

T. C. HAYWOOD

The Flying Tiger Line Inc.

ANNUAL REPORT

For The Year Ended June 30, 1949



LOCKHEED AIR TERMINAL
BURBANK, CALIFORNIA



President's Letter

Introduction

In previous annual reports we have described the many problems which confronted us, both financial and political. While many of these are yet unsolved, we can for the first time report some very favorable developments for your Company.

These are discussed under three general headings, as follows:

- I. CERTIFICATION
- II. FINANCIAL OUTCOME FOR THE PAST YEAR
- III. PROSPECTS FOR THE FUTURE.

I. CERTIFICATION

We can at long last announce the final decision of the Civil Aeronautics Board upon our application for a Certificate of Convenience and Necessity for the carriage of property only on domestic routes within the United States. The application was filed on August 6, 1946. On August 2, 1949, exactly three years later, the Board reaffirmed its tentative decision in the Air Freight Case in which your Company was awarded its certificate. The Board decision on the certificate is reprinted for you elsewhere in this report and we have also produced a map showing the cities which we are permitted to serve. The certificate is for a five-year period. In this connection it should be pointed out that the Board rarely, if ever, awards a permanent certification on its first decision. Most new certificate awards have been on a three-year basis. Our route will be known as Route 100. We did not apply for and were not awarded any mail pay or mail carriage authorization.

One rather surprising development which greatly disappointed us was the condition of the certificate excluding our Company from doing business with the Railway Express Agency which handles air express. We had hoped that cooperation between the Railway Express Agency and the all-cargo carriers would greatly enhance the future development of the carriage of property by air since both the Express Agency and the cargo carriers are dealing in the carriage of property only. However, as it develops, the Railway Express Agency can deal only with the passenger airlines and the cargo carriers are excluded. Admittedly, our future development and expansion will be difficult because we will have the passenger lines competing against us. They are not only subsidized but also have the additional advantages of the vast facilities of the Railway Express Agency for a ground-and-air combination movement.

II. FINANCIAL OUTCOME FOR THE PAST YEAR

We are very happy to be able to report to you that in this, our fourth year of business, we have operated profitably for the first time. There are three factors which are chiefly responsible for this improved financial condition:

A. During the entire preceding year there existed a rate war in the airfreight industry. Rates were depressed to a point which made a sustaining operation all but impossible in the face of rising costs. The heavily-subsidized passenger-carrying segment of the air transport industry made a concerted attempt to eliminate those of us in the all-cargo field before we could complete our case for certification before the Civil Aeronautics Board. They were successful in wiping out the all-cargo carriers in all but a few cases. Your Company was one of the fortunate exceptions that survived.

The result of the Civil Aeronautics Board decision in the rate war case was a minimum rate order effective on July 1, 1948. By coincidence this was the beginning of our past fiscal year. Prior to the minimum rate order we were receiving an average of 11½ cents per ton-mile for the carriage of freight. Since July 1, 1948, our income has been 15 cents per ton-mile, a difference of 3½ cents a

ton-mile. Multiplying the 3½ cents times the 13,000,000 ton-miles flown in the past year gives us a net gain of \$455,000 for the same amount of service performed. The difference in the outcome for the past year as against the previous year was a profit of \$123,000 versus a loss of \$349,000, or a total gain of \$472,000. This is very close to the net gain referred to above which resulted from the minimum rate order.

B. In addition to the improved unit return another important factor contributed to our improvement. Although there was an increase in our volume of business, the gross income figures in our profit and loss statement do not reflect it, since they are slightly less than those for last year. The explanation is that the 1948 figures reflected the termination charges and income on the Air Transport Command contract that began in January of 1947. This contract was terminated in November, 1947, and, therefore, all termination costs and revenues were reflected in last year's report. This year, however, our entire gross income was from commercial operations.

C. Like most other businesses, your Company has faced continued rising costs, both in labor and materials. Increases in gasoline prices alone have amounted to about \$10,000 per month for this past year. We have been able to offset these increased unit costs to some extent by increasing our general efficiency.

