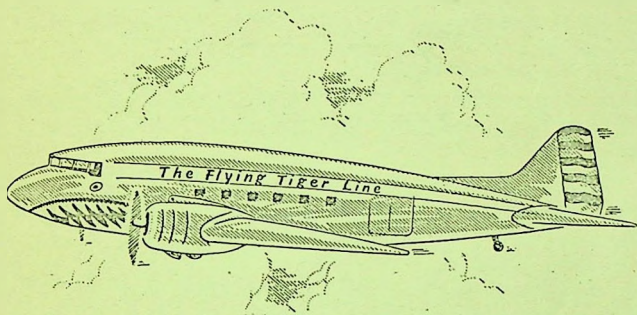


The Flying Tiger Line

NATIONAL SKYWAY FREIGHT CORP.

5911 West Imperial Highway

Los Angeles 45, California



ANNUAL REPORT

For the Year Ended

JUNE 30, 1946

to the Stockholders:

The Balance Sheet and related Statement of Income for the year ended June 30, 1946, together with the footnotes which form a part hereof, are presented herewith. The certificate of Arthur G. ... accountants and auditors, accompanies the report.

Since the public offering of the common stock of the company of this year we have expanded appreciably and are now operating sixteen DC-3s and two DC-4s. A list of the cities in which we operate appears elsewhere in this report. Additions will be made to our traffic potentials warrant further expansion.

Operating revenues for this, the first year of the company, totaled \$480,724.36. Partly as a result of our being made public to an understanding of our services and the investment in equipment, over 40% of the year's revenue was earned in the quarter—the months of April, May and June. Revenues have exceeded previous records, based on the fact that we anticipate a continuance of this extremely high level of traffic and revenues.

We have filed application with the Civil Aeronautics Board for cargo line certification between most of the cities on the West Coast and the East. We welcome the development of an airfreight field, in which we are the primary competitor from Government subsidized airlines. We desire rates at a reasonable profit-making level.

While we await this certification, our airfreight field is warranted, we have expanded our fleet. KING TIGER TRANSPORT, INC., to date, most of our DC-3s have been equipped with new equipment. We are in the process of scheduling flights for government troupes, athletic teams and other groups. Public response has been most gratifying. We are confident of this service which provides a profitable figure which is well above the cost of operation.

We are also setting up a repair service for itinerant mechanics. We require it at the Los Angeles office. It is employed by the ...

the year end-
an integral part
Andersen & Co.,

Company in May
operating with fif-
we are represented
made in areas where

operations for your Com-
previous education of the
also reflecting the increase
were earned in the final
Since that time monthly
on preliminary reports, and
favorable trend of operations

All Aeronautics Board for an all-
principal shipping centers of the
reasonable regulation of this new
matters, which will eliminate unfair
and agencies and bring stabilization
figure.

and until further expansion in the air-
formed a wholly-owned subsidiary, FLY-
operate a charter passenger business. Two
with the finest interiors obtainable and
ing the airplanes for the use of entertain-
other organizations which move in a group.
heartening and we expect further expansion
convenient, comfortable and fast transporta-
is still below that of first-class rail travel.

UNIVERSAL AIRMOTIVE COMPANY to offer a
aircraft owners and other carriers who may
s Airport. By utilizing fixed equipment and per-
parent Company this repair service will lower the
our own fleet, thus providing an indirect as well as
to state at this time that your Company's
with the Civil Air Regulations which
lines.

We look forward to
ever-widening demand for our services.
ingly aware of the potentialities of airfreight. We
pioneered this field which in little over one year's time
part of the transportation system of the nation.

To the stockholders, among whom we number many personal friends,
we pledge continuance of our endeavor to maintain leadership in this field.
To all of you who have shown confidence in the Company by becoming
stockholders, we wish to express our gratitude.

The courage, loyalty and unswerving interest of our employees, many
of whom are stockholders as well, has been greatly appreciated during the
exciting year just ended. On behalf of the Management of the Company, I
wish to extend special thanks to them.

Respectfully,

ROBERT W. PRESCOTT

President

Los Angeles, California

ARTHUR ANDERSEN & CO.

