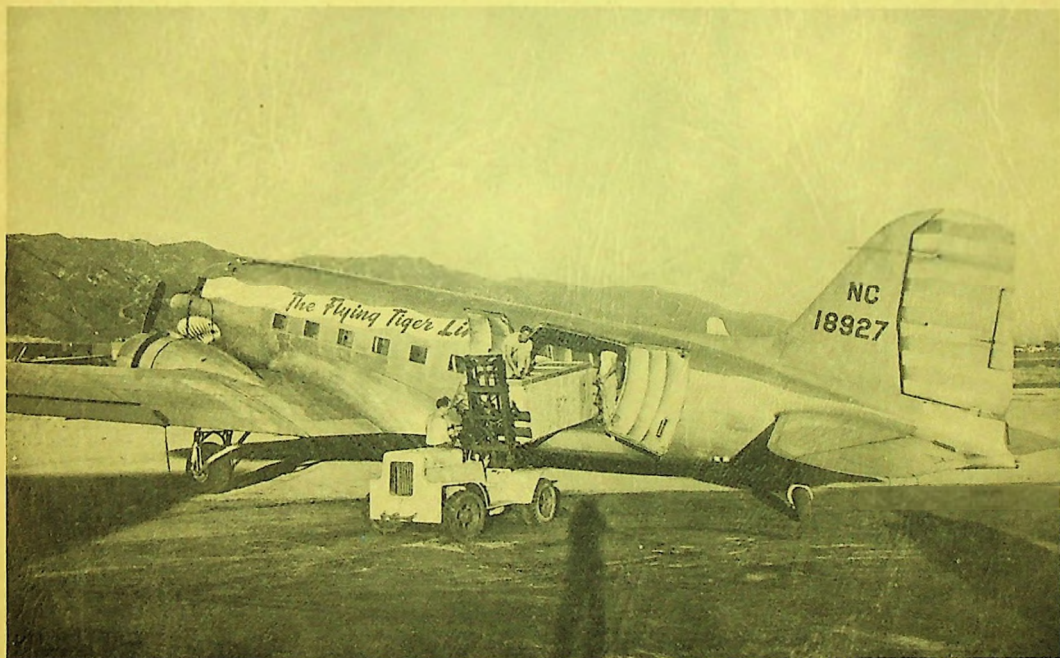


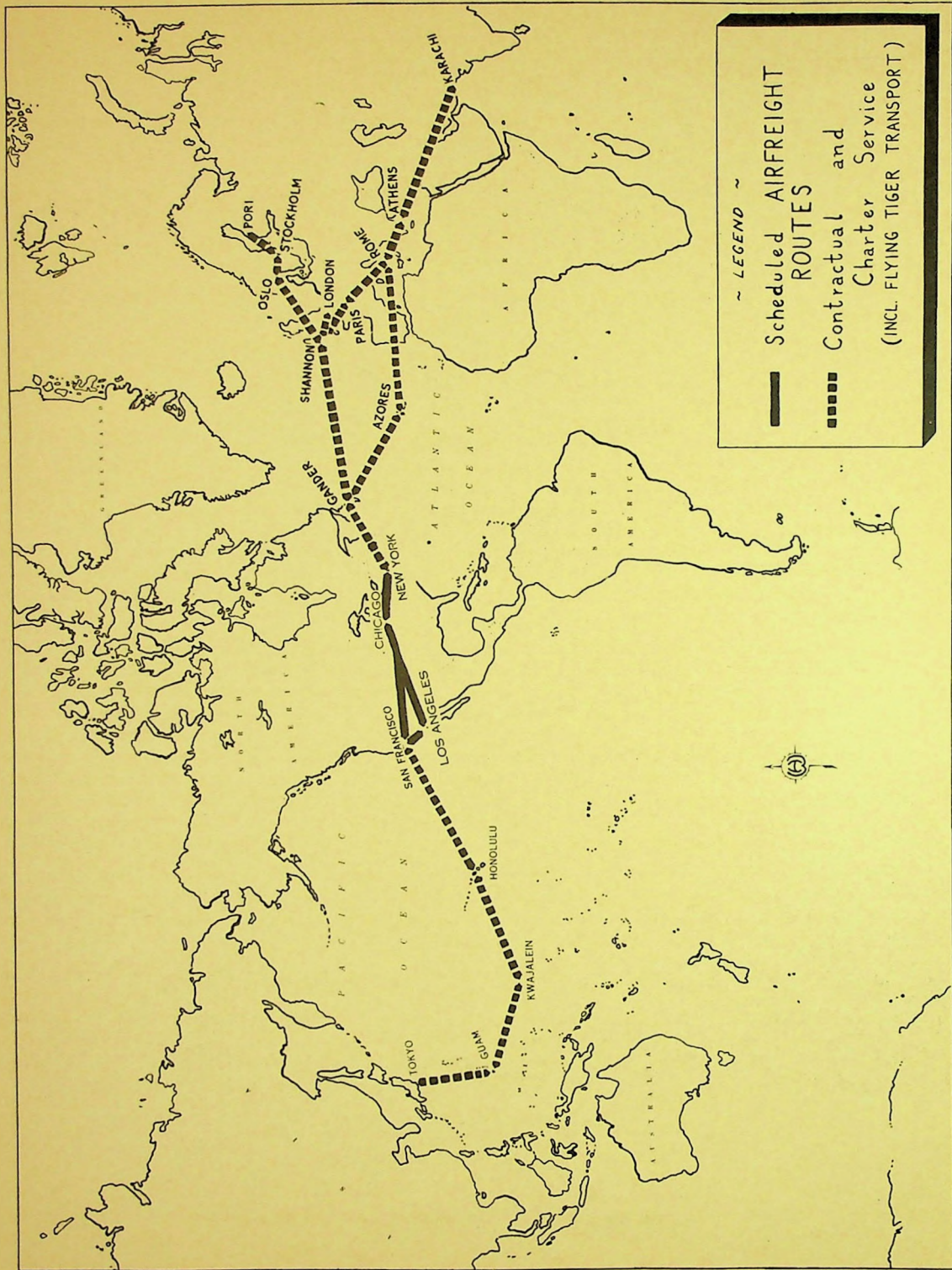
The Flying Tiger Line Inc.

ANNUAL REPORT

For The Year Ended June 30, 1947



**LOCKHEED AIR TERMINAL
BURBANK, CALIFORNIA**



~ LEGEND ~

— Scheduled AIRFREIGHT ROUTES

- - - Contractual and Charter Service (INCL. FLYING TIGER TRANSPORT)

President's Letter

Because your Company is a relatively young one and further because it is doing business in an industry about which little is widely known, Management feels that it is worthwhile to make a rather detailed description of activities. This, we feel, will accomplish two things:

- (a) It will enable stockholders better to evaluate the Company's present position as well as its future prospects.
- (b) We hope that it will encourage stockholders to be of material assistance by referring prospective customers to the Company.

Each phase of the Company's activities will be broken down for descriptive purposes. Later each phase will be reviewed for past accomplishments and future prospects.

DESCRIPTION

DOMESTIC FREIGHT

The Flying Tiger Line now operates daily freight schedules on routes shown on the map included with this Report. We are attempting to serve the country on an "area" basis, as shown on the map. In each area we name PRINCIPAL POINTS, the places where our planes stop daily. We also offer to serve any other point in any given area designated as DEMAND POINTS, service to which is limited to a minimum of a 1,000 pound shipment with a slight additional charge. A copy of our Tariff, now on file with the Civil Aeronautics Board, which contains explicit conditions for demand point service, will be mailed to anyone on request. Your Company is now a scheduled common carrier of property only in the United States, having all the duties and responsibilities and privileges of any common carrier. This has been made possible through a recent action of the Civil Aeronautics Board.

