



# *ANNUAL REPORT*

for the year ended  
JUNE 30, 1954

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*The Flying Tiger Line Inc.*

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## DIRECTORS

Samuel B. Mosher, *Chairman of the Board*

Allen T. Chase  
James E. Davidson  
Norman L. Meyers  
Robert W. Prescott

Houston Rehrig  
Robert L. Smith  
Thomas J. Sullivan  
William Zeckendorf

## OFFICERS

*President*  
*Vice-President*  
*Vice-President*  
*Vice-President*  
*Secretary-Treasurer*  
*Assistant Secretary-Treasurer*  
*Assistant Secretary*

Robert W. Prescott  
William E. Bartling  
George T. Cussen  
Louis C. Burwell, Jr.  
Fred Benninger  
Ralph B. Stump  
Norman L. Meyers

## EXECUTIVE OFFICES

Lockheed Air Terminal, Burbank, California

## TRANSFER AGENTS

The Chase National Bank  
The Bank of America

New York  
Los Angeles

## REGISTRARS

Bankers Trust Company  
Citizens National Trust & Savings Bank

New York  
Los Angeles

## GENERAL COUNSEL

Meyers & Batzell

Washington

## AUDITORS

Arthur Andersen & Co.

Los Angeles

*The  
Flying Tiger  
Line Inc.*

# ANNUAL REPORT

FOR THE YEAR ENDED JUNE 30, 1954

# *The President's Message*

To the Stockholders:

Important and critical problems have arisen in recent months which vitally affect the course of the business of this company for the future. For reasons which I shall set out fully below, the management of your company has agreed with the management of Slick Airways, Inc. to abrogate the merger agreement which was executed by them on March 26, 1953, and which was submitted on the same day to the Civil Aeronautics Board for approval as required by law.

The companies have found it economically impossible, under the changed conditions which have been created in the eighteen months which have elapsed since they first asked for expeditious action on their application for approval of the merger, to comply with the conditions the Civil Aeronautics Board imposed upon its order of approval which was finally issued on January 7, 1954. The Board's order contained so-called labor protective provisions which called for the integration of seniority lists of employees and which would subject this company, as the surviving corporation in the merger, to liabilities to any employees adversely affected in their employment as a result of the merger at any time over a period of three years from the effective date of the merger.

In the months since the Board's order we have struggled diligently with the unions representing the pilots and the mechanics of the two companies to work out integrated seniority lists which would be fair to the employees and at the same time not impose a financial burden upon the merged company which would be unbearable. Only after arbitration proceedings with the mechanics was a satisfactory mechanics seniority list worked out in May of this year. Also in May the two pilots' unions, after an arbitration proceeding between themselves to which the companies were not parties at union insistence, presented the company with a proposed integrated seniority list which, if adopted by the merged company would have subjected it to a total dismissal and demotion pay in excess of a million dollars. Negotiations with the unions for adoption of labor contract rules which would have avoided such an undue cost to the company proved fruitless and were dropped when it became apparent that the labor protective provisions had created an even greater problem.

In March, 1953 we were aware of the fact that the Civil Aeronautics Board would impose labor protective provisions as a condition upon its approval of the merger. We were prepared at that time to assume the obligations of the Board's labor protective provisions provided the merger was permitted to be effected promptly, and we so advised the Civil Aeronautics Board. Had the merger been promptly effected we were in position definitely to define the employees who would have been adversely affected solely by the merger and to have provided the compensation called for on their behalf.

The merged company was even prepared to assume the burden of dismissal and demotion pay up to recent months if the million dollar threat of the integrated seniority list of the pilots' unions could have been eliminated. However, as months stretched out, operating conditions changed and the exposure to liability under the labor protective provisions became too great to bear.

In the past nine months the merging companies have been subjected to severe economic changes, many of which were forecast in our last annual report. (1) Cessation of Korean hostilities resulted in an anticipated sharp reduction in contract flying for the military. (2) The receipt of the first DC-6A aircraft to be put into service by this company and the step-up in efficient use of its DC-6A aircraft by Slick resulted in an anticipated displacement of the smaller C-46 aircraft and their crews. (3) There was a substantial drop in the civilian airfreight traffic of both companies which was not anticipated and which is directly traceable in large measure to the demoralization of the employees of the companies, confused and alarmed over their individual status in the suspended merger. (4) In anticipation of merger the companies had taken preliminary steps to consolidate and coordinate activities which may have affected the employment of a few employees, primarily engaged in ground services at various stations. By August, 1954 as a result of the drop in the volume of business approximately 900 employees were dropped who had been on the rolls in March, 1953 when the merger agreement was executed.