ACCOUNTANTS AND AUDITORS

601 WEST FIFTH STREET
LOS ANGELES 13

To the Board of Directors,
National Skyway Freight Corp.

We have examined the balance sheet of NATIONAL SKYWAY FREIGHT CORP.
(a Delaware corporation) as of June 30, 1946, and the statement of income for the
year then ended, have reviewed the system of internal control and the accounting
procedures of the company and, without making a detailed audit of the transactions,
have examined or tested accounting records of the company and other supporting
evidence, by methods and to the extent we deemed appropriate. 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 balance sheet and related statement of in-
come present fairly the position of National Skyway Freight Corp. at June 30, 1946,
and the results of its operations for the year then ended, and are in conformity with
generally accepted accounting principles.

Los Angeles, California,
August 22, 1946.

ARTHUR ANDERSEN & CO.

NATIONAL SKYWAY F

BALANCE SHEET—J

ASSETS

CURRENT ASSETS:

Cash in banks and on hand.....		\$1,413,808.87
Accounts receivable:		
Customers	\$ 78,336.95	
Officers and employees.....	10,142.47	
Others	13,310.41	
	\$101,789.83	
Less—Reserve for doubtful accounts.....	21,500.00	80,289.83
Notes receivable from employees, secured by company's capital stock—payable in monthly installments.....		12,395.00
Materials and supplies, at average cost, not in excess of market		28,890.71
Special deposits (Note 2).....		55,000.00
		\$1,590,384.41

PREPAID EXPENSES, ETC.:

Unexpired insurance premiums.....	\$ 33,027.08	
Advances to The Independent Airfreight Association, Inc.....	7,000.00	
Prepaid taxes	6,540.46	
Prepaid rent, etc.....	2,337.54	
Miscellaneous deposits	1,697.80	50,602.88

OPERATING PROPERTY AND EQUIPMENT (Note 1):

Classification	Cost	Reserve for Depreciation	Net	
Flight equipment	\$850,958.72	\$67,980.46	\$782,978.26	
Ground equipment	20,782.02	466.07	20,315.95	
Office furniture and equipment	8,076.25	242.85	7,833.40	
	\$879,816.99	\$68,689.38	\$811,127.61	811,127.61
				\$2,452,114.90

The notes on the following page are an int-

EIGHT CORP.

JUNE 30, 1946

LIABILITIES

CURRENT LIABILITIES:

5% note payable to bank (paid July 6, 1946).....		\$ 61,000.00
Accounts payable:		
Trade	\$ 166,522.91	
Employees	705.24	167,228.15
Accrued liabilities:		
Salaries and wages.....	\$ 24,437.26	
Transportation and payroll taxes.....	18,050.48	
Interest	982.78	43,470.52
Amounts withheld from employees for income tax.....		14,695.97
		<hr/>
Total current liabilities.....		\$ 286,394.64

CONTINGENT LIABILITIES:

The company is a defendant in a lawsuit involving damage to cargo amounting to \$12,000. The final result of this suit is not now determinable. (See Note 1 for purchase commitments.)

CAPITAL STOCK AND SURPLUS:

Capital stock, \$1.00 par value (Note 3):		
Authorized—1,000,000 shares		
Issued and outstanding—726,000 shares.....	\$ 726,000.00	
Capital surplus:		
Excess of proceeds from sale of 500,000 shares of capital stock over par value of such stock	\$1,687,500.00	
Less—Expenses incurred in connection with sale of capital stock	48,184.44	1,639,315.56
		<hr/>
		\$2,365,315.56
Less—Deficit, representing net loss for the year ended June 30, 1946 (per accompanying statement)	199,595.30	2,165,720.26
		<hr/>
		<u>\$2,452,114.90</u>

NATIONAL SKYWAY FREIGHT CORP.

NOTES TO THE BALANCE SHEET

(1) As of June 30, 1946, the company owned sixteen Douglas C-47 airplanes, five Budd RB-1 airplanes, two Consolidated-Vultee BT13A airplanes, and one Douglas C-54 airplane. Two of the Budd RB-1 airplanes are held in Mexico and are not at present available for operation outside that country. Subsequent to June 30, 1946, the company has acquired one Douglas C-54 airplane at a cost of \$90,000 and has sold one Douglas C-47 airplane for \$50,000, the company realizing a gain of approximately \$10,000 from this sale.

