition, American incurred airport landing fees of approximately $49,500,000 in 1978 and $50,100,000 in 1977. Airport landing fees are considered a component of American's airport lease obligations.

In 1978, American recorded its capital leases and those of its unconsolidated subsidiaries in accordance with Financial Accounting Standards Board Statement No. 13, Accounting for Leases, and restated the financial statements for prior periods to apply the change in accounting retroactively. The effect of this change in accounting was to decrease the net earnings for the year ended December 31, 1977 by $11,226,000 ($.40 per share). In addition, retained earnings at January 1, 1977 have been decreased by $78,367,000.

The future minimum lease payments under capital leases, together with the present value of net minimum lease payments as of December 31, 1978, are as follows (in thousands):

Year ending December 31,	
1979	$ 72,000
1980	70,000
1981	70,000
1982	69,000
1983	63,000
1984 and subsequent	307,000
	651,000
Less amount representing interest	200,000
Present value of net minimum lease payments	$451,000*

*Includes $85,600,000 of lessors' long-term loan certificates guaranteed by American in connection with the lease of seven Boeing 747 aircraft. In connection with American's lease of five Boeing 727 aircraft included above, American is contingently liable with respect to a letter of credit issued by a third party, which letter of credit guarantees $15,200,000 at December 31, 1978 of lessors' long-term loan certificates.

Future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 1978 are as follows (in thousands):

(See following page.)

Year Ending December 31,	
1979	$ 29,000
1980	26,000
1981	25,000
1982	25,000
1983	23,000
1984 and subsequent	326,000
Total minimum payments	$454,000

Minimum payments have been reduced by sublease rentals of $88,500,000 due in the future under noncancellable subleases.

In connection with the corporate relocation (see Note 11), American entered into a lease agreement with the Dallas/Fort Worth Regional Airport. The cities of Dallas and Fort Worth, Texas have issued 1979 Revenue Bonds with a principal amount of $147,000,000 to provide funds for the construction of a general office building and a regional reservations center to be completed in 1981 and certain improvements to the Flight Academy, Learning Center and other airport facilities.

American has guaranteed payments under capital leases for hotels and other properties operated by Flagship having a present value of approximately $55,900,000 at December 31, 1978. American has also guaranteed other obligations of Flagship aggregating approximately $9,700,000.

CURRENT DEVELOPMENTS RE: LEASES

Amendment No. 28 to Part 241 of Regulation ER-1013 by the Civil Aeronautics Board adopted July 14, 1977, establishes disclosure standards for lease transactions which will require air carriers to record, in appropriate balance sheet accounts, capital leases and their respective obligations. The Amendment also incorporates detail accounting and reporting standards for capital leases and other types of leases. Also in the Amendment are disclosure requirements for both quarterly and year-end financial statements for leases which meet the criteria for capitalization but have not been capitalized. These disclosure requirements are in compliance with FASB 13. The CAB has encouraged immediate impplementation of the new requirements, including retroactive application to leases entered into before January 1, 1977.

Accounting Series Release No. 225 was developed to conform SEC lease accounting and disclosure requirements to that of FASB 13. Requirements of ASR 225 differ from those of FASB 13 in that the SEC requires (with some exceptions) registrants to adopt the accounting provisions of the statements for fiscal years ending after December 24, 1978 (as opposed to fiscal years beginning after December 31, 1980).

Another development has been the issuance by the Financial Accounting Standards Board of Interpretation 23, leases of certain property owned by a governmental unit or authority. Interpretation 23 clarifies that portion of paragraph 28 of FASB Statement 13, accounting for leases, stating that leases of certain property owned by a governmental unit or authority shall be classified as operating leases. The interpretation provides additional requirements which must be met before such leases can be categorized as operating leases. Interpretation 23 is effective for leasing transactions recorded and lease agreement revisions recorded as of December 1, 1978 or thereafter. This interpretation shall be applied retoractively at the same time and in the same manner as the provisions of Statement 13, except that enterprises that have already applied Statement No. 13 retroactively in published annual financial statements need not apply the interpretation retroactively.

SUMMARY OF DISCLOSURES

Companies reporting items relating to FASB 13 and ASR 225 (Disclosure of Lease Commitments by Lessee):

Table 1-5

Disclosed	21
Statement that leases are either not material or not significant	-
Total	21

Total rent expense entering into determination of net income:

Table 1-6

Disclosed	20
Not disclosed	1
Total	21

Rental from subleases:

Table 1-7

Disclosed	4
Not disclosed	17
Total	21

Landing fees:

Table 1-8

Disclosed	4
Not disclosed	17
Total	21

Disclosure of minimum rental commitments under all noncancellable leases as of the date of the latest balance sheet are as follows:

Table 1-9

Each of the five succeeding years and the remainder as a single amount	20
Each of the five succeeding years, three five-year periods and the remainder as a single amount	1
Total	21

Basis for calculating rental payments if dependent upon factors other than lapse of time:

Table 1-10

Disclosed	-
Not disclosed	21
Total	21

Existence and terms of renewal or purchase options, escalation clauses, etc.:

Table 1-11

Disclosed	5
Not disclosed	16
Total	21

Nature and amount of guarantees or obligations assumed:

Table 1-12

Disclosed	6
Not disclosed	15
Total	21

Restriction on paying debt, additional leasing, etc.:

Table 1-13

Disclosed	3
Not disclosed	18
Total	21

Any other information necessary to assess the effect of lease commitments on future operations:

Table 1-14

Disclosed	3
Not disclosed	18
Total	21

Present value of lease commitments by major category at balance sheet date:

Table 1-15

Disclosed	18
Not disclosed	3
Total	21

Rate used in computation of present value:

Table 1-16

Disclosed	9
Not disclosed	12
Total	21

Present value of all sub-rentals which will reduce rental expense:

Table 1-17

Disclosed	-
Not disclosed	21
Total	21

Impact on net income of capitalizing all noncapitalized financing leases:

Table 1-18

Disclosed	11
Not disclosed	5
Statement that the impact was either not material or not significant	6
*Total	22

*One airline disclosed 1977 impact, and stated that effect in 1978 was not material.

Amount of amortization and interest cost for all noncapitalized financing leases:

Table 1-19

Disclosed	2
Not disclosed	19
Total	21

LONG-TERM DEBT - EASTERN

Note C - Long-term Debt

Long-term debt (including current maturities) follows (in millions):

	December 31 1978	1977
Nonsubordinated:		
8-3/8% Promissory Notes due 1979-1982 (1982 Notes)	$ 34.4	$ 44.2
6% Promissory Notes due 1979-1986 (1986 and 1986B Notes)	96.1	108.4
Promissory Notes due 1979 (1979 Notes)	-	13.1
8-3/4% Promissory Notes due 1979-1993 (1993 Notes)	28.8	29.2
Promissory Notes due 1979-1981 (1981B Notes) (1)	23.9	31.9
5-1/2%, 6%, 7-1/2%, and 8-1/2% Series A and B Promissory Notes due 1979-1988 (Rolls-Royce Notes)	81.4	91.5
8-1/4% Promissory Notes due 1979-1988 (A300 Notes)	46.4	-
5-3/8% - 11-3/4% Instalment and Other Purchase Obligations due 1979-1988	11.1	13.1
Total nonsubordinated	322.1	331.4

(See following page.)

Subordinated:

5% Manufacturer's Subordinated Notes due 1979...	0.2	2.2
Manufacturer's Subordinated Notes due 1979-1980 (2)............................	4.4	7.9
9-1/4% Airbus Industrie Subordinated Notes due 1989-1993 (3)............................	15.4	-
9-1/4% General Electric Subordinated Notes due 1989-1993(4)............................	12.9	-
10% Convertible Subordinated Debentures due April 1, 2002; convertible into Common Stock at $10 per share, called during 1978..........	-	50.0
4-3/4% Convertible Subordinated Debentures due October 1, 1993; convertible into Common Stock at $34 per share, callable..............	43.0	47.6
5% Convertible Subordinated Debentures due November 1, 1992; convertible into Common Stock at $50 per share, callable..............	61.0	68.0
Total Subordinated..............................	136.9	175.7
Total Long-Term Debt (including current maturities)................	459.0	507.1
Less Current Maturities..........................	59.3	71.3
Total Long-Term Debt............................	$399.7	$435.8

(1) Interest rate floats at a rate equal to 7/8 of 1% above the prime at The Chase Manhattan Bank, N.A. This series of notes was issued on January 3, 1977 in exchange for a like amount of 1978C and 1981 Notes.

(2) Interest rates float at a rate equal to 2% above prime at Citibank, New York.

(3) Net of imputed interest of $6.4 million. The notes are interest free for up to 48 months after the delivery of each aircraft. Interest was imputed at 9-1/4% for the interest-free period.

(4) Interest rate is subject to upward or downward adjustment (plus or minus 1-1/4 percentage points) based on Eastern's profit margin for each fiscal year.

The portion of the 1982, 1986, 1986B and 1993 Notes related to amounts originally scheduled for repayment in 1976 but rescheduled during 1976 to 1978-1981 bear interest at rates other than those shown above.

The 1979 Notes were retired in the latter part of 1978 with the delivery of the last L-1011 aircraft on firm order by the Company from Lockheed.

Under a 1972 bank revolving loan agreement, $67.5 million of undrawn credit was available as of December 31, 1978, while as of December 31, 1977, $106.9 million was available for draw-down under this agreement. In addition, $60.0 million was available for draw-down under the 1977 Bank Credit Agreement as of December 31, 1978, as compared to $25.0 million which was undrawn as of December 31, 1977.

The Rolls-Royce Notes due 1979-1988 are denominated in pounds sterling and represent amounts outstanding under agreements with a group of British banks to provide financing in British pounds for approximately 90 per cent of the purchase price of Rolls-Royce RB.211 engines, plus spares, installed on Lockheed L-1011 aircraft. The 5-1/2% Notes are repayable at a stipulated exchange rate of $2.51 per pound sterling, and the 6%, 7-1/2% and 8-1/2% Notes are repayable in pounds sterling. Of the amount shown at December 31, 1978, $35.8 million bears interest at the rate of 5-1/2 per cent per annum, $34.7 million at the rate of six per cent, $6.9 million at the rate of 7-1/2 per cent and $4.0 million at the rate of 8-1/2 per cent. Of the amount shown at December 31, 1977, $46.5 million bears interest at the rate of 5-1/2 per cent per annum, $37.3 million at the rate of six per cent, $2.6 million at the rate of 7-1/2 per cent and $5.1 million at the rate of 8-1/2 per cent. At December 31, 1978, all amounts available for financing had been drawn down. At December 31, 1977, the remaining available financing under this agreement at the exchange rate in effect at that date, amounted to approximately $4.3 million. During 1978, all remaining financing was drawn at the prevailing exchange rates.

In accordance with customary and normal practices, the Company maintains compensating balances on certain bank borrowings. Such balances amounted to approximately $13 million as of December 31, 1978 and $18 million as of December 31, 1977. Compensating balances are maintained under informal and unwritten arrangements, and their withdrawal is not generally subject to any legally binding restrictions.

Substantially all the Company's flight equipment and rights under aircraft leases (with terms longer than two years) are mortgaged as collateral for the Promissory Notes under the Company's Indenture of Mortgage dated as of October 1, 1963, as amended. The Indenture includes provisions relating to maintenance of net worth and working capital, as well as certain ratios of assets to senior indebtdedness and contains, among others, restrictions which limit the payment of cash dividends. The 1977 Bank Credit Agreement also contains covenants relating to the level of financial leverage, net worth and senior indebtedness.

Minimum repayments of long-term debt outstanding at December 31, 1978 are scheduled as follows (in millions):

1979 (included in current liabilities).....	$59.3
1980....................................	53.9
1981....................................	52.4
1982....................................	40.5
1983....................................	31.3
After 1983..............................	221.6

INCOME TAXES - PIEDMONT

Note G - Income Taxes

The reasons for the significant differences between total income tax expense and the amount computed by applying the statutory Federal income tax rate of 48% to combined income before income taxes are as follows:

	1978		1977	
	Amount	% of Pre-tax Income	Amount	% of Pre-tax Income
Computed tax at statutory Federal income tax rate.......	$2,889,000	48	$4,194,500	48
State income taxes, net of Federal tax benefit...............	104,100	2	158,500	2
Investment tax credit...	(2,510,500)	(42)	(2,985,500)	(34)
Other..................	(54,641)	(1)	148,184	1
Actual tax expense......	$ 427,959	7	$1,515,684	17

The provision for federal and state income taxes includes net deferred income taxes of $979,676 in 1978 and $307,493 in 1977. The 1978 tax provision includes an income tax credit of $699,009 arising from an investment tax credit carryback.

Under a special provision for airlines, the Company was allowed to claim investment tax credits up to 100% of its tax liability in 1977 and 1978. This allowable credit decreases 10% each year through 1980 and returns to the normal corporate limitation in 1981.

At December 31, 1978, the Company has investment tax credits of approximately $381,000 and jobs tax credit of approximately $100,000 which may be utilized for income tax purposes to reduce future income taxes. All of the credits expire in 1985. For financial reporting purposes, the Company has utilized the above tax credits in its income tax provision.

The Company's federal income tax returns have been examined through 1974.

SUMMARY OF DISCLOSURES

All reports surveyed included Federal income taxes on their income statement. The following table summarizes the method of income tax disclosure:

Table 1-20

Current and deferred on the income statement	2
Income taxes shown as one number on the income statement with no disclosure of components	3
Income taxes shown as one number on the income statement with footnote disclosure of the components	16
Total	21

The following table summarizes the method used to disclose the amount of the investment tax credit utilized:

Table 1-21

Disclosed in a footnote....................	16
Shown on the income statement.............	3
Not disclosed..............................	2
Total.......................	21

The method of accounting for the investment tax credit used by the airlines surveyed is summarized as follows:

Table 1-22

Deferred method............................	2
Flow-through method........................	19
Total.......................	21

CAPITAL STOCK - ALLEGHENY

(5) CAPITAL STOCK

The Company has in effect qualified stock option plans under which options have been granted to key employees to purchase common stock of the Company at 100% of the fair market value of the common stock on the date of the grant. The options granted prior to September 1, 1977 become exercisable to the extent of 25% one year from date of grant and an additional 25% each year thereafter. Options granted on or after September 1, 1977 become exercisable to the extent of 33-1/3% one year from date of grant and an additional 33-1/3% each year thereafter.

Information as of December 31, 1978 and for the two years then ended with respect to the stock option plans is as follows:

(See following page.)

	Number of Shares	Option Price Per Share	Option Price Total	Total Market Value at Date of Grant
		(in thousands except per share amounts)		
Options outstanding at December 31, 1978:				
Date of Grant:				
February 6, 1974	44	$6.375	$280	$280
July 22, 1975	3	6.375	19	19
August 1, 1975	3	6.375	19	19
September 3, 1975	59	4.00	236	236
November 6, 1975	2	4.00	8	8
September 1, 1977	69	4.25	293	293
	180		$855	$855
Options becoming exercisable during:				
1977	49	$4.00 - 9.00	$318	$242*
1978	53	$4.00 - 6.375	248	601*

* Market value at date options became exercisable.

No options were exercised in 1977. During 1978, options were exercised for 7,166 shares of common stock at an average option price of $5.35. Options exercisable at December 31, 1978 and 1977 were 117,000 and 135,000, respectively. Options for 71,000 and 62,000 shares expired or were canceled during 1978 and 1977, respectively. There were 127,000 shares available at December 31, 1978 for granting of additional options. The excess of the proceeds received upon exercise of options over par value of the shares issued is credited to additional paid-in capital. No charge is made to income with respect to options.

Common stock reserved for issuance upon the conversion of convertible debentures and preferred stock and the excercise of warrants and options at December 31, 1978 is as follows:

(See following page.)

	Amount or Number Outstanding		Exercise or Conversion Price Per Common Share	Common Stock Reserved
	(in thousands except per share and warrant amounts)			
Convertible Subordinated Debentures:				
5-3/4% due October, 1993........	$1,294		$23.16	56
6% due January, 1993.................	613		-	11
	$1,907			
Senior Preferred Stock...	1,600	shares	-	2,991
Preferred Stock..........	204	shares	-	611
Common Stock Purchase Warrants:				
Expiring 1979........	719	warrants	$25.00	719
Expiring 1987........	477	warrants	$17.31	496
Stock Option Plans.......	180	options	$4.00-6.375	307
				5,191

The 6% Convertible Subordinated Debentures are convertible until April 12, 1979 into 18.099 shares of Common Stock and 12.1 1979 Stock Purchase Warrants, which expire April 12, 1979, and thereafter into 18.099 shares of Common Stock for each $1,000 debenture. Upon expiration of the 1979 Stock Purchase Warrants on April 12, 1979, the conversion price per common share will be $55.25.

