

THE  
FLYING  
TIGER  
CORPORATION

THE  
FLYING  
TIGER  
LINE INC

NORTH  
AMERICAN  
CAR  
CORPORATION

1970  
ANNUAL  
REPORTS

# THE FLYING TIGER CORPORATION

## CONTENTS

Letter to Shareholders	2
Summary	6
Financial Statements and Notes	14
Summary/North American Car Corporation	24
Financial Statements and Notes/North American Car Corporation	32
Officers and Directors/North American Car Corporation	39
Officers and Directors/The Flying Tiger Corporation	40

## ABOUT THE CORPORATION

The Flying Tiger Corporation is a holding company organized in mid-1970. It owns two principal subsidiaries: The Flying Tiger Line Inc., the world's largest all-cargo airline, and North American Car Corporation, a leading lessor of specialized railroad equipment. Los Angeles-based Tigers is 25 years old and flies a route structure of 17,500 miles linking major U. S. markets and eight nations and territories in the Far East. Its fleet consists of 17 DC8-63F aircraft. North American Car of Chicago is 64 years old, owns 25,000 railroad cars which are on lease to shippers and carriers. These subsidiaries, which employ 3,500 people, have combined assets in excess of \$500 million.

The Corporation purchased 45 percent of North American Car in the third quarter of 1970 and acquired all outstanding common shares through a merger on January 7, 1971. Despite a suit in Chicago by 30 shareholders of North American to enjoin the merger and recover damages, the court permitted the merger to be consummated pending further proceedings. North American Car Corporation is shown separately in this 1970 annual report.

This is the first annual report of The Flying Tiger Corporation.

The Corporation was formed in mid-1970 after the shareholders of The Flying Tiger Line Inc. approved a Plan of Reorganization. Under the terms of this Plan the airline became a wholly-owned subsidiary of the Corporation. As a next step in achieving management's objectives of broadening its earnings base, the Corporation acquired North American Car Corporation, a company with experienced management and a record of success.

In this combined report, the revenues and earnings of the Corporation reflect almost exclusively the results of The Flying Tiger Line Inc.; North American Car's results are set out separately.

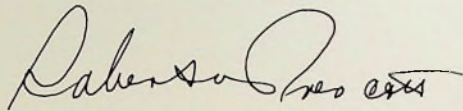
The airline's results are impressive and gratifying, especially during a year in which the air transportation industry was beset with many problems and the economy at large suffered a sharp downturn. Revenue of the Tigers totalled \$123.4 million, highest in its 25-year history and substantially above 1969's \$96.9 million. Net income was \$10.5 million, a 144 percent increase over the \$4.3 million earned last year. Primary earnings per share in 1970 were \$2.20 compared with 90 cents in 1969.

This improved performance stems primarily from route structure changes and new organizational and operational procedures. Expansion of our route system from 3,900 miles to 17,500 miles with the addition of the transPacific service produced broader opportunities for profitable growth. 1970 was the first full year in which these opportunities could be realized. The results proved the soundness of our planning: total common carriage revenue ton miles increased by 99 percent over the previous year and common carriage revenue rose to \$80.7 million from \$35.6 million. Domestic revenue increased 36 percent over last year while international revenue was substantially above our

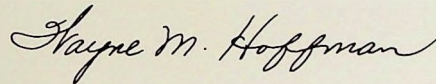
forecast, reaching \$50.2 million. As management anticipated, revenue from Military Airlift Command (MAC) charter flights dropped sharply in 1970 due to Vietnam de-escalation: revenue was \$30.6 million, down from \$49.4 million in the previous year. The fact that international and domestic common carriage revenue increases more than offset the MAC loss and established 1970 as a highly profitable year is extremely significant. This marked the first time in Tiger history that commercial common carriage operation showed a profit. The domestic common carriage, which showed a loss, is improving and we are confident that it will show profits in the future.

The coming year is a promising one for the Corporation and its subsidiaries. The Flying Tiger Line started 1971 with the expectation of an important increase in its domestic cargo business. It anticipates carrying 35 percent of the total air traffic of United Parcel Service which is the nation's largest mover of small packages. North American Car's impact on future earnings of the Corporation will be significant due to its predictably large earnings and growth potential. To help realize this potential, North American Car in 1971 plans to substantially increase its fleet of specialized railroad equipment. As business opportunities continue to develop, this fleet will be expanded.

Your corporation, with the addition of North American Car, emerges as an organization with assets in excess of \$500 million. However, our most important assets are not expressed in dollars. They are the 3,500 skilled and dedicated men and women whose combined efforts determine the scope of our success. We are proud to be members of this expanding team.



*Robert W. Prescott*  
President



*Wayne M. Hoffman*  
Chairman of the Board



# THE FLYING TIGER LINE INC

## HIGHLIGHTS *(expressed in thousands)*

*Year Ended December 31*

	<u>1970</u>	<u>1969</u>
Operating revenues	\$123,372	\$ 96,893
Operating income	\$ 21,866	\$ 12,805
Net income	\$ 10,528	\$ 4,311
*Primary earnings per common share	\$ 2.20	\$ .90
Revenue ton miles		
Domestic	213,062	174,353
International	290,126	78,630
Stockholders' equity	\$ 53,811	\$ 42,903
*Book value per common share	\$ 11.23	\$ 8.99

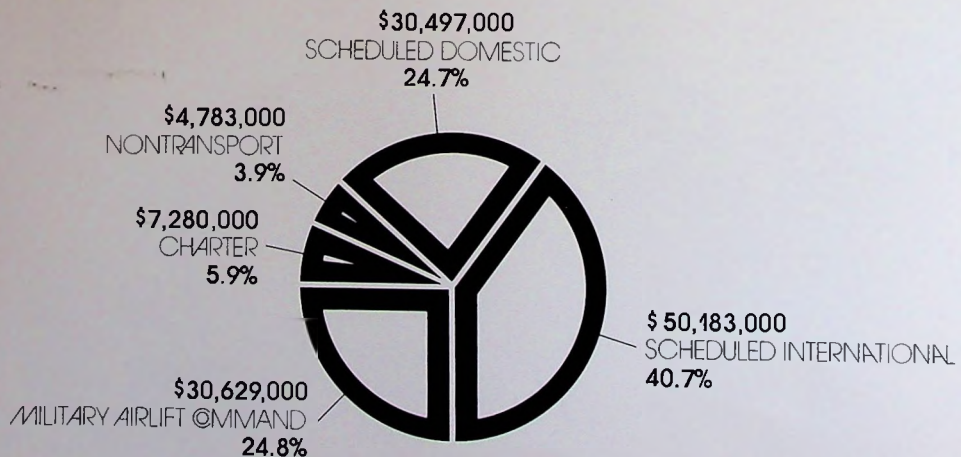
\*Does not reflect five percent stock dividend declared March 9, 1971.

In 1970 Flying Tiger revenues reached a new high of \$123,372,000, a 27 percent increase over the previous record of \$96,893,000 set in 1969. Net income was \$10,528,000, an increase of 144 percent over the \$4,311,000 earned in the previous year. Primary earnings per share were \$2.20 compared with 90 cents in 1969, and fully diluted earnings were \$2.02 and 90 cents respectively. This is based on an average number of outstanding shares in 1970 of 4,777,778 and 4,770,470 shares for 1969. The figures of both years are adjusted to reflect a 5 percent stock dividend granted in 1970.

The year was marked by the success of the airline in establishing itself as a major international cargo carrier. In 1970 it flew 290 million revenue ton miles across the Pacific, carrying mail, textiles, office machines, optical equipment, wigs, fresh vegetables and fruits, aircraft and automotive parts, electronic components, power machinery, chemicals, tractor parts and other products to and from points along its 17,500-mile route.

International revenue in this first full year of operations totalled \$50,183,000. This is 64 percent higher than revenue received from domestic cargo operations which the airline has been conducting for 25 years and which, itself, rose significantly during 1970. Slightly more than half of the international revenue is U.S. mail. This is expected to decline as the Vietnam war scales down but it is anticipated that the growth of commercial international freight will more than offset this decline.

#### SOURCES OF REVENUE



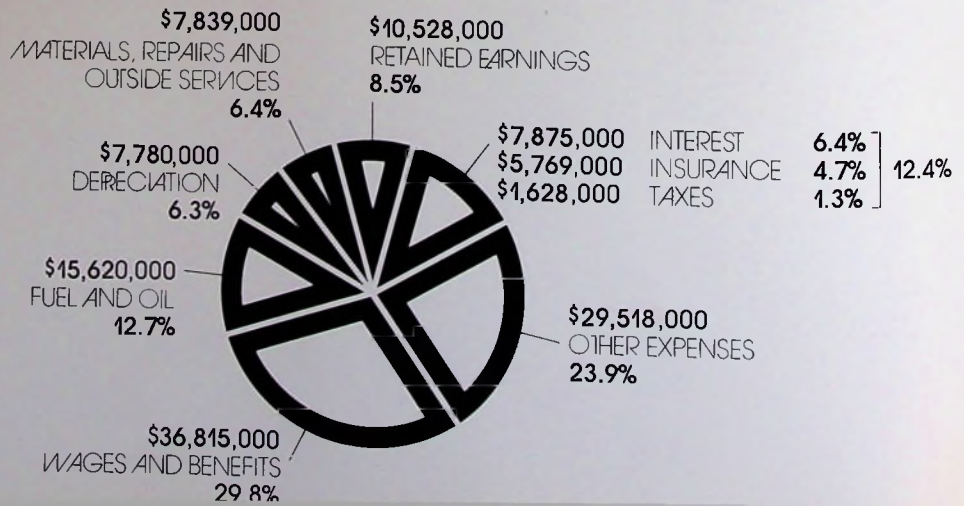


In response to customer demand, and shortly after it began to fly the trans Pacific route, Tigers increased flight frequencies and expanded services to a greater extent than any other competing carrier. It inaugurated direct daily flights from the eastern U.S. to the Far East, cutting as much as 18 hours transit time from New England, New York, and Chicago to Tokyo, Japan. It added Osaka, Japan, home of Expo 70, to its schedule and offered interim service to Bangkok. At JFK

International in New York, Tigers designed and built a \$2.2 million terminal for special handling of international cargo. Featuring security systems designed to greatly reduce the pilferage problems plaguing the air cargo industry, it has attracted a great deal of favorable attention from customers in the U.S. and abroad, from Congress, CAB and other government agencies.

Domestic revenue ton miles increased from 174 million in 1969 to 213 million in 1970. This gain of 22 percent was one of the highest one-year increases ever recorded by the airline and it was substantially higher than the industry growth average of 6 percent. Much of this increase was due to the integration of domestic with international schedules so that all points on the domestic system would offer prime service to the Far East.