Obviously all 900 employees are not entitled to compensation under the labor protective provisions. However a survey disclosed that the merged company would be faced with claims from practically all of such employees, and under the labor protective provisions each would be entitled to an individual arbitration of his claim. The exposure to contingent liabilities under the labor protective provisions, especially in the light of the position taken by the pilots in regard to their seniority reached a staggering figure. Calculations based upon the alternative claims which could be made by employees showed an exposure in amount ranging from three to six million dollars.

Negotiation and appeals to the unions and to the Civil Aeronautics Board for a realistic adjustment in the labor protective provisions, proved of no avail. Our efforts along this line culminated in an application to the Civil Aeronautics Board to modify the labor protective provisions to limit our liability to an amount in keeping with our ability to pay.

The application was filed with the Civil Aeronautics Board on August 20, 1954. The application pointed out to the Board that claims filable by the 900 employees whose services can not be utilized at present, and by others displaced or demoted, could financially cripple the merged company and jeopardize the employment of the 1900 still at work. It was pointed out that the companies could not long continue their present operations, suspended in mid-air, neither merged nor independent. In this state, the companies were operating at a loss. The companies plead for favorable action by September 15, 1954, so that the merger would not have to be abandoned. It was made clear that in the absence of relief the employees would have to take such solace as there may be in labor protective provisions which would destroy protection for the employed in order to give lip service to a principle for those whose services the companies could not use, merged or independent.

The pilots of this company filed a paper with the Civil Aeronautics Board in support of our application; but the international officers of their union labeled them "unthinking employees" and violently opposed the modification of the labor protective provisions. Mechanics of both companies opposed the proposal. The Civil Aeronautics Board did nothing—until after September 15, 1954 and the decision to abandon the merger. The Board thereupon took note of the unions' positions but merely suggested another hearing.

When it became clear that there could be no solution of the labor problems within any reasonable time, the companies reluctantly agreed to abrogate the merger and made plans for the future.

**ABROGATION OF MERGER: FUTURE PLANS.** On September 20, 1954 an agreement was executed between this company and Slick Airways abrogating the merger agreement and defining actions for the two companies as they reinstitute free and independent action. This agreement has been submitted to the Civil Aeronautics Board for its clearance, and the agreement provides that it shall become null and void if the Civil Aeronautics Board fails to act by October 8, 1954. At this writing we are hopeful that the Board will act, and act favorably before the deadline.

The agreement between the two un-merged companies provides:

- (1) Flying Tigers will in the future continue in the businesses in which it has long been engaged of leasing aircraft to others and in contract flying and maintenance for the government.
- (2) Slick Airways will continue in the common carriage airfreight business which has been practically its sole occupation.
- (3) Slick will sell to Flying Tigers its two DC-6A aircraft for the price of \$800,000 per plane, the approximate book value. Flying Tigers will make a cash payment of \$150,000 per plane and the balance of \$650,000 for each plane will be credited against rentals to be paid by Slick under a lease back of these two planes.
- (4) Slick will lease back the two aircraft thus acquired by Flying Tigers at a monthly rental of \$25,000 per month per plane for six years. For the first thirty-two months of the leases Slick will pay \$6,500 in cash and be entitled to a credit of \$18,500, until the prepaid rentals of \$650,000 per plane are exhausted. After the six year period, during which the cost of these two aircraft will be amortized, Slick will have an option to lease for three more years at a satisfactory monthly rental of \$5,000 per plane.
- (5) Slick will also lease one other of Flying Tigers DC-6A aircraft for which it will pay a monthly rental of \$35,000 per month for one year, provided that by January 1, 1955 Slick can exercise an option to convert the lease to one for three years at \$30,000 per month or for six years at a monthly rental of \$25,000.
- (6) Slick will also lease for a two year period seven C-46 aircraft from Flying Tigers at a monthly rental of \$1,500 each.
- (7) The leases will provide stringent default provisions to protect Flying Tigers.