The 1987 warrants expire on April 1, 1987, and are exercisable at $18 per warrant for 1.04 shares of Common Stock, which may be exercised in whole or in part by surrender of the 5-1/2% Subordinated Debentures due April 1987.

On May 25, 1978, the stockholders approved amendments to the Company's Certificate of Incorporation authorizing the issuance of 3,000,000 shares of Senior Preferred Stock and providing that upon the issuance of any preferred stock which is fully cumulative with respect to dividends, the Preferred Stock already outstanding shall also become fully cumulative with respect to dividends. In August 1978 the Company sold 1,600,000 shares of fully cumulative Senior Preferred Stock.

Each issued share of Senior Preferred Stock is without par or stated value, has an annual cumulative dividend requirement of $1.875, a redemption price of $26.88, which declines to $25 in 1988, a liquidation preference of $25 and is convertible into 1.869 shares (subject to adjustment under certain conditions) of Common Stock.

Each issued share of the Preferred Stock is without par or stated value, has an annual cumulative dividend requirement of $3, a redemption price of $100, a liquidation preference of $50 and is convertible into 3 shares (subject to adjustment under certain conditions) of Common Stock.

QUARTERLY RESULTS - CONTINENTAL

(16) QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1977 and 1978 is as follows:

	.................Three Months Ended			....
	March 31	June 30	September 30	December 31
1977				
Total operating revenues.....	$143,227,000	$161,815,000	$179,060,000	$172,964,000
Operating income.......	5,764,000	12,717,000	18,445,000	11,014,000
Nonoperating expense, net.	4,842,000	5,233,000	5,486,000	5,781,000
Net earnings...	$ 876,000	7,152,000	12,568,000	5,046,000
Net earnings per share:				
Primary......	$ .06	$ .50	$ .87	$ .35
Fully diluted	$ .06	$ .46	$ .79	$ .33

(See following page.)

1978

Total operating revenues.....	$175,331,000	$188,200,000	$205,899,000	$205,243,000
Operating income.......	9,432,000	14,870,000	22,441,000	6,166,000
Nonoperating expense (income), net	(14,783,000)	5,290,000	4,990,000	6,489,000
Net earnings (loss).......	$ 23,392,000	$ 9,253,000	$ 16,859,000	$ (314,000)
Net earnings (loss) per share:				
Primary....	$ 1.59	$ .62	$ 1.12	$ (.02)
Fully diluted..	$ 1.43	$ .58	$ 1.03	$ (.02)

In the first quarter 1977, the Company settled a fuel price dispute with one of its major fuel suppliers, and $1,358,000 was credited to expense, representing amounts charged to fuel expense in prior years.

During the fourth quarter of 1977 the Company recorded the following adjustments: earnings before income taxes were increased by $1,475,000 (included in Cargo revenues) representing retroactive mail rate adjustments for the period 1973-1977 and decreased by $1,215,000 for the accrual of incentive compensation payable to officers and other key personnel.

In the first quarter of 1978, the Company recorded a pretax gain of $19,742,000 from the loss of a DC-10 aircraft. See note 12.

Fourth quarter 1978 passenger revenues were affected by an adjustment in Continental's estimate of its advance ticket sales liabilities attributable to the first two quarters in 1978 which reduced the airline's liability at year end and increased passenger revenues by $4,200,000. Earnings before income taxes were increased by $1,177,000 as a result of the settlement of a vendor account and decreased by $1,188,000 for the accrual of incentive compensation payable to officers and other key personnel.

PENSION PLANS - FRONTIER

Note H - Pension Plans

The Company contributes to pension plans covering all groups of employees. The Company's policy is to fund all pension costs accrued. As of December 31, 1978, there was no unfunded pension liability. Total pension expense was $9,627,000 and $7,618,000 for 1978 and 1977, respectively.

REPLACEMENT COST - DELTA

PROPERTY AND EQUIPMENT REPLACEMENT COST (UNAUDITED):

For operating expenses such as salaries and wages, fuel, supplies, etc., the Company's financial statements generally reflect current prices. However, the Company's substantial investment in productive capacity (flight equipment and ground property and equipment) and the related depreciation expense are based on historical cost. Although a major portion of the Company's aircraft seat capacity has been purchased in recent years, the financial statements do not reflect the higher current replacement cost of the Company's entire productive capacity resulting from the cumulative impact of inflation. Further, the Civil Aeronautics Board presently makes no allowance for these higher replacement costs in determining airline fares and rates.

In compliance with rules of the Securities and Exchange Commission (SEC), the Company has estimated certain replacement cost data relative to the Company's current productive capacity. Such information is based wholly on a hypothetical assumption that the entire productive capacity would be replaced at June 30, 1977 and 1978. This does not represent the intention of the Company with regard to purchases of future property and equipment but expresses the possible repurchase values of currently operated aircraft, equipment and facilities. Further, the information does not purport to represent amounts at which these assets could be sold. These factors should be kept in mind when reviewing the replacement cost data contained below.

The estimated replacement cost information for the Company's productive capacity as of June 30, 1977 and 1978, together with related historical cost data, was as follows (in thousands of dollars):

1977	Historical	Replacement
Flight equipment	$1,577,705	$2,247,461
Spare aircraft parts and equipment	182,024	259,295
Facilities and ground equipment and facilities	179,804	239,501
	1,939,533	2,746,257
Less - Accumulated depreciation	(764,740)	(1,072,886)
	$1,174,793	$1,673,371
Depreciation expense for the year ended June 30, 1977	$ 165,282	$ 239,099

1978	Historical	Replacement
Flight equipment	$1,713,478	$2,706,589
Spare aircraft parts and equipment	186,082	293,933
Facilities and ground equipment and facilities	198,198	299,186
	2,097,758	3,299,708
Less - Accumulated depreciation	(904,269)	(1,420,157)
	$1,193,489	$1,879,551
Depreciation expense for the year ended June 30, 1978	$ 166,669	$ 273,312

The following reconciles the historical amounts included in the Company's financial statements at June 30, 1977 and 1978, with the historical amounts used above (in thousands of dollars):

1977	Cost	Accumulated Depreciation	Depreciation and Amortization Expense
Historical amounts as shown in the accompanying financial statements -			
Flight	$1,720,843	$630,260	
Ground	256,949	133,470	
	1,977,792	763,730	$166,040
Add - Capital leases not included in financial statements	43,940	28,033	3,362
Deduct - Amounts included in financial statements, for which no replacement cost information is provided:			
Leasehold improvements under operating leases	(71,866)	(27,023)	(4,120)
Construction work-in-progress	(6,899)	-	-
Capitalized interest on equipment advances	(1,733)	-	-
Land	(1,701)	-	-
Historical amounts for which replacement cost information is provided	$1,939,533	$764,740	$165,282

1978	Cost	Accumulated Depreciation	Depreciation and Amortization Expense
Historical amounts as shown in the accompanying financial statements -			
Flight...............	$1,862,231	$755,747	
Ground...............	282,149	148,081	
	2,144,380	903,828	$168,155
Add - Capital leases not included in financial statements...	43,940	31,244	3,211
Deduct - Amounts included in financial statements, for which no replacement cost information is provided:			
Leasehold improvements under operating leases...	(77,549)	(30,803)	(4,597)
Amortization of preoperating expenses..........	-	-	(100)
Construction work-in-progress...	(6,759)	-	-
Capitalized interest and ground equipment advances.	(4,553)	-	-
Land................	(1,701)	-	-
Historical amounts for which replacement cost information is provided..............	$2,097,758	$904,269	$166,669

The methodology used for the determination of replacement cost was developed by the airline industry in concert with the Air Transport Association of America (ATA). This was done under a SEC recommendation that a uniform industry method be developed to allow general comparisons within the industry. Because of the variety of aircraft available, the common denominator selected to equate replacement cost with productive capacity was the aircraft seat. The current average cost per seat for the various types of new replacement aircraft (as furnished by ATA based on aircraft manufacturers' current selling prices of new aircraft) was multiplied by the estimated number of seats needed to replace the existing fleet. The replacement cost of spare parts and equipment was determined by applying the Company's historic ratio of the cost of spare parts and equipment to the total cost of the related aircraft fleets. The Company grouped its ground equipment and facilities by type of equipment and year of acquisition and then multiplied each group by a replacement index published by the government to compute a current theoretical replacement cost. Leased flight and ground equipment defined as capital leases (in accordance with Financial Accounting Standards Board Statement No. 13) is also included in this productive capacity.

Accumulated depreciation based on replacement cost was determined by applying the ratio of historical cost to replacement cost for flight equipment and ground equipment separately. Replacement cost depreciation expense for fiscal 1977 and 1978 was determined by applying the ratio of historical cost depreciation expense to the average historical cost during the years multiplied by the average replacement cost of property and equipment.

CONTINGENCIES - BRANIFF

NOTE 9 CONTINGENCIES

In connection with the sale of certain of its assets, Braniff has agreed, under certain circumstances, to repurchase such assets. At December 31, 1978, the contingent repurchase prices aggregated $16,900,000. Braniff estimates that the current market values of such assets are in excess of any contingent repurchase prices and that no losses would occur in the event of such repurchase.

At December 31, 1978, Braniff was contingently liable with respect to certain accounts in Latin America, approximating $783,000, which had been sold to banks with recourse.

At December 31, 1978, Federal income tax returns of Braniff and consolidated returns in which it was included from December 1, 1965 through December 31, 1973 had been examined by the Internal Revenue Service ("IRS"). Braniff has agreed to settlement proposals with the IRS on certain issues relating to 1969 and prior years and has provided for such amounts. Remaining proposed adjustments through December 31, 1973 could result in additional net tax assessments. In addition, the IRS, as a result of its investigation into the competitive practices program which was the subject of a complaint by the Civil Aeronautics Board, is claiming civil fraud penalties for 1970 through 1972 which Braniff calculates to aggregate a maximum of approximately $1,136,000. Braniff is vigorously opposing the asserted civil fraud penalties and has protested the remaining proposed adjustments for 1970 through 1973. In the opinion of management, the ultimate payments of prior years' income taxes will not materially exceed the aggregate of the amounts provided for prior years' liabilities, the amount of future tax benefits and the amount related to deferred taxes provided in the prior years.

Various lawsuits and claims are pending against the Company, including those which contain allegations related to noise and air pollution, statutory or regulatory compliance, and employee benefit and discriminatory employment practices. Management believes that the ultimate disposition of any of these actions, where losses are possible but not probable as of December 31, 1978, will not have a material adverse effect on the consolidated financial statements of the Company.

EARNINGS PER SHARE - HAWAIIAN

9. EARNINGS PER SHARE

Primary earnings per share are based on the weighted average number of common shares outstanding during each year. Fully diluted earnings per share include the assumed conversion of the Company's convertible debentures and elimination of related interest expense. Assumed exercise of the warrants issued in connection with senior subordinated notes (see Note 5) would be anti-dilutive.

SUMMARY OF DISCLOSURE

The following table summarizes some of the footnotes that appeared two or fewer times in the reports surveyed.

Table 1-23 - Miscellaneous Notes

Intercorporate relationships	Export sales
Dispositions of property	Significant transactions and credits affecting operating results
Capitalized interest	International route agreement
Dividends	Loans to subsidiaries
Accrued expenses	Retained earnings
Proposed consolidation	Cash and short-term investments
Wage programs	Subsequent event and supplementary EPS data
McDonnell Douglas Case	
Change in accounting method	
Reclassification	

Example of some of the above footnote disclosures follow:

ALASKA

NOTE 9 TRANSACTIONS WITH ALASKA CONTINENTAL DEVELOPMENT CORPORATION (ALCO) AND INTERCORPORATE RELATIONSHIPS.

As of December 31, 1976, Alaska Airlines, Inc. and certain of its officers and directors held a controlling interest in Alaska Continental Development Corporation (ALCO) and, in turn, ALCO and certain of its officers and directors owned approximately 11% of the Company's outstanding common stock. On April 24, 1976, the shareholders of ALCO adopted a Plan of Complete Liquidation pursuant to which ALCO distributed all of its stock ownership of the Company to the individual shareholders of ALCO, with the final distribution made in January 1977.

In prior years, ALCO had earned 787,663 warrants of the Company, together with certain registration rights as a result of guaranteeing Company indebtedness and pledging its assets on behalf of the Company. Each warrant entitled ALCO to purchase, subject to approval by the CAB, one restricted share of the Company's common stock for $4 per share, with the price increasing $.20 each year for years 1973 through 1977 and thereafter to increase $.10 each year until expiration in 1981. On April 26, 1976, the Company purchased all of the above warrants from the shareholders of ALCO for $1,536,000 ($1.95 each) and in 1977 the Company recognized the income tax benefit of the deduction for the purchase of the warrants in the amount of $774,000. Both the costs of the purchase of the warrants and the income tax benefit thereof have been accounted for as charges and credits respectively to retained earnings.

In January 1977, ALCO exercised its remaining options granted in a 1974 agreement to purchase two parcels of undeveloped land owned by the Company. The option price in the amount of $373,000 was 125 per cent of the acquisition price of the properties when these were acquired from ALCO.

TWA

NOTE 6 DISPOSITION OF PROPERTY

The gain on disposition of property includes $15,644,000 in 1978 from the sale of five Boeing 707 freighter aircraft and $7,056,000 in 1977 from the sale of five Douglas DC-9 passenger aircraft.

BRANIFF

NOTE 7 CAPITALIZED INTEREST

As discussed in Note 1, Braniff capitalizes interest on borrowed funds used to finance equipment purchase deposits. Had Braniff followed the alternative practice of expensing these interest costs, net income would have decreased by approximately $2,280,000 in 1978 and $928,000 in 1977.

AMERICAN

2. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consisted of the following (in thousands):

	December 31, 1978	December 31, 1977
Cash	$ 29,187	$ 17,277
U. S. Government securities	99,370	72,130
Certificates of deposit	270,760	184,727
Prime commercial paper	32,885	71,709
Bankers' acceptances and other	105,028	88,395
	$537,230	$434,238

Short-term investments are carried at cost, which approximates market value.

CONTINENTAL

(5) DIVIDENDS

On January 30, 1975, a 10% stock dividend was declared, payable March 28, 1975 to stockholders of record on February 28, 1975. The dividend was recorded by a charge to retained earnings of $5,852,000. For the 1,300,293 additional shares issued, common stock was credited for $651,000 and capital in excess of par value was credited with $5,201,000.

No cash dividends were declared during the period 1974 through 1976. In 1977 cash dividends of $3,577,000 or 25¢ per share were paid. In 1978 the Company resumed payment of a regular quarterly dividend of 10¢ per share per quarter, the first of which was declared in May 1978. Total dividends declared and paid in 1978 were 30¢ per share or $4,421,000.

SOUTHERN

NOTE B - CERTAIN SIGNIFICANT TRANSACTIONS AND CREDITS AFFECTING OPERATING RESULTS

The Company sold four DC9 engines during 1978. The gain on the sale was $1,166,000 ($660,000 or 32 cents per share primary after income taxes).

The Company's financial statements have been restated to reflect the accounting for certain operating leases entered into prior to January 1, 1977, as capital leases by recording assets and liabilities for leased property and equipment in accordance with FASB Statement No. 13, "Accounting for Leases". The effect of this change is recorded as an adjustment of beginning retained earnings for the year 1977. Net income for 1977 was increased by $1,089,000 ($.63 per share primary).

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 $5,823,000 ($3,922,000 or $2.26 per share primary after income tax effect).

On December 29, 1977, the CAB 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, Southern 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 November 1978, the CAB issued a final order substantially confirming the mail rates through 1977 and establishing a procedure for adjusting mail rates for cost increases for years beginning with 1978. The final order had the effect of increasing net income in 1978 by $54,000 (three cents per share primary).

HAWAIIAN

2. CHANGE IN ACCOUNTING METHOD

In 1978, the Company changed its method of accounting for unused investment tax credits to conform to the requirements of FASB Interpretation No. 25 issued in September 1978. The effect of the change was to increase investment tax credits recognized in 1978 and decrease net loss by approximately $290,000 (18¢ per share).

OPINIONS

The following is a summary of opinions issued on the financial statements of the airlines surveyed:

Table 1-24

Unqualified opinions	9
Qualified:	
"Subject to"	2
"Except for"	-
"Consistency"	12
Total	23

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

As required by Section 13 or 15(d) of the Securities Exchange Act of 1934 each airline filed a Form 10-K, including management's discussion and analysis of the summary of operations. Twenty of the airlines used five-year summaries while only one used a ten-year summary. Six airlines incorporated by reference the management discussion and analysis from the annual report. Examples of management's discussion and analysis follow:

OZARK

MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

1978 vs. 1977

Operating revenues increased 19% over 1977 due to fare increases totalling 6.2% allowed during the year by the Civil Aeronautics Board (CAB) and passenger revenue miles increasing 20% in 1978. Length of haul increased from an average trip of 301 miles to 324 miles which accounts for the dilution in the average yield from 12.86¢ per revenue passenger mile in 1977 to 12.77¢ in 1978.