It will be remembered that your Company, since its inception, has had to cut its own pattern, pioneering a new field in which there was no established model in existence. True, there have been extended airline passenger operations in this country for the past twenty years. However, we frankly feel that the only thing common to the two fields is that we both use airplanes. Our sales approach is different, our scheduling problems are different, our cost problems are different and our traffic handling problems are different. The economies that should be inherent in an air trucker's business are being slowly and painfully dug out and put to use. Many savings we know can be made have not yet been accomplished because until now we have not been able to do any permanent, long-range planning. Now that our Certificate Case has finally been settled and we know what places we may serve and under what conditions we can go forward.

D. A very important contribution to our great increase in commercial operations can be attributed to the activities of the airfreight forwarders who were granted exemption authorization to operate in the airfreight field in August, 1948. We expect a continuing healthy increase of business promoted by these forwarders.

III. PROSPECTS FOR THE FUTURE

While we have been serving eight cities on a regular basis for the past two years, we now have the duty under our certificate of serving the forty-three cities listed therein. We will probably never serve all of these cities daily on a year-round basis since many of them were included in the certificate for the purposes of being served on a seasonal basis for the movement of perishable agricultural products.

It is your Management's intention to proceed on this expansion program on a very cautious basis. Our first points of expansion will be a new route leading into the New England area including Boston, Hartford and Buffalo, with intermediate points. We expect to be serving this route by the end of September. While our present financial condition is comparatively good, we obviously do not have the financial resources to develop fully all the routes and cities listed. Therefore, it will be imperative sometime in the future to raise additional capital.

Another growing source of income to the Company is our Maintenance Sales program. We have sufficient capacity in our shops to handle much more maintenance work than our freight operations presently require. We have therefore been soliciting outside maintenance. During this past fiscal period this source of revenue has amounted to \$218,000. Competition within this field is keen, but I consider our possibilities for a continuance of this type of revenue as good. We have been inspected and approved for this type of work by the United States Coast Guard, the United States Navy and the Army Air Forces and we are in contact with all foreign air attaches in Washington. Every possible avenue for securing this kind of business is being aggressively pursued.

Changes in Officers and Directors

There were no changes in officers during the past year. Mr. F. Stuart Roussel resigned as a Director and Mr. Houston Rehrig was elected to the Board at the Stockholder Meeting in September, 1948.

Return Reply Postal Cards

We have been gratified at the response we received before on the postal cards with the leads for more business. We are repeating that program this year and will appreciate information from any stockholder who may direct us to more new business, either in aircraft maintenance or in additional freight tonnage.

Conclusion

As stated previously, the results of the past year have been very satisfactory. We repeat once again that without the loyal assistance of our stockholders and friends throughout the country and the efficient cooperation of our employees the long, hard fight for recognition of the airfreight industry could not have been brought to such a successful completion. Our thanks to all of you for your faith and support during the past several years.

For the Board of Directors

ROBERT W. PRESCOTT

President

Burbank, California

August 25, 1949

OFFICERS

President - - - - - ROBERT W. PRESCOTT
Executive Vice-President - - - - GEORGE T. CUSSEN
Vice-President - - - - - ROBERT P. HEDMAN
Vice-President - - - - - WILLIAM E. BARTLING
Secretary-Treasurer - - - - - FRED BENNINGER
Assistant Secretaries - - - - - NORMAN L. MEYERS and
RICHARD H. KEATINGE

DIRECTORS

SAMUEL B. MOSHER, *Chairman of the Board*

ALLEN T. CHASE	ROBERT W. PRESCOTT
JAMES E. DAVIDSON	HOUSTON REHRIG
HARLAN B. ELDRED	T. J. SULLIVAN

EXECUTIVE OFFICES

Lockheed Air Terminal
Burbank, California

Telephone: STanley 7-3411 Teletype:
CHarleston 6-7444 Burbank 7588

Cable Address — "FLYTIGER"

Transfer Agent Chase National Bank of New York
18 Pine Street, New York 5

Registrar Bankers Trust Company
16 Wall Street, New York 5

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

612 SOUTH FLOWER STREET
LOS ANGELES 14

To the Board of Directors,
The Flying Tiger Line Inc.:

We have examined the balance sheet of THE FLYING TIGER LINE INC. (a Delaware corporation) as of June 30, 1949 and the related statements of revenues and expenses and deficit account 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. We previously had made a similar examination of the financial statements of The Flying Tiger Line Inc. and its subsidiary, Flying Tiger Transport Inc., for the year ended June 30, 1948.