**The Reasons For The Plan Adopted By Your Management.** When the merger was abrogated we were faced with three alternatives: (a) both Flying Tigers and Slick could attempt to continue as they had before the merger plan; (b) both companies could liquidate and abandon the airfreight business; or (c) one company could continue in the airfreight business and the other could liquidate its airfreight business.

Upon study of the first alternative your management concluded that it would be uneconomic to attempt to re-establish two competitive companies. The merger itself was predicated upon the soundness of a single all cargo transcontinental carrier.

After exploring the problem from every angle, your management decided to accept a proposal from Slick Airways that Slick continue in the airfreight business and that this company should concentrate on leasing aircraft and performing contracts for the Government; and that as a condition for such an arrangement Slick should sell its DC-6As to this company and lease back such equipment and more.

In the first place we found that Slick was in an advantageous competitive position as a result of the action of its employees; Slick employees voluntarily had proposed to the Slick management that Slick employees would take substantial reductions in wages to facilitate that company's return to the airfreight business. Furthermore, Slick offered

substantial concessions to this company for our withdrawing from the airfreight field; under our agreement, Slick would convey clear title to its two DC-6A aircraft to us for \$1,600,000, for a down payment of \$300,000 in cash and the balance of the purchase price in prepaid rentals under a lease back arrangement under which in six years Slick would pay total rentals of \$3,600,000 and would lease additional equipment from us.

**Profits from Leasing.** Apart from the inducement to withdraw from the airfreight business, there is the profit attraction in the business of leasing aircraft. During the past fiscal year your company leased to Northwest Airlines, Inc. four of its DC-6A aircraft, converted to a passenger configuration (the DC-6B type), for a seven year period at a monthly rental of approximately \$26,000 per plane. The Slick proposal calls for the lease of the one existing DC-6A aircraft which this company now owns and the two it would acquire from Slick for the rentals noted above. This company has two more DC-6A aircraft on order for delivery by the year end. Your management is confident that these aircraft can be leased for comparable rentals. Your management is likewise confident that it can readily lease to a variety of carriers the balance of its twenty-two C-46 aircraft and six DC-4 aircraft at profitable rentals. It should be noted that under the current amortization program the DC-4 and C-46 aircraft will be amortized down to residual value by the end of the calendar year. Should all equipment be leased and the company's overhead be reduced in keeping with such activity your management calculates that there would be a net income before income taxes in excess of \$1,000,000 annually.

Your management is convinced, not only because of the profitable ventures in the past but because of its analysis of the market potentials that the business of owning and leasing a large scale pool of modern air equipment, bears great promise for the future.

**THE LIFE AND DEATH OF A MERGER.** Undoubtedly many will still be puzzled as to why a merger agreed to by the parties in March, 1953 could not be consummated promptly and must be abrogated in September, 1954.

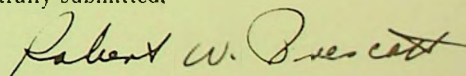
The answer must be found in the prolonged hearing procedures before the Civil Aeronautics Board and the extended, fruitless negotiations with the unions. Despite every effort by your management to accelerate the merger, it has been met with delays which created new problems, problems which in time defeated the merger. Attached to this letter is a simple chronology of the merger proceedings. It tells the story.

**ALL PLANS ARE TENTATIVE.** We regret that at the time of this writing we can but set forth plans tentatively. If the Civil Aeronautics Board acts promptly and favorably, your management will follow the plans outlined above and will take such definite steps as are in the best interests of this company. If the Civil Aeronautics Board does not act in time or if, perchance, it should act unfavorably, the agreement with Slick becomes null and void. In that event we shall have to appraise the situation as it shall then appear. In any event, the company already has sufficient equipment under profitable lease and can quickly lease more, to assure its financial success whatever else may occur.

It is obviously not possible at this time to give you a definite, clear picture of the future activities. Decisions will be made by the Civil Aeronautics Board over which we have no control but which can seriously affect any future planning of the company. We in management are making our decisions in the light of what is best to do to preserve the assets of the corporation. We expect to give you further information by letter in the near future.