Continued charter promotion and rate increases of approximately 12% increased charter revenues 22%. Cargo volume was up 14% combined with a 10% rate increase effective May 1, 1978 increasing cargo revenues a total of 18%. Mutual aid payments were made to one member airline during 1978, while none was made in 1977. Other operating revenues remained unchanged. Total mail revenues were down in 1978 because 1977 included retroactive payments for prior years. Mail revenues for 1978 actually increased 30% over 1977.

1977 vs. 1976

Operating revenues increased 18% over 1976. Fare increases totalling 7% were allowed by the CAB at various dates during the year to cover higher operating costs, and, when applied to a gain of 11% in revenue passenger miles, resulted in increased passenger revenues. Yield per revenue passenger mile flown increased 4%. Public service revenues were up 6% reflecting a change in the rate paid to the Company during the last half of the year as a result of updated data furnished under the current class rate. Continued promotion of charter operations increased charter revenues 75%. Cargo revenues were up 22% on 11% higher volume. Other revenues increased $642,000 primarily due to increases in outside maintenance services and in-flight beverage sales. There were no mutual aid payments as there were no member airline strike days in 1977.

Mail revenues include an additional $1,228,000 representing a retroactive payment by the Post Office Department applicable to the years 1973 through 1976; and $659,000 due to the increased rate applicable to 1977.

Operating expenses were up 18% in 1977, primarily due to a 10% increase in miles flown and the increase in passengers carried. Unit fuel costs increased 15% over the prior year. Wages and employee benefits, services and materials continued to increase with inflation and the growth in operations.

Nonoperating expenses: interest and debt expense increased primarily due to the increase in debt outstanding throughout the year. During 1977, five FH-227B aircraft were sold resulting in a gain on disposal of aircraft in the amount of $568,000; gain on sale of related aircraft parts was $291,000. No aircraft were sold in 1976. The increase in interest income reflected participation in short-term investments during the year. Other income includes a gain of $113,000 on purchase of the Company's 6-3/4% convertible debentures. Federal and state taxes on income were up based on the increase in before tax earnings and less available investment tax credit.

The 1977 increase in net earnings over 1976 resulted from continuing traffic growth; increased fares; additional mail pay, and gain on sale of aircraft and related parts.

Operating expenses rose 18% primarily due to an additional 13% available seat miles flown, 20% more passenger miles and initial start-up costs for service to six new cities in 1978.

Interest expense increased due to additional debt outstanding and a substantial increase in the prime interest rate during 1978.

Gain on sale of aircraft relates to the sale of one FH-227B aircraft and spare parts in 1978 as compared to five FH-2227B aircraft sold in 1977. The increase in interest income reflects additional short-term cash investments during the year at higher rates. Other income in 1978 and 1977 included a gain of $66,500 and $113,000 on purchases of the Company's 6-3/4% convertible debentures.

Federal and state taxes on income were up reflecting an increase in before tax earnings and a lesser amount of available investment tax credit.

The 1978 earnings improvement over 1977 resulted primarily from continued strong traffic growth.

NATIONAL

MANAGEMENT'S DISCUSSION OF FINANCIAL RESULTS

Net Income

Net income for fiscal 1978 was $14 million, or $1.68 per share, that includes $1.8 million from non-recurring items. These earnings compare with last year's net income of $3 million, or 35 cents per share.

Aided by new marketing and scheduling programs, our market share has increased. New international route awards also have helped increase passenger volume. Despite traffic gains, however, deeply discounted fares currently offered have lessened improvements in net results.

Costs continue to escalate, particularly labor and fuel. Labor expense increased from $183 million in the previous year to $210 million in fiscal 1978, partially due to the increased business volume. Fuel cost of $117 million reflects an increase of $18 million over fiscal 1977. These two items accounted for 37 per cent and 20 per cent of operating expenses respectively in both years.

Revenues

Revenues rose sharply to a new high of $589 million, surpassing the $495 million record set in 1977 by 19 per cent. Contributing to this strong performance was a new all-time traffic record of 7.1 billion revenue passenger miles, up a dramatic 22 per cent over the prior year. However, available seat miles rose only seven per cent. Our load factor was 53 per cent, up significantly over the 47 per cent in fiscal 1977.

The traffic improvement resulted from several factors, including a strong U. S. economy, our new "Watch Us Shine" advertising and marketing campaign, and new discount fares. Redesigned schedules, new international routes and dedicated employee support also exerted positive influences.

Deep discount fares were expanded throughout the industry in fiscal 1978. National met these cut rates, offering a "Super No Frills" discount fare across its domestic system. This fare offered travelers an opportunity to enjoy the benefits of air travel at dramatic savings.

"No Frills" originally was introduced by National in 1975. The purpose of this promotional fare was to stimulate and promote new traffic during periods of seasonally weak demand. Unfortunately, most of the current excessive discount fares are offered during high demand periods and as a result are not generating enough new traffic to offset diversion from regular fares.

National favors properly timed and priced promotional fares but the deep discount fares now offered are excessive. National had no choice but to meet the competition. But based upon our continued evaluation of the impact of these fares, we have initiated actions to reduce their adverse effects.

Domestic normal fare level increases totaling eight per cent were approved by the CAB during the year to offset rapidly escalating costs. But these increases were more than offset by discount fares, resulting in a yield per passenger mile decline of three per cent below the prior year.

Expenses

Operating expenses rose 16 per cent for the year to $564 million, whereas unit costs increased eight per cent. Costs continue to rise in all areas with labor and fuel having the greatest impact. They accounted for 37 per cent and 20 per cent respectively of operating expenses in both 1978 and 1977.

Fuel costs continue to rise even though the OPEC nations did not raise their prices during the last year. Complicating future fuel pricing is the Administration's proposed energy legislation now before Congress. Theoretically designed to lessen U.S. dependence on foreign oil imports, it will result in further substantial increases in airline fuel prices.

National paid $117 million for fuel during the year. Although our cost per gallon of 37 cents is the lowest in the industry, it rose 12 per cent over the prior year and is more than three times the price paid per gallon in 1973.

National again had one of the lowest breakeven load factors of any airline at 51 per cent for the fiscal year. This was achieved through cost controls, improved aircraft utilization and greatly increased average flight stage length. Reduction in the average passenger yield raises this rate.

Labor costs continue to rise as new contracts are resolved throughout the industry and because of wage increases contained in existing agreements.

Technological improvements, development and production plans for new replacement aircraft types further support a longer term of economical use of the presently owned smaller jet aircraft. Consequently, effective April 1 the Company extended the remaining depreciation termination dates by three years for the 727 tri-jet aircraft. Major maintenance improvement programs are being performed on this fleet to assure the longer useful life now anticipated.

CAPITAL STOCK AND DIVIDENDS

The common stock of the Company is listed on the New York Stock Exchange, which is the principal market. It also is listed on the Pacific Stock Exchange.

The high and low market price for the common stock on the New York Stock Exchange, and cash dividends paid during each quarter of fiscal 1978 and 1977 were as follows:

(See following page.)

Quarter	Price ...per Share... High	Low	Dividends Per Share
Fiscal 1978:			
4th	19-1/2	14-1/8	.125
3rd	15-7/8	13	.125
2nd	14-3/8	10-5/8	.125
1st	12-1/8	10-1/8	.125
Fiscal 1977:			
4th	13	10-1/8	.125
3rd	13-5/8	10-3/8	.125
2nd	13-3/4	11-5/8	.125
1st	17-1/4	13	.125

Cash dividends in fiscal 1978 were paid October 7 and December 30, 1977, and March 31 and June 30, 1978, to stockholders of record September 26 and December 16, 1977, and March 17 and June 20, 1978.

TAXES

National continues its original conservative policy of amortizing investment tax credits over the depreciable lives of the related assets. This contrasts sharply with the flow-through method used by all but one other U. S. trunk airline. Tax expenses for those carriers are reduced immediately by credits utilized against any current or future Federal income tax liabilities. Under the Tax Reform Act of 1976, those airlines drastically reduce or completely eliminate Federal income tax expense on their corporate income statement. National and one other airline, by contrast, continue to reflect the benefits of these credits over the aircraft lives.

A balance of $21 million remains in our unamortized investment tax credits to reduce future reported tax expense and to increase reported net income. Income tax expense was reduced by $2.4 million for investment tax credits amortized in fiscal 1978.

Total income taxes, transportation, social security, unemployment, property and fuel taxes paid, accrued or collected by National for Federal, state and local governments amounted to $94 million in fiscal 1978.

FINANCING

National's balance sheet remains one of the industry's strongest. Stockholders' equity was more than four times greater than its outstanding debt at June 30, 1978, and was second best among U. S. trunk airlines. In addition, we do not lease any aircraft. Only two other trunk carriers own all their planes.

During the year we returned $55 million under our bank revolving credit agreement. This reduced outstanding bank debt to $30 million at June 30, 1978, when $98 million was available for borrowing.

Interest expense decreased in fiscal 1978 mainly because of the reduction in the amount of loans outstanding.

NORTHWEST

FINANCIAL REVIEW AND MANAGEMENT ANALYSIS FOR 1978

Revenue

Total operating revenues for 1978 amounted to $790,161,892 compared with $1,046,354,772 in 1977 and $963,808,065 in 1976. This reduction in total operating revenue resulted from a major curtailment in operations due to the 109 day pilot strike against the Company in 1978. Consequently, comparisons of individual revenue categories for the current and prior years are not meaningful. Operating revenues in 1978 included mutual aid payments of $104,863,790.

In 1978 the Civil Aeronautics Board approved domestic 48-state passenger fare increases of 3% in May and 2.5% in December. The CAB also approved a 3% fare increase in Mainland-Hawaii markets in May with an additional 3% increase in September.

Northwest's system passenger-mile yield increased to 7.94¢ in 1978 or a 2.3% increase in the 1977 yield of 7.76¢. This increase was attributable to limited usage of discount fares in 1978 as a result of the strike curtailed operations during the peak summer vacation months. March 1978 brought the introduction of systemwide Super Saver fares at 30-40% discounts from coach fare levels. Despite fare advances, increasing usage of the Super Saver and other discount fares is eroding passenger-mile yields.

The Civil Aeronautics Board also approved freight rate increases of 10% for all domestic cargo in May of 1978 following a 7% increase in domestic cargo container rates that occurred in March.

Total revenues from charter and other transportation were $10,996,783 in 1978. This revenue included $8,028,741 from commercial charters and other income, and $2,968,042 from military charters.

Expenses

Total operating expenses for 1978 amounted to $722,877,225, down significantly from operating expenses of $941,771,207 in 1977 and $860,860,038 in 1976 as a result of the strike. Depreciation and amortization expenses totaled $104,968,627 in 1978 compared with $103,152,530 in 1977 and $102,713,531 in 1976. This increase in depreciation and amortization expense reflected the addition of new, more modern aircraft which was partially offset by the disposal of older, less productive aircraft.

Operating expenses per available ton-mile increased to 27.86¢ in 1978 from 22.92¢ in 1977 and 21.61¢ in 1976. This unusually large increase in unit production expense is in large part due to the curtailment of operations resulting from the strike. Inflation trends continue to increase costs in the airline industry particularly in wages, rentals, fuel, services and cost of materials and supplies.

Taxes on Earnings

In 1978 income taxes on earnings amounted to $47,194,200 compared with $60,425,200 in 1977. Investment tax credit earned declined from $14,850,900 in 1977 to $6,319,800 in 1978. The Company continues to use accelerated depreciation methods for income tax purposes.

Cash Flow

Funds provided from all sources totaled $208,426,244 in 1978, consisting of net earnings, depreciation and amortization, deferred income taxes and proceeds from sale of property. Application of funds in 1978 totaled $166,615,614 and consisted of flight equipment and other property additions, advance deposits on aircraft and cash dividends.

Traffic and Services

Traffic results showed reductions in all areas during 1978 reflecting the effect of the strike. Individual traffic category comparisons, therefore, are not meaningful.

Passenger and cargo traffic recovered at an encouraging rate during the fourth quarter of 1978 and continues to show strength through February of 1979. Northwest embarked on a significant expansion program in January and February of 1979 which aided in the strike recovery.

Financial Condition

The financial condition of Northwest continues to be one of the healthiest in the U. S. airline industry. Long-term debt totals $100,000,000 with repayment beginning in April 1981 and terminating in January 1983.

Northwest's debt to equity ratio on December 31, 1978 was 12.6%. This favorable debt equity ratio is one of the lowest, if not the lowest, in the U. S. airline industry.

Stockholders equity increased to $793,691,090 in 1978 from $747,671,847 at the end of 1977. The book value per average common share increased to $36.70 from $34.60 a year ago.

At year end, the Company had on order an additional six B-747 and two B-727 passenger jet aircraft and spare engines for delivery in 1979 and 1980. In addition the Company announced in February 1979 the purchase of four B-727-200, one B-747 passenger aircraft and one B-747F all-cargo jet for 1980 delivery. It is planned that internally generated funds and the existing financial arrangements will be used to purchase all aircraft on order.

Earnings and Dividends

Net earnings for 1978 amounted to $61,841,389 or $2.86 per average share of common stock outstanding compared with $92,718,790 of $4.29 per share in 1977. Total interest on long-term debt net of capitalized interest declined from $6,517,695 in 1977 to $3,376,357 in 1978.

Gain on disposal of property declined to $34,290,447 from $51,053,719 a year ago.

The Company increased its cash dividend to $.75 per share in 1978 and paid out a dividend for the twenty-fourth consecutive year. Dividends paid to shareholders in 1978 totaled $16,210,260.

FORM 10-K VERSUS ANNUAL REPORT DISCLOSURES

This survey is made from the airlines Form 10-K annual reports. As such the disclosures indicated herein are more extensive than those appearing in the stockholders' annual reports. A tabulation of the footnote disclosures in the stockholders' annual reports indicated a total of 268 items, whereas the Form 10-K annual reports included a total of 315 items. Thirty-three of the additional items consisted of further disclosures of items which had been disclosed in the stockholders' annual report. The following summarizes those items which had additional disclosures in the Form 10-K annual report.

Table 1-25

Replacement cost data	12
Income taxes	3
Capitalized interest	2
Stock options	2
Inventories	2
Property and equipment	2
Pension plans	2
Accounting policies	1
Depreciation	1
Long-term debt maturities	1
Stock and stock options	1
Mutual aid	1
Stockholder's equity	1
Long-term debt	1
Capital stock	1
Total	33

Examples of the stockholders' annual report disclosures and the additional disclosures made in the Form 10-K annual report are as follows:

PAN AMERICAN - REPLACEMENT COST

STOCKHOLDERS' ANNUAL REPORT

Replacement Data (Unaudited)

In accordance with Securities and Exchange Commission disclosure requirements, information with respect to the Company's estimates of the cost to replace its productive capacity as of December 31, 1978, has been included in the Company's Annual Report on Form 10-K filed with the Commission. The estimated cost to replace the productive capacity, consisting primarily of the Company's aircraft fleet, is significantly greater than the original cost of these assets. The Company cautions that the assumptions necessary to accumulate the required data do not reflect a real life situation, that is, a one-time replacement of its productive capacity, and that there are significant inherent limitations in using the data. A copy of the 1978 Form 10-K is available upon request.

FORM 10-K ANNUAL REPORT

Replacement Cost Data (Unaudited)

The Company presents below its estimates of the cost as of December 31, 1977 and December 31, 1978 to replace its productive capacity, consisting of flight and ground equipment. The information is presented in accordance with the Securities and Exchange Commision's disclosure requirements designed to provide investors with information about the current cost of operating a business enterprise in an inflationary economy. The Company cautions that there are significant inherent limitations in using the data to adjust reported net income or to draw conclusions from such information by and of itself or in comparison with data disclosed by other enterprises, for the following reasons:

- The estimate of the cost to replace the Company's entire productive capacity as of a given date, at prices at that date, is not a real-life situation. The result is hypothetical and probably will not be borne out by subsequent actual replacements. The Company is continually reviewing its needs on an on-going basis and replacement of flight equipment and major ground facilities will be in accordance with factors such as market growth, technological developments, operating cost efficiency and revenue generating capability. The productive capacity existing at December 31, 1977 has not been replaced to a significant extent and the actual replacement of the productive capacity existing at December 31, 1978, will probably differ from that contemplated for the purpose of this disclosure, and the cost of replacement many vary significantly, either upward or downward, from the price levels at that date.

- The data disclosed herein is concerned only with the replacement cost of the Company's productive capacity. The impact of economic factors, positive as well as negative, on other assets and costs, revenues and liabilities has not been measured.

- Possible operating economies deriving from technological developments and design changes inherent in the use of aircraft and other equipment which the Company may decide to purchase or lease may partially offset an increase in depreciation and amortization expense based on the higher replacement cost.