Early this year applications for Certificates of Convenience and Necessity for the carriage of property only were heard by the Civil Aeronautics Board in what was known as the Air Freight Case. Pending decisions on these applications which normally follow by one year from the date of the hearings, the Civil Aeronautics Board issued Exemption Order 292.5. This was issued in an effort to avoid financial disaster to the few remaining all-cargo companies who have so far developed the airfreight industry, and also to bring some semblance of order to the industry. The Exemption Order states in effect that all of the cargo companies who were in operation during the prior twelve months and who also had an application pending before the Civil Aeronautics Board as of May 5, 1947, would be allowed to proceed as scheduled common carriers until sixty days following decisions on their respective applications. This limits the number of airfreight carriers and, as a practical proposition, leaves only three all-cargo lines of any importance serving the transcontinental routes under this exemption.

This is the first definite progress of your Company in its attempt to gain permanent flying rights as a common carrier of goods. I must remind you that this exemption order is only of a temporary nature. However, I believe it is reasonable to say that if we are successful in giving public service during this interim period, our chances of being permanently certificated will be tremendously enhanced.

Your Company now offers service equal to and oftentimes much superior to Air Express service and at about one-half to one-third the price. "Superior service" is given in many instances on our planes because property gets first priority of shipment, while Air Express goes on the passenger lines and is shipped subject to the demands of passenger and mail requirements. For clarification of differences in service and price offered, take the case of a person who had a trunk weighing 150 pounds to ship from New York to Los Angeles:

<i>Mode of Transport</i>	<i>Time En Route</i>	<i>Price</i>
Air Express	One to three days	\$42.51
Rail Express	Seven to ten days	20.18
Airfreight	One day	24.90

I believe that the above tabulation will show you the relative quality and price of service more clearly than would a more lengthy discourse.

FLYING TIGER TRANSPORT INC.

This is a separate corporation, wholly owned by The Flying Tiger Line Inc. It has been created for the purpose of giving contract air service for either passengers or freight. It operates large, four-engine equipment and can serve any point in the world on a contractual basis. The planes carry up to fifty passengers and up to twenty thousand pounds of freight.

Many large companies with projects in other parts of the world such as Arabia, Guam, Okinawa, Greece or China, are discovering an immense saving in the use of air transportation for their personnel. The cost of transportation is approximately the same as surface transportation. The saving arises from the fact that since such employees are paid from the moment they leave the country, a surface voyage entails a costly payroll which is non-productive, whereas the use of air transportation will get the personnel to their destination with a minimum loss of time. Stockholders who know of such operations by companies can be of great assistance by informing us. We call your attention to the return post-card which may be used for this purpose.

AIR TRANSPORT COMMAND CONTRACT

In early January of this year, your Company contracted with the Air Transport Command of the United States Army for certain services. Under the contract the Government furnished thirty-two C-54 aircraft (four-engine equipment), all spare parts and gasoline. Your Company undertook to do the flying and maintaining of these planes. We flew two daily trips between California and Tokyo, Japan and two additional trips daily to Honolulu. Maintenance and flying crews were staged at Honolulu, Johnston Island, Kwajalein, Guam and Tokyo. It was necessary to employ and train eighty flight crews consisting of six men each. In addition we employed some seven hundred more maintenance and operations personnel at Lockheed Air Terminal.

MAINTENANCE ACTIVITIES

In addition to the flying and maintenance mentioned above, in the past few months the Company has performed basic maintenance for the Army, consisting of the overhaul and reconditioning of aircraft. While no great amount of work for commercial companies has yet been done, we are soliciting such business. We have one of the best equipped shops in the country for such work and can overhaul any type of airplane. Many companies who operate private aircraft will find it convenient and profitable to send their planes to the shops of the Flying Tiger Line for periodic checks and overhaul. The Company also expects to bid for more Government work of this nature in the future.

REVIEW AND OUTLOOK

DOMESTIC OPERATIONS

Since June 30, 1946, tremendous changes have occurred in both the size and scope of operations of the Company.