#### DISTRIBUTION OF REVENUE





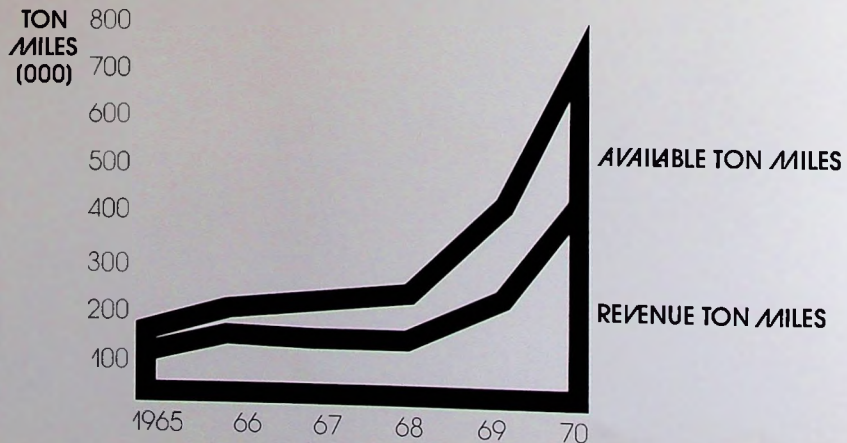
Load factors on the domestic system increased slightly over the prior year, and yield per revenue ton mile rose from 12.9 cents to 14.3 cents, or 11 percent. This is the highest domestic return per revenue ton mile since 1961.

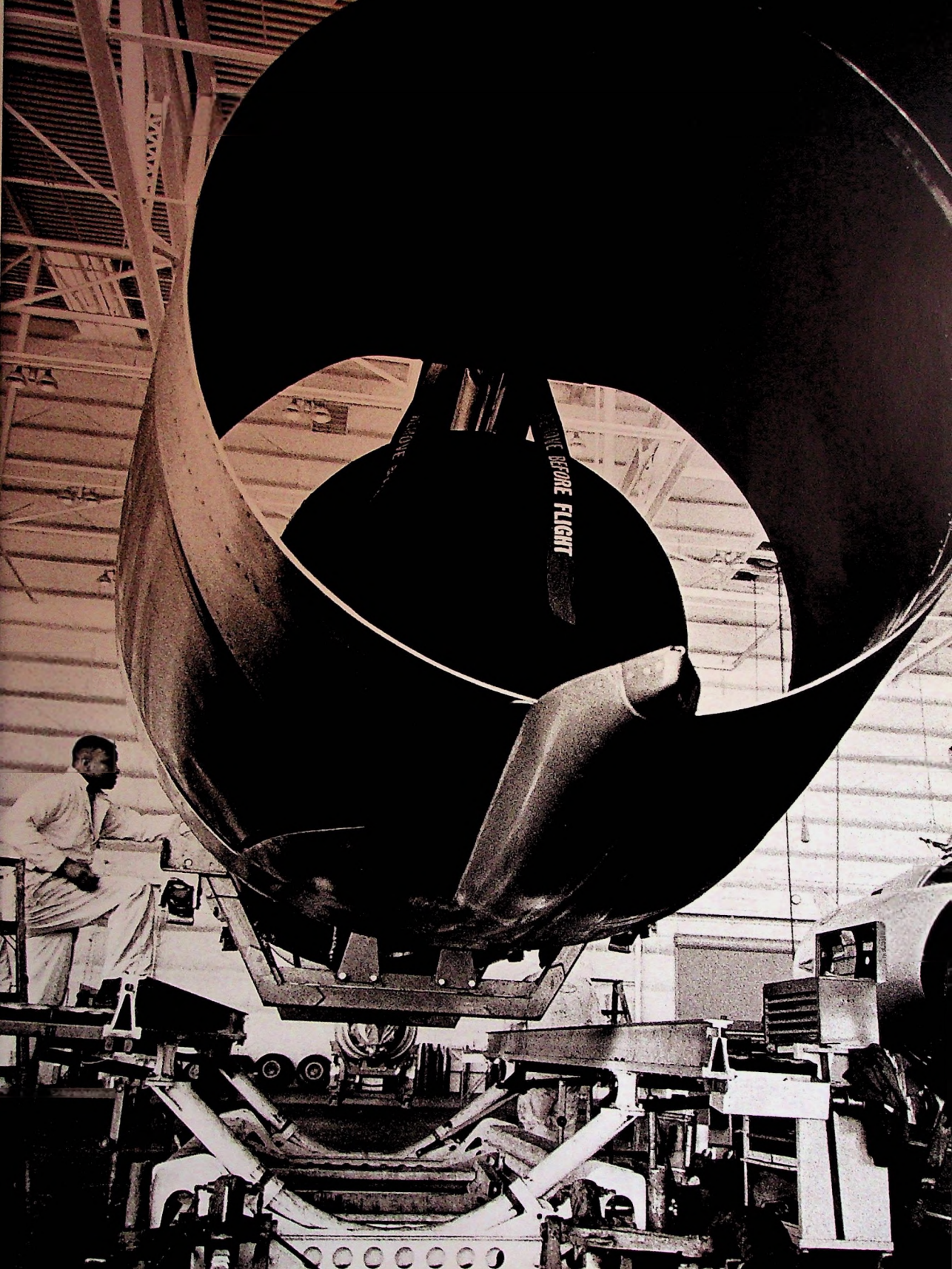
The number of Military Airlift Command (MAC) charter flights dropped sharply in 1970 due to the Vietnam de-escalation. Revenue totalled \$30.6 million in 1970 compared with \$49.4 million in the prior year. In 1970 military charter business comprised 25 percent of total Tiger revenue, down from 51 percent in 1969. This is the most significant annual improvement in the military/commercial business ratio in the airline's history.

1970 was the first full year of operations of the all DC-8-63F fleet. The large capacity, high reliability, and operational economy of this aircraft was in large measure responsible for the airline's impressive 1970 performance. New Company records were set on individual flights: 106,000 pounds of strawberries were carried on a stretched

DC-8 jet freighter from Los Angeles to Philadelphia, and 100,162 pounds of cargo was flown from San Francisco to Tokyo. The economy of operating a one-type aircraft fleet, the savings in training and maintenance costs, the reduction in spare parts inventories, and the efficiency of uniform support systems had an important impact on Company earnings. In a year in which the airline's revenues increased by 27 percent, operating expenses rose only 21 percent.

A review of the factors affecting working capital during the year emphasizes the Company's strong financial position and highlights the significant investments it has made.





The Company generated \$29,243,000 in funds from operations, or \$6.12 per share of common stock, an increase of 74 percent over 1969. In addition, \$11,617,000 was realized through the collection of long-term receivables and the retirement of property and equipment. Working capital was utilized to invest \$43,885,000 in the stock of North American Car Corporation and in aircraft and equipment. Outstanding long-term debt was reduced \$8,148,000 during the year. Materials and supplies totaling \$2,490,000, no longer related to operations, were reclassified to non-transport

use. Working capital at December 31, 1970, was sufficient to amortize debt requirements for the next 3½ years.

The current portion of our long-term debt reflects \$1,908,000 of debt on the B-707 aircraft, which are on full payout leases with two foreign airlines and include purchase options. The debt is secured by the aircraft and the assignment of these long-term leases to the lender.

During 1970 the three DC-8-63F aircraft that had been on lease to other carriers were returned and placed into the airline's operating fleet. At year's end Tigers had 17 DC-8-63F aircraft, one of which was out on lease.

During July and August of 1970 the Company and its subsidiaries purchased for cash 45 percent of the outstanding common stock of North American Car Corporation for an investment of \$31,981,000. The merger was completed on January 7, 1971, with the issuance of preferred stock and warrants for the remaining outstanding common stock.



# THE FLYING TIGER CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 1970 and 1969 (expressed in thousands)

	<u>1970</u>	<u>1969</u>
<b>Operating Revenues:</b>		
Scheduled cargo operations—		
Domestic .....	\$ 30,497	\$22,467
International .....	50,183	13,102
Military Airlift Command .....	30,629	49,386
Charters, service sales, etc. ....	<u>12,063</u>	<u>11,938</u>
	<u>123,372</u>	<u>96,893</u>
<b>Operating Expenses:</b>		
Flying operations .....	44,548	35,546
Maintenance .....	16,839	15,377
Ground operations .....	21,580	14,602
Sales, advertising and publicity .....	5,172	3,106
General and administrative .....	5,587	4,742
Depreciation and amortization (straight-line) .....	7,780	8,008
Preoperating costs .....	<u>—</u>	<u>2,707</u>
	<u>101,506</u>	<u>84,088</u>
<b>Operating income</b> .....	<u>21,866</u>	<u>12,805</u>
<b>Other (Income) Expense:</b>		
Interest expense .....	7,875	8,676
Interest and dividend income .....	(2,139)	(1,469)
Miscellaneous (net) .....	<u>(663)</u>	<u>(314)</u>
	<u>5,073</u>	<u>6,893</u>
<b>Income before deferred income tax provision and extraordinary items</b> .....	16,793	5,912
<b>Deferred Income Tax Provision</b> (Note 6) .....	<u>6,322</u>	<u>1,601</u>
<b>Income before extraordinary items</b> .....	10,471	4,311
<b>Extraordinary Items</b> (Note 9) .....	<u>57</u>	<u>—</u>
<b>Net Income</b> .....	<u>\$ 10,528</u>	<u>\$ 4,311</u>
<b>Primary Earnings per Share</b> (Note 10):		
Income before extraordinary items .....	\$ 2.19	\$ .90
Extraordinary items .....	<u>.01</u>	<u>—</u>
<b>Net Income</b> .....	<u>\$ 2.20</u>	<u>\$ .90</u>
<b>Fully Diluted Earnings per Share</b> (Note 10):		
Income before extraordinary items .....	\$ 2.01	\$ .90
Extraordinary items .....	<u>.01</u>	<u>—</u>
<b>Net Income</b> .....	<u>\$ 2.02</u>	<u>\$ .90</u>