- The difference between the historical cost and the replacement cost of productive capacity does not represent additional equity for the Company's stockholders.

- The information presented below is an estimate of the cost to replace the Company's productive capacity as at December 31, 1977 and December 31, 1978 and does not necessarily represent the current value of the assets or the amounts at which the assets could be sold.

SUMMARY OF DATA

	.....December 31, 1977......		......December 31, 1978....	
	Replacement Cost Basis(a)	Historical Cost Basis(a)	Replacement Cost Basis(a)	Historical Cost Basis(a)
	(In Thousands)			
Flight equipment(b)....	$3,284,323	$1,664,316	$3,009,955	$1,646,604
Ground property and equipment..	675,207	434,305	709,377	450,489
	3,959,530	2,098,621	3,719,332	2,097,093
Less reserves for depreciation and amortization(c).....	1,922,315	928,885	1,847,399	924,571
	$2,037,215	$1,169,736	$1,871,933	$1,172,522

	Year Ended December 31 (In thousands)			
	1977		1978	
Depreciation and amortization expense(c).	$ 256,491	$ 146,938	$ 224,608	$ 167,465

(a) Includes equipment operated under capital leases.
(b) Includes capitalized interest on owned aircraft computed in the same manner as reflected in the Company's financial statements.
(c) The computation of depreciation and amortization expense and the reserves for depreciation and amortization on a replacement cost basis reflect use of the straight line method and the same useful lives as those utilized for the Company's financial statements.

TECHNIQUE

The replacement cost of the Company's flight equipment is based primarily on manufacturers' current selling prices of new aircraft. The productive capacity of the replacement fleet, in terms of available seats (tons of load capacity with respect to all-cargo aircraft) is closely equivalent to that of the existing fleet. Replacement aircraft incorporate technological developments and design features from which, relative to older models or types currently in operation, operating economies may be realized. Accordingly, the Company's determinations concerning replacement of its productive capacity, particularly its flight equipment, give recognition to any such potential benefits.

The replacement cost of spare engines and other flight equipment spare parts has been computed by applying to historical cost of those assets the ratio of the replacement cost of the associated aircraft derived as described above to the historial cost of such aircraft.

The replacement cost of certain facilities and major items of ground equipment reflects current price estimates for replacement assets deemed to be desirable and feasible and with consideration to technological change that has occurred. These estimates were derived from price lists, quotations and/or estimates obtained in consultation with manufacturers and construction engineering firms as appropriate. The replacement cost of all other ground equipment was developed by the application of indexes which the Company believes are reasonably representative of changes in prices and technology.

PIEDMONT - INVENTORIES

STOCKHOLDERS' ANNUAL REPORT

Inventories

Airline inventories consist primarily of aircraft spare parts and materials stated at average cost, reduced by an allowance for obsolescence. General aviation inventories, primarily held for resale, consist of aircraft valued at cost, and parts and materials valued at average cost.

FORM 10-K ANNUAL REPORT

Note M - Inventories

Opening and closing inventories and the related allowance for obsolescence for the years ended December 31, 1978 and 1977 are shown in the following tabulation:

Airline Division	Gross Amount	Allowance For Obsolescence	Net Amount
January 1, 1977...........	$ 8,537,592	$2,490,715	$ 6,046,877
December 31, 1977.........	9,201,377	2,963,264	6,238,113
December 31, 1978.........	9,253,300	3,146,055	6,107,245
Separately Operated Divisions			
January 1, 1977...........	9,249,164	-	9,249,164
December 31, 1977.........	12,840,441	-	12,840,441
December 31, 1978.........	12,171,554	-	12,171,554

FRONTIER - STOCK AND STOCK OPTION

ANNUAL STOCKHOLDERS' REPORT

Note F - Stock and Stock Options

At December 31, 1978, RKO General, Inc., wholly-owned by The General Tire & Rubber Company, owned approximately 45 per cent and 93 per cent of the Company's outstanding common stock and convertible special preference stock, respectively. In January 1979, all of RKO General, Inc's holding of special preference stock was converted into 2,099,300 shares of common stock, thereby increasing RKO's ownership of common stock to 60 per cent.

As of December 31, 1978, 4,299,632 shares of common stock were reserved for conversion of the 6 per cent convertible subordinated debentures, for exercise of warrants to purchase common stock, for conversion of the convertible special preference stock and for issuance under the stock option plans.

Three per cent common stock dividends totaling 145,470 and 140,571 shares were issued in 1978 and 1977, respectively.

At December 31, 1978, options under the Qualified and Non-qualified employee stock option plans for 33,541 shares of the Company's common stock granted at per share prices ranging from $3.72 to $13.81 were outstanding, of which 20,434 were exercisable. In 1978, 3,090 options expired while 12,718 options were exercised at an average price of $3.84 per share. In 1977, 9,851 options expired while 1,309 options were exercised at an average price of $5.80 per share.

At December 31, 1978, options under agreements with the Company's President and Executive Vice President for 111,343 shares of the Company's common stock granted at per share prices of $4.11 and $5.07 were outstanding, of which 66,431 were exercisable. The option agreement provides for exercise in the form of shares of stock or stock appreciation rights whereby the difference between the exercise price and market price may be paid in cash in lieu of stock. In 1978, options for 47,261 shares were exercised in the form of stock appreciation rights. A charge to 1978 earnings of $566,000 was made in connection with the stock appreciation rights.

$35,000 of 6 per cent convertible subordinated debentures were converted into 2,151 common shares in 1978.

Special preference stock is convertible at $25.00 per share into common stock at $4.61 per common share, subject to adjustment under certain conditions. Commencing July 1, 1979, the Company may, at its option, redeem the special preference stock, in whole or in part, at the redemption price of $25.00 per share. The special preference stock has no dividend rights. Liquidating value per share is $25.00. A total of 8,184 and 2,549 special preference shares were converted into 41,958 and 12,110 common shares in 1978 and 1977, respectively.

Note O - Stock and Stock Options

Under the employee stock option plans, options to acquire shares of the Company's common stock over a five-year period may be granted to officers and employees. The options granted become exercisable in cumulative instalments of 20% upon grant and 20% each January 1, thereafter. At December 31, 1978, there were 96,348 shares reserved (94,335 shares at December 31, 1977) for granting of future options.

Options	No. of Shares	Option Price Per Share	Option Price Total	Market Value Per Share	Market Value Total
Outstanding:					
December 31, 1977	42,436	3.72 to 6.54	$169,085	3.72 to 6.54(1)	$169,085
December 31, 1978	33,541	3.72 to 13.81	181,067	3.72 to 13.81(1)	181,067
Became exercisable:					
During 1977	8,593	3.72 to 6.54	33,803	6.00 to 6.54(2)	51,905
During 1978	8,842	3.72 to 13.81	44,191	9.71 to 13.81(2)	88,611
Exercised:					
During 1977	1,309	3.83 to 6.375	7,558	6.87 to 7.87(3)	9,308
During 1978	12,718	3.72 to 4.24	48,899	9.88 to 18.87(3)	177,825

(1) At date option was granted
(2) At date option became exercisable
(3) At date option was exercised

TITLE

The titles used to describe the statement of assets, liabilities and stockholders' equity follow:

Table 2-1

Balance Sheet(s)	12
Consolidated Balance Sheet(s)	7
Statement(s) of Financial Position	1
Statement of Consolidated Financial Position	1
Total	21

* * * * *

PRINCIPAL CAPTIONS

The following summarizes the principal captions used to describe the asset and liability sides of the statement of assets, liabilities and stockholders' equity:

Table 2-2

Assets	21
Liabilities and Stockholders' Equity	14
Liabilities and Shareholders' Equity	4
Liabilities	3
Total	21

* * * * *

CASH

Captions used to designate cash are shown below:

Table 2-3

Cash	12
Cash and short-term investments	4
Cash and temporary investments	2
Cash and demand deposits	1
Cash and equivalent	1
Cash, including certificates of deposit	1
Total	21

In addition to the above captions, thirteen airlines in 1978 presented at least one additional cash-related caption. These captions are:

Table 2-4

Short-term cash investments	6
Certificates of deposit	3
Temporary cash investments	2
Commercial paper at cost and accrued interest	1
U. S. Government securities	1
Cash in escrow	1
Total	14

Of the thirteen airlines giving additional cash-related captions, the following information was given as to the method of valuation:

Table 2-5

Cost which approximates market	7
No method disclosed	4
Cost	2
Total	13

Examples of the cash section of the balance sheet (000 omitted) are as follows:

CONTINENTAL	1978	1977
Cash	$ 8,902	$ 16,673
Short-term investments, at cost, which approximates market	8,012	10,053

NATIONAL	1978	1977
Cash and equivalent........................	$ 14,713	$ 21,257

TWA		
Cash......................................	25,804	42,235
Temporary cash investments, at cost (approximates market)....................	150,977	101,710

RECEIVABLES

Captions used to designate receivables and the related provision for doubtful accounts are as follows:

Table 2-6

Accounts receivable............................	12
Receivables.....................................	7
Receivables, principally traffic................	2
Total............................	21

Table 2-7

Less allowance(s) for doubtful accounts..........	7
Less allowance(s)................................	4
Net of allowance for doubtful accounts...........	3
Less reserve.....................................	2
Net..	2
Less allowance(s) for uncollectible accounts.....	1
After allowance for doubtful accounts............	1
Less allowance for doubtful receivables..........	1
Total............................	21

Examples of the receivable section of the balance sheet are as follows:

HAWAIIAN	1978	1977
Accounts receivable - less allowance for doubtful accounts, $90,000 (Schedule XII).	$8,479,474	$9,186,172

UNITED (000 OMITTED)		
Receivables, less allowance for doubtful accounts (1978 - $7,844,000; 1977 - $8,065,000) (Schedule XII)...............	446,666	371,564

PAN AMERICAN (000 OMITTED)	1978	1977
Receivables, principally traffic, less reserve (1978 - $12,434; 1977 - $9,327)	$ 287,388	$ 247,234

INVENTORIES

Captions used to designate inventories (3 with multiple captions) and the related provision for obsolescence are as follows:

Table 2-8

Maintenance and operating supplies	3
Inventory of spare parts and supplies	2
Spare parts and supplies	2
Flight equipment expendable parts	2
Inventories	2
Materials and supplies	2
Expendable parts and supplies	2
Flight equipment parts and supplies	2
Inventory of spare parts, materials and supplies	1
Spare parts	1
Flight equipment spare parts	1
Airline inventories	1
Inventories of aircraft, parts and supplies	1
Merchandise and supplies inventories	1
Parts and supplies inventory	1
Total	24

Table 2-9

Allowance for obsolescence	11
Net of allowance for obsolescence	3
No caption	2
Obsolescence allowance	1
Reserve	1
Obsolescence reserve	1
Valuation reserve	1
Allowance for depreciation	1
Total	21

All airlines except one valued expendable parts, materials and supplies at average cost. Only one airline valued merchandise and supplies relating to vending, food and hotel services at the lower of average cost or market. Disclosure on the face of the statement was made by twelve airlines while all others except one disclose the valuation methods in the notes.

Examples of the inventory section of the balance sheet are as follows:

ALASKA (000 OMITTED)	1978	1977
Expendable parts and supplies at average cost net of allowance for obsolescence of $180,000 in 1978 and $164,000 in 1977	$ 1,143	$ 1,005
OZARK		
Flight equipment parts and supplies, at average cost less allowance for obsolescence of $1,222,000 and $1,029,000	4,351,414	3,709,180
UNITED (000 OMITTED)		
Flight equipment expendable parts, less obsolescence allowance (1978 - $17,887,000; 1977 - $18,686,000) (Schedule XII)	116,966	128,673
Maintenance and operating supplies	31,222	28,855

INVESTMENTS

The principal captions used by airlines to designate the investment section of the statement are as follows:

Table 2-10

No caption	16
*Investments and advances	2
Investments and other assets	2
Investments and special funds	1
Total	21

*Of the airlines surveyed in 1978 indicating Investments and Advances, only one distinguished investments at equity from those at cost.

Of the airlines indicating investments and other assets, one indicated investments at equity, while the others did not indicate the valuation method.

Of the three airlines indicating investments in subsidiaries on the statement, all three airlines gave no reason in the notes for not consolidating the subsidiaries.

Examples of the investment section (000 omitted) of the balance sheet are as follows:

AMERICAN	1978	1977
INVESTMENTS AND OTHER ASSETS:		
Investment in and advances to unconsolidated subsidiaries (Note 11)	$ 83,573	$ 51,750
Non-current receivables, less allowances and deferred income (1978 - $6,006; 1977 - $7,418)	6,097	14,473
Route acquisition costs	43,700	43,700
Other assets and deferred charges	7,540	10,165
Total investments and other assets	$ 140,910	$ 120,088

PAN AMERICAN		
INVESTMENTS AND ADVANCES:		
Marketable equity securities, at cost (Note 2)	$ 69,864	
Unconsolidated subsidiaries and associated companies, on the equity basis (Note 3)	145,075	$ 91,760
Associated companies, at cost; approximate underlying equity: 1978 - $1,133; 1977 - $5,438	575	4,124
Advances to associated companies and long-term receivables, less reserve (1978 - $2,331; 1977 - $2,172)	20,372	17,559
Secured Equipment Certificates proceeds deposited with trustee (Note 4)		53,000
Advances on aircraft purchase contracts	84,727	38,487
Total	$ 320,613	$ 204,930

EASTERN		
INVESTMENTS AND ADVANCES	$ 21,974	$ 21,885

PREPAID ITEMS OR OTHER CURRENT ASSETS

Various captions used to designate prepaid items or other current assets follows:

Table 2-11

Prepaid expenses	10
Other	3
Current deferred income taxes	3
Prepaid expenses and other current assets	3
Prepaid expenses and other	1
Prepaid expenses, etc	1
Other current assets	1
Prepayments and other current assets	1
Prepayments, deposits, and other	1
Refundable Federal income taxes	1
Prepaid expenses - other	1
Prepaid expenses - insurance	1
Total	27

It was noted that three airlines broke out prepaid items and other current assets into two or more separate line items.

Examples of captions used to designate prepaid items or other current assets follow:

ALOHA	1978	1977
Prepaid expenses:		
Insurance	$ 666,039	$ 373,400
Other	625,787	302,929
Total prepaid expenses	1,291,826	676,329
Other current assets	18,281	33,634
Deferred income taxes	1,615,000	

FRONTIER		
Prepaid expense	$ 744,000	$1,122,000
Refundable Federal income taxes - Note E	7,561,000	
Current deferred income taxes - Note E	4,036,000	6,783,000

PIEDMONT		
Prepayments, deposits and other - Note I	$5,571,048	$5,372,383

PROPERTY

The principal captions of the property section of the statement and the subcaptions included under the principal captions, and the number of airlines using such captions, are set forth below:

Table 2-12 Principal Captions

Property and equipment, at cost	10
Property and equipment	8
Leased property under capital leases	2
Operating property and equipment	1
Property	1
Property, plant and equipment	1
Property and equipment under capital leases	1
Total	24

Three airlines used two principal captions to differentiate leased property from non-leased property.

