

MEMORANDUM

1 December 1950

TO: All Department Heads

FROM: President

SUBJECT: Memorandum WW-50-164 of 19 October subject "Memorandum explaining the corporate structure and relationship of Chennault and Willauer doing business as Civil Air Transport, C.A.T. Inc., Civil Air Transport, Inc., and CAT Incorporated."

There is forwarded herewith Organizational Memorandum No. 1 which is a substitute for memorandum WW-50-164. All persons holding a copy of WW-50-164 should destroy same immediately and substitute for it the Organizational Memorandum No. 1.

2. Certain slight changes have been made in the text of WW-50-164 in order to bring Organizational Memorandum No. 1 up to date. Your attention is called particularly to paragraph 7 which in the old memorandum specified that [] was under the name of Civil Air Transport, Inc. Arrangements have now been made to carry this contract in the correct name of CAT Incorporated. For similar reasons paragraph 9 has also been changed.

WHITING WILLAUER
President

cc: All Department Heads

APPROVED FOR RELEASE
DATE: 17-Dec-2009

ORGANIZATIONAL MEMORANDUM NO. 1

TO: All Department Leads

FROM: President

SUBJECT: Memorandum explaining the corporate structure and relationship of Chennault and Willauer doing business as Civil Air Transport, C.A.T. Inc. Civil Air Transport, Inc., and C.A.T. Incorporated

1. There appears to be some confusion still prevailing as to the relationship between our various companies functioning under variations of the general name of CAT. The subject matter of this memorandum should be kept confidential and disclosed to outsiders only in so far as it is necessary to explain the matter to your secretaries for the purposes of correspondence and to others with whom you are doing types of business which require an understanding of this subject. We have deliberately sought to keep the corporate structure of the CAT enterprises complicated as a means of protection against any attempts the Communists might make to tie us up. Therefore you will be doing yourself a disservice if the information contained in this memorandum becomes common knowledge because it might be used by the Communists as a means of tying up CAT and therefore affecting your livelihood.

2. Chennault and Willauer doing business as Civil Air Transport (CAT). In 1946, Chennault and Willauer formed a partnership under Chinese law to carry on the business of air operations in China. This later became the CAT operation. During the first fourteen months of operations the Chennault-Willauer partnership was known as CNRRA Air Transport, because our operating franchise was a contract with the Chinese Relief and Rehabilitation Administration (CNRRA). After CNRRA was liquidated at the end of 1947, our operating franchise was renewed by a new contract with the Civil Aeronautics Administration of the Ministry of Communications of the Government of the Republic of China (CAA-MCC). Coincident with the new contract, the business name of the Chennault-Willauer partnership was changed to Civil Air Transport. This was a change in name only, and the basic legal structure of the partnership remained the same throughout.

The Chennault and Willauer partnership represents various American and Chinese interests who are associated with them in relationship of principal to agent in some cases, and in the relationship of silent partner in other cases. Had it not been for certain Chinese National Government political considerations, the Chennault-Willauer partnership would have been changed to a corporation before it commenced operations, but these political considerations prevented the achievement of this objective. Accordingly, the operation continued until January 1950 in the partnership form. The partnership acquired title to all the aircraft in the original CAT fleet by purchase in installments from CNRRA and also obtained the use by charter of the CIA planes. Every year the operating franchise or contract under which CAT

3. When the CAA-Chennault and Willauer was renewed in the latter part of 1949 to cover the operation during 1950, the Chinese National Government had been driven from the mainland of China and Great Britain was about to recognize the Chinese Communists. It was therefore necessary to provide in this contract for some means of protecting the CAT assets and operations from seizure by the Communists acting through the British courts in Hongkong after recognition, or from other interference by the Communists in other localities where their Government was recognized. To this end, the 1950 CAA contract gave permission to Chennault and Willauer to transfer their assets and business to a corporation of any other nation which was friendly to Nationalist China in order to protect the situation. Pursuant to this permission, a Delaware corporation was formed called C.A.T. Inc. and in January 1950 all the assets and business of Chennault and Willauer doing business as CAT were transferred to C.A.T. Inc.

4. Early in December 1949 it was agreed between Chennault and Willauer as partners and the Chinese National Government that Chennault and Willauer would purchase all of the assets and business of CNAC and CATC which had defected to the Communists, and it was further agreed that after this purchase by the partnership, they would transfer the assets and business to a corporation to be formed for that purpose. Accordingly Chennault and Willauer formed another Delaware corporation called Civil Air Transport, Inc. and transferred all the assets and business of CNAC and CATC to this corporation in December 1949 which was prior to the British recognition of the Chinese Communist Government.

Therefore the present holder of the legal title of all ex CNAC and CATC assets and business is Civil Air Transport, Inc.

5. Immediately after the acquisition of CNAC and CATC by Civil Air Transport, Inc., there arose heavy requirements for expenditures of money for lawyers and other steps necessary to protect the former assets of these airlines. Civil Air Transport, Inc. acquired absolutely no liquid assets by its purchase of CNAC and CATC and accordingly C.A.T. Inc. agreed to finance these expenses, which have been very heavy. In consideration of this financing by C.A.T. Inc., Civil Air Transport, Inc. transferred full title to C.A.T. Inc. in a few airplanes which formerly belonged to CNAC but which had been in Nationalist China at the time of defection and therefore not tied up. The transfer also included a few items of communications equipment and spare parts of very minor value. The transfer of legal title did not include other assets such as real estate in Formosa, the business of Friends of China Club, or the business of Airline Transport Service. It was agreed, however, between Civil Air Transport, Inc. and C.A.T. Inc. that as partial recompense for the past expenditures by C.A.T. Inc. and for the further burden which will cause more expenses, that Civil Air Transport, Inc. would entrust the use of the foregoing assets to C.A.T. Inc. for the benefit of the latter who will pay all expenses and keep all revenues.