# THE FLYING TIGER CORPORATION

## CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

*For the Years Ended December 31, 1970 and 1969 (expressed in thousands)*

	<u>1970</u>	<u>1969</u>
<b>WORKING CAPITAL AT BEGINNING OF YEAR</b> .....	<u>\$31,785</u>	<u>\$14,702</u>
<b>SOURCE OF FUNDS:</b>		
<b>Operations—</b>		
Net income .....	10,528	4,311
Add —		
Depreciation and amortization charged to operations .....	7,780	8,008
Depreciation and amortization charged to other accounts .....	1,487	849
Overhaul reserves — net .....	3,067	2,099
Deferred income tax provision (Note 6) .....	<u>6,381</u>	<u>1,601</u>
	<u>29,243</u>	<u>16,868</u>
<b>Financing —</b>		
Proceeds from issue of 5¾% Convertible Subordinated Notes (Note 5) .....	—	25,000
Proceeds from issue of 1968 Equipment Trust Certificates .....	—	19,000
Proceeds from notes payable (Note 5) .....	14,574	—
Proceeds from common stock issued upon exercise of stock options .....	380	80
Deferred debt expense .....	—	(208)
	<u>14,954</u>	<u>43,872</u>
<b>Other —</b>		
Collection on long-term receivables, net of amortization of unearned income .....	2,117	1,222
Retirement of property and equipment, less long-term receivables		
of \$2,386,000 in 1970 .....	<u>9,500</u>	<u>4,501</u>
	<u>11,617</u>	<u>5,723</u>
<b>Funds Provided</b> .....	<u>55,814</u>	<u>66,463</u>
<b>APPLICATION OF FUNDS:</b>		
<b>Investment in North American Car Corporation</b> (Note 2) .....	<u>31,981</u>	<u>—</u>
<b>Long-term debt —</b>		
Payments on long-term debt .....	21,434	13,126
Decrease in current portion of long-term debt .....	<u>(4,486)</u>	<u>(1,089)</u>
	<u>16,948</u>	<u>12,037</u>
<b>Equipment acquisition —</b>		
Purchase and lease of property and equipment, net of cash deposits applied .....	<u>11,904</u>	<u>31,478</u>
<b>Other —</b>		
Reclassification of materials and supplies in 1970 and prepaid engine		
overhaul costs in 1969 .....	2,490	5,632
Cash dividends on common stock .....	—	454
All other —net .....	19	(221)
	<u>2,509</u>	<u>5,865</u>
<b>Funds Applied</b> .....	<u>63,342</u>	<u>49,380</u>
Net increase (decrease) in working capital .....	<u>(7,528)</u>	<u>17,083</u>
<b>WORKING CAPITAL AT END OF YEAR</b> .....	<u>\$24,257</u>	<u>\$31,785</u>

# THE FLYING TIGER CORPORATION

## CONSOLIDATED BALANCE SHEETS

*December 31, 1970 and 1969 (expressed in thousands)*

<b>ASSETS</b>	<u>1970</u>	<u>1969</u>
<b>Current Assets:</b>		
Cash and certificates of deposit .....	\$ 7,994	\$ 3,490
Short-term investments, at cost approximating market, and deposits .....	5,513	19,730
Receivables, less reserves—		
Cargo customers .....	10,369	6,718
Charters, service sales, and other .....	14,284	15,220
Materials and supplies, at average cost .....	1,817	4,794
Prepaid insurance, rents, etc. ....	<u>3,792</u>	<u>3,526</u>
<b>Total current assets</b> .....	<u>43,769</u>	<u>53,478</u>
<b>Investment in North American Car Corporation</b> (Note 2) .....	<u>31,981</u>	<u>—</u>
<b>Property and Equipment:</b>		
Aircraft, engines, and other flight equipment .....	117,139	116,852
Other equipment .....	5,974	4,832
Buildings and leasehold improvements .....	<u>8,416</u>	<u>8,098</u>
	131,529	129,782
Less—Reserves for depreciation and amortization .....	<u>24,388</u>	<u>15,946</u>
	107,141	113,836
Aircraft in nontransport use, net of reserves (Note 4) .....	<u>14,725</u>	<u>17,144</u>
	<u>121,866</u>	<u>130,980</u>
<b>Other Assets:</b>		
Unamortized debt expense .....	1,103	1,526
Long-term lease receivables, less unearned income of \$1,160,000 in 1970 and \$2,076,000 in 1969 .....	6,187	7,734
Long-term deposits, etc. ....	<u>5,840</u>	<u>4,025</u>
	<u>13,130</u>	<u>13,285</u>
	<u>\$210,746</u>	<u>\$197,743</u>

December 31, 1970 and 1969 (expressed in thousands)

**LIABILITIES AND STOCKHOLDERS' EQUITY****Current Liabilities:**

	<u>1970</u>	<u>1969</u>
Current installments of long-term debt . . . . .	\$ 5,556	\$ 10,042
Accounts payable and accrued liabilities . . . . .	<u>13,956</u>	<u>11,651</u>
<b>Total current liabilities</b> . . . . .	<u>19,512</u>	<u>21,693</u>

**Long-term Debt**, less current installments (Note 5):

Equipment Trust Certificates, etc. . . . .	84,047	93,133
5¾% Convertible Subordinated Notes . . . . .	25,000	25,000
Notes payable—other . . . . .	<u>5,424</u>	<u>—</u>
	<u>114,471</u>	<u>118,133</u>

**Deferred Credits:**

Deferred Federal income taxes (Note 6) . . . . .	20,368	13,986
Overhaul liability—leased aircraft and engines . . . . .	<u>2,584</u>	<u>1,028</u>
	<u>22,952</u>	<u>15,014</u>

**Commitments** (Note 3)**Stockholders' Equity** (Note 8):

Common shares—\$1 par value— Authorized—15,000,000 shares		
Outstanding—4,791,770 shares (1970) and 4,544,638 shares (1969) . . . . .	4,792	4,545
Additional paid-in capital . . . . .	20,770	17,260
Retained earnings (Note 5) . . . . .	<u>28,249</u>	<u>21,098</u>
	<u>53,811</u>	<u>42,903</u>
	<u>\$210,746</u>	<u>\$197,743</u>

The Flying Tiger Corporation and Subsidiaries

The accompanying notes are an integral part of these statements.

# THE FLYING TIGER CORPORATION CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 1970 and 1969 (expressed in thousands)

	1970				1969
	\$1 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Total	Total
<b>Balance</b> , Beginning of year . . . . .	\$4,545	\$17,260	\$21,098	\$42,903	\$38,966
<b>Add —</b>					
Net income for year . . . . .	—	—	10,528	10,528	4,311
Issuance of shares under stock options . . . . .	20	360	—	380	80
Five percent stock dividend . . . . .	227	3,150	—	3,377	—
	<u>4,792</u>	<u>20,770</u>	<u>31,626</u>	<u>57,188</u>	<u>43,357</u>
<b>Deduct —</b>					
Cash dividends on common stock — 10 cents per share . . . . .	—	—	—	—	454
Fair value of five percent stock dividend . . . . .	—	—	3,377	3,377	—
<b>Balance</b> , End of year (Notes 5 and 8) . . . . .	<u>\$4,792</u>	<u>\$20,770</u>	<u>\$28,249</u>	<u>\$53,811</u>	<u>\$42,903</u>

The Flying Tiger Corporation and Subsidiaries

The accompanying notes are an integral part of these statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

**(1) Principles of Consolidation** — The Financial Statements include the accounts of The Flying Tiger Corporation and its wholly-owned subsidiaries for all periods presented. All significant intercompany accounts and transactions have been eliminated.

Under a Plan of Reorganization and Agreement of Merger, approved by the stockholders of The Flying Tiger Line Inc. at a special meeting on October 2, 1969, a reorganization was consummated on June 30, 1970. Under the Plan, The Flying Tiger Line Inc. was merged into a new subsidiary of The Flying Tiger Corporation, a holding company. The Flying Tiger Line Inc. continued to carry on its operations as a wholly-owned subsidiary of The Flying Tiger Corporation.

**(2) Investment in North American Car Corporation** — Under terms of an agreement approved by the stockholders at a special meeting on December 21, 1970, a merger with North American Car Corporation was consummated on January 7, 1971, pursuant to a Plan and Agreement of Merger.

Under terms of the Plan, a subsidiary of The Flying Tiger Corporation was merged into North American and all of the outstanding shares of North American common stock (excluding shares held by Flying Tiger and its subsidiaries) were exchanged for shares of preferred stock and warrants of the Company. In connection with this merger the Company

issued 1,776,641 shares of \$1.20 Series Cumulative Convertible Preferred Stock and warrants to purchase 592,214 shares of Flying Tiger common stock at \$31.00 per share. The preferred stock is convertible at the option of the holder into seven-tenths of a share of Flying Tiger common stock and is redeemable by the Company at any time after January 7, 1972, at \$22.50 per share.

The Company and its subsidiaries had previously purchased approximately 45% of North American Car Corporation's common stock for cash from July through September, 1970.

**(3) Lease Commitments** — At December 31, 1970, the Company had long-term leases on aircraft, engines, facilities and equipment, with minimum periods ranging from one year to 28 years. There are renewal and purchase options on the aircraft and engines.

The schedule below summarizes annual and aggregate rentals for the minimum lease periods:

	Annual Rental for 1971	Aggregate Rental	Lease Period (Years)
Aircraft and engines . . . . .	\$10,272,000	\$119,974,000	14
Facilities and equipment . . . . .	1,695,000	20,917,000	1-28
	<u>\$11,967,000</u>	<u>\$140,891,000</u>	

**(4) Aircraft in Nontransport Use** — Aircraft in nontransport use and related spares include Boeing 707 and CL-44 aircraft which have been retired from the Company's operating fleet and are carried at estimated net realizable value.

The Boeing 707 aircraft and certain of the CL-44 aircraft are on leases with options to purchase. The remaining CL-44 aircraft are available for lease or sale.

**(5) Long-Term Debt** — The outstanding balance of Equipment Trust Certificates and other debt obligations at December 31, 1970, and December 31, 1969, consisted of the following:

	December 31	
	1970	1969
Equipment trust certificates—		
1959 and 1964 5½%, due 1970 . . . . .	\$ —	\$ 1,619,000
1965 variable rate, maximum 8%, due 1971—1974 . . . . .	6,740,000	8,436,000
1967 6.6%, due 1971—1980 . . . . .	42,500,000	46,750,000
1968 6% to 7%, due 1971—1981 . . . . .	25,337,000	35,937,000
Subordinated equipment purchase notes—		
¾% over prime rate, due 1971—1977 . . . . .	8,745,000	—
6¾%, due 1974—1979 . . . . .	6,612,000	6,612,000
Other notes secured by facilities and equipment—		
5½%—7%, due 1971—1988 . . . . .	3,727,000	4,117,000
	<u>93,661,000</u>	<u>103,471,000</u>
Less: Principal amount of 1967 equipment trust certificates held in treasury . . . . .	4,058,000	296,000
	89,603,000	103,175,000
Less: Current portion . . . . .	5,556,000	10,042,000
	<u>\$ 84,047,000</u>	<u>\$ 93,133,000</u>

The 5¾% Convertible Subordinated Notes are due from 1979 to 1989 and are convertible into common stock at \$30.95 per share through 1989.