Table 2-13 Subcaptions

Flight equipment	19
Other property and equipment	10
Advance payments for new equipment	4
Other	3
Deposits on aircraft purchase contracts	2
Flight equipment including purchase deposits	2
Ground property and equipment	2
Progress payments on flight equipment	2
Leased property under capital leases	1
Land, buildings and other equipment	1
Facilities and ground equipment	1
Advances on flight equipment purchase contracts	1
Purchase deposits with manufacturers of flight equipment	1
Other equipment	1
Aircraft modification and other work in progress	1
Improvements to leased property	1
Ground equipment, buildings, and leasehold improvements	1
Nonoperating flight equipment	1
Nonoperating	1
Operating	1
Ground and other equipment	1
Property under capital leases	1
Land, buildings and improvements	1
Ground property	1

Prepayments on flight equipment	1
Advance payments on aircraft purchase agreements	1
Deposit on aircraft purchase	1
Total	63

The following tables summarize the method of valuing property indicated by each airline and the terms used to describe depreciation deducted from property:

Table 2-14

At cost	20
No disclosure	1
Total	21

Table 2-15

Accumulated	15
Allowance	5
Reserve	1
Total	21

Examples of the property section of the balance sheet are as follows:

AMERICAN (000 OMITTED)	1978	1977
EQUIPMENT AND PROPERTY (Notes 3, 5, and 10):		
Flight equipment, at cost	$1,742,594	$1,607,732
Less accumulated depreciation	860,531	839,282
	882,063	768,450
Purchase deposits with manufacturers of flight equipment	99,529	93,007
	981,592	861,457
Land, buildings and other equipment, at cost	459,063	374,122
Less accumulated depreciation	216,403	186,460
	242,660	187,662
Total equipment and property - net	$1,224,252	$1,049,119
EQUIPMENT AND PROPERTY UNDER CAPITAL LEASES (Note 4):		
Flight equipment	$ 675,689	$ 675,689
Land, buildings and other equipment	34,014	34,774
	709,703	710,463
Less accumulated amortization	344,669	301,919
Total equipment and property under capital leases - net	$ 365,034	$ 408,544

BRANIFF

	1978	1977
PROPERTY AND EQUIPMENT - At cost:		
Flight equipment......................	$750,374,000	$569,020,000
Less accumulated depreciation and amortization......................	234,663,000	163,561,000
Flight equipment - net........	515,711,000	405,459,000
Other property and equipment..........	101,520,000	86,026,000
Less accumulated depreciation and amortization......................	50,062,000	44,342,000
Other property and equipment - net........................	51,458,000	41,684,000
Property under capital leases - Notes 2 and 5......................	104,170,000	132,742,000
Less accumulated amortization.........	59,150,000	86,566,000
Property under capital leases - net................	45,020,000	46,176,000
Total property and equipment - net........	$612,189,000	$493,319,000

DELTA (000 OMITTED)

PROPERTY AND EQUIPMENT
(Notes 2 and 4):

	Flight Equipment	Other	1978	1977
Cost -				
1978................	$1,862,231	$282,149	$2,144,380	
1977................	1,720,843	256,949		$1,977,792
Accumulated depreciation -				
1978................	755,747	148,081	903,828	
1977................	630,260	133,470		763,730
			1,240,552	1,214,062
Advance payments for new equipment (Note 2)......................			71,983	45,084
Total......................			$1,312,535	$1,259,146

DEFERRED CHARGES AND OTHER NON-CURRENT ASSETS

Various captions used by airlines under deferred charges and other non-current assets are as follows:

Table 2-16

Other assets	11
Deferred charges and other assets	6
Deferred charges	2
Deferred charges, net of amortization	1
No caption	1
Total	21

Examples of the deferred charge or other asset sections of the balance sheet are as follows:

NORTH CENTRAL	1978	1977
DEFERRED CHARGES AND OTHER ASSETS:		
Unamortized development costs (Note A)	$ 2,912,000	$ 1,876,000
Rentals and other (Notes A and C)	2,158,000	1,982,000
	$ 5,070,000	$ 3,858,000

SOUTHERN		
DEFERRED CHARGES AND OTHER ASSETS:		
Deferred charges - Note A	$ 1,893,000	$ 1,862,000
Other assets	489,000	565,000
	$ 2,382,000	$ 2,427,000

TEXAS INTERNATIONAL		
OTHER ASSETS (Note 5):		
Investment in National Airlines, Incorporated	$ 54,653,646	
Long-term note receivable	168,975	$ 994,170
Other	3,017,851	3,432,662
	$ 57,840,472	$ 4,426,832

MISCELLANEOUS LINE ITEMS - ASSETS

Line items not previously categorized (000 omitted) are noted as follows:

PAN AMERICAN	1978	1977
Aircraft held for resale	$ 6,546	$ 3,080
NATIONAL		
Lease prepayments	$ 11,129	$ 11,391

CURRENT LIABILITIES

Notes Payable and Current Portion Due

The following summarizes the different captions used by the airline industry to describe notes payable:

Table 2-17

Current maturities of long-term debt	9
Current installments on long-term debt	3
Long-term debt maturing in one year	2
Notes payable within one year	2
Short-term notes payable	2
Notes payable	1
Current portion of long-term debt	1
Notes payable and current maturities of long-term debt	1
Notes payable to banks	1
Total	22

It was noted that one airline broke out notes payable into two separate line items.

Examples of the notes payable section of the balance sheet are at Page 72.

Accounts Payable

The captions used to describe accounts payable are as follows:

(See following page.)

Table 2-18

Accounts payable	11
Accounts payable and accrued liabilities	4
Trade accounts payable	4
Accounts payable - general	2
Accounts payable - traffic	1
Accounts payable - other	1
Total	23

It was noted that two airlines broke out accounts payable into two separate line items.

Examples of the accounts payable section of the balance sheet are at Page 72.

Accrued Liabilities

The following summarizes the types of other current liabilities shown by the airline industry:

Table 2-19

- Accrued salaries, wages, vacations and payroll taxes
- Accrued interest
- Accrued income taxes
- Accrued taxes
- Income taxes payable
- Accrued and deferred income taxes
- Accrued liabilities
- Accrued expenses
- Accrued compensation and retirement benefits
- Accrued vacation pay
- Employee compensation
- Other
- Accrued pension plan contributions
- Dividends payable
- Current obligations under capital leases
- Insurance and other accrued expenses
- Accrued pensions
- Accrued taxes and other expenses
- Federal and state income taxes

- Accrued salaries, wages and vacation allowances
- Accrued rents
- Current liabilities under capital leases
- Capital lease obligations maturing within one year
- Current portion of capital leases
- Current portion of accrued vacation liability
- Accrued compensation and other expenses
- Accrued salaries and wages
- Salaries, wages and vacations
- Accrued payroll and pension costs

Examples of the accrued liability section of the balance sheet are at Page 72.

Advance Ticket Sales

The following summarizes the captions used to describe the ticket liability accounts:

Table 2-20

Air traffic liability	7
Advance ticket sales	2
Unearned transportation revenue	2
Advance ticket sales and customers' deposits	1
Traffic balances payable and unused tickets	1
Unredeemed ticket liability	1
Unused tickets held by passengers	1
Air traffic liability and customers' deposits	1
Unearned revenue	1
Interline payables and tickets outstanding	1
Deposits and advance payments by customers	1
Accounts payable - airline traffic	1
Airline traffic payable	1
Total	21

Examples of the ticket liability section of the balance sheet are below and at Page 72 .

Examples of the current liability section of the balance sheet showing various current liability captions are as follows:

PIEDMONT	1978	1977
Current liabilities:		
Notes payable	$ 1,506,447	$ 2,454,015
Accounts payable - general	20,332,993	16,392,332
Accounts payable - traffic	9,508,556	9,064,991
Accrued interest expense	1,947,228	1,609,914
Accrued salaries and wages	7,152,593	6,129,568
Accrued pension expense	4,339,507	3,946,754
Deposits and advance payments by customers	1,312,863	673,750
Federal and state income taxes	39,641	1,002,964
Current portion of long-term debt	10,286,722	7,666,196
Total current liabilities	$56,426,550	$48,940,484

TEXAS INTERNATIONAL		
Current liabilities:		
Current maturities of long-term debt (Notes 3 and 4)	$ 5,120,078	$10,815,463
Notes payable to banks	2,150,000	250,000
Accounts payable, trade	10,041,663	9,945,433
Accounts payable, other	3,604,693	2,717,636
Advance ticket sales (Note 1)	9,523,280	9,302,104
Accrued payroll and pension costs (Note 9)	8,842,550	8,104,297
Accrued interest	1,692,961	627,482
Other accrued liabilities	3,603,192	2,670,676
Total current liabilities	$44,578,417	$44,433,091

SOUTHERN		
Current liabilities:		
Trade accounts payable	$ 6,657,000	$ 7,390,000
Salaries, wages and vacations	5,514,000	4,346,000
Accrued interest payable	1,036,000	782,000
Accrued income taxes	2,039,000	2,014,000
Accrued taxes and other expenses	4,792,000	3,662,000
Air traffic liability	10,313,000	9,471,000
Current maturities of long-term debt (Note C)	8,329,000	9,615,000
Total current liabilities	$38,680,000	$37,280,000

LONG-TERM DEBT

The principal captions of the long-term debt section of the statement, the subcaptions included under the principal captions, and the number of airlines using such captions, are set forth below:

Table 2-21 Principal captions

Long-term debt	10
Long-term debt, less current maturities	3
Long-term debt, excluding current instalments	2
Long-term debt, net of current maturities	2
Long-term obligations	2
Long-term liabilities	1
Non-current notes payable	1
Total	21

Table 2-22 Subcaptions

Senior debt	2
Subordinated convertible debentures	2
Long-term debt, less current maturities	2
Other noncurrent liabilities	1
Subordinated debt	1
Principal less current portion	1
Less unamortized discount	1
Notes payable and other	1
Non-current obligations under capital leases	1
Debt	1
Capital leases	1
Total	14

Examples of the presentation of long-term debt including the detailed note or schedule follow:

BRANIFF	1978	1977
LONG-TERM DEBT, LESS CURRENT MATURITIES (Note 3):		
Senior debt	$320,985,000	$235,312,000
Subordinated debt	27,692,000	37,307,000
Total long-term debt, less current maturities	$348,677,000	$272,619,000

NOTE 3 - LONG-TERM DEBT AND LINES OF CREDIT

	......December 31.....	
	1978	1977
	(In Thousands)	
SENIOR DEBT:		
Payable to insurance companies:		
5-1/2% notes due July 1, 1985...........	$ 21,062	$ 24,021
5-1/4% notes due July 1, 1985...........	9,188	10,479
9-3/8% notes due October 1, 1992........	60,000	60,000
9-3/5% notes due September 1, 1996......	60,000	
Payable to banks:		
Term notes due June 30, 1980............	7,500	12,500
Term notes due October 1, 1983..........	30,000	30,000
Revolving credit notes..................		
Term loan due July 1, 1988..............	40,000	
Payable to others:		
Notes due June 30, 1981.................	2,692	5,449
10% notes due July 1, 1986..............	50,000	50,000
9-1/8% sinking fund debentures due January 1, 1997 (less unamortized discount: 1978, $169,000; 1977, $178,000)............................	49,831	49,822
Other...................................	2,066	4,679
Total............................	332,339	246,950
Less current portion......................	11,354	11,638
Total........................	$320,985	$235,312
SUBORDINATED DEBT:		
Notes due June 30, 1981...................	$ 5,448	$ 8,206
5-3/4% debentures due December 1, 1986....	25,002	31,859
Total............................	30,450	40,065
Less current portion......................	2,758	2,758
Total........................	$ 27,692	$ 37,307

The 5-1/2% and 5-1/4% notes due in 1985 require annual sinking fund payments aggregating $4,250,000. The 9-3/8% notes due in 1992 require annual prepayments of $3,000,000 each October 1 in 1980 through 1985 increasing to $6,000,000 each October 1 thereafter.

The 9-3/5% notes due in 1996 require annual prepayments of \$2,500,000 each September 1 in 1981 through 1986 increasing to \$4,500,000 each September 1 thereafter.

The term notes due in 1980 are payable in semiannual instalments of \$2,500,000 with interest at 120% of the sum of 1/2% and the best commercial loan rate of each of the participating banks.

The term notes due in 1983 are payable in six semiannual instalments of \$3,750,000 beginning in 1980 with the balance due in 1983. Notes aggregating \$25,000,000 bear interest at rates of 120% of the best commercial loan rate until 1980 and 124% of such rate thereafter; such interest shall be adjusted at maturity to a maximum rate of 8-1/4% provided the notes are then outstanding. The remaining \$5,000,000 principal amount of the notes bear interest at the rate of 8-1/2%.

At December 31, 1978, the new revolving credit agreement provided for maximum borrowings by Braniff of \$100,000,000 until January 1982; thereafter the maximum commitment is reduced in quarterly amounts of \$6,250,000 through September 1985. Interest is at the best commercial loan rate until October 1, 1981 and 1/2 of 1% over such loan rate thereafter. The agreement requires a loan commitment fee of 1/2 of 1% per annum on the unused portion.

The term loan due July 1, 1988 is payable in semiannual instalments of \$1,000,000 in each of the years 1979 through 1983 and \$2,300,000 in 1984 through 1985 increasing to \$2,400,000 in 1986 and \$4,000,000 thereafter. Interest is at 118% of the best commercial loan rate or 11%, whichever is less.

Senior credit notes due in 1981 are payable in quarterly instalments aggregating \$2,757,600 per year with interest at 1% above the best commercial loan rate of the Chase Manhattan Bank, N.A. The 10% notes due in 1986 require annual prepayments of \$15,000,000 each July 1 in 1984 and 1985 with a final payment of \$20,000,000 due July 1, 1986.

Minimum annual sinking fund requirements of the 9-1/8% senior sinking fund debentures are \$1,700,000 beginning January 1, 1983 through January 1, 1986 and \$3,900,000 thereafter, with a final payment due January 1, 1997 in the amount of \$4,200,000.

Other senior debt includes amounts of $1,983,000 and $4,572,000 at December 31, 1978 and 1977, respectively, with certain hotel property and equipment and long-term receivables pledged as collateral. Substantially all of such debt bears interest at 9-1/2% at December 31, 1978 and matures in monthly instalments through 1993.

Subordinated notes due in 1981 are payable in quarterly instalments aggregating $2,757,600 per year with interest at 2% above the best commercial loan rate of the Chase Manhattan Bank, N.A. The 5-3/4% subordinated debentures due in 1986 require annual sinking fund payments of $3,600,000.

Certain of Braniff's loan and lease agreements provide, among other things, for restrictions relating to Braniff's payment of cash dividends to International and for Braniff's maintenance of certain minimum working capital and asset coverage ratios. Under the most restrictive of these provisions, $140,400,000 of Braniff's retained earnings were restricted at December 31, 1978. Also, under the $40,000,000 term loan agreement, International is required not to make, pay or declare any dividends, except from an amount equal to the cash dividends received from its subsidiaries and the cash proceeds of any redemption by its subsidiaries in favor of International of stock held by it in such subsidiaries after June 1, 1978.

The aggregate minimum maturities for the years 1979 through 1983 of long-term debt outstanding on December 31, 1978 are as follows: 1979 - $14,112,000, 1980 - $20,388,000, 1981 - $19,872,000, 1982 - $22,012,000, and 1983 - $28,366,000 excluding sinking fund requirements on the 5-3/4% subordinated debentures of $3,600,000 in each of the years 1979 through 1981 and $2,598,000 in 1982 which had been met at December 31, 1978.

At December 31, 1978, International had a line of credit of $5,000,000 for 90-day notes at the bank's best commercial loan rate.

Under the new revolving credit agreement for $100,000,000 and the line of credit for $5,000,000, under which commitments expire on September 30, 1985 and upon notification, respectively, the Company maintains average compensating balances of 15% and 20%, respectively, of the debt outstanding under the commitments and 10% of the unused commitments. Such compensating balances required at December 31, 1978 aggregated approximately $10,500,000. During 1978, under the former $80,000,000 revolving credit agreement and the new revolving credit agreement and line of credit, the Company was required to maintain average compensating balances of approximately $9,815,000.

Braniff entered into an agreement dated as of February 15, 1979 for additional borrowings of $100,000,000, 10-1/5% senior notes due March 1997.

ALOHA	1978	1977
Long-term debt, excluding current instalments..........................	$17,672,562	$19,046,222

(4) LONG-TERM DEBT

	1978	1977
The Company's long-term debt with banks at December 31, 1978 and 1977 consisted of the following:		
Loan-agreement in 1973 for $206,550; interest, 10%; maturity, June 1978; payable in monthly instalments of $3,442 including interest; secured by ground equipment, receivables and inventory......................		20,652
Mortgage notes in 1973 for $5,400,000 and in 1975 for an additional $2,109,735; interest, 2-1/4% over prime; maturity, on or before May 30, 1983; payable in monthly instalments of $67,500 including interest; secured by two Boeing 737 aircraft, spare parts and revenues, profits and income from such aircraft		2,509,417
Loan agreement in 1974 for $200,000; interest, 10.4%; maturity, February 1981; payable in monthly instalments of $3,366 including interest; secured by ground equipment.........	78,652	109,170

Loan agreement in 1976 for $3,285,000; interest on 90% of loan balance at 8-1/2%, interest at 1-1/2% over prime on 10% of loan balance; maturity, March 1986; payable in quarterly instalments of approximately $112,000 including interest, plus principal and interest on 10% of the outstanding balance; secured by one Boeing 737 aircraft..........	2,636,823	2,890,034
Loan agreement in 1977 for $15,289,000; interest on 90% of loan balance at 7-7/8%, interest at 1-1/2% over prime on 10% of loan balance, maturity, August 1987; payable in quarterly instalments of approximately $500,000 including interest, plus principal and interest on 10% of the outstanding loan balance; secured by two Boeing 737 aircraft	13,963,631	15,034,160
Loan agreement in 1977 for $520,000; interest, 9-1/2%; maturity, June 1985; payable in monthly instalments of $7,754 including interest; secured by computer equipment........	447,838	495,837
Loan agreement in 1978 for $2,065,000; interest, 1-1/4% over prime; maturity, on demand; payable in monthly instalments of interest only; corresponding to a firm commitment from a bank for long-term financing..................	2,065,000	
	19,191,944	21,059,270
Less amounts due within one year.......	1,519,382	2,013,048
	$17,672,562	$19,046,222

The approximate maturities of long-term debt during the next five years are as follows:

1979..	$1,519,000
1980..	1,646,000
1981..	1,750,000
1982..	1,887,000
1983..	2,044,000

The Company had a short term credit line of $400,000 available at December 31, 1978 and 1977 with interest at 1/4 of 1% over prime under which no borrowing was outstanding.