In our opinion, the accompanying balance sheet and statements of revenues and expenses and deficit account present fairly the financial position of The Flying Tiger Line Inc. as of June 30, 1949 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
August 9, 1949.

ASSETS

	June 30, 1949	June 30, 1948
CURRENT ASSETS:		
Cash.....	\$ 208,162.87	\$ 201,834.23
Receivables—		
Customers (including notes of \$20,000 and \$27,000 at respective dates).....	\$ 279,651.91	\$ 238,126.10
Refunds on insurance premiums.....	—	46,863.50
Loss claims against insurance companies.....	10,597.66	32,173.77
Due on sale of aircraft.....	—	29,606.15
Gasoline tax refunds.....	25,526.18	26,050.34
Other (including \$8,217.33 and \$7,017.56 from officers and employees at respective dates).....	44,273.38	28,710.76
	<u>\$ 360,049.13</u>	<u>\$ 401,530.62</u>
Less—Reserve for bad debts.....	31,957.62	19,000.00
	<u>\$ 328,091.51</u>	<u>\$ 382,530.62</u>
Inventories, at cost not in excess of market—		
Materials and supplies.....	\$ 92,917.96	\$ 85,184.60
Outside maintenance jobs in process (less progress payments of \$92,828.10 at June 30, 1949).....	98,013.51	2,217.06
	<u>\$ 190,931.47</u>	<u>\$ 87,401.66</u>
Total current assets.....	<u>\$ 727,185.85</u>	<u>\$ 671,766.51</u>
PREPAID EXPENSES:		
Unexpired insurance premiums.....	\$ 8,576.58	\$ 79,319.01
Taxes.....	9,347.44	8,019.07
Other.....	6,252.37	7,243.34
	<u>\$ 24,176.39</u>	<u>\$ 94,581.42</u>
PROPERTY AND EQUIPMENT (Note 3):		
Cost (includes items totaling approximately \$290,000 at June 30, 1949 which are fully depreciated)—		
Aircraft and other flight equipment (in part pledged as security to notes payable at June 30, 1949, per contra).....	\$ 831,526.13	\$ 582,976.01
Hangar, shop and ramp equipment.....	120,332.34	117,395.01
Other equipment.....	78,438.41	76,611.93
Buildings and improvements on leased land.....	174,611.81	171,162.01
	<u>\$1,204,908.69</u>	<u>\$ 948,144.96</u>
Less—Reserve for depreciation.....	553,250.59	444,962.12
	<u>\$ 651,658.10</u>	<u>\$ 503,182.84</u>
Modification costs of leased aircraft, in process of amortization.....	84,933.44	45,818.20
Aircraft engines at residual value plus unflown hours at cost.....	92,717.06	59,128.80
Surplus aircraft and engines at residual value.....	5,750.00	14,750.00
	<u>\$ 835,058.60</u>	<u>\$ 622,879.84</u>
	<u>\$1,586,420.84</u>	<u>\$1,389,227.77</u>

The accompanying notes are an in-

LIABILITIES

	<u>June 30, 1949</u>	<u>June 30, 1948</u>
CURRENT LIABILITIES:		
Notes payable—		
Current maturities of note for purchase of airplane—see below.....	\$ 86,319.66	\$ —
Bank.....	—	44,322.43
Trade.....	—	12,000.00
	<u>\$ 86,319.66</u>	<u>\$ 56,322.43</u>
Accounts payable.....	\$ 138,783.31	\$ 147,897.42
Accrued liabilities—		
Payroll, vacations and sick leave.....	\$ 76,563.84	\$ 51,390.47
Property, payroll and other taxes.....	34,390.83	23,147.85
Insurance, rent, etc.....	17,862.34	27,921.35
	<u>\$ 128,817.01</u>	<u>\$ 102,459.67</u>
Amount withheld from employees for income taxes.....	\$ 10,509.65	\$ 11,896.63
Total current liabilities.....	<u>\$ 364,429.63</u>	<u>\$ 318,576.15</u>