Beginning in July, 1946, the Company began assembling a larger fleet and a vigorous campaign was instituted to develop a high volume of airfreight. This campaign resulted in a volume in the months of November and December of over a million ton-miles each month, compared to about two hundred thousand for similar periods in 1945. The Company thus became the second largest airfreight operator in the world, certificated or otherwise. This proved to be an expensive operation, entailing considerable loss. Two factors contributed to this:

I. The chief contributing reasons for losses in the period July 1-December 31 were incessant rate wars participated in by independent airfreight operators who were trying to establish themselves in this field. Prices were brought down too low, all operators lost money and few survived. On January 1, 1947, your Management decided to withdraw the Company from a large part of its airfreight operations until better conditions existed which would warrant reactivating an aggressive program of freight development. Operations were held to a minimum to curtail losses.

The Exemption Order mentioned earlier was the signal for the Company to come back strongly in the field. The Exemption should have three beneficial effects on your Company's future in the airfreight field:

- (1) It broadens the scope of solicitation of cargo, since prior to that time we were limited solely to contract operations and could not publish schedules.

- (2) It will tend to prevent costly rate wars, since most of these wars have their beginning in subversive rate-cutting designed to gain a volume advantage over competitors before they can verify such low competing rates.
- (3) The recognition given the carriers by the Government does much to enhance the stability of the carrier in the eyes of the shipping public. More confidence in the carrier means a greater volume of freight accruing to that carrier.

II. The second contributing factor to the losses in this period was the type of aircraft employed. Considerably smaller losses would have accrued had four-engine aircraft, such as DC-4s, been operated rather than the smaller, twin-engine DC-3s which we used. The larger planes were unobtainable at that time. However, we now own two DC-4s and enough others are being acquired to enable us to give regular four-engine service. Most of the DC-3s will be disposed of.

Your Company flew 6,438,381 ton-miles in its domestic operations during the past year compared with 1,545,906 ton-miles for the year ending June 30, 1946.

FLYING TIGER TRANSPORT INC.

Among other places, this operation has flown several trips to Rome, Athens, Oslo and Paris. It has operated contracts for the Department of Justice, for several leading bands in the country and for some large horse-racing companies. Although small in comparison to the parent company, this operation has been profitable. It will continue as long as business is available, but its future is rather difficult to predict. It has flown 5,594,053 passenger miles in the past year.

AIR TRANSPORT COMMAND CONTRACT

During the period January 12-July 31, 1947, 7,833,122 plane-miles, 111,432,167 passenger miles and 30,354,471 ton-miles were flown. It was accomplished without any loss or injury of aircraft, passengers or cargo. This contract has proved profitable and we are indeed proud to report that our operation has won the commendation of high-ranking Army personnel throughout the Pacific area.

Although the original contract was written to expire June 30, 1947, it was extended in its entirety through August, 1947. We are happy to announce that a new contract has just been signed to extend to December 1, 1947. However, it calls for approximately one-third the amount of work performed under the first contract. It is hoped that operations will continue beyond December 1, but no definite information is available at this time concerning future plans of the Air Transport Command.

FINANCES

As discussed previously in this report, heavy losses were sustained in the domestic freight business during the last half of the year 1946. These losses were curtailed by reduced operations during the first six months of 1947. Further, the Air Transport Command contract operations have helped offset losses of the domestic line. At the time of the annual audit a write-down of valuation of fixed equipment of the Company was made to set a more realistic view toward the actual cash value of the Company's assets. As many of you know, the prices of aircraft equipment in War Surplus have had a tremendous variance in the past year. You may be assured that the net value of the Company as indicated by the Balance Sheet is a realistic and conservative figure.

Concentration on cutting costs and increasing revenue in the domestic freight operations and use of our four-engine aircraft in world-wide charter service, plus a concentrated attention to costs on the Air Transport Command contract operation, have improved the profit picture considerably. For example, the month of May, 1947, was just about a break-even month. June showed a net profit of \$80,000 and the month of July brought a net profit of \$77,000. These figures must not be taken as a criterion for the next few months, since our volume of business will be reduced by approximately one-half. However, there is every likelihood that the last six months of 1947 will be profitable.

In answer to many queries from stockholders, the Company has no immediate plans for further financing. Stock certificates under the name of National Skyway Freight Corp. are still valid and are only being replaced with new certificates when a transfer or a sale is made.