Other notes payable include amounts payable in 1972 and 1975 with interest at 10¼% and ¾% over prime. As of December 31, 1970, 756,250 shares of North American Car Corporation common stock were pledged as collateral for the foregoing notes payable. Upon consummation of the merger, the collateral security for these notes became a proportionate share of the Company's equity in North American Car.

The equipment trust agreements and other debt agreements include restrictive provisions as to the payment of cash dividends on common shares, working capital, borrowing, capital expenditures, etc. As of December 31, 1970, substantially all of the consolidated retained earnings are those of The Flying Tiger Line Inc. and are subject to the foregoing provisions. Under the most restrictive of these provisions \$3,717,000 of retained earnings is available for the payment of cash dividends on common shares.

**(6) Deferred Income Taxes** — Provisions for income taxes have been deferred through deduction of accelerated depreciation and other allowable deductions for tax purposes. The provisions for 1970, and 1969 have been reduced by approximately \$2,000,000 and \$1,573,000 of investment tax credit respectively. The Company has approximately \$10,000,000 of investment tax credit carry-forward which may be utilized for tax purposes through 1976, of which \$7,456,000 has been applied as a reduction of deferred tax provisions. The maximum amount available in any one year is limited to approximately \$2,000,000 under the provisions of the 1969 Tax Reform Act.

**(7) Pension Plans** — The Company maintains pension plans for substantially all employees. The total pension plan expense for the year ended December 31, 1970, was \$1,849,000, of which \$150,000 was applicable to the unfunded liability for past service benefits which is being amortized over 20 years. Pension costs are funded as accrued. At December 31, 1970, the actuarially computed vested benefits exceeded pension funds by approximately \$1,368,000.

Additional retirement benefits are provided certain executives under a supplemental pension agreement. As of December 31, 1970, normal and past service costs of this supplemental plan have not been actuarially determined and have not been funded or accrued by the Company. In management's opinion, the actuarially computed value of vested benefits, when finally determined, will not be material.

**(8) Capital Stock** — At December 31, 1970, there were 439,055 shares of common stock reserved for issuance under the Company's Qualified Stock Option Plans, of which options for purchase of 358,475 shares of common stock were outstanding, granted to officers and key employees at prices ranging from \$14.88 to \$28.33 per share (exercisable 1971—1975). At December 31, 1970, stock purchase warrants were outstanding for 26,250 shares of common stock, exercisable from 1971—1979, presently at \$27.38 per share, increasing to \$29.84 per share in 1975.

Also, at December 31, 1970, 807,692 common shares were reserved for the conversion of the 5¾% Convertible Subordinated Notes at \$30.95 per share through 1989.

In connection with the reorganization referred to in Note 1, the stockholders authorized 3,000,000 shares of preferred stock, of which 1,830,000 shares of \$1 20 Series convertible preferred have been reserved for the purchase of the remaining outstanding common shares of North American Car Corporation. (See Note 2)

**(9) Extraordinary Items** — Extraordinary items, less applicable deferred income tax, were as follows:

Gain on aircraft retirement . . . . .	\$1,358,000
Provision for losses on disposition of fleet . . . . .	(577,000)
Loss on sale of investments . . . . .	(724,000)
	<u>\$ 57,000</u>
Provision for deferred income taxes deducted above . . . . .	<u>\$ 59,000</u>

**(10) Earnings Per Share** — Primary earnings per share have been computed based upon the weighted average number of common shares outstanding during each year adjusted for the five percent stock dividend issued in August, 1970.

Fully-diluted earnings per share have been computed in the same manner, giving retroactive effect to the assumed conversion of the 5¾% Convertible Subordinated Notes into 807,692 common shares. For this computation net income has been increased for the interest expense, net of tax effect, applicable to this debt. Common stock options and warrants, and the Convertible Subordinated Notes in 1969, have no significant dilutive effect on earnings per share.

The accompanying consolidated financial statements and notes to the consolidated financial statements have not been adjusted to reflect a 5% stock dividend declared March 9, 1971.

## AUDITORS' REPORT

Arthur Andersen & Co.  
Los Angeles, California

To the Stockholders,  
The Flying Tiger Corporation

We have examined the consolidated balance sheets of THE FLYING TIGER CORPORATION (a Delaware corporation) and subsidiaries as of December 31, 1970 and 1969, and the related consolidated statements of income, stockholders' equity, and source and application of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Flying Tiger Corporation and subsidiaries as of December 31, 1970 and 1969, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

Los Angeles, California  
March 8, 1971

ARTHUR ANDERSEN & CO.

(expressed in thousands)

**CONSOLIDATED INCOME STATEMENTS\***

	1970	1969	1968	1967	1966
<b>Operating Revenues:</b>					
Scheduled Cargo Operations—					
Domestic .....	\$ 30,497	\$ 22,467	\$ 21,430	\$ 21,689	\$ 23,483
International .....	50,183	13,102	—	—	—
Military Airlift Command .....	30,629	49,386	43,255	53,413	48,074
Charters, service sales, etc. ....	12,063	11,938	12,014	11,929	14,462
	<u>123,372</u>	<u>96,893</u>	<u>76,699</u>	<u>87,031</u>	<u>86,019</u>
<b>Operating Expenses:</b>					
Depreciation and amortization .....	7,780	8,008	6,572	6,577	6,592
All other .....	93,726	76,080	72,198	67,754	59,531
	<u>101,506</u>	<u>84,088</u>	<u>78,770</u>	<u>74,331</u>	<u>66,123</u>
<b>Operating income (loss) .....</b>	<u>21,866</u>	<u>12,805</u>	<u>(2,071)</u>	<u>12,700</u>	<u>19,896</u>
<b>Other (Income) and Expenses:</b>					
Interest expense .....	7,875	8,676	3,087	1,775	2,302
Miscellaneous (net) .....	(2,802)	(1,783)	(530)	(903)	(1,727)
	<u>5,073</u>	<u>6,893</u>	<u>2,557</u>	<u>872</u>	<u>575</u>
<b>Income (loss) before deferred income taxes and extraordinary items .....</b>	<u>16,793</u>	<u>5,912</u>	<u>(4,628)</u>	<u>11,828</u>	<u>19,321</u>
<b>Deferred income taxes .....</b>	<u>6,322</u>	<u>1,601</u>	<u>(2,226)</u>	<u>3,958</u>	<u>7,439</u>
<b>Income (loss) before extraordinary items .....</b>	<u>10,471</u>	<u>4,311</u>	<u>(2,402)</u>	<u>7,870</u>	<u>11,882</u>
<b>Extraordinary items, less income taxes .....</b>	<u>57</u>	<u>—</u>	<u>(4,249)</u>	<u>(801)</u>	<u>—</u>
<b>Net Income (Loss) .....</b>	<u>\$ 10,528</u>	<u>\$ 4,311</u>	<u>\$ (6,651)</u>	<u>\$ 7,069</u>	<u>\$ 11,882</u>
<b>Primary Earnings Per Common Share:</b>					
Income (loss) before extraordinary items .....	\$ 2.19	\$ .90	\$ (.50)	\$ 1.66	\$ 2.87
Extraordinary items .....	.01	—	(.89)	(.17)	—
<b>Net Income (Loss) .....</b>	<u>\$ 2.20</u>	<u>\$ .90</u>	<u>\$ (1.39)</u>	<u>\$ 1.49</u>	<u>\$ 2.87</u>

**OTHER FINANCIAL INFORMATION\***

Shares outstanding at end of year:

Preferred .....	—	—	—	—	—
Common** .....	4,791,770	4,771,870	4,767,670	4,765,045	4,661,332
Stockholders' equity .....	\$ 53,811	\$ 42,903	\$ 38,966	\$ 46,021	\$ 40,259
Book value per common share .....	\$ 11.23	\$ 8.99	\$ 8.17	\$ 9.66	\$ 8.64
Current assets .....	\$ 43,769	\$ 53,478	\$ 41,761	\$ 37,497	\$ 39,688
Current liabilities .....	\$ 19,512	\$ 21,693	\$ 27,059	\$ 17,590	\$ 19,892
Working capital .....	\$ 24,257	\$ 31,785	\$ 14,702	\$ 19,907	\$ 19,796
Flight equipment at cost .....	\$ 117,139	\$ 116,852	\$ 96,965	\$ 89,501	\$ 88,995
Long-term debt .....	\$ 114,471	\$ 118,133	\$ 102,536	\$ 79,967	\$ 34,867

**Scheduled Cargo Statistics**

<b>Domestic</b>					
Available ton miles (000) .....	376,906	309,813	263,223	246,415	226,700
Revenue ton miles (000) .....	213,062	174,353	166,041	163,250	169,811
Load factor .....	56.5%	56.3%	63.1%	66.2%	74.9%
Revenue per ton mile (cents) .....	14.31	12.89	12.91	13.29	13.83
<b>International</b>					
Available ton miles (000) .....	449,448	138,688			
Revenue ton miles (000) .....	290,126	78,630			
Load factor .....	64.6%	56.7%			
Revenue per ton mile (cents) .....	17.30	16.66			
<b>Number of Airline Employees .....</b>	<u>2,781</u>	<u>2,241</u>	<u>2,475</u>	<u>2,096</u>	<u>2,089</u>

\*1961 has not been shown due to a change in accounting period from year ended June 30 to year ended December 31.

\*\*Common shares adjusted for 2 for 1 stock split in 1967 and 5% stock dividends in 1970, 1965, and 1963.

NOTE—Per share computations and shares outstanding have not been adjusted to reflect a 5% stock dividend declared March 9, 1971.