LONG-TERM DEBT:

Note payable (for purchase of airplane) secured by pledge of two airplanes carried at cost of \$402,340.82, per contra—interest rate 5 per cent—		
Balance payable in monthly installments of \$7,500 including interest.....	\$ 112,812.36	\$ —
Less—Current maturities shown above.....	86,319.66	—
	<u>\$ 26,492.70</u>	<u>\$ —</u>
Balance due on purchase of modification costs of leased aircraft (paid through issuance of capital stock).....	—	34,000.00
	<u>\$ 26,492.70</u>	<u>\$ 34,000.00</u>

CONTINGENT LIABILITIES AT JUNE 30, 1949:

Under pending litigation, etc., approximately \$8,000

CAPITAL STOCK EQUITY:

Capital stock of \$1.00 par value (Note 4)—		
Authorized—1,000,000 shares		
Issued and outstanding—761,227 shares and 726,000 shares at respective dates.....	\$ 761,227.00	\$ 726,000.00
Capital surplus (excess of proceeds from sale of 500,000 shares of capital stock over par value thereof).....	1,637,639.31	1,637,639.31
Deficit.....	1,203,367.80	1,326,987.69
	<u>\$1,195,498.51</u>	<u>\$1,036,651.62</u>
	<u>\$1,586,420.84</u>	<u>\$1,389,227.77</u>

al part of the above balance sheets.

The Flying Tiger Line Inc.

STATEMENTS OF DEFICIT ACCOUNT FOR THE YEARS ENDED JUNE 30, 1949 AND 1948

	Year Ended June 30	
	1949	1948
Balance at beginning of year.....	\$1,326,987.69	\$ 977,724.46
Net income or <i>loss</i> per accompanying statements of revenues and expenses.....	123,619.89	349,263.23
Balance at end of year.....	\$1,203,367.80	\$1,326,987.69

The accompanying notes are an integral part of the above statements.

STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED JUNE 30, 1949 AND 1948

	Year Ended June 30	
	1949	1948
OPERATING REVENUES:		
From domestic operations (freight, rentals and service sales).....	\$2,962,182.80	\$1,511,767.00
From trans-Pacific operations (to November 30, 1947 when contract terminated).....	—	1,770,047.91
Total.....	\$2,962,182.80	\$3,281,814.91
OPERATING EXPENSES:		
Flying operations.....	\$1,153,588.86	\$1,401,650.51
Ground operations.....	292,970.77	280,717.08
Maintenance.....	643,350.23	1,094,610.97
Traffic, sales, advertising and publicity.....	274,046.04	176,569.29
General and administrative.....	329,147.72	419,601.64
Depreciation and amortization (Note 3).....	134,139.10	285,381.32
Total.....	\$2,827,242.72	\$3,658,530.81
Deduct—Portion of above charged to reserve for contract termination costs created in the preceding year.....	—	50,000.00
Net operating expenses.....	\$2,827,242.72	\$3,608,530.81
Net income or <i>loss</i> from operations.....	\$ 134,940.08	\$ 326,715.90
OTHER CHARGES (net):		
Loss on sale of aircraft, engines and other equipment.....	\$ 2,685.80	\$ 8,764.66
Write-down of surplus engines to residual value.....	—	8,456.25
Interest on notes payable.....	6,328.00	2,330.18
California franchise tax.....	4,250.00	—
Miscellaneous (net).....	1,943.61	2,996.24
Total.....	\$ 11,320.19	\$ 22,547.33
Net income or <i>loss</i> for the year (Note 1).....	\$ 123,619.89	\$ 349,263.23

The accompanying notes are an integral part of the above statements.