At December 31, 1978 the Company had a long-term financing commitment for $17,500,000 with interest at 1-1/4% over prime for the purchase of two Boeing 737-200 aircraft to be delivered in March 1979 on which no borrowing was outstanding interim financing of progress payments on these aircraft has been provided under a $3,465,000 line of credit due March 15, 1979 with interest at 1-1/4% over prime under which $2,065,000 was outstanding at December 31, 1978.

The Company is required, under the various mortgage notes and loan agreements, to maintain specified minimum amounts of working capital and stockholders' equity and a specified minimum working capital ratio. Additionally, the Company may not pay cash dividends, make capital expenditures, or lease the secured aircraft to others without prior written consent. At December 31, 1978 and 1977 the Company was in compliance with these restrictive covenants.

TWA (000 OMITTED)	1978	1977
LONG-TERM LIABILITIES:		
Long-term debt, less current maturities (Note 11)	$ 583,851	$ 614,634
Non-current obligations under capital leases (Note 12)	540,464	568,342
Other non-current liabilities	31,469	26,418
Total	$1,155,784	$1,209,394

NOTE 11 - LONG-TERM DEBT: Long-term debt outstanding is as follows:

(See following page.)

	December 31 1978	December 31 1977
	(Amounts in Thousands)	
Senior notes:		
Series D, 5-1/4%, due 1978-85	$ 68,320	$ 74,240
Series E, 5-3/8%, due 1978-85	68,320	74,240
Series F, 6-1/2%, due 1978-92	73,142	78,369
Notes, 5-1/2% to 7-1/2%, due 1978-85(a)	50,267	56,313
Note, due 1980-83(b)	40,000	40,000
Notes, 9-1/4%, due 1982-94	15,000	15,000
Notes, 10-3/8%, due 1981-92	13,000	13,000
Subordinated income debentures, 6-1/2%, due 1978		38,019
Subordinated debentures, 4%, due 1982-92(c)	100,000	100,000
Subordinated debentures, 5%, due 1984-94(c)	149,988	149,988
Debentures, 7-3/4%, due 1987	11,417	12,370
Sundry indebtedness (d)	33,921	30,596
Total	623,375	682,135
Less current maturities (e)	39,524	67,501
Total (f)	$583,851	$614,634

(a) The notes are denominated and payable in British pounds sterling.

(b) Interest is payable at the higher of 1% above the Continental Illinois National Bank and Trust Company prime rate or various percents (116% to 124%) of such prime rate for subsequent periods through maturity at November 1, 1983. After the note has been fully paid, interest will be recomputed as if the prime rate had been 7-1/2% at all times during the period of borrowing and any interest paid in excess of the recomputed amount will be refunded.

(c) The 4% and the 5% debentures are redeemable, at TWA's option, at the following premium rates for 1979:

4% subordinated debentures - 1.8%
5% subordinated debentures - 2.75%

(d) Sundry indebtedness includes certain notes secured by mortgages on various operating properties of Canteen Corporation and Hilton International Co. The net book value of these properties is $34,861,000 at December 31, 1978.

(e) Aggregate annual maturities of long-term debt are as follows:

Year	(Amounts in Thousands)
1979	$ 39,524
1980	49,113
1981	56,827
1982	52,586
1983	48,244
Subsequent	377,081
Total	$623,375

(f) General information concerning long-term debt is as follows:

A revolving credit arrangement (the July 1973 Loan Agreement) with a group of banks and Irving Trust Company, as Agent, permits TWA to borrow amounts of as much as $150,000,000 ($200,000,000 prior to March 1978 when the maximum was voluntarily reduced by TWA to $150,000,000) until January 1, 1980, and lesser amounts thereafter until the arrangement expires on July 1, 1981. Interest on amounts borrowed ranges from 1/4 to 1/2 of 1% above the agent bank's monthly prime rate. A commitment fee at the annual rate of 1/2 of 1% is paid on the unused portion of the revolving credit. The average interest rate on funds borrowed under this agreement during 1977 was 6.56%. No funds were borrowed during 1978.

The July 1973 Loan Agreement and certain of TWA's other loan agreements, including its Senior Note Agreements, specify financial conditions which must be met if TWA is to incur additional debt ("incurrence tests"). The loan agreements also contain covenants which require the maintenance at all times of certain financial ratios ("maintenance tests"). Failure by TWA to comply with the maintenance tests would permit the lenders, by appropriate notice, to declare TWA in default under such agreements, and thereafter, unless such default was cured or waived, to accelerate the maturity of the entire amount of their loans. On March 1, 1977, in order to enable TWA to borrow under its 1973 Loan Agreement, TWA and certain of its senior lenders entered into amendments of the July 1973 Loan Agreement and other TWA loan agreements, including the Senior Note Agreements, providing, among other things, for the relaxation of certain of the incurrence and maintenance tests contained therein.

In return for this relaxation of its financial covenants, TWA granted to the senior lenders a mortgage on substantially all of TWA's aircraft and engines (including installed accessories) having a net book value of approximately $564,000,000 at December 31,

1978. Under such mortgage TWA has the right, if its financial condition reaches certain specified levels, to suspend most of the mortgage covenants subject to an obligation to reinstate such covenants if TWA thereafter fails to meet specified financial tests. In July 1977, certain provisions of the mortgage on TWA's fleet of owned aircraft and engines were suspended because the sale of units of equity securities permitted TWA to attain certain specified financial tests necessary to such suspension. However, such suspension does not release TWA from its obligations under the financial covenants in TWA's other loan agreements, including certain restrictions on the incurrence of additional debt and the lease financing of aircraft. In connection with the reorganization of corporate structure (Note 2), changes were made in the incurrence tests, the maintenance tests and certain other provisions of TWA's loan agreements.

Effective January 1, 1979, as a result of the reorganization of corporate structure described in Note 2, the intercompany promissory note issued by Trans World to TWA for the purchase of capital stock of Canteen Corporation and Hilton International Co. is secured by such stock and the note is pledged to secure only the senior debt of TWA outstanding at December 31, 1978 plus any subsequent borrowings of TWA, not in excess of $150,000,000, under the revolving credit arrangement described above. Also contained in the promissory note are certain restrictive financial covenants applicable to Trans World, including restrictions on the payment of dividends (Note 13).

Compensating balance deposits are maintained with several banks related to certain borrowing arrangements of the consolidated companies; such deposits vary by bank relative to outstanding borrowings and unused commitments for borrowing. Compensating balance deposits approximating $7,720,000 are included in the consolidated cash balances at December 31, 1978. Average compensating balance deposits approximated $7,560,000 during 1978.

DEFERRED CREDITS

The principal captions of the deferred credit section of the statement, the subcaptions included under the principal captions, and the number of airlines using such captions, are set forth below:

(See following page.)

Table 2-23 Principal captions

Deferred credits	8
*Deferred income taxes	4
Deferred credits and other liabilities	3
Other liabilities	2
*Other deferred credits and non-current liabilities	1
Sundry deferred credits	1
Other liabilities and deferred credits	1
Long-term obligations	1
Deferred credits and other long-term liabilities	1
No caption	1
Total	23

Table 2-24 Subcaptions

Other	10
Deferred income taxes	8
Deferred Federal income taxes	2
Other deferred credits and liabilities	2
Unamortized investment credits	2
Accrued pension expense	1
Income taxes	1
Deferred Federal taxes on income	1
Deferred investment tax credits	1
Other liabilities and deferred credits	1
Deferred compensation and other liabilities	1
Deferred gain from sale/leaseback transactions	1
Non-current portion of accrued vacation liability	1

*It was noted that two airlines chose to report each component of deferred credits as a line item on the statement, where one airline had no deferred credit disclosures.

Examples of the deferred credits section of the balance sheet are as follows:

NORTHWEST	1978	1977
DEFERRED CREDITS AND OTHER LIABILITIES:		
Income taxes - Note D	$290,660,200	$261,349,600
Other	21,666,076	11,995,782
	$312,326,276	$273,345,382

WESTERN (000 OMITTED)	1978	1977
DEFERRED CREDITS (Note 7):		
Deferred Federal taxes on income	$ 53,952	$ 48,400
Unamortized investment credits	1,851	18,610
Other	5,636	4,892
	$ 61,439	$ 71,902

CONTINENTAL (000 OMITTED)		
Deferred income taxes	$ 42,937	$ 42,685
Other deferred credits and non-current liabilities	5,557	5,367

EQUITY STRUCTURE

The following table summarizes the capital structure of the airlines included in the survey:

Table 2-25

Common stock with no preferred stock	10
Common stock with one class of preferred stock	7
Common stock with more than one class of preferred stock	4
Total	21

As shown below, several different captions were used by the airlines to describe capital surplus and retained earnings:

Table 2-26

Additional paid-in capital	8
Capital in excess of par value	5
Capital surplus	3
Other paid-in capital	2
Paid-in capital	1
Additional capital invested	1
Other capital	1
Total	21

Table 2-27

Retained earnings	19
Earnings (Deficit) retained for use in the business	1
Reinvested earnings	1
Total	21

Six airlines made additional disclosures in the stockholders' equity section as follows:

Table 2-28

Treasury stock	5
Common stock purchase warrants	1
Total	6

Examples of the equity section of the balance sheet are as follows:

ALLEGHENY (000 OMITTED)	1978	1977
STOCKHOLDERS' EQUITY (Notes 2, 3, and 5):		
Senior preferred stock, without par or stated value:		
Authorized 3,000,000 shares, issued and outstanding 1,600,000 shares, preference in liquidation - $40,000	$ 40,000	
Preferred stock, without par or stated value:		
Authorized 1,000,000 shares, issued and outstanding 204,000 shares, preference in liquidation - $10,200	7,132	$ 7,132
Common stock, par value $1 per share:		
Authorized 20,000,000 shares, issued and outstanding 9,908,000 and 6,024,000 shares, respectively	9,908	6,024
Additional paid-in capital	71,370	53,438
Retained earnings	38,925	7,966
Total stockholders' equity	$167,335	$ 74,560

ALASKA (000 OMITTED)	1978	1977
SHAREHOLDERS' EQUITY:		
Common stock, par value $1 per share - Notes 3 and 5: Authorized: 15,000,000 shares Issued: 1978 - 4,278,014 shares; 1977 - 4,078,629 shares	$ 4,278	$ 4,079
Capital in excess of par value	16,514	15,467
Retained earnings	5,480	348
Treasury stock, at cost (1978 - 75,905 shares)	(380)	
	$ 25,892	$ 19,894

EASTERN (000 OMITTED)		
STOCKHOLDERS' EQUITY (Notes E, F, and I):		
Preferred stock, par value $1.00 per share: Authorized - 10,000,000 shares Issued and outstanding - 2,000,000 shares of $2.69 cumulative Preferred stock (liquidation preference of $50,000,000)	$ 2,000	$ 2,000
Capital in excess of par value	45,376	45,349
Common stock, par value of $1.00 per share: Authorized - 50,000,000 shares Issued and outstanding - 24,839,725 and 19,843,225 shares	24,840	19,843
Reserved - 5,942,409 and 11,461,288 shares (Notes E, F, and I)		
Capital in excess of par value	340,891	298,531
Earnings (Deficit) retained for use in business	27,423	(34,621)
	$440,530	$331,102

COMMITMENTS AND CONTINGENT LIABILITIES

The following table summarizes the captions used to describe commitments and contingent liabilities:

(See following page.)

Table 2-29

Commitments and contingent liabilities	6
Commitments and contingencies	6
Commitments	4
Commitments, leases and contingencies	1
Contingencies	1
Leases, commitments, and contingencies	1
Obligations under capital leases, excluding current obligations	1
Maintenance liability reserves for leased flight equipment	1
Total	21

One airline did not make reference to commitments and contingent liabilities on the face of the statement.

Examples of the commitments and contingent liabilities footnote disclosure are as follows:

FRONTIER

NOTE G - COMMITMENTS AND CONTINGENCIES

The Company has ordered seven Boeing 737-200 aircraft at a total cost of approximately $63,700,000 for delivery in 1979. Included in Property and Equipment - Flight Equipment, as of December 31, 1978, is $5,800,000 of deposits on the aircraft ordered, with the remaining amount to be paid in 1979.

In March 1977, the Company was sued in the United States District Court for the Northern District of Texas, Dallas Division, by Great Plains Airlines, Inc. Plaintiff claims that the Company has monopolized and attempted to monopolize air transportation from Lawton, Oklahoma to Oklahoma City and Dallas/Ft. Worth, in violation of Federal anti-trust laws. The plaintiff originally sought treble damages in the approximate amount of $5 million plus attorneys' fees, but now is seeking approximately $15 million plus attorneys' fees under the Federal Anti-trust laws and an additional $10 million plus attorneys' fees under state law. While it is impossible to predict the outcome with certainty, it is the Company's opinion that the plaintiff's claims are without merit and the Company should prevail.

NORTH CENTRAL

NOTE D - COMMITMENTS

The company has purchase commitments on seven new DC-9-50 aircraft on which it has advanced $16,185,000 and capitalized interest of $693,000. An additional $50,539,000 will be expended by the company in fulfilling these commitments prior to delivery in 1979. The company has arranged leveraged lease financing for the three aircraft to be delivered in the second quarter of 1979.

The company has advanced $4,227,000 and capitalized interest of $39,000 on a purchase commitment for three Boeing 727-200 aircraft to be delivered in 1980 and options on four additional aircraft to be delivered in 1980 and 1981 which contain options to cancel prior to July 1979. If the options to cancel are not exercised, an additional $99,848,000 will be expended prior to delivery.

In November 1978 the company assumed Southern Airways, Inc. (Note L) purchase agreement for four new DC-9-50 aircraft for delivery in 1980 and options for two additional aircraft to be delivered in 1980 which can be canceled prior to July 1979. The company reimbursed Southern $3,078,000 including capitalized interest of $262,000. If the options to cancel are not exercised, an additional $56,051,000 will be expended prior to delivery.

In January 1979 the company signed a letter of intent to purchase four new DC-9-80 aircraft and obtained options on four additional aircraft. The letter includes provisions for cancellation of the order. The company has advanced $700,000 and capitalized interest of $7,000 and, if the order is not canceled, will expend an additional $103,889,000 prior to delivery in 1981.

OZARK

NOTE H - COMMITMENTS:

LEASING ARRANGEMENTS:

Ozark leases five DC-9 aircraft. The leases involved have varying lease terms and some contain renewal options and/or purchase options. In addition, terminals, hangars, and certain maintenance facilities, general office facilities and equipment are leased. These leases are for varying terms and generally include renewal options.

Future minimum lease commitments at December 31, 1978 under all non-cancellable leases are as follows:

	Capital Leases	Operating Leases
1979	$ 2,342,000	$ 2,559,000
1980	2,342,000	2,124,000
1981	2,336,000	1,998,000
1982	2,035,000	1,961,000
1983	1,709,000	1,858,000
Later years	4,613,000	24,574,000
Total minimum lease payments	15,377,000	$35,074,000
Less amount representing interest	(4,011,000)	
Present value of minimum lease payments	11,366,000	
Less current portion	(1,533,000)	
Long-term obligations under capital leases	$ 9,833,000	

Rent expense (which excludes landing fees) for 1978 under all operating leases was $4,166,000 ($3,780,000 - 1977).

Leased property under capital leases included in property and equipment is as follows:

	1978	1977
Flight equipment	$12,926,666	$21,110,931
Other property and equipment	4,314,428	4,298,381
	17,241,094	25,409,312
Less accumulated amortization	7,515,395	11,444,503
	$ 9,725,699	$13,964,809

AIRCRAFT PURCHASE AGREEMENTS:

During 1978, the Company contracted to purchase six used DC9-32 aircraft, two new DC9-34 aircraft, two Boeing 727-200 aircraft and related spare parts, at an aggregate cost of approximately $85,000,000. One of the used DC9-32 was delivered in December 1978, the other aircraft are scheduled for delivery at various dates to May 1980. Amendments to the principal bank credit agreement provide for additional borrowings of $10,000,000 under the agreement to finance aircraft purchases, of which $5,000,000 was borrowed prior to December 31, 1978 to finance the purchase of the aircraft delivered in December.

To December 31, 1978, Ozark paid $7,659,943 as advances on the various purchase agreements and deposited $1,450,000 in escrow ($450,000 included in current assets and $1,000,000 included in other assets) to be refunded upon completion of the respective purchase agreements.