# THE FLYING TIGER LINE INC OFFICERS AND DIRECTORS

**DIRECTORS**

**Wayne M. Hoffman**  
Chairman of the Board

**Robert W. Prescott**  
President

**Donald Chickering**  
Vice President, Marketing

**Laurence C. Craigie**  
Lockheed Aircraft Corporation, Burbank

**J. Howard Edgerton**  
Chairman of the Board, California Federal Savings & Loan Assn., Los Angeles

**Myer Feldman**  
Ginsburg, Feldman & Bress, Washington, D. C.

**William Gelfand**  
Vice President, Contract Administration

**Thomas F. Grojean**  
Vice President, Finance

**Joseph J. Healy**  
Sr. Vice President, General Manager-Terminals

**Charles Luckman**  
Charles Luckman Associates, Los Angeles

**William E. McKenna**  
Chairman of the Board, Technicolor, Inc., Beverly Hills

**Norman L. Meyers**  
Meyers, Marshall & Meyers, Washington, D. C.

**E. A. Pinke**  
Sr. Vice President, Operations & Maintenance

**Houston Rehrig**  
Rehrig-Pacific Co., Los Angeles

**OFFICERS**

**Wayne M. Hoffman**  
Chairman of the Board

**Robert W. Prescott**  
President

**Joseph J. Healy**  
Sr. Vice President, General Manager-Terminals

**E. A. Pinke**  
Sr. Vice President, Operations & Maintenance

**Harold W. Bell**  
Acting Vice President, Industrial Relations

**Anna Chennault**  
Vice President, International Affairs

**Donald Chickering**  
Vice President, Marketing

**L. R. Emerson**  
Vice President, Sales

**William Gelfand**  
Vice President, Contract Administration

**Thomas F. Grojean**  
Vice President, Finance

**John F. McDonald**  
Vice President, Maintenance & Engineering

**Edwin H. Rees**  
Vice President, Public Relations

**George A. Zettler**  
Vice President, Far East

**David J. Barish**  
Secretary Treasurer

**R. J. Valenta**  
Corporate Controller

**Myer Feldman**  
Assistant Secretary

**J. W. Rosenthal**  
Assistant Secretary

1965	1964	1963	1962
\$ 17,087	\$ 13,707	\$ 10,919	\$ 10,259
—	—	—	—
30,237	23,151	27,466	38,395
8,832	8,610	3,825	3,609
<u>56,156</u>	<u>45,468</u>	<u>42,210</u>	<u>52,263</u>
5,909	5,345	5,860	5,737
42,208	35,792	34,259	39,291
48,117	41,137	40,119	45,028
8,039	4,331	2,091	7,235
2,423	2,120	2,425	2,792
(345)	(355)	(234)	85
<u>2,078</u>	<u>1,765</u>	<u>2,191</u>	<u>2,877</u>
5,961	2,566	(100)	4,358
2,740	1,075	(52)	2,266
3,221	1,491	(48)	2,092
—	200	317	478
<u>\$ 3,221</u>	<u>\$ 1,691</u>	<u>\$ 269</u>	<u>\$ 2,570</u>
\$ .94	\$ .44	\$ (.01)	\$ .63
—	.06	.09	.15
<u>\$ .94</u>	<u>\$ .50</u>	<u>\$ .08</u>	<u>\$ .78</u>
99,112	99,112	99,112	99,112
3,376,790	3,372,159	3,371,277	3,299,208
\$ 18,993	\$ 15,996	\$ 14,507	\$ 13,795
\$ 5.63	\$ 4.74	\$ 4.30	\$ 4.18
\$ 21,556	\$ 20,506	\$ 16,717	\$ 18,591
\$ 12,411	\$ 12,799	\$ 10,681	\$ 10,993
\$ 9,145	\$ 7,707	\$ 6,036	\$ 7,598
\$ 92,247	\$ 68,837	\$ 70,825	\$ 71,354
\$ 48,154	\$ 29,283	\$ 36,018	\$ 42,785
172,570	135,642	117,354	103,245
127,611	99,489	77,832	74,197
73.9%	73.3%	66.3%	71.9%
13.39	13.78	14.03	13.83
1,666	1,359	1,234	1,430

HIGHLIGHTS *(expressed in thousands)**Year Ended December 31*

	<u>1970</u>	<u>1969</u>
The company's operations brought in	\$51,961	\$50,034
The cost of doing business was	44,841	38,940
Leaving earnings of	7,120	11,094
Income taxes were then subtracted	2,220	4,382
Resulting in net earnings of	4,900	6,712
Number of cars in fleet	25,469	24,625
Fleet capacity (thousands of tons)	1,883	1,760

**NORTH  
AMERICAN  
CAR  
CORPORATION**

1970 was an eventful year for North American Car Corporation. The Flying Tiger Corporation and its subsidiaries acquired control of the company in September. In January 1971, North America Car became a subsidiary of the Corporation through a merger. Since North American is a newcomer to the Tiger family, it seems appropriate in this combined annual report to recount briefly its history and describe its operations as well as to review its performance during the year.

North American Car is the nation's fourth largest independent lessor of specialized railroad freight equipment. Its fleet at the end of 1970 was the largest in its 64-year history, totaling 25,469 cars. In 1970 it disposed of 813 older cars and

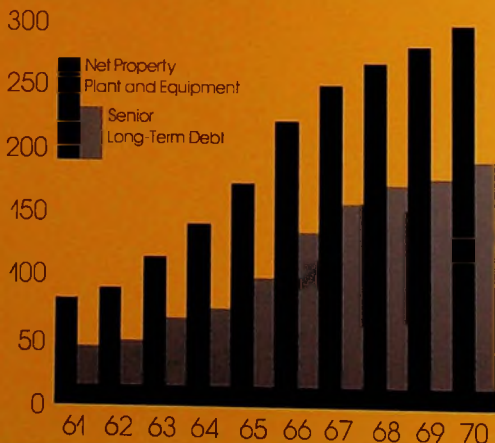
acquired 1,657 for a net gain of 844 cars.

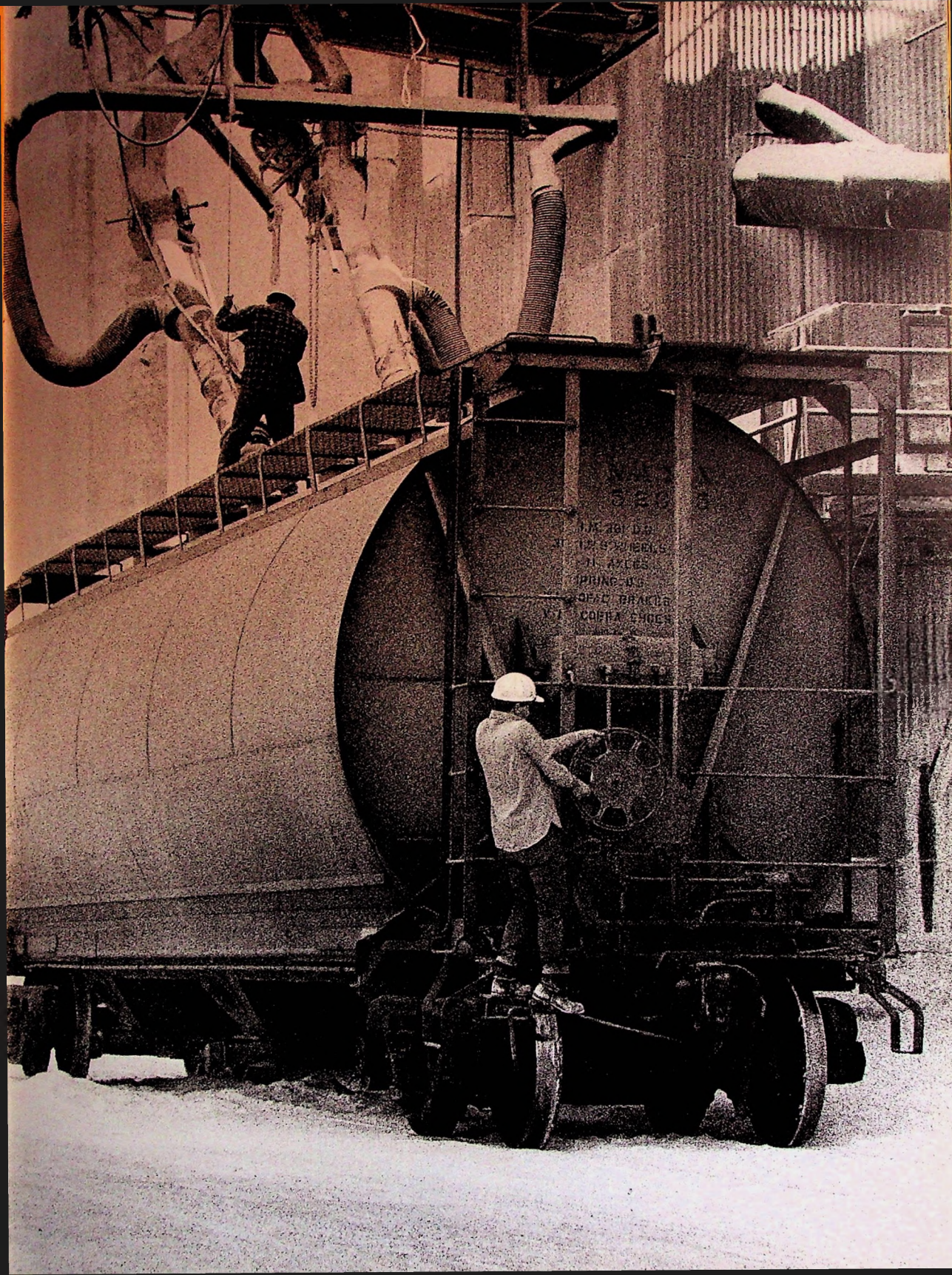
The size and composition of this fleet have changed over the years with the tendency towards more efficient and larger equipment. Besides tank cars for bulk liquids, the fleet has box cars for general freight, hopper cars for dry bulk commodities, flat cars for heavy and oversize equipment, refrigerated cars for perishables, cars to transport automobiles and highway trailers and any other type of equipment a shipper might require. This fleet does not include passenger cars. All of North American's customers are shippers or carriers of freight; most are shippers.

These customers include many of the largest corporations in the U. S. and Canada, and the industries they represent include mining, plastics, forestry, petroleum, chemical, agriculture, construction, food processing, automotive and virtually every kind of manufacturing operation of significance to the economy.

### PROPERTY AND LONG-TERM DEBT

millions of dollars





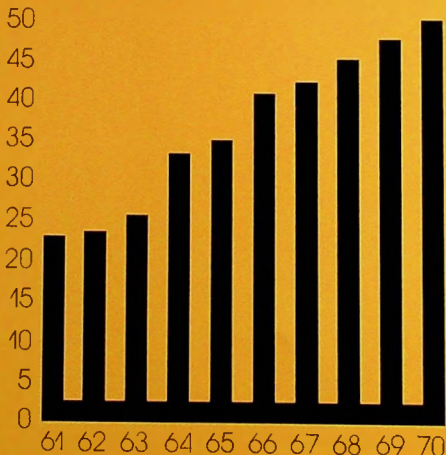
North American does not manufacture or sell railroad cars, and it has a relatively small investment in shop facilities. It designs and assembles cars at two major sites, one in the Chicago area and the other in Texarkana, Arkansas. North American primarily assembles and modifies cars to meet the special needs of individual shippers. It leases these cars at stipulated monthly rates for a period of years; on new cars the leases range from five to fifteen years. Other services the company offers include the maintenance of its cars and the provision of substitute equipment for cars taken out of service for inspection or repair.