The Flying Tiger Line Inc.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1949 AND 1948

(1) No accrual is required for Federal income taxes for the year ended June 30, 1949 by reason of the carry-forward provisions of the Internal Revenue Code. Without the benefit of these provisions, such taxes, computed on net income for the fiscal year 1949, would amount to approximately \$55,000, and would reduce net income for the year from \$123, 619.89 to \$68, 619.89.

(2) The financial statements for the year ended June 30, 1948 are consolidations of The Flying Tiger Line Inc. and its wholly owned subsidiary, Flying Tiger Transport Inc. As of July 1, 1948 the assets and liabilities of the subsidiary were transferred to the parent company and the subsidiary's charter has been allowed to expire.

(3) At June 30, 1949, the company was operating a fleet of 3 DC-3 and 6 DC-4 aircraft, three of the latter being rented from the United States Government under leases, the expiration dates of which were in process of being extended to December 31, 1954, but which may be terminated by either party at will. As a result of the extension of the expiration dates of these leases and because the company has received its Certificate of Convenience and Necessity from the Civil Aeronautics Board, the estimated service lives of DC-4 aircraft used for depreciation and amortization purposes were extended, effective July 1, 1948, so that such aircraft will be depreciated to their residual values at December 31, 1954. Had the estimated service lives used in preceding years been continued in the current year, the depreciation and amortization provision for such year would have been \$126,226.87 more than is included in the accompanying statement of revenues and expenses.

At June 30, 1948, the company carried its aircraft engines on the basis of cost less depreciation based on estimated flyable hours. During the current year, the basis of recording the cost of engines was changed to residual value plus costs applicable to the remaining number of flyable hours. This change did not materially affect the results of operations for the year.

(4) A total of 180,800 shares of the issued capital stock of the company is held in escrow and cannot be sold or transferred without the written consent of the Commissioner of Corporations of the State of California. These shares will be held in escrow until in the discretion of the Commissioner, upon a satisfactory showing of earnings of the company, they may be released. During the period that these shares are held in escrow the owners of such shares have agreed to (a) waive their right to participate in any distribution of assets of the company until all other stockholders who have paid cash or its equivalent for their shares have received the return of the full amount of the purchase price, and (b) waive all right to receive any dividends until all other shareholders who have paid cash or its equivalent for their shares shall have received dividends in amount not less than 30 cents per share per annum cumulatively from date of issue.

In February 1946, the board of directors of the company adopted a resolution reserving 50,000 shares of authorized but unissued capital stock to meet stock purchase warrants or options which may be issued by the company prior to July 1, 1951, to executive, administrative or other employees of the company in the discretion of the board of directors and upon terms determined by it. Except for the warrant or option for the purchase of 2,000 shares of capital stock granted during the fiscal year 1948, to a retired vice-president of the company, no determination has yet been made as to the exact number of warrants, or options, which may be so granted, nor as to the officers and employees to whom such warrants or options, if any, will be granted. No warrant or option will be issued exercisable at a price less than \$5.00 per share.

Copy

UNITED STATES OF AMERICA
CIVIL AERONAUTICS BOARD
WASHINGTON, D. C.

TEMPORARY CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY
THE FLYING TIGER LINE INC.

is hereby authorized, subject to the provisions hereinafter set forth, the provisions of Title IV of the Civil Aeronautics Act of 1938, as amended, and the orders, rules, and regulations issued thereunder, to engage in air transportation with respect to property between any point or points specified in any of the following paragraphs numbered 1 through 8 below and any point or points specified in any other of said paragraphs:

1. The terminal point Los Angeles, Calif., the intermediate points Bakersfield, Calif., Brawley-El Centro, Calif., Fresno, Calif., Long Beach, Calif., Oakland, Calif., Sacramento, Calif., Salinas-Monterey, Calif., San Diego, Calif., San Francisco, Calif., Santa Barbara, Calif., Stockton, Calif., and Thermal, Calif.;
 2. The intermediate points Longview, Wash., Portland, Oreg., Seattle, Wash., Wenatchee, Wash., and Yakima, Wash.
 3. The intermediate point Minneapolis-St. Paul, Minn.;
 4. The intermediate point Denver, Colo.;
 5. The intermediate points Des Moines, Iowa, and Omaha, Nebr.;
 6. The intermediate points Akron, Ohio, Chicago, Ill., Cleveland, Ohio, Detroit, Mich., Fort Wayne, Ind., Grand Rapids, Mich., Milwaukee, Wis., South Bend, Ind., and Toledo, Ohio;
 7. The intermediate points Albany, N. Y., Binghamton, N. Y., Boston, Mass., Buffalo, N. Y., Hartford, Conn., New York, N. Y., Newark, N. J., Philadelphia, Pa., Providence, R. I., and Rochester, N. Y.;
 8. The intermediate point Rockland, Maine, and the terminal point Portland, Maine;
- to be known as Route No. 100.

The service herein authorized is subject to the following terms, conditions, and limitations:

- (1) The holder shall render service to and from each of the points named herein, except as temporary suspensions of service may be authorized by the Board, and may begin or terminate, or begin and terminate, trips at points short of terminal points;
- (2) The holder may render a scheduled nonstop service between any two points not consecutively named herein between which service is authorized hereby, without compliance with the provisions of Part 202 of the Economic Regulations;
- (3) Upon compliance with such procedure relating thereto as may be prescribed by the Board, the holder may regularly serve a point named herein through any airport convenient thereto;
- (4) The holder may transport, at the expense of the shipper, one or more attendants with each shipment of live animals, live birds, and live reptiles when necessary for the protection of the shipment, other cargo, or the aircraft or its crew. Such attendant may be transported only when actually accompanying the shipment and may not be transported from the destination of the shipment to its origin or otherwise;
- (5) The holder shall not carry property shipped by Railway Express Agency, Inc. pursuant to the exemption authorization contained in Order Serial No. 941, dated March 13, 1941, as amended by Order Serial No. 5149, dated September 3, 1946.

The exercise of the privileges granted by this certificate shall be subject to such other reasonable terms, conditions, and limitations required by the public interest as may from time to time be prescribed by the Board.

This certificate shall be effective on the 12th day of August, 1949 and shall continue in effect for a period of five years.

IN WITNESS WHEREOF, the Civil Aeronautics Board has caused this certificate to be executed by its Chairman and the seal of the Board to be affixed hereto, attested by the Secretary of the Board, on the 29th day of July, 1949