TITLE

The majority of the airlines reports surveyed use the word "income" in their descriptive title for their operating statement. The following table indicates the breakdown of operating statement titles:

Table 3-1

Operating Statement Titles

Income	7
Earnings	6
Operations	5
Income and retained earnings	2
Operations and earnings retained for use in the business	1
Total	21

Examples of the operating statement titles used are as follows:

Statement of Income
Statement of Earnings
Statement of Income and Retained Earnings
Statement of Consolidated Income
Statement of Operations and Earnings Retained for Use in the Business
Consolidated Statement(s) of Operations
Consolidated Statement of Income

* * * * *

UNUSUAL FORMATS

TRANS WORLD AIRLINES - Operating revenues and expenses classified as air transport, transport related or nontransport. All other carriers report operating revenues by sources and expenses by functions (000 omitted).

STATEMENTS OF CONSOLIDATED INCOME	1978	1977
Operating Revenues:		
Air transport	$2,344,623	$2,182,960
Transport related	130,101	128,967
Nontransport	65,519	62,274
Total Airline	2,540,243	2,374,201
Hotel operations	503,477	402,840
Vending and food service	651,281	612,260
Total	3,695,001	3,389,301
Operating Expenses:		
Cost of services and products sold:		
Air transport	1,909,202	1,762,109
Transport related	87,742	91,111
Nontransport	50,184	52,800
Total Airline	2,047,128	1,906,020
Hotel operations	390,902	313,528
Vending and food service	603,892	563,568
Total	3,041,922	2,783,116
Selling, administrative and general expenses	505,509	457,274
Mutual aid contractual payments (Note 5)	11,344	
Total	3,558,775	3,240,390
OPERATING INCOME	$ 136,226	$ 148,911

RESTATEMENT, EXTRAORDINARY ITEMS, ACCOUNTING CHANGES, AND PRIOR PERIOD ADJUSTMENTS

The number of airlines restating prior years' income in 1978 is as follows:

Table 3-2

Restated	12
Not restated	9
Total	21

An example of the footnote concerning a restatement for FASB 13 follows Table 3-5.

The number of airlines showing an extraordinary item in 1978 or 1977 is as follows:

Table 3-3

	1978	1977
Extraordinary item................	2	2
No extraordinary item.............	19	19
Total....................	21	21

The following illustrates an extraordinary item disclosure.

ALLEGHENY (000 OMITTED)	1978	1977
Extraordinary item:		
Reduction of Federal income tax arising from utilization of net operating loss carryforwards (Note 4).............	$ 9,851	
Net income......................	$32,304	$15,859

The airlines reported accounting changes as follows:

Table 3-4

	1978
Current period effect disclosed in notes...............................	10
Prior period financial statements restated..............................	12
No material effect......................	3

The accounting changes made were for the following reasons:

Table 3-5

	1978
Change in method of accounting for leases............................	15
Change in method of accounting for investment tax credits.................	3
Change in estimated lives in aircraft...	1

An example of note disclosure for an accounting change follows:

TEXAS INTERNATIONAL

In 1978, the Company changed its method of accounting for leases to conform to Statement of Financial Accounting Standards No. 13, Accounting for Leases. The effect of this change in accounting method was to decrease retained earnings at January 1, 1977 by $2,509,000 and to increase net income for 1977 by $245,000 or $.04 per share. The financial information for 1977 has been restated to reflect this change in accounting method. This change had no significant effect on net income for 1978.

The present value of obligations under capital leases is calculated using the interest rates implicit in the leases. These rates range from 4-5/8% to 10%.

At December 31, 1978 the Company's minimum lease payments under its non-cancellable leases together with the present value of the net minimum lease payments (obligations under capital leases) were (in thousands):

Period	Capital Leases	Operating Leases
1979	$ 3,921	$ 2,192
1980	3,446	2,192
1981	3,479	2,190
1982	3,222	2,180
1983	2,485	2,160
1984 - 1988	7,328	10,807
1989 - 1993	737	10,827
1994 - 1998	435	10,795
After 1998	213	7,626
Total minimum lease payments	25,266	
Less: Amount representing interest	5,835	
Present value of obligations under capital leases	19,431	
Less: Current portion of obligations under capital leases	2,711	
Long-term obligations under capital leases	$16,720	

The net lease rental expense for 1978 and 1977 was $2,908,000 and $2,657,000, respectively.

OPERATING REVENUES

The principal operating revenue captions used by the airlines and the subcaptions and the number of times such captions appeared are as follows:

Table 3-6

Principal Captions

Airline operating revenues	1
Operating revenues	19
Revenues	1
Total	21

Table 3-7

Subcaptions

Passenger	19
Other	13
Cargo	8
Mail	7
Charter	7
Transport related	4
Public service (revenues)	4
Federal subsidy	3
Mutual aid (assistance)	2
Freight	2
Non-transport	2
Freight and express	2
Hotel (operations)	2
Express, freight and mail	2

Some of the remaining operating revenue subcaptions are listed below. They appeared only once.

Table 3-8

Air transport	Other operations
Vending and food service	Retroactive mail settlement
Freight and mail	Mail and property
Federal subsidy returned	Mainland air cargo
Express, freight and mail	Charter and other transportation
Cargo, mail, and other	Nonscheduled service and other
United States mail	Freight, express, and excess baggage

Examples of operating revenue presentation by various airlines are as follows:

NORTHWEST	1978	1977
Operating revenues:		
Passenger	$557,400,881	$ 861,053,058
Cargo	87,076,726	121,185,084
Mail	18,944,410	29,893,962
Charter and other transportation	10,996,783	25,870,610
Mutual aid	104,863,790	38,416
Nontransport	10,879,302	8,313,642
Total	$790,161,892	$1,046,354,772

SOUTHERN		(As Restated)
Operating revenues:		
Passenger	$159,802,000	$130,828,000
Mail, express and freight - Note B	10,180,000	9,325,000
Public service revenue - Note A	4,327,000	5,220,000
Charter	7,162,000	9,594,000
Other	7,041,000	4,544,000
Total	$188,512,000	$159,511,000

PIEDMONT		
Operations of airline division		
Operating revenues:		
Passenger	$177,989,199	$155,507,596
Cargo - Note B	11,157,678	11,511,376
Charter	3,118,699	2,102,250
Other - net (gross revenues 1978 - $10,956,390; 1977 - $6,702,266)	2,924,409	2,083,930
	195,189,985	171,205,152
Public service revenue - Note B	9,270,450	9,496,491
Total	$204,460,435	$180,701,643

OPERATING EXPENSES

The principal operating expense captions used by the airlines and the subcaptions and the number of times such captions appeared are as follows:

(See following page.)

Table 3-9

Principal Captions

Operating expenses	19
Airline operating expenses	1
Expenses	1
Total	21

Table 3-10

Subcaptions

General and administrative	17
Maintenance	16
Passenger service	16
Aircraft and traffic servicing	15
Depreciation and amortization	15
Flying operations	14
Promotion and sales	10
Transport related	3
Aircraft fuel	3
Reservations, sales, and advertising	3
Sales and advertising	2
Depreciation	2
Mutual aid payments	2
Other	2
Flying operations, excluding fuel	2
Flying and in-flight services	2

Some of the remaining operating expense subcaptions used are listed below. They appeared only once.

Table 3-11

Selling and advertising
Airline flying and ground operations
Airline maintenance
Non-airline subsidiaries
Depreciation and amortization less amounts charged to other accounts
Maintenance and ground operations
Sales, advertising, and reservations
Other operations
Salaries and related costs
Aircraft maintenance material and repairs
Vending and food service
Taxes other than income and payroll not included elsewhere
Rentals and landing fees
Agency commissions
Other cash costs
Marketing and administrative
Cost of incidental revenue
Fuel, oil, and restated taxes
Aircraft rent
Obsolescence
Administrative and general
Other transport related expenses
Operations, exclusive of expenses listed separately
Air Transport

Examples of the operating expense presentation by the various airlines are as follows:

FRONTIER	1978	1977
Operating expenses:		
Flying operations, excluding fuel.....	$ 38,490,000	$ 28,989,000
Fuel, oil and related taxes...........	43,501,000	33,584,000
Aircraft rent.........................	2,265,000	659,000
Maintenance...........................	40,110,000	30,193,000
Passenger service.....................	23,605,000	16,926,000
Aircraft and traffic servicing........	63,961,000	51,870,000
Reservations, sales and advertising...	28,589,000	21,214,000
General and administrative............	14,827,000	11,517,000
Depreciation..........................	13,940,000	11,099,000
Obsolescence..........................	320,000	299,000
Other.................................	1,511,000	2,130,000
Total.............	$271,119,000	$208,480,000

CONTINENTAL (000 OMITTED)		
Operating expenses:		
Flying operations, excluding fuel.....	$ 91,568	$ 77,236
Aircraft fuel.........................	147,763	123,232
Maintenance and ground operations.....	298,911	251,013
Sales, advertising and reservations...	88,845	68,754
General and administrative............	35,204	31,687
Depreciation and amortization.........	49,188	47,570
Other operations......................	10,285	9,634
Total operating expenses......	$721,764	$609,126

ALOHA	1978	(Restated) 1977
Operating expenses:		
Flying operations.....................	$15,111,072	$13,697,186
Maintenance...........................	6,790,027	6,366,660
Passenger service.....................	2,415,281	2,001,849
Aircraft and traffic servicing........	12,690,454	11,139,978
Promotion and sales...................	11,647,273	9,421,091
General and administrative............	3,489,110	3,123,904
Taxes, other than income and payroll, not included elsewhere..............	1,600,991	1,440,571
Depreciation and amortization, not included elsewhere..................	3,321,931	2,771,555
Total operating expenses......	$57,066,139	$49,962,794

DEPRECIATION

All the airlines surveyed used straight-line depreciation. The following table is a list of the ranges used by the airlines surveyed for the "useful life" of their flight equipment:

Table 3-12

10-15 years	4
14 years	3
10-14 years	1
8-15 years	1
2-16 years	1
10 years	1
14-15 years	1
7-14 years	1
15 years	1
14-18 years	1
8-12 years	1
5-15 years	1
13-18 years	1
14-16 years	1
7-12 years	1
Total	20

National, instead of disclosing the useful life of their flight equipment disclosed the termination dates by type.

An example of a depreciation and useful life footnote is at Section 1, Summary of Accounting Policies, page 11.

NONOPERATING INCOME (EXPENSE)

The principal nonoperating income (expense) captions used by the airlines and the subcaptions and the number of times such captions appeared are as follows:

(See following page.)

Table 3-13

Principal Captions

Other income (expense)	5
Other expense (income)	3
Nonoperating expenses (income)	3
Nonoperating expense (credit)	2
Other deductions (income)	2
Nonoperating income and (expense)	2
Nonoperating income - net	1
Nonoperating expense - net	1
Other income (deductions)	1
Other charges (credits)	1
Total	21

Table 3-14

Subcaptions

Other	12
Interest expense	11
Interest income	10
Interest capitalized	9
Gain from disposition of property and equipment	2
Gain on sale of flight equipment	2
Gain on disposal of property	2
Gain on disposition of aircraft	2
Interest on long-term debt	2
Miscellaneous	2
Total	54

The remainder of the nonoperating income (expense) subcaptions are listed below. They appeared only once.

Table 3-15

Hotel and resort revenues
Hotel and resort operating expenses
Interest expense, net of capitalized interest
Retroactive mail revenues
Interest on capital leases
Net earnings (loss) of unconsolidated subsidiaries
Relocation and consolidation expenses

Realized and unrealized loss (gain) on foreign currency translation
Gain on extinguishment of debt
Gain on sale of equipment
Equipment rental income, net of depreciation
Temporary investments income
Gain on involuntary conversion and disposal of property

Examples of the nonoperating income (expense) presentation by the various airlines are as follows (000 omitted):

WESTERN	1978	1977
Other income (expenses):		
Interest, principally on long-term obligations	$(23,089)	$(20,122)
Interest capitalized	2,910	2,592
Interest income	3,666	2,302
Gain on sale of equipment	6,754	4,549
Other - net	258	1,086
Total	$ (9,501)	$ (9,593)

DELTA	1978	1977
Other expense (income):		
Interest expense	$ 22,107	$ 25,983
Less - interest capitalized on advances for equipment	4,794	2,922
Subtotal	17,313	23,061
Gain on disposition of aircraft	(32,689)	(29,403)
Realized and unrealized loss (gain) on foreign currency translation	3,339	(2,699)
Miscellaneous income, net	(7,640)	(4,825)
Total	$(19,677)	$(13,866)

AMERICAN	1978	1977
Other income (deductions):		
Interest income	$ 45,974	$ 30,646
Interest on long-term debt	(37,106)	(24,540)
Interest on capital leases	(33,364)	(37,383)
Interest capitalized	5,092	3,944
Gain on disposal of property (Note 11)	14,846	8,944
Net earnings (loss) of unconsolidated subsidiaries (Note 11)	28,264	(5,645)
Relocation and consolidation expenses (Note 11)	(21,700)	
Miscellaneous - net (Note 5)	5,118	1,969
Total	$ 10,124	$(22,065)

TAX PROVISIONS

The degree of tax disclosure in the income statement varies among the airlines. The captions used to describe the provisions are summarized as follows:

Table 3-16

Provision for income taxes	8
Income taxes	4
Provision (credit) for income taxes	3
Income taxes (credit)	2
Income tax (credit)	1
Income tax (expense)	1
Provision for Federal and State income taxes	1
Provision for taxes on income	1
Total	21

Additionally, the following subcaptions are used:

Table 3-17

Income taxes provided
Less amortization of investment tax credit
Current
Deferred
State and foreign income taxes
Charge equivalent to income taxes
Assumed utilization of investment tax credit
Income taxes before investment tax credit
Investment tax credits

In the footnote disclosure of the surveyed airlines, all included a schedule disclosing a breakdown of the provision.

Examples of the income statement presentation and the related footnote disclosure follows:

NATIONAL (000 OMITTED)	1978	1977
Income before income taxes	$23,895	$ 1,996
Income taxes (credit)	9,493	(1,013)
Net income	$14,402	$ 3,009

Income taxes:
Income taxes are as follows:

	1978	1977
Current income tax (refundable)	$ 542	$(2,046)
Tax refund reduction for investment tax credit utilized in a prior year		(2,582)
Deferred income taxes (decrease)	(3,505)	5,846
Deferred investment tax credit utilized	14,887	
Investment tax credit amortization	(2,431)	(2,231)
Income tax expense (credit)	$ 9,493	$(1,013)

Deferred income taxes result primarily from use of accelerated depreciation rates for income tax purposes.

Investment tax credits offset against deferred income taxes at June 30, 1978, for application against future income taxes amounted to $18 million. If not utilized, these will expire over a six year period beginning in fiscal 1980.

NORTH CENTRAL	1978	1977
Income taxes (Notes A and I):		
Current	$ 1,677,000	$ 745,000
Deferred	2,878,000	259,000
	4,555,000	1,004,000
Net earnings	$22,164,000	$13,696,000

NOTE I - INCOME TAXES

Income tax expense for the years ended December 31, consists of the following:

	1978	1977
Current income taxes		
Federal	$11,747,000	$6,065,000
Investment tax credit used in current year	(11,412,000)	(6,065,000)
	335,000	
State and local	1,342,000	745,000
	1,677,000	745,000
Deferred income taxes		
Federal	1,008,000	1,046,000
Investment tax credit	1,795,000	(898,000)
	2,803,000	148,000
State and local	75,000	111,000
	2,878,000	259,000
Total	$ 4,555,000	$1,004,000

Income taxes of $4,555,000 in 1978 and $1,004,000 in 1977 (effective rates of 17.0% and 6.8%, respectively) are less than those expected to result by application of the federal income tax rate of 48% to income before taxes. The reasons for these differences are:

	1978	1977
Computed "expected" tax expense	$12,825,000	$7,056,000
Increase (Decrease) in income taxes:		
Investment tax credit utilized	(9,617,000)	(6,963,000)
State and local income taxes net of federal income tax benefit	1,417,000	856,000
Other	(70,000)	55,000
Total	$ 4,555,000	$1,004,000

Deferred income taxes arise from timing differences between financial and tax reporting. The tax effects of these differences follow:

	1978	1977
Increase (Decrease) in deferred income tax expense:		
Capitalized interest	$ 821,000	$ 328,000
Investment tax credit	1,795,000	(898,000)
Other	262,000	829,000
Total	$2,878,000	$ 259,000

For federal income tax reporting purposes, investment tax credits of $932,000 are available to offset future income taxes payable through 1985. This amount has been recognized for financial reporting purposes as an offset to deferred income taxes payable through December 31, 1978.

Under the Revenue Act of 1978 and existing law, a special provision allows the company to offset its Federal tax liability by the following approximate percentages (subject to the availability of sufficient investment tax credits): 1977 and 1978 - 100%; 1979 - 90%; 1980 and 1981 - 80%; 1982 (and later years) - 90%.