North American also performs the complex and important task of accounting for the movements of each of its cars. The railroads normally charge shippers the same rate for the transportation of their goods whether they use the carrier's equip-

ment or privately furnished vehicles. When shippers use privately owned equipment, the carriers pay the car owners a stated amount per mile. This is known as mileage compensation. As the owner of such equipment, North American keeps records on amounts due and collects these mileage payments. In turn it credits these collections against the monthly rental charge to the lessee, often significantly reducing the monthly rental cost of the equipment. These services through the years have influenced increasing numbers of major shippers to lease rail equipment, and to lease it from North American.

### OPERATING REVENUES AND SALES

millions of dollars





There continues to be a shortage of railroad equipment in the U.S. and also in Canada where North American has a major subsidiary. Many corporations which use the railroads extensively require equipment that is highly specialized and under their complete control, and it becomes necessary for them to lease or buy this equipment. The trend towards leasing has been increasing, and rail carriers as well as shippers are taking this approach.

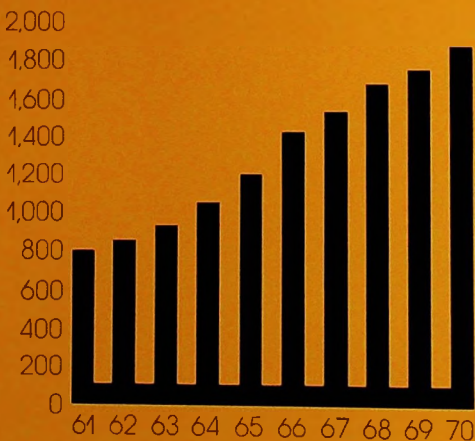
To help meet this growing market demand, North American plans to spend \$41 million in 1971 for the acquisition of new equipment. This is 21 percent more than the amount spent in 1970. The company will continue to finance the acquisition of new equipment essentially as it has done in the past. This is accomplished through the issuance of equipment trust certificates for up to

90 percent of the value with the remaining investment coming from company funds. These certificates are retired over a period well within the anticipated useful life of the vehicles.

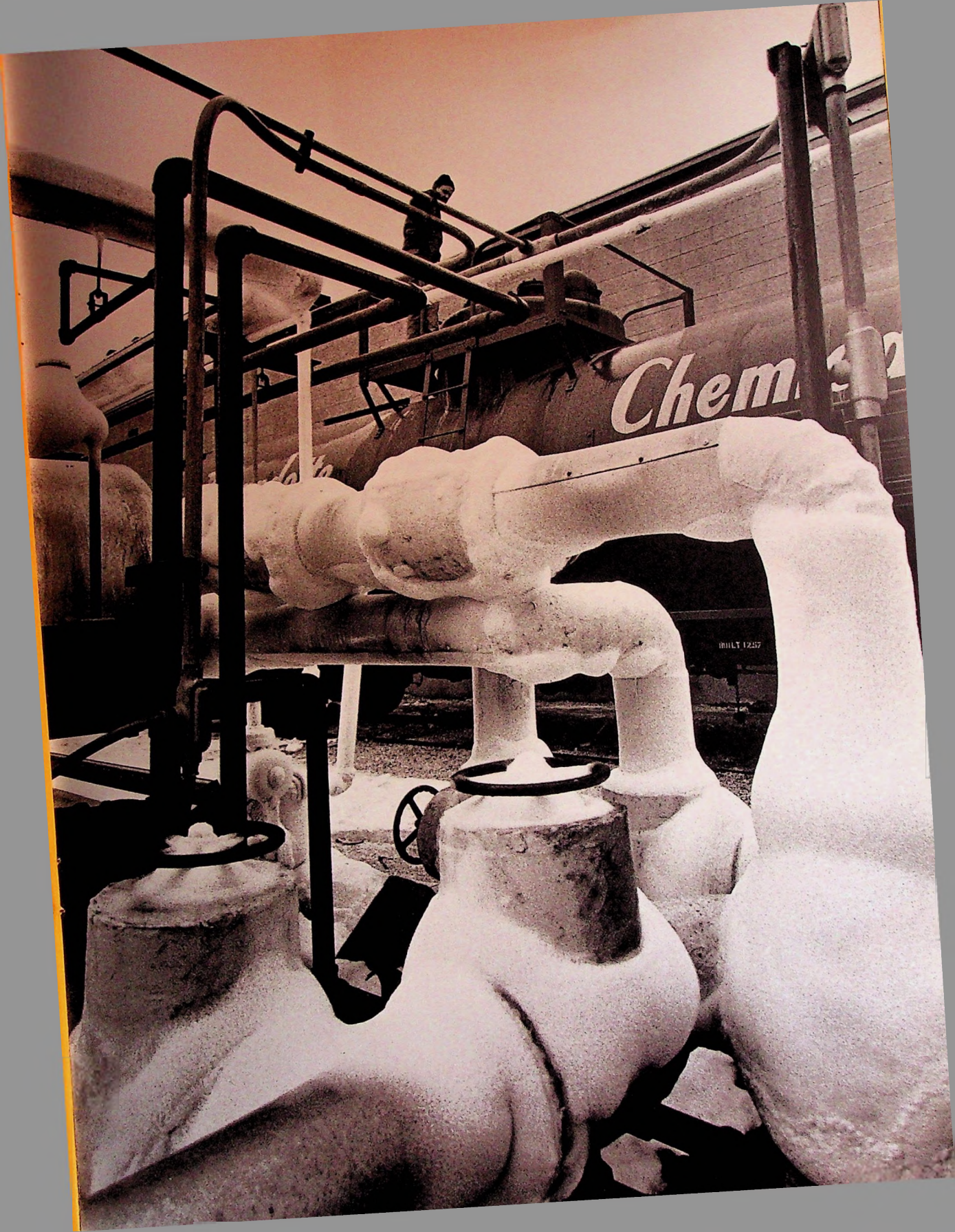
In 1970, revenues of North American Car totaled \$51,961,000, a historic high for the company and slightly above 1969's revenues of \$50,034,000. Net income was \$4,900,000, down 27 percent from the previous year. This decline resulted chiefly from increased costs and expenses, a number of which are believed to be of an abnormal or non-recurring nature. These factors, before applicable tax benefits, include: high interest rates which characterized the 1970

#### TOTAL CAPACITY OF FLEET

thousand tons



Based on aggregate truck capacity



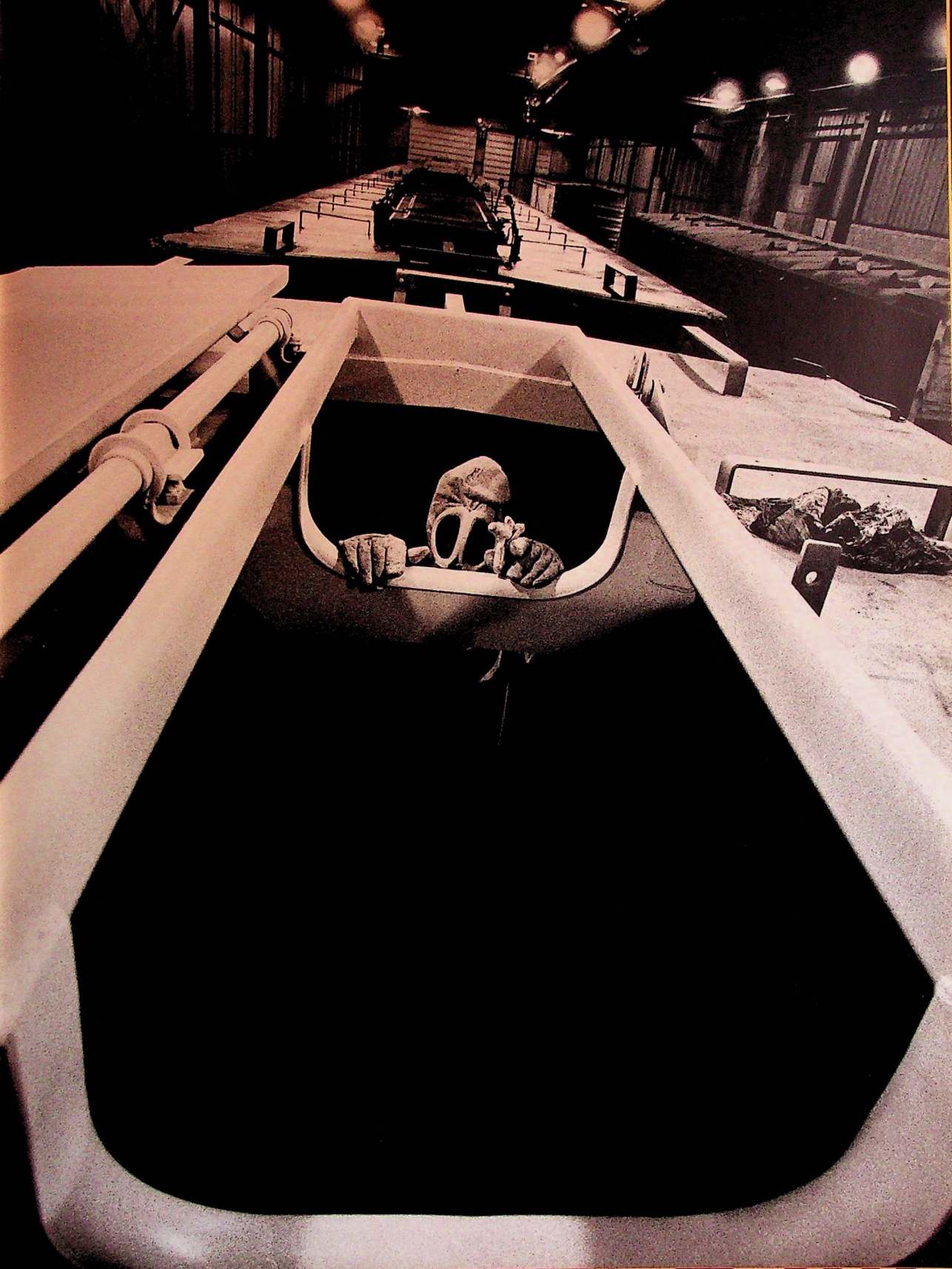
money market; a \$530,000 increase over the prior year in the provision for the doubtful collectability of customer accounts receivable; an increase of \$390,000 provided for excess and obsolete inventories; and \$600,000 for the increased accruals of certain expenses such as consultant agreements and vacations which were occasioned by revisions of company policies.