/s/ Joseph J. O'Connell, Jr.
Chairman

(SEAL)
ATTEST:
/s/ M. C. Mulligan
Secretary

AIR FREIGHT ROUTE 100

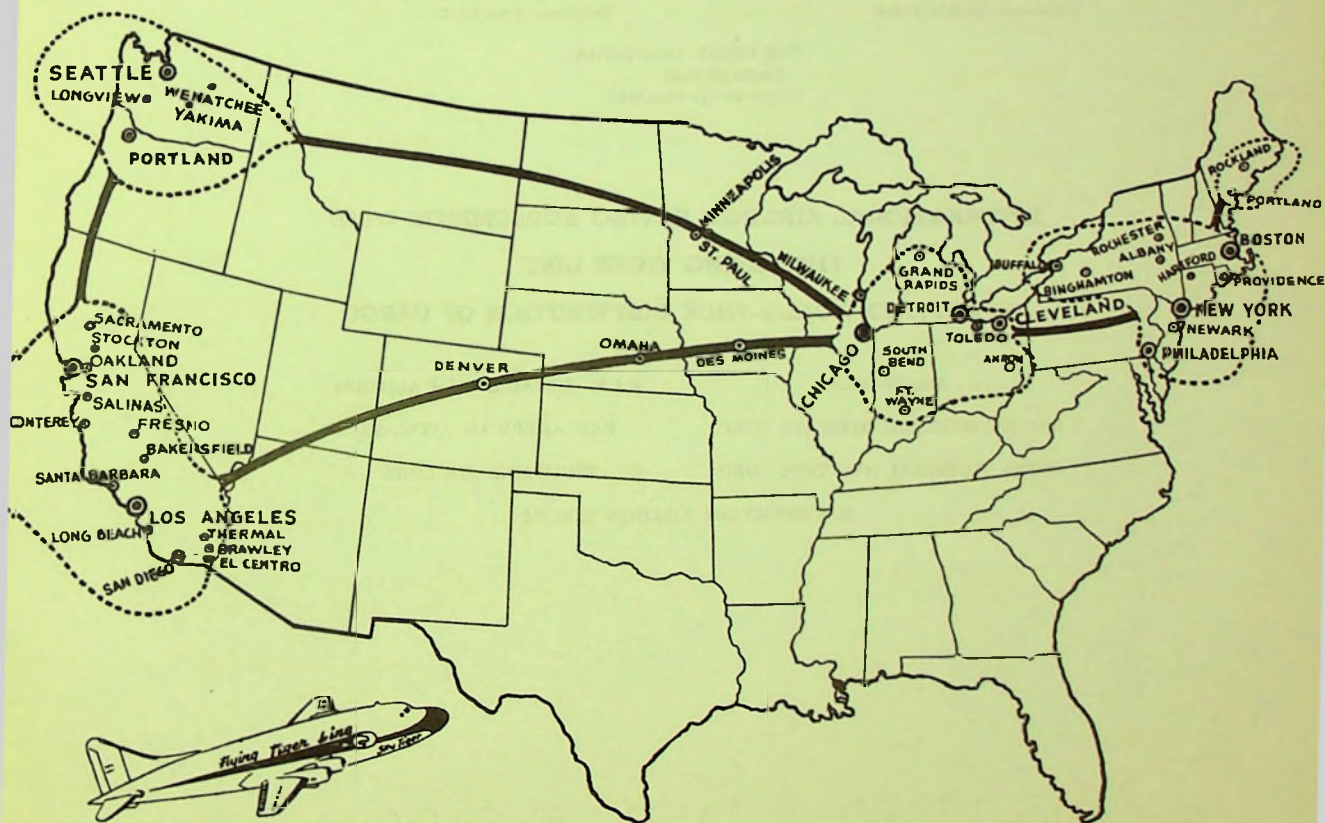
Certificated to

The Flying Tiger Line Inc.

by the

Civil Aeronautics Board

August 12, 1949



SALES OFFICES

NEW YORK CITY, N. Y.
Suite 802, 247 Park Avenue
Telephone—Plaza 3-2891

DETROIT, MICHIGAN
Suite 424, Book Building
Telephone—Woodward 1-9704

CLEVELAND, OHIO
Municipal Airport
Telephone—Orchard 5777

CHICAGO, ILLINOIS
Suite 556, 35 E. Wacker Drive
Telephone—Andover 3-7071

SAN FRANCISCO, CALIFORNIA
Room 403, 406 Sutter St.
Telephone—Garfield 1-6239

OPERATIONS OFFICES

NEWARK, NEW JERSEY
Newark Airport
Telephone—Whitcomb 3-6644

DETROIT, MICHIGAN
Detroit Wayne Major Airport
Telephone—Logan 2-9700

CLEVELAND, OHIO
Municipal Airport
Telephone—Orchard 5777

CHICAGO, ILLINOIS
Municipal Airport, 6054 S. Cicero
Telephone—Portsmouth 7-2406

SAN FRANCISCO, CALIFORNIA
Municipal Airport, So. San Francisco
Telephone—Juno 8-3122

SAN DIEGO, CALIFORNIA
Lindbergh Field
Telephone—Jackson 6321

INTERNATIONAL AIRLINES HAVING AGREEMENTS WITH THE FLYING TIGER LINE PERMITTING WORLD-WIDE DISTRIBUTION OF CARGO

AIR FRANCE

K.L.M. ROYAL DUTCH AIRLINES

BRITISH OVERSEAS AIRWAYS CORP.

PAN AMERICAN AIRWAYS

CHINA NATIONAL AVIATION CORP.

PHILIPPINE AIR LINES

SCANDINAVIAN AIRLINES SYSTEM