The Internal Revenue Service has examined and cleared the company's federal tax returns through December 31, 1977.

INVESTMENT TAX CREDIT

Two airlines surveyed had an investment tax credit amount appear on the face of the income statement as a separate line item. The presentation of the provision is as follows (000 omitted):

DELTA	1978	1977
Provision for income taxes (Note 5):		
Income taxes provided	$109,296	$ 76,362
Less amortization of investment tax credits	(15,651)	(13,695)
Total	$ 93,645	$ 62,667

UNITED	1978	1977
Provision for income taxes (Notes 3 and 8):		
Income taxes before investment tax credits	$175,165	$ 46,698
Investment tax credits	(139,600)	(40,700)
Total	$ 35,565	$ 5,998

NET INCOME

The principal captions used by the airlines to designate net income are summarized as follows:

Table 3-18

Net income	12
Net earnings	7
Net earnings (loss)	1
Net income (loss)	1
Total	21

EARNINGS PER SHARE

The principal captions used by the surveyed airlines to designate earnings per share for a simple capital structure are summarized in the following table:

Table 3-19

Earnings per share...........................	1
Earnings per share of common stock...........	1
Net earnings per share and equivalent share..	1
Net income per common share..................	1
Net income per share.........................	1
Net earnings per share.......................	1
Total...........................	6

The principal captions used to designate a dual presentation of earnings per share are summarized as follows:

Table 3-20

Earnings per common share and common equivalent share
Earnings per common share - assumming full dilution
Earnings per common share - Primary
Earnings per common share - Fully diluted
Net earnings (loss) per common share - Primary
Net earnings (loss) per common share - Fully diluted
Earnings per common share
Fully diluted earnings per common share
Net income per share - Primary
Net income per share - Assuming full dilution
Earnings (Loss) per share - Primary
Earnings (Loss) per share - Fully diluted
Net earnings per share - Primary
Net earnings per share fully diluted
Earnings per share - Primary
Earnings per share - Fully diluted
Earnings per common share - On average outstanding and equivalent shares.

The following table shows whether the amount of common shares outstanding or equivalents is shown in the income statement or disclosed elsewhere.

Table 3-21

Disclosed in notes	12
Shown on balance sheet	5
Shown on income statement	4
Total	21

Examples of earnings per share presentation in the income statement and the related footnote disclosure follows:

BRANIFF	1978	1977
Earnings per share	$2.26	$1.83
Weighted average number of shares outstanding (thousands)	20,016	20,008

EARNINGS PER SHARE

Earnings per share are based on the weighted average number of shares of Common Stock outstanding during the year. Equivalent shares resulting from the assumed exercise of stock options less shares assumed to be repurchased with option proceeds based on the average market price during the year are not material. Earnings per share, assuming full dilution, are not presented as the additional dilution is immaterial. The assumed exercise of warrants referred to in Note C would have been anti-dilutive in each year.

PAN AMERICAN	1978	1977
Average shares outstanding during year	51,398,190	42,288,515
Earnings per share (Note 9):		
Primary	$2.31	$1.06
Fully diluted	$1.52	$ .83

EARNINGS PER SHARE

Primary earnings per share is computed by dividing the applicable amounts by the average number of shares outstanding during each year. Fully diluted earnings per share for 1978 and 1977 is computed by dividing the applicable amounts, adjusted to eliminate interest expense on convertible debentures, by the total of the average number of shares outstanding and the average number of shares reserved for issuance on conversion of such debentures.

Per share earnings for 1978 reflect an increase in the number of shares outstanding in 1978 as a result of conversions primarily relating to the Company's call for redemption of its 10-1/2% Convertible Subordinated Debentures due October 1, 2001 and its 11% Convertible Subordinated Debentures due February 15, 1999. See Note 4.

TITLE

The airlines included in the survey used several titles to describe their statement of changes in financial position. The following table indicates the breakdown of the statement titles:

Table 4-1

Statement(s) of Changes in Financial Position	12
Consolidated Statement(s) of Changes in Financial Position	6
Statement of Changes in Consolidated Financial Position	3
Total	21

* * * * *

FORMAT

The format of the statements used by the surveyed airlines is as follows:

Table 4-2

Balanced statement	1
Unbalanced statement	20
Total	21

The net totals shown on the unbalanced statements are:

Table 4-3

Changes in Working Capital	12
Working Capital at End of Year	4
Cash and Temporary (Cash) Investments at End of Year	2
Cash and Short-term Investments at End of Year	1
Cash at End of Year	1
Total	20

The principal captions used by the airlines to designate sources, applications and net changes in financial position are as follows:

Table 4-4 - Sources

Funds Provided	6
Sources of Funds	4
Sources of Working Capital	3
Funds Provided By	3
Financial Resources Were Provided By	1
Funds Provided During the Year	1
Sources	1
Working Capital Was Provided By	1
Working Capital Provided	1
Total	21

Table 4-5 - Applications

Funds Used	4
Application of Funds	4
Uses of Working Capital	2
Funds Applied	2
Funds Used For	2
Financial Resources Were Used For	1
Funds Used During the Year	1
Working Capital Used	1
Funds Applied For	1
Applications	1
Working Capital Was Applied To	1
Application of Working Capital	1
Total	21

Table 4-6 - Net Change in Financial Position

Increase (Decrease) in Working Capital	9
Increase in Working Capital	3
Decrease in Working Capital	3
Increase (Decrease) in Funds During Year	1
Increase in Cash	1
Not Disclosed	1
Increase (Decrease) in Cash and Temporary Cash Investments	1
Net Increase in Working Capital	1
Increase (Decrease) in Cash and Short-term Cash Investments	1
Total	21

* * * * *

OPERATIONS

All of the airline companies surveyed included in their statement of changes a section indicating the funds provided internally or from operations. Some of those items included in such a section are summarized as follows:

Table 4-7

Depreciation and Amortization................	12
Deferred Income Taxes.........................	11
Other..	8
Net Income....................................	8
Net Earnings..................................	5
Depreciation..................................	4
Deferred Federal Income Taxes................	3
Gain on Disposition of Property and Equipment	2
Deferred Income Taxes - Noncurrent...........	2
Depreciation and Amortization of Property and Equipment..................................	2
Income for the Period........................	1
Income Before Extraordinary Item.............	1
Other Costs..................................	1
Less Undistributed Earnings (Loss) of Unconsolidated Subsidiaries..................	1
Gain on Purchase of Debentures..............	1
Transactions of Long-term Portion of Debt Payable in Sterling........................	1
Investment Tax Credits, Net.................	1
Gain on Early Extinguishment of Debt.........	1
Translation of Foreign Indebtedness..........	1
Warrant Expense..............................	1
Increase in Allowance for Maintenance........	1
Provision for Airframe and Engine Overhaul Costs..................................	1
Amortization of Intangible Assets............	1
Amortization of Deferred Charges.............	1

Examples of the funds provided from operations section of the surveyed airlines statement of changes in financial position are as follows:

ALLEGHENY (000 OMITTED)	1978	1977
Funds provided during the year:		
Income before extraordinary item.....	$ 22,453	$ 15,859
Add charges (credits) against income not requiring (providing) funds:		
Depreciation and amortization......	34,797	32,872
Gain on disposition of property and equipment........................	(17,435)	(2,202)
Deferred income taxes (Note 4).....	14,863	-
Other costs.........................	664	(108)
Funds provided by operations......	$ 55,342	$ 46,421

OZARK	1978	1977
Source of funds:		
Net earnings.........................	$ 8,199,776	$ 7,988,289
Add noncash expenses:		
Amortization of overhaul and other costs............................	7,830,148	7,354,780
Depreciation and amortization of property and equipment...........	9,580,793	9,490,861
Deferred income taxes.............	1,130,000	3,415,826
Funds provided from operations....	$26,740,717	$28,249,756

CONTINENTAL (000 OMITTED)	1978	1977
Working capital provided:		
Net earnings (loss)..................	$ 49,190	$ 25,642
Items which do not use (provide) working capital:		
Depreciation and amortization......	50,266	49,547
Deferred income taxes..............	252	(617)
(Gain) loss on disposition of property and equipment...........	(19,654)	(549)
Gain on purchase of 3-1/2% debentures......................	(1,074)	(2,363)
Working capital provided from operations......................	$ 78,980	$ 71,660

OTHER SOURCES

Captions used to describe the other sources* of funds or working capital are summarized as follows:

Table 4-8

Proceeds from Issuance of Long-Term Debt.......	16
Proceeds from Sale of Equipment and Property...	15
Other..	11
Long-Term Financing - Capital Leases...........	5
Termination of Capital Leases..................	3
Issuance of Common Stock.......................	3
Proceeds from Issuance of Preferred Stock......	2
Increase (Decrease) in Accounts Payable and Accrued Liabilities.........................	2
Property Dispositions Less Net Gains...........	2

*Some of the captions that appeared only once are listed in the following table:

Table 4-9

- Aircraft Purchase Deposit - Returned
- Decrease in Instalment Notes and Contracts
- Tax Benefit Related to Purchase of Warrants from ALCO in 1976
- Proceeds from Conversion of Debentures and Sale of Common Stock
- Decrease in Noncurrent receivables
- Cash Advance Returned on Leased Equipment
- Deferred Gain from Sale/Leaseback Transactions
- Conversion of Long-Term Debt to Capital Stock
- Decrease in Cash and Equivalent
- Increase in Deferred Credits and Other Items
- Increase in Unused Tickets Held by Passengers
- Reduction of Rentals and Other
- Secured Equipment Certificate Proceeds Utilized by Trustee
- Dividends Received from unconsolidated Subsidiaries
- Proceeds from Long-Term Receivables and Transfers to Current Assets

Examples of the other sources section of the surveyed airlines statement of changes in financial position are as follows:

ALASKA (000 OMITTED)	1978	1977
Proceeds received on disposition of property and equipment	$ 9,791	$ 880
Additional long-term debt	16,938	56
Aircraft purchase deposit returned	3,634	-
Decrease in instalment notes and contracts	260	205
Tax benefit related to purchase of warrants from ALCO in 1976	-	774
Other	373	254

HAWAIIAN		
Property and equipment retirements	$ 2,639,429	$ 201,239
Additions to long-term debt	14,589,378	5,878,064
Deferred gain from sale/leaseback transactions	510,190	-
Conversion of long-term debt to capital stock	146,185	-
Other	21,711	238,720

UNITED (000 OMITTED)		
Book value of aircraft and hotel disposals	$ 20,888	$ 13,690
Issuance of long-term debt	22,678	11,088(1)
Long-term debt of acquired company	14,933	-
Conversion of subordinated debentures into common stock	32,325	-
Decrease (increase) in expendable parts and supplies	9,340	(6,032)
Increase in accounts payable and accrued liabilities	91,045	81,261
Other, net	18,523	(17,161)

OTHER USES

The various captions used to describe the uses of funds are summarized in the following table:

(See following page.)

TABLE 4-10

Purchases of Property and Equipment	17
Reduction of Long-Term Debt	14
Cash Dividends	10
Reduction of Long-Term Obligations under Capital Leases	8
Other Net	7
Dividends	5
Advance on Aircraft Purchase Contracts	5
Increase in receivables	4
Increases in Deferred Charges	3
Capital Lease Additions	3
Cash Dividends on Preferred Stock	3
Preoperating Costs	2
Additions to Property	2
Investment in National Airlines Inc	2
Property Acquired under Capital Leases	2
Increases in deferred Charges and Other Assets	2

Some of the captions that appeared only once are listed in the following table:

TABLE 4-11

Capital expenditures
Long-Term Debt Transferred to current liabilities and prepayments
Increases in investment in and Advances to Unconsolidated Subsidiaries
Dividends on Preferred and Common Stock
Increase in Inventory and Prepaid Expenses
Decrease in Notes Payable
Increase in Lease Prepayments and Other Assets
Long-Term Debt Becoming Currently Payable
Working Capital Components
Subordinated Debentures Redeemed
Purchase of Debentures to Meet Sinking Fund Requirements
Increase in Other Current Assets
Aircraft and Engine Overhaul Costs

Examples of the uses of funds section of the surveyed airlines statement of changes in financial position follow:

EASTERN (000 OMITTED)	1978	1977
FUNDS APPLIED FOR:		
Flight and ground equipment purchases and advances	$270,809	$105,288
Capital lease additions	137,501	100,945
Notes payable retired or maturing within one year	60,764	216,579
Obligations under capital leases maturing within one year	43,136	37,281
Reductions of long-term obligations under capital leases	3,496	-
Subordinated debentures redeemed	50,000	-
Repurchase of debentures to meet sinking fund requirements	7,332	9,350
Cash dividends on $2.69 Preferred Stock	5,186	-
Other, net	3,916	4,546
Working capital components	36,831	73,370
Total funds applied	$618,971	$547,359

AMERICAN (000 OMITTED)		
APPLICATION OF FUNDS:		
Capital expenditures:		
Flight equipment	$215,604	$185,983
Ground facilities and equipment	91,424	56,126
Aircraft deposits, net	6,522	52,988
Total capital expenditures	313,550	295,097
Long-term debt transferred to current liabilities and prepayments	48,439	32,020
Non-current lease obligations transferred to current liabilities	40,303	40,352
Increase in investment in and advances to unconsolidated subsidiaries	3,559	14,203
Dividends on preferred and common stock	19,533	8,477
Total applications	$425,384	$390,149

HAWAIIAN

	1978	1977
Changes in Working Capital:		
Increase (Decrease) in current assets:		
Cash and certificates of deposit...	$ (161,920)	$(4,704,373)
Accounts receivable................	(706,698)	2,520,182
Refundable income taxes............	-	(1,060,331)
Refundable deposits on flight equipment........................	(4,052,935)	5,445,768
Deferred income taxes..............	310,000	-
Inventories and prepaid expenses...	(298,841)	(442,778)
Decrease (Increase) in current liabilities:		
Current portion of long-term debt..	(1,866,407)	(511,267)
Accounts payable...................	(704,618)	(2,004,124)
Air traffic liability..............	(164,464)	(135,545)
Taxes other than income taxes......	(720,644)	(332,528)
Current portion of accrued vacation liability.........................	(200,000)	(200,000)
Accrued salaries and wages..........	(268,401)	(37,170)
Accrued interest....................	(183,474)	(36,977)
Decrease in working capital...........	(9,018,402)	(1,499,143)
Working capital, beginning of year....	1,802,927	3,302,070
Working capital (deficiency), end of year..............................	$(7,215,475)	$ 1,802,927

ALASKA (000 OMITTED)

	1978	1977
SUMMARY OF CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Increase (Decrease) in current assets:		
Cash................................	$ (2,168)	$ 1,627
Short term investments..............	15,853	(3,511)
Receivables.........................	(125)	1,222
Expendable parts and supplies.......	138	110
Prepaid expenses....................	310	(399)
Net change in current assets.......	14,008	(951)
Increase (Decrease) in current liabilities:		
Accounts payable....................	413	876
Accrued salaries, wages, vacations and payroll taxes..................	971	535
Accrued income taxes................	1,810	73
Other accrued liabilities...........	488	435
Air traffic liability...............	1,050	923
Current instalments on long-term debt...............................	1,058	1
Net change in current liabilities..	5,790	2,843
INCREASE (DECREASE) IN WORKING CAPITAL..	$ 8,218	$ (3,794)

NATIONAL (000 OMITTED)	1978	1977
FUNDS USED:		
Increase in accounts receivable	$ 1,655	$ 2,195
Property and equipment	20,977	11,790
Decrease in notes payable	57,748	42,830
Increase in prepaid expenses and inventories	2,435	2,451
Increase in lease prepayments and other assets	9,477	6,588
Dividends	4,278	4,277
Total	$ 96,570	$ 70,131

CHANGES IN COMPONENTS OF WORKING CAPITAL

The methods used by airlines to disclose the components of changes in working capital follow:

Table 4-12

Disclosure in separate summary or note to statement	17
Disclosure within the statement	4
Total	21

Examples of the various types of disclosure of the change in components of working capital follow:

(See following page.)

OZARK	1978	1977
Increase in cash	$ 4,350,498	$ 941,965
Cash, at beginning of year	12,177,544	11,235,579
Cash, at end of year	$16,528,042	$12,177,544

TEXAS INTERNATIONAL	1978	1977
Increase (Decrease) in working capital by component:		
Cash and temporary cash investments	$ 1,888,964	$ 5,798,126
Accounts receivable	(117,423)	3,198,718
Inventories	669,848	598,314
Prepaid expenses and other current assets	77,616	383,562
Current maturities of long-term debt and notes payable to banks	5,695,385	(1,546,942)
Accounts payable and advance ticket sales	(3,104,463)	(5,544,113)
Accrued liabilities and other	(2,736,248)	(3,941,494)
Increase (Decrease) in working capital	$ 2,373,679	$(1,053,829)

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