An important change in North American's management took place in April 1970 when the Board elected Richard M. Boyd, then a director, as President to succeed General E. C. R. Lasher who held the office since 1959. General Lasher, who is Chief Executive Officer, was named Chairman of the Board. In September the newly-reconstituted Board elected Boyd Chief Operating Officer.

With the addition of \$41 million worth of new equipment to the fleet to meet the increasing demand for leased railroad equipment, and with the abnormal and non-recurring costs and expenses of the 1970 year of transition now behind the company, North American management is confident that the stage is set for sound growth and increased profitability.

#### NORTH AMERICAN LEASED CAR FLEET

	Number of Cars in Fleet	
	Dec. 31, 1970	Dec. 31, 1969
Tank Cars:		
11,000 gallons and under	4,627	5,011
11,001 to 21,000 gallons	3,345	3,007
21,001 to 31,000 gallons	824	709
Over 31,000 gallons	<u>1,410</u>	<u>1,271</u>
	10,206	9,998
Covered Hopper Cars	6,744	5,973
Protective Type Insulated Cars	3,371	3,523
Standard and Mechanical Refrigerator Cars	2,685	2,714
Piggyback, Autorack and Log Cars	1,673	1,678
Stock, Gondola and Customized Box Cars	<u>790</u>	<u>739</u>
TOTAL	<u>25,469</u>	<u>24,625</u>



# NORTH AMERICAN CAR CORPORATION

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

<b>Revenues:</b>	<i>Years ended December 31, 1970 and 1969 (expressed in thousands)</i>	
	<u>1970</u>	<u>1969</u>
Rental and operating revenues .....	\$ 49,277	\$ 47,100
Sales .....	2,144	2,193
Profit on disposal of cars, etc. ....	540	741
	51,961	50,034
 <b>Costs and expenses:</b>		
Car maintenance, operating expenses and cost of sales .....	9,957	8,119
Depreciation, determined by straight line method .....	14,876	14,156
Selling, general and administrative expenses .....	6,304	4,281
Interest charges .....	13,704	12,384
	44,841	38,940
<b>Income before provision for income taxes</b> .....	7,120	11,094
 <b>Provision (credit) for income taxes (Note 2):</b>		
Current .....	( 737)	( 1,092)
Deferred .....	4,295	6,934
Investment tax credit .....	( 1,338)	( 1,460)
	2,220	4,382
<b>Net income</b> .....	4,900	6,712
 <b>Retained Earnings at beginning of year (Note 2)</b> .....		
	32,916	30,042
	37,816	36,754
 <b>Dividends paid:</b>		
Preferred stock — \$3.00 per share .....	600	600
Common stock — \$1.00 per share .....	3,238	3,238
	3,838	3,838
<b>Retained Earnings at end of year (Note 4)</b> .....	\$ 33,978	\$ 32,916

*See accompanying notes.*

# NORTH AMERICAN CAR CORPORATION

## CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

**Source of funds:**

*Years ended December 31, 1970 and 1969 (expressed in thousands)*

	<u>1970</u>	<u>1969</u>
Operations—		
Net income .....	\$ 4,900	\$ 6,712
Charges against net income not involving funds in the current period:		
Depreciation .....	14,876	14,156
Deferred income taxes—net (Note 2) .....	<u>2,957</u>	<u>5,474</u>
	22,733	26,342
Net book value of car and other property disposals .....	1,426	6,868
Proceeds from issuance of long-term debt .....	26,294	22,290
Proceeds from issuance of common stock under options .....	<u>—</u>	<u>68</u>
	50,453	55,568
 <b>Application of funds:</b>		
Additions to property, plant and equipment —		
Car equipment .....	33,757	30,625
Other properties .....	<u>2,017</u>	<u>1,670</u>
	35,774	32,295
Provision for current maturities of long-term debt .....	14,024	17,970
 Payment of cash dividends —		
Preferred stock .....	600	600
Common stock .....	3,238	3,238
Decrease in deferred taxes not affecting net income .....	335	145
Net increase (decrease) in deferred items and other assets .....	<u>( 140)</u>	<u>454</u>
	<u>53,831</u>	<u>54,702</u>
<b>Net increase (decrease) in working capital</b> .....	<b>( 3,378)</b>	<b>866</b>
<b>Working capital at beginning of year</b> .....	<u>6,581</u>	<u>5,715</u>
<b>Working capital at end of year</b> .....	<u>\$ 3,203</u>	<u>\$ 6,581</u>

*See accompanying notes.*

# NORTH AMERICAN CAR CORPORATION

## CONSOLIDATED BALANCE SHEET

*December 31, 1970 and 1969 (expressed in thousands)*

<b>ASSETS</b>	<u>1970</u>	<u>1969</u>
<b>Current assets:</b>		
Cash .....	\$ 7,495	\$ 6,656
Marketable securities, at lower of cost or estimated market value .....	973	1,007
Accounts receivable (less allowance for doubtful accounts of \$507,000 in 1970; \$150,000 in 1969) .....	9,307	9,735
Income tax refund receivable (Note 2) .....	2,694	3,203
Inventories, principally for car repair and assembly, at lower of average cost or replacement market .....	<u>7,367</u>	<u>8,638</u>
<b>Total current assets</b> .....	<b>27,836</b>	<b>29,239</b>
<b>Property, plant and equipment, at cost:</b>		
Car equipment .....	384,475	355,186
Shop properties, chemical and terminal facilities, etc. ....	<u>14,368</u>	<u>12,533</u>
	398,843	367,719
Less accumulated depreciation .....	<u>101,436</u>	<u>89,784</u>
	297,407	277,935
<b>Deferred items and other assets:</b>		
Unamortized debt issue expense (being amortized by dollars of debt outstanding method) .....	885	855
Other assets .....	<u>1,157</u>	<u>1,327</u>
	<u>2,042</u>	<u>2,182</u>
	<u>\$327,285</u>	<u>\$309,356</u>

*See accompanying notes.*

**LIABILITIES AND STOCKHOLDERS' EQUITY**

December 31, 1970 and 1969 (expressed in thousands)

<b>Current liabilities:</b>	<u>1970</u>	<u>1969</u>
Accounts payable .....	\$ 4,305	\$ 5,437
Accrued liabilities .....	6,304	4,760
Long-term debt due within one year .....	<u>14,024</u>	<u>12,461</u>
<b>Total current liabilities</b> .....	<b>24,633</b>	<b>22,658</b>
<b>Senior long-term debt:</b>		
Equipment obligations, 4.0% to 10.5%, maturing serially to 1987 .....	189,920	176,500
<b>Deferred income taxes</b> (Note 2): .....	27,150	24,528
<b>Subordinated long-term debt</b> (Note 4):		
5½% subordinated sinking fund notes payable in equal instalments to 1984 .....	14,950	16,100
<b>Stockholders' Equity:</b>		
\$3 cumulative preferred stock, stated value \$50 per share (Note 7)— Authorized — 600,000 shares Issued and outstanding — 200,000 shares .....	10,000	10,000
Common stock, \$7 par value (Note 3)— Authorized — 6,000,000 shares Issued and outstanding — 3,237,969 shares .....	22,666	22,666
Capital surplus .....	3,988	3,988
Retained earnings (Note 4) .....	<u>33,978</u>	<u>32,916</u>
	<u>70,632</u>	<u>69,570</u>
	<u>\$327,285</u>	<u>\$309,356</u>

See accompanying notes.

# NORTH AMERICAN CAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

**(1) Merger** — Effective January 7, 1971, the Company became a wholly owned subsidiary of The Flying Tiger Corporation by a merger.

A group of dissident shareholders has filed suit to set aside the merger and to recover unspecified damages. Flying Tiger and Company management have indicated their intention to defend the law suit and it is their opinion that the suit is without merit.

**(2) Income Taxes** — In 1970 the Company retroactively changed its method of accounting for investment tax credits to reflect utilization of available investment tax credits in each year as a reduction of both the current and deferred portions of the total provision (credit) for income taxes rather than as a reduction of the current portion only. The financial statements for 1969 have been restated to give effect to this change. The effect of the change was to increase retained earnings at January 1, 1969, by \$2,159,000 and to change the income tax provision and net income for 1969 and 1970 as follows:

	Year ended December 31,	
	1970	1969
Total income tax provision:		
As determined by previous method	\$2,900,000	\$ 4,142,000
As restated	2,220,000	4,382,000
Increase (decrease) in net income	\$ 680,000	\$( 240,000)

The amount of depreciation deducted for income tax purposes exceeds the amount charged to income for financial statement purposes due to the use of accelerated methods of depreciation. Provisions for deferred income taxes are made on such excess amounts deducted for income tax purposes.

The tax depreciation rates reflected in the Company's 1969 federal income tax return were increased from the rates used to compute the 1969 federal income tax provision previously reported. This change in tax depreciation rates increased the 1969 deferred tax provision by \$3,607,000 (net of \$2,541,000 investment tax credit) and correspondingly decreased the current provision for income taxes. The 1969 consolidated financial statements have been restated to reflect this change which, after giving retroactive effect to the change in accounting for the investment credit as described in this note, had no effect on net income or retained earnings.

At December 31, 1970, the Company has approximately \$6,752,000 of investment tax credit carry-forward which may be utilized through 1980, all of which has been applied as a reduction of deferred income tax provisions. The maximum amount of the carry-forward at December 31, 1970, available in any one year is limited to approximately \$1,350,000. At December 31, 1970, the expirations of the investment tax credit carry-forward (without regard to the 20% carry-forward limitation) are as follows: \$916,000 in 1971; \$379,000 in 1972; \$1,238,000 in 1973; \$1,239,000 in 1974; \$165,000 in 1975; \$1,477,000 in 1976 and \$1,338,000 in 1977. The Tax Reform Act of 1969 terminated the investment tax credit, with certain exceptions, for property acquired after April 18, 1969.

At December 31, 1970, the Company has approximately \$1,531,000 of foreign tax credit carry-forward which may be utilized through 1975, all of which has been applied as a reduction of deferred income tax provisions. At December 31, 1970, the expirations of the foreign tax credit carry-forward are as follows: \$297,000 in 1972; \$504,000 in 1974 and \$730,000 in 1975.