Respectfully submitted,

September 23, 1954

  
President

## THE CHRONOLOGY OF AN ATTEMPTED MERGER

- MARCH 26, 1953** Agreement of Merger executed.
- MARCH 26, 1953** Application for approval filed with CAB.
- APRIL 23, 1953** Pre-hearing Conference at CAB.
- MAY 15, 1953** Exhibits in support of merger filed with CAB (7 weeks from Application date).
- JUNE 22, 1953** Exhibits by intervenors filed with CAB (12 weeks from Application date).
- JUNE 29, 1953** Four days of hearings on proposed merger (13 weeks from Application date).
- JANUARY 7, 1954** CAB Order approving merger, imposing Labor Protective Provisions calling for integration of seniority lists, etc. (9 months after Application date).
- MAY 7, 1954** Award in arbitration proceedings between pilots' unions to integrate seniority lists of pilots. The companies took immediate exception to the proposed lists as one which would create an unbearable financial burden.
- MAY 9, 1954** Award integrating seniority lists of mechanics in arbitration proceedings to which unions and both companies are party.
- JUNE 8, 1954** Petition to CAB for ruling that arbitration award between pilots' unions not conclusive as against companies and for interim procedure for merged companies pending resolution of seniority issue.
- JULY 14, 1954** CAB Order refused any action but indicated companies not bound by pilots' arbitration award.
- JULY 28, 1954** Negotiations with pilots' union results in proposal which would result under Labor Protective Provisions in pilot costs alone of several million dollars.
- AUGUST 4, 1954** Companies (with unions' concurrence) requested Board send observer to California to obtain data on exposure of companies under Labor Protective Provisions.
- AUGUST 11, 1954** Board observer in California, reporting back to Board on August 17, 1954.
- AUGUST 17, 1954** Companies requested meeting of companies and unions with Board. The Board declined.
- AUGUST 20, 1954** Companies petitioned CAB to modify Labor Protective Provisions to limit liability to an amount within merged company's capacity to pay. Exposure to liability shown to range between three and six million dollars. Action requested by September 15, 1954.
- SEPTEMBER 20, 1954** With no action by CAB as requested, the companies abrogated the merger and requested CAB approval of new plans by October 8, 1954.
- SEPTEMBER 20, 1954** CAB denied petition of August 20, 1954 for summary action and suggested just another hearing.
- SEPTEMBER 23, 1954** Annual report to stockholders and employees.

**AUDITORS'  
REPORT**

ARTHUR ANDERSEN & CO.  
ACCOUNTANTS AND AUDITORS

612 South Flower Street  
Los Angeles 17

To the Stockholders,  
The Flying Tiger Line Inc.:

We have examined the balance sheet of THE FLYING TIGER LINE INC. (a Delaware corporation) as of June 30, 1954, and the related statements of income and surplus 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. It was not practicable to confirm accounts receivable from the United States Government totaling \$793,282 at June 30, 1954, but we satisfied ourselves by other auditing procedures with respect thereto. We previously made a similar examination for the year ended June 30, 1953.

In our opinion, the accompanying balance sheet and statements of income and surplus present fairly the financial position of The Flying Tiger Line Inc. as of June 30, 1954, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Los Angeles, California,  
September 7, 1954.