With the takeover of the business and assets of C.A.T.
1950 as described in paragraph

6. In addition to other assets, CNAC and CATC had certain operating franchise and routes, which were acquired by Civil Air Transport, Inc. in the overall purchase. These routes were of no value to Civil Air Transport, Inc. since all of their operating equipment were tied up in the law suits with the Communists. Accordingly, Civil Air Transport, Inc. agreed to allow C.A.T. Inc. to operate any of these routes and franchises for its own account if it would invest the necessary money to change the routes into Civil Air Transport, Inc.'s name. In addition to the cost of making this change, the transfer was fully justified by other heavy expenses which C.A.T. Inc. had undergone as referred to above. Accordingly, the position as to routes is that although they are in the name of Civil Air Transport, Inc. they are operated solely for the benefit of C.A.T. Inc. and C.A.T. Inc. bears all risks of loss and all expenditures of keeping the routes alive.

Pursuant to this agreement, the permission to operate to Japan, formerly held by CNAC was transferred to Civil Air Transport, Inc. and a licence to do business in Japan was taken out in Civil Air Transport, Inc.'s name but is operated for the account and at the expense of C.A.T. Inc.

With the takeover of the business and assets of C.A.T. Inc. by CAT Incorporated on 1 July 1950 as described in paragraph 5, the above mentioned assets were transferred to CAT Incorporated.

7. When the [redacted] negotiations were entered into it would have taken too much time to obtain a licence to do business in Japan directly in the name of C.A.T. Inc. Accordingly, the contract was entered into by Civil Air Transport, Inc. This entire contract is for the benefit of CAT Incorporated, a new company the nature of which is described in the next paragraph which has recently succeeded to the interests of C.A.T. Inc. in all other matters formerly belonging to C.A.T. Inc. Early in November 1950 the [redacted] negotiations which had previously carried on under a letter of intent were reduced to a formal contract and this contract shows the correct CAT organization, namely CAT Incorporated. Accordingly, from now on all matters having to do with the [redacted] contract are properly carried on in the name of CAT Incorporated.

8. From December 1949 until the commencement of [redacted] the airline operating business of C.A.T. Inc. suffered greatly from lack of demand and large sums of money were put back into the business to keep it going both by the owners of C.A.T. Inc. and later through loans obtained from a banking group in the United States. As of 1 July 1950, certain new members came into the original banking group and others went out. This required the closing of the books of C.A.T. Inc. as of 1 July 1950 in order to settle the accounts of the original group and the opening of new books to apply from that date forward. Furthermore, in order to make a clean division between the old group and the new group, a new Delaware corporation was formed called CAT Incorporated which succeeded to all the assets and business of C.A.T. Inc. We are now in the process of settlement of accounts between those interested in C.A.T. Inc. and those constituting the new group

interested in CAT Incorporated. It should be emphasized that the difference between the old group and the new group is very negligible but it was clear that a clean demarkation was necessary, which could only be obtained by forming a new company. Coincident with the formation of the new corporation, CAT Incorporated, the name of C.A.T. Inc. was changed to Willauer Trading Company in order to avoid duplication of name. Willauer Trading Company's only function is to wind up the affairs of C.A.T. Inc., settle between the new group and old group of bankers and transfer the continuing business and assets to CAT Incorporated.

9. For all practical purposes the simple explanation of all of the foregoing is that as of 1 July 1950 Civil Air Transport, Inc. is the "lawsuit company". As such it conducts litigation in Hongkong with regard to the planes and in the United States with regard to the bank accounts formerly belong to CNAC and C.A.T. It acts as holder of the legal title to all the real estate in Formosa, the Friends of China Club and the Airline Transport Service. Stationery of Civil Air Transport, Inc. will be used and signatures will be made in its name only for matters clearly having to do with these problems and with the Tokyo route. The only persons who should use Civil Air Transport, Inc.'s name or stationery are as follows, and they only for business properly belonging to Civil Air Transport, Inc.:

- Chairman of the Board, C. L. Chennault
- President, Whiting Willauer
- Executive Vice-President, James J. Brennan
- Vice-President, A. T. Cox
- C. E. LaGueur
- F. S. Willoughby
- Henry Tuan
- The Tokyo Office (Green and C. K. Tseng)
- The Real Estate Division
- B. Englehardt

Note: The foregoing persons when dealing with CAT Incorporated business will use CAT Incorporated stationery and signatures.

The stationery and signatures of CAT Incorporated will be used in all other cases and most particularly in all matters having to do with operations, and in purchasing or contracts having to do with operations.

Whiting Willauer
President, C.A.T. Inc.
President, Civil Air Transport, Inc.
President, CAT Incorporated
Partner in the partnership of
Chennault and Willauer doing
business as Civil Air Transport
President, Willauer Trading Company