During July, 1946, the company placed a tentative order for twenty Martin 202 type aircraft at a price not to exceed \$250,000 each, but no formal contract covering this purchase has yet been made. At June 30, 1946, the company had commitments totaling approximately \$15,000 for modification and overhaul of aircraft.

(2) During June, 1946, the company deposited \$40,000 with War Assets Administration to apply on the purchase of four Douglas C-47 airplanes. The purchase was not consummated and the deposit is to be returned to the company. In addition, the company has \$15,000 on deposit with legal counsel. It is anticipated that \$13,000 of this amount will be advanced to The Independent Airfreight Association, Inc., for working capital and the balance of \$2,000 will be returned to the company.

(3) 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 thirty cents per share per annum cumulatively from date of issue.

In February, 1946, the board of directors 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. No determination has yet been made as to the exact number of warrants or options, if any, 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.

NATIONAL SKYWAY FREIGHT CORP.
STATEMENT OF INCOME
FOR THE YEAR ENDED JUNE 30, 1946

OPERATING REVENUES:

Freight and express	\$358,428.38
Passenger	122,295.98
	<u>480,724.36</u>
TOTAL OPERATING REVENUES	\$480,724.36

OPERATING EXPENSES:

Flying and ground operations	\$310,369.70
Maintenance	158,133.63
Depreciation	92,439.96
Traffic, sales, advertising and publicity	79,057.66
General and administrative	90,880.26
Insurance	38,381.32
Interest on notes payable	6,247.95
	<u>575,510.48</u>
TOTAL OPERATING EXPENSES	\$575,510.48

NET LOSS FROM OPERATIONS \$294,786.12

GAIN ON THE SALE OR DISPOSAL OF AIRCRAFT 95,190.82

NET LOSS FOR THE YEAR, LESS GAIN
ON THE SALE OR DISPOSAL OF AIRCRAFT \$199,595.30

NOTE: The company was incorporated on June 25, 1945, but had no revenues from operations until August 1945.

OFFICERS

<i>President</i>	ROBERT W. PRESCOTT
<i>Vice President</i>	ROBERT P. HEDMAN
<i>Treasurer and Assistant Secretary</i>	L. G. LUZMOOR
<i>Secretary</i>	R. H. BINGENHEIMER
<i>Assistant Secretaries</i>	NORMAN L. MEYERS AND B. R. WARE

DIRECTORS

<i>Samuel B. Mosher, Chairman of the Board</i>	
ALLEN T. CHASE	
JAMES E. DAVIDSON	
FRED A. MILLER	
ROBERT W. PRESCOTT	
DUNCAN SHAW	
THOMAS J. SULLIVAN	

TRANSFER AGENT *Chase National Bank of New York*
18 Pine Street
New York 5, N. Y.

REGISTRAR *Bankers Trust Company*
16 Wall Street
New York 5, N. Y.

BRANCH OFFICES

SALES AND TRAFFIC

New York City, N. Y.

147 West 46th Street

Telephone—Chelsea 3-8206

Teletype—NY 1-2729

Chicago, Illinois

141 West Jackson Boulevard

Telephone—WABash 2508

Teletype—CG 127

San Francisco, California

703 Market Street

Telephone—Sutter 7835

Teletype—SF 416

Seattle, Washington

Boeing Field

Telephone—Lander 6200

Teletype—SE 235

OPERATIONS AND MAINTENANCE

Teterboro, New Jersey

Bendix Airport

Telephone—Hasbrouck Heights 8-1683

Teletype—Hasbrouck Heights 173

Chicago, Illinois

6013 South Cicero Avenue

Telephone—Portsmouth 3150

Teletype—CG 1339

San Francisco, California

Municipal Airport

Telephone—South San Francisco 1995

Teletype—SF 990

Oklahoma City, Oklahoma

Municipal Airport

Telephone—Oklahoma City 6-3364

Teletype—OC 574

Omaha, Nebraska

Municipal Airport

Telephone—Atlantic 8909

Teletype—OM 172