# The Flying Tiger Line

<b>ASSETS</b>	<b>1954</b>	<b>1953</b>
<b>Current Assets:</b>		
Cash (\$50,000 restricted at both dates, Note 6)	\$ 507,876	\$ 2,134,958
Receivables—		
Freight customers	278,941	424,552
United States Government—		
Charters, freight, service sales, etc.	1,328,065	1,154,478
Claim for refund of income taxes	409,000	—
Other charters, service sales, etc. (including \$17,103 and \$15,936 from officers and employees at respective dates)	899,587	858,601
Due on sale of purchase contract rights for aircraft and on sales of aircraft (including current installments of noncurrent notes receivable)	281,000	2,006,709
Reserve for bad debt losses	(20,000)	(50,000)
Inventories of materials and supplies, at cost not in excess of market	765,184	617,836
Prepaid insurance, deposits, etc.	195,882	399,305
Total current assets	<u>\$ 4,645,535</u>	<u>\$ 7,546,439</u>
<b>Noncurrent Receivables and Investments:</b>		
Notes and interest receivable, secured by chattel mortgage on aircraft sold— less current installments	\$ 218,333	\$ 222,000
Subsidiary companies, at cost less reserve	62,500	62,500
Other	30,000	21,500
	<u>\$ 310,833</u>	<u>\$ 306,000</u>
	\$ —	\$ 1,347,598
<b>Deposits on New Equipment</b>		
<b>Property and Equipment</b> (see long-term debt for items pledged):		
Cost—		
Aircraft and other flight equipment	\$11,392,164	\$ 4,535,604
Other equipment	790,835	723,166
Buildings	450,062	461,272
	<u>\$12,633,061</u>	<u>\$ 5,720,042</u>
Less—Reserves for depreciation	3,870,759	2,023,225
	<u>\$ 8,762,302</u>	<u>\$ 3,696,817</u>
Land, at cost	36,500	36,500
Unamortized cost of modifications to leased aircraft	14,155	82,697
Aircraft engines, at depreciated cost	1,636,402	656,399
Nonoperating property, at cost	—	423,463
	<u>\$10,449,359</u>	<u>\$ 4,895,876</u>
<b>Debt Discount and Expense</b> , in process of amortization over life of debenture issue	\$ 160,383	\$ 176,074
	<u>\$15,566,110</u>	<u>\$14,271,987</u>

( ) Denotes red figure.

The accompanying notes are an

LIABILITIES	1954	1953
<b>Current Liabilities:</b>		
Current installments of long-term debt—		
Bank loans	\$ 545,580	\$ —
Purchase of aircraft	125,000	187,500
Other	2,400	13,633
Accounts payable	1,494,649	2,408,474
Accrued liabilities—		
Payroll	251,167	350,411
Transportation, payroll and other taxes	105,772	182,069
Other	100,108	152,209
Provision for vacation pay	243,415	215,535
Provision for taxes based on income	—	1,232,963
Amounts withheld from employees for income taxes	79,081	108,649
Total current liabilities	<u>\$ 2,947,172</u>	<u>\$ 4,851,443</u>
<b>Long-Term Debt</b> (less current installments):		
5½% debentures due 1967 (subordinate)—Note 3	\$ 2,746,000	\$ 2,746,000
Bank loans (Note 4)—payable in monthly installments of varying amounts from January 1955 to 1960; interest rate 5%; secured by pledge of all aircraft, engines and propellers owned, and a lease covering four DC-6A aircraft rented to others	3,784,420	—
Purchase of aircraft—payable in monthly installments	—	109,375
Other—land and other contracts payable, secured by pledge of related assets	8,289	10,839
	<u>\$ 6,538,709</u>	<u>\$ 2,866,214</u>
<b>Commitments and Contingent Liabilities at June 30, 1954</b> (Notes 5 and 6)		
<b>Capital Stock and Surplus:</b>		
Capital stock—		
Preferred—		
Authorized, 500,000 shares of \$10 par value		
Issued and outstanding, 99,112 shares designated as Series A—entitled to 5% cumulative dividends, redeemable at and entitled in liquidation to par plus unpaid dividends	\$ 991,120	\$ 991,120
Common—		
Authorized, 1,500,000 shares of \$1 par value of which 292,907 shares are reserved for conversion of debentures		
Issued and outstanding, 784,452 shares	784,452	784,452
	<u>\$ 1,775,572</u>	<u>\$ 1,775,572</u>
Capital surplus (per accompanying statement)	1,732,398	1,732,398
Earned surplus (see Notes 3 and 4 regarding dividend restrictions)—per accompanying statement	2,572,259	3,046,360
	<u>\$ 6,080,229</u>	<u>\$ 6,554,330</u>
	<u>\$15,566,110</u>	<u>\$14,271,987</u>

# STATEMENTS OF SURPLUS

for the years ended June 30, 1954 and 1953

CAPITAL SURPLUS	1954	1953
<i>Balance at Beginning of Year</i> (representing proceeds from sale of common stock over par value thereof)	\$ 1,732,398	\$ 1,728,839
<i>Add:</i>		
Excess of par value (\$4,000) of debentures, less discount and expense applicable thereto, over par value of 425 shares of common stock issued in conversion thereof	<u>—</u>	<u>3,559</u>
<i>Balance at End of Year</i>	<u>\$ 1,732,398</u>	<u>\$ 1,732,398</u>