OUTLOOK

As stated above, the outlook for both the Company and the airfreight industry has improved considerably. Your company has ridden out what we believe to be the worst period of this new industry in its developmental stages. Among things that will make a brighter future both for your Company and the industry are:

(1) Certification of Airfreight Forwarders

At the present time no organization or person is legally certificated to do business as a freight forwarder for the air transport industry. Several large surface forwarders such as Railway Express Agency, Universal Carloading, Acme Fast Freight and National Carloading have expressed themselves as anxious to do business with the all-cargo lines and are of the opinion that a considerable volume of freight will be forthcoming if their certificates are granted by the Civil Aeronautics Board. It has been hoped that the Civil Aeronautics Board would grant some sort of exemption order to these freight forwarders similar to that granted to cargo carriers, so that they may demonstrate their ability to put freight in the air. At the present time there is no definite indication that this will be done. Meanwhile, formal hearings have been held on these certifications and a decision should be given by the Civil Aeronautics Board within one year.

(2) Air Mail and Parcel Post

Recently the President's AIR COORDINATING COMMITTEE published its report on United States aviation policy. As a result of this report an effort will be made to bolster the nation's aviation industry in the interest of national security. The President's Air Policy Commission will probably ask the Congress to enact legislation that will move all first class mail and parcel post by air. While your Company at this time is not eligible to carry airmail or parcel post under Government contract, there is a strong likelihood that if this legislation is enacted, we will be made eligible. Of course such action will be of tremendous value to the Company. You are therefore implored, as stockholders in this Company, to give every assistance possible when this issue is brought before your Congressmen.

CHANGES IN OFFICERS AND DIRECTORS

Officers

With the resignation of L. G. Luzmoor and R. H. Bingenheimer in the late summer of 1946, Mr. Fred Benninger, a Certified Public Accountant of wide experience, joined the Company in the capacity of Treasurer and Secretary.

Mr. Fred A. Miller, who has been with the Company since August, 1945, as Director of Sales and a member of the Board of Directors, was elected Vice President in Charge of Sales in August, 1946.

Mr. Ralph G. Lockwood joined the Company on January 1, 1947, as Manager of the Air Transport Command Operation and was elected Vice President in Charge of Maintenance and Engineering in April, 1947. Mr. Lockwood has been in the aviation field since World War I and served with the Air Transport Command during World War II.

Directors

Mr. Duncan Shaw and Mr. Allen T. Chase resigned from the Board of Directors in the spring of 1947 due to the pressure of other business activities.

Mr. Harlan B. Eldred, financier, and Mr. F. Stuart Roussel, Vice President of First California Company, were elected to fill the vacancies created by the resignations of Mr. Chase and Mr. Shaw. Both Mr. Eldred and Mr. Roussel are well known in financial and investment circles throughout the country and bring a rich background of experience to the Board.

CONCLUSION

The interest of all of the Company's stockholders during the past year has been greatly appreciated. It has been a pleasure to meet some of you and to correspond with others and I hope to meet more of you in person in the months to come.

The tremendous expansion witnessed during the past fiscal year has been made possible only by the whole-hearted cooperation and untiring effort of our employees, many of whom are stockholders. To the older employees who have seen us through this second year as well as to the newer members of our enlarged family, your Management wishes to extend its thanks.

For the Board of Directors

ROBERT W. PRESCOTT

President

Burbank, California

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

601 WEST FIFTH STREET
LOS ANGELES 13

To the Board of Directors,

The Flying Tiger Line Inc. :

We have examined the consolidated balance sheet of THE FLYING TIGER LINE INC. (a Delaware corporation formerly named National Skyway Freight Corp.) and its subsidiary, FLYING TIGER TRANSPORT INC., as of June 30, 1947, and the statement of consolidated revenues and expenses for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Except that it was not practicable to confirm the amount receivable from the U. S. Government as to which we satisfied ourselves by other auditing procedures, our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying consolidated balance sheet and related statement of consolidated revenues and expenses present fairly the position of The Flying Tiger Line Inc. and its subsidiary at June 30, 1947, and the results of their operations for the year, and are in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Los Angeles, California,
August 5, 1947.

ARTHUR ANDERSEN & CO.