**(3) Stock Options** — Changes during 1970 with respect to the shares of common stock reserved for sale to officers and key employees under stock options are summarized as follows:

	Shares covered by outstanding options	Shares available for granting options	Total
	Balance at December 31, 1969	38,224	65,000
Options granted, \$16.50 to \$20.625 per share	16,500	(16,500)	
Options cancelled	( 5,224)	500	( 4,724)
Balance at December 31, 1970	49,500	49,000	98,500

Of the shares covered by outstanding options at December 31, 1970, options on 31,000 shares are currently exercisable, options on 2,500 shares become exercisable in 1971 and options on 16,000 shares become exercisable in 1972. The option prices range from \$16.50 to \$32.625 per share and are 100% of the market value at the date the options were granted. No options were exercised during 1970.

Under the terms of the merger agreement with Flying Tiger, options to purchase Flying Tiger common stock were substituted for the above options. The substituted options were for 42,075 shares of Flying Tiger common stock at prices ranging from \$19.4118 to \$38.3824.

**(4) Subordinated Long-Term Debt** — The agreement covering the 5% subordinated sinking fund notes contains certain restrictions on the payment of dividends and the purchase of the Company's capital stock. The amount of retained earnings which was not restricted by such agreement amounted to \$21,723,000 at December 31, 1970. Also under this agreement the Company agrees to maintain consolidated net current assets of at least \$2,500,000.

**(5) Leases and Outstanding Purchase Orders** — The Company has two long-term net lease agreements for car equipment. The agreements provide for annual rentals of \$691,000 through 1974 and \$751,000 during each of the next ten years. The Company also has options to continue these leases for three five-year periods at reduced rental amounts.

Long-term leases in effect at December 31, 1970 for rental of office and plant facilities have terms extending to 1975 and 1992, respectively. Annual rentals under these leases will approximate \$525,000 through 1975.

At December 31, 1970, the Company has outstanding purchase orders for materials and car equipment to be delivered in 1971 amounting to approximately \$11,777,000.

**(6) Retirement Plans** — The Company has noncontributory retirement annuity or pension plans covering substantially all of its employees. The total retirement plan expense including amortization of unfunded past service costs over 25 years, was \$379,000 in 1970. It is the Company's policy to fund accrued pension cost.

**(7) Preferred Stock** — Terms of the \$3 cumulative preferred stock require annual retirements of 8,000 shares at \$50 per share beginning in 1972. The stock is redeemable at any time, subject to certain refunding limitations, at \$53 per share if redeemed prior to September 1, 1976, and at declining amounts for various periods thereafter.

# NORTH AMERICAN CAR CORPORATION AUDITORS' REPORT

**Arthur Young & Company**  
**Chicago, Illinois**

**The Board of Directors**  
**North American Car Corporation**

We have examined the consolidated balance sheet of NORTH AMERICAN CAR CORPORATION at December 31, 1970, and the related consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of North American Car Corporation at December 31, 1970, the consolidated results of its operations and the consolidated source and application of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after restatement of that year as explained in Note 2.

February 23, 1971

ARTHUR YOUNG & COMPANY

# NORTH AMERICAN CAR CORPORATION

## TEN-YEAR REVIEW

	<i>(expressed in thousands)</i>					
	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>	<u>1965</u>
Properties and Investments (net) . . . . .	\$297,407	\$277,935	\$266,664	\$248,876	\$222,129	\$172,051
Working Capital (e) . . . . .	3,203	6,581	5,715	4,798	4,156	4,731
Senior Long-Term Debt . . . . .	189,920	176,500	171,030	156,656	134,901	99,228
Subordinated Long-Term Debt . . . . .	14,950	16,100	17,250	17,800	18,350	18,900
Preferred Stock . . . . .	10,000	10,000	10,000	10,000	10,000	—
Common Stockholders Investment (e) . . . . .	60,632	59,570	56,628	54,432	50,612	47,190
Capital Improvements . . . . .	35,774	32,295	31,891	39,782	61,600	41,708
Long-Term Debt and Preferred Stock Retirements (d) . . . . .	12,461	11,211	10,592	9,755	8,942	7,609
Operating Revenues and Sales (f) . . . . .	51,421	49,293	46,172	43,631	42,029	36,959
Income Taxes (e) . . . . .	2,220	4,382	4,709	4,194	3,520	3,635
Depreciation . . . . .	14,876	14,156	13,177	12,087	10,366	8,897
Net Income (a) (e) . . . . .	4,900	6,712	5,972	7,400	7,187	6,354
Preferred Stock Dividends . . . . .	600	600	600	600	210	—
Available for Common Stock (a) (e) . . . . .	4,300	6,112	5,372	6,800	6,977	6,354
Common Shares Outstanding (b) . . . . .	3,237,969	3,237,969	3,235,394	3,233,319	3,232,794	3,230,694
Cash Dividends Per Common Share (c) . . . . .	\$1.00	\$1.00	\$1.00	\$ .925	\$ .90	\$ .86

(a) Excluding non-recurring profits of \$321,000 in 1963 and \$512,000 in 1964.

(b) Adjusted for 2 for 1 common stock split in 1962 and 5 per cent stock dividend declared in 1965 and paid in 1966.

(c) Dividends for years prior to 1967 rounded out to the nearest cent.

(d) Excludes prepayment of debt resulting from refinancing.

(e) Restated in 1970 to reflect change in method of accounting for investment tax credit.

(f) Excludes profit on disposal of cars.

# NORTH AMERICAN CAR CORPORATION OFFICERS AND DIRECTORS

<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
\$140,591	\$114,474	\$90,216	\$80,565
6,583	4,472	6,428	8,863
74,958	67,680	49,620	45,268
19,450	3,920	4,350	4,780
—	—	—	—
43,409	39,879	36,859	34,726
35,077	35,733	22,821	19,551
5,499	6,006	5,646	4,333
34,293	26,374	24,270	23,893
3,745	3,404	3,116	4,223
8,007	6,718	6,459	5,458
5,368	5,048	4,439	3,975
—	—	—	—
5,368	5,048	4,439	3,975
3,219,333	3,209,841	3,204,381	3,201,231
\$ .79	\$ .76	\$ .74	\$ .67

## DIRECTORS

**E. C. R. Lasher**  
Chairman of the Board

**Richard M. Boyd**  
President

**William Gelfand**  
Vice President, Contract Administration, The Flying Tiger Line Inc.

**Thomas F. Grojean**  
Vice President, Finance, The Flying Tiger Corporation

**Wayne M. Hoffman**  
Chairman of the Board, The Flying Tiger Corporation

**Robert B. Oppenheimer**  
Executive Vice President, Operations

**Daniel Peterkin, Jr.**  
President, Morton International Inc., Chicago

**E. A. Pinke**  
Sr. Vice President, Operations & Maintenance, The Flying Tiger Line Inc.

**Robert W. Prescott**  
President, The Flying Tiger Corporation

**William M. Spencer**  
Chairman of the Board, North American Car Corp. (Ret.)

**Norman Vance, Jr.**  
President, Mars Inc. (Ret.), Chicago

**Howard Warren**  
President, Scam Instrument Corp., Skokie, Ill.

## OFFICERS

**E. C. R. Lasher**  
Chairman of the Board

**Richard M. Boyd**  
President

**Robert B. Oppenheimer**  
Executive Vice President, Operations

**John B. Aspegren**  
Vice President, Eastern District

**Robert A. Boerke**  
Vice President, Engineering

**Joseph J. Connors**  
Vice President, Mideastern District

**Louis W. Hansen**  
Vice President, Purchases

**Richard P. Herman**  
Vice President, Marketing

**Martin A. Lynch**  
Vice President, Finance

**H. Russell Platt III**  
Vice President, Sales

**Paul F. Robinson**  
Vice President-General Manager, Alexander Chemical Division

**Herbert W. Meierdirks**  
Treasurer-Controller

**Kenneth J. Petrine**  
Secretary and Counsel

**COMMON STOCK****Transfer Agents**

The Chase Manhattan Bank N. A.  
1 Chase Manhattan Plaza, New York, N.Y. 10015  
Bank of America, Corporate Agency Division  
111 West Seventh Street, Los Angeles, California 90014

**Registrars**

The Bank of New York  
48 Wall Street, New York, N.Y. 10015  
Union Bank  
8th and Hill Streets, Los Angeles, California 90054

**Stock Exchanges**

New York Stock Exchange  
Pacific Coast Stock Exchange  
Mid-West Stock Exchange

**PREFERRED STOCK****Transfer Agents**

The Chase Manhattan Bank N. A.  
1 Chase Manhattan Plaza, New York, N.Y. 10015  
Continental Illinois National Bank & Trust Company  
231 South LaSalle Street, Chicago, Illinois 60690

**Registrars**

The Bank of New York  
48 Wall Street, New York, N.Y. 10015  
The First National Bank of Chicago  
1 First National Plaza, Chicago, Illinois 60670

**Stock Exchanges**

New York Stock Exchange  
Pacific Coast Stock Exchange  
Mid-West Stock Exchange

**WARRANTS****Warrant Agent**

The Chase Manhattan Bank N. A.  
1 Chase Manhattan Plaza, New York, N.Y. 10015

**Registrar**

Bank of New York  
48 Wall Street, New York, N.Y. 10015

**Stock Exchanges**

American Stock Exchange  
Pacific Coast Stock Exchange

**AUDITORS****Arthur Andersen & Co.**

1320 West Third Street, Los Angeles, California 90017

**ANNUAL SHAREHOLDERS' MEETING**

Date: May 14, 1971

Time: 2 p.m.

Place: 7401 World Way West  
International Airport, Los Angeles, California 90009

**DIRECTORS**

**Wayne M. Hoffman**  
Chairman of the Board

**Robert W. Prescott**  
President

**Laurence C. Craigle**  
Lockheed Aircraft Corporation, Burbank

**J. Howard Edgerton**  
Chairman of the Board, California Savings & Loan Assn., Los Angeles

**Myer Feldman**  
Ginsburg, Feldman & Bress, Washington, D. C.

**Thomas F. Grojean**  
Vice President, Finance

**Charles Luckman**  
Charles Luckman Associates, Los Angeles

**William E. McKenna**  
Chairman of the Board, Technicolor, Inc., Beverly Hills

**Norman L. Meyers**  
Meyers, Marshall & Meyers, Washington, D. C.

**Houston Rehrig**  
Rehrig-Pacific Co., Los Angeles

**OFFICERS**

**Wayne M. Hoffman**  
Chairman of the Board

**Robert W. Prescott**  
President

**Thomas F. Grojean**  
Vice President, Finance

**David J. Barish**  
Secretary Treasurer

**Myer Feldman**  
Assistant Secretary

**Wayne E. Partridge**  
General Counsel

**1970  
ANNUAL  
REPORTS**