EARNED SURPLUS		
<i>Balance at Beginning of Year</i>	\$ 3,046,360	\$ 1,238,512
<i>Add:</i>		
From accompanying statement—		
Net income or (loss)	(121,545)	700,633
Special items	<u>—</u>	<u>1,152,522</u>
Reversal of 421 shares of preferred stock, Series A, represented by scrip which expired December 31, 1952, and which was issued as a dividend on certain common stock in 1952	<u>—</u>	<u>4,210</u>
	\$ 2,621,815	\$ 3,095,877
<i>Deduct:</i>		
Cash dividends on preferred stock, Series A—50 cents per share	<u>49,556</u>	<u>49,517</u>
<i>Balance at end of Year</i> (see Notes 3 and 4 for dividend restrictions)	<u>\$ 2,572,259</u>	<u>\$ 3,046,360</u>

( ) Denotes red figure.

The accompanying notes are an integral part of these statements.

# STATEMENTS OF INCOME

for the years ended June 30, 1954 and 1953

	1954	1953
<b>Operating Revenues:</b>		
Common carriage freight	\$ 4,557,660	\$ 6,037,356
Rentals, charters and service sales (net)	9,395,807	6,107,803*
Pacific airlift (Note 5)	4,689,452	12,358,940
Total	<u>\$18,642,919</u>	<u>\$24,504,099</u>
<b>Operating Expenses:</b>		
Flying operations	\$ 8,022,094	\$ 9,987,431
Ground operations	2,021,382	2,495,686
Maintenance	5,005,664	6,971,330*
Traffic, sales, advertising and publicity	735,988	917,620
General and administrative	1,529,636	1,343,119
Depreciation and amortization	2,132,249	1,290,398
Total	<u>\$19,447,013</u>	<u>\$23,005,584</u>
Net income or (loss) from operations	(\$ 804,094)	\$ 1,498,515
<b>Other Income:</b>		
Profit or (loss) on sale of aircraft	(\$ 17,232)	\$ 203,034
Miscellaneous (net)	27,318	2,099
Total	<u>\$ 10,086</u>	<u>\$ 205,133</u>
	(\$ 794,008)	\$ 1,703,648
<b>Other Expenses:</b>		
Interest on long-term debt	\$ 298,446	\$ 188,956
Amortization of debt discount and expense	15,691	13,965
Provision for loss on investment in subsidiary	—	52,094
Total	<u>\$ 314,137</u>	<u>\$ 255,015</u>
Net income or (loss) before income taxes	(\$ 1,108,145)	\$ 1,448,633
<b>Provision for Taxes Based on Income, and Special Credits:</b>		
Taxes based on income (Federal and California)	\$ —	\$ 748,000
Special credits—arising from carry back of current year's loss to prior years—		
Amount based on loss shown above	(591,500)	—
Amount applicable to amortization under necessity certificate deducted in tax return but not recorded on books	(92,100)	—
Total	<u>(\$ 683,600)</u>	<u>\$ 748,000</u>
Net income or (loss)	(\$ 424,545)	\$ 700,633
<b>Special Items</b> (profit on disposal of operating aircraft and rights to purchase aircraft, less applicable income taxes of \$427,000)		
	—	1,152,522
Net income or (loss) and special items	<u>(\$ 424,545)</u>	<u>\$ 1,853,155</u>

( ) Denotes red figure.

\*Reclassified to the classification used in 1954.

The accompanying notes are an integral part of these statements.

## NOTES TO FINANCIAL STATEMENTS

**1 PROPOSED MERGER**—On January 7, 1954, the Civil Aeronautics Board issued its order No. E-8022 approving the merger of The Flying Tiger Line Inc. and Slick Airways, Inc. with The Flying Tiger Line Inc. to be the surviving company. Such order provides, among other things, that the surviving company will be subject to the labor protective provisions of the order. The stockholders of the two companies had approved the plan of merger on August 6, 1953.

The merger has not been consummated because of difficulties encountered in the integration of the personnel seniority lists of the two companies. As a result of such difficulties the companies on August 20, 1954, filed with the Civil Aeronautics Board a joint show cause order as to why the labor protective provisions of order No. E-8022 should not be changed and requested an answer by September 15, 1954.