THE FLYING TH
(formerly named National
AND SUBSIDIARIES)
CONSOLIDATED BALANCE SHEET

A S S E T S

CURRENT ASSETS:

Cash.....		\$ 281,886
Receivables from—		
U. S. Government (assigned to bank under a line of credit agree- ment under which no loans were outstanding at June 30).....	\$547,462	
Other customers (including notes of \$16,000).....	202,795	
Other (including \$9,607 from officers and employees).....	34,210	
	\$784,467	
Less—Reserve for bad debts.....	38,892	745,575
Materials and supplies at average cost, not in excess of market.....		68,457
Total current assets.....		\$1,095,918

PREPAID EXPENSES:

Unexpired insurance premiums.....	\$ 24,310	
Taxes.....	14,385	
Other.....	6,282	44,977

PROPERTY AND EQUIPMENT:

Classification	Cost	Reserve for Depreciation	Net
Aircraft, engines and other flight equipment \$	856,391	\$134,404	\$721,987
Hangar, shop and ramp equipment.....	110,587	33,844	76,743
Other equipment.....	82,262	13,392	68,870
Buildings and improvements on leased land..	163,895	105,977	57,918
	\$1,213,135	\$287,617	\$925,518
Surplus aircraft and certain engines stated at remaining service value plus residual value.....			116,134
			1,041,652
			\$2,182,547

NOTE: A total of 180,800 shares of the issued capital stock of the Company were transferred without the written consent of the Commission. These shares will be held in escrow until in the discretion of the Commission, they may be released. During the period that these shares are held in escrow, the directors agreed to (a) waive their right to participate in any distribution of dividends to shareholders who have paid cash or its equivalent for their shares have received and (b) waive all right to receive any dividends until all of the shares have received dividends in amount not less than the par value of the shares as of the date of issue.

In February, 1946, the board of directors of the Company authorized but unissued capital stock to meet stock purchase contracts entered into prior to July 1, 1951, to executive, administrative or other employees of the Company and upon terms determined by it. No determination of stock options, if any, which may be so granted, nor as to the exercise of such options will be granted. No warrant or option will be issued exercisable

HEET --: JUNE 30, 1947

LIABILITIES

CURRENT LIABILITIES:

Note payable (secured by mortgage on airplane carried at cost of \$197,004).....		\$ 65,017
Accounts payable.....		202,563
Accrued liabilities—		
Payroll.....	\$ 201,940	
Property, payroll and other taxes.....	88,340	
Insurance, etc.....	44,612	334,892
Amount withheld from employees for income tax.....		144,160
Total current liabilities.....		\$ 746,632

CONTINGENT LIABILITIES:

Under miscellaneous claims, etc.—estimated not to exceed \$6,000.

RESERVE FOR CONTRACT TERMINATION COSTS..... 50,000

CAPITAL STOCK AND SURPLUS:

Capital stock of \$1.00 par value (see footnote)—

 Authorized—1,000,000 shares

 Issued and outstanding—726,000 shares.....\$ 726,000

Capital surplus (excess of proceeds from sale of 500,000 shares of capital stock over par value thereof)—

 Balance June 30, 1946.....\$1,639,315

 Deduct—Additional capital stock selling expense.... 1,676 1,637,639

\$2,363,639

Deduct—Deficit—

 Balance June 30, 1946.....\$ 199,595

 Add—Net loss per accompanying statement..... 778,129 . 977,724 1,385,915

\$2,182,547

the parent company is held in escrow and cannot be sold or of Corporations of the State of California. These shares er, upon a satisfactory showing of earnings of the com- res are held in escrow the owners of such shares have tion of assets of the company until all other stockholders ceived the return of the full amount of the purchase price, r shareholders who have paid cash or its equivalent for than thirty cents per share per annum cumulatively from

company adopted a resolution reserving 50,000 shares of warrants or options which may be issued by the company ployees of the company in the discretion of the board of has yet been made as to the exact number of warrants or and employees to whom such warrants or options, if any, lle at a price less than \$5 per share.

The accompanying map of the United States shows the Company's scheduled airfreight routes and areas served.