**2 AIRCRAFT**—At June 30, 1954, the company had a fleet of 40 aircraft as follows:

<i>Type</i>	<i>Owned</i>	<i>Leased</i>	<i>Total</i>
C-46	22	6	28
C-54	6	1	7
DC-6A	5	—	5
Total	33	7	40

All of the leased C-46 aircraft are rented from the United States Government under leases expiring December 31, 1954, which may be terminated by the Government with seven days' notice or by the company with 30 days' notice. The lease for the C-54 aircraft expires on April 10, 1955. Four of the DC-6A aircraft owned by the company, which have been converted to DC-6B type aircraft, are leased for seven-year periods ending in 1960 and 1961.

**3 DEBENTURES**—The 5½% debentures due 1967 (subordinate) are subordinate to "superior indebtedness," as defined, which at June 30, 1954, consisted of the bank loans referred to in Note (4). The debentures are redeemable at premiums ranging from 3% to 1% to July 1, 1966, and without premium thereafter to maturity, July 1, 1967. If not so redeemed, a minimum of \$275,000 principal amount is redeemable at par annually on July 1 from 1960 to 1966 through the operation of a sinking fund. The debentures are convertible into common stock until July 1, 1962; the effective conversion price at June 30, 1954, was \$9.375 principal amount of debentures for each share of stock issuable upon conversion. The debenture indenture, among other restrictions, includes a limitation on cash dividends or other distributions on capital stock; such provisions are less restrictive than those of the credit agreement referred to in Note (4).

**4 BANK LOANS**—Certain banks have agreed to loan the company a maximum of \$6,200,000 under a credit agreement dated June 25, 1952, and supplemented March 31, 1954, which provides that the company, unless prior consent is obtained from the banks, will not pay dividends (other than on preferred stock up to an annual amount

## NOTES TO FINANCIAL STATEMENTS (Continued)

of \$50,000) or make any other distribution (other than stock dividends) on any stock of the company which, together with preferred dividends, would exceed 40% of the net earnings of the company from June 30, 1952, to the date of declaration or payment or which would reduce working capital below a defined amount. Under this provision, \$2,560,897 of the earned surplus balance at June 30, 1954, is restricted against any distributions on capital stock other than the preferred stock dividends of \$50,000 mentioned above. The credit agreement also sets forth minimum amounts of working capital and net worth, as defined, which the company has agreed to maintain and places restrictions, among other things, on additional borrowings, capital expenditures, acquisitions of capital stock and leasing of mortgaged property.

5

**RENEGOTIATION**—From July 1950 through March 1954 the company participated in the Pacific airlift under contracts with the United States Government, revenue therefrom having been recorded on the basis of rates subject to price redetermination which has been effected to the date on which operations were discontinued. These contracts are subject to the Renegotiation Acts of 1948 and 1951; certain other contract work in 1953 and 1954 is also subject to renegotiation. No provision has been made for possible refunds, since it is the opinion of the management that renegotiation will have no material effect on the financial position of the company at June 30, 1954, or the results of operations for the four years ended that date.

6

**COMMITMENTS AND CONTINGENT LIABILITIES**—The company has entered into an agreement with C. Itoh & Co., Ltd. for the purchase of two DC-6A aircraft (one to be delivered in December 1954 and the other in January 1955) at a total cost of \$2,149,972, one half of which is payable upon delivery of each aircraft.

The company is contingently liable—

(a) Under an agreement with a bank to guarantee the indebtedness of a corporation, in which the company has a 6¼% interest, in an amount not to exceed \$45,000. Such guarantee is collateralized by a time certificate of deposit for \$50,000, which is included in the cash balances in the balance sheet.

(b) Under an agreement to guarantee the payment for materials purchased by its wholly owned subsidiary, Caribbean Clothing Corporation, in an amount not to exceed \$37,500.

(c) Under various lawsuits for damages, etc., and notes guaranteed (\$8,000), which in the opinion of the management will not result in any material liability.

7

**CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY**—On February 4, 1954, the company filed with the Civil Aeronautics Board an application for reissuance of its temporary certificate of public convenience and necessity (expiration date August 12, 1954) as a permanent certificate. Pending issuance of an order by the Board on this application, the company is operating under its temporary certificate as provided for in the Civil Aeronautics Act of 1938, as amended.

