

# THE FLYING TIGER LINE INC.



ANNUAL REPORT 1967

*Flying Tiger's new DC8-Super 63F*





## LETTER TO THE STOCKHOLDERS



Robert W. Prescott  
President



Wayne M. Hoffman  
Chairman of the Board

By most standards 1967 was a satisfactory year for the Flying Tiger Line. We achieved the highest revenues and the second highest earnings in our history.

The annual report which follows contains a comprehensive review of the past year. We would, therefore, like to take this opportunity to discuss the less tangible, but perhaps more important matters that will determine our future.

Success in any private enterprise requires growth. The Flying Tiger Line, in its determination to carve out a place for itself in the transportation industry, has been bold and, we believe, successful in managing its growth. We have been so successful, in fact, that we have set the stage for the largest expansion in the history of the airfreight industry. The management of growth requires intelligent and dedicated people. These are the kind of people we have. Furthermore, it requires modern management methods. In our determination to develop a management second-to-none in the air industry we have taken a number of steps.

In the financial area we have expanded our responsibility accounting, capital and expense budget controls, authority for expenditure procedures, and return on investment analyses, using computer studies and other appropriate financial management techniques. This will naturally assist us in making decisions in all phases of our business.

In the commercial side of our business, we are developing marketing and sales programs using both empirical and analytic techniques to assure expanding revenues and adequate profits.

On the operating side, we are putting into service computerized flight training, flight planning and crew control systems, and facilities employing the most advanced equipment available today. In maintenance, we are expanding our already excellent facilities and service to enable us to maintain the ever more complex equipment and to improve further our cost effectiveness.

Lastly, in planning, we have perhaps our greatest challenge. Our rapid growth and the environment in which we operate presents some very difficult management problems. By employing specialized planning techniques, we are able to make decisions and judgments in a more rational atmosphere than would otherwise be possible. Thus, for example, in planning for our trans-Pacific operations, should our present route application be successful, we are employing critical path planning methods to enable us to make decisions in connection with future service, terminals, pricing and sales in the proper and necessary sequence so as to be ready at the earliest possible moment to implement our program when the authority is granted. Similarly, we have employed advanced planning techniques to assure the orderly and efficient introduction of the new fleet of DC8-63F's into service.

In summary, while our annual report talks of numbers and machines and finite results, the fact is that the intelligence, skill and dedication of the men and women of the Flying Tiger Line are the most important assets we have.

A handwritten signature in green ink that reads "Robert W. Prescott".

Robert W. Prescott  
President

A handwritten signature in green ink that reads "Wayne M. Hoffman".

Wayne M. Hoffman  
Chairman of the Board

## REVENUES AND EARNINGS

Flying Tiger Line attained operating revenues of \$87,031,494 in 1967—the highest ever reported since the Company began operations in 1945. This figure exceeded the 1966 record of \$86,018,911. Net income, before an \$801,350 write-down of Constellation aircraft, amounted to \$7,586,378. This was the second highest net income in the Company's history and exceeded only by 1966's net income of \$11,453,301 before gain on retirement of aircraft was reported. Earnings per common share before these extraordinary items were \$1.67 and \$2.54 for 1967 and 1966 respectively.

Several factors were responsible for the decrease in net income. Higher operating costs were experienced by the entire airline industry due to increases in salaries and wages, rising fuel costs and higher costs of parts and supplies. Additionally, there was a reduction in contract rates for services performed for the Military Airlift Command (MAC).

However, the introduction of new Douglas DC8-Super 63F aircraft into Flying Tigers' fleet in the latter part of 1968 is expected to offset these higher cost trends by making greater operating efficiencies possible.

A summary of the Company's earnings for the five years ended December 31, 1967 is shown below:

## HIGHLIGHTS

FOR THE FIVE YEARS ENDED DECEMBER 31, 1967

(Expressed in thousands except per share figures)

### FINANCIAL STATISTICS

	1967	1966	1965	1964	1963
Operating revenues	\$87,031	\$86,019	\$56,156	\$45,468	\$42,210
Operating income	\$12,280	\$20,460	\$ 8,820	\$ 4,005	\$ 1,765
Net income (loss) before income taxes	\$11,401	\$18,402	\$ 6,742	\$ 2,240	\$ (426)
Net income (loss) before extraordinary items	\$ 7,586	\$11,453	\$ 3,642	\$ 1,301	\$ (204)
Extraordinary items (less applicable income taxes)	\$ (801)	\$ 652	\$ —	\$ 200	\$ 317
Net income	\$ 6,785	\$12,105	\$ 3,642	\$ 1,501	\$ 113
Per share of common stock, reflecting conversion of debentures—					
Income before extraordinary items	\$1.67	\$2.54	\$ .86	\$ .35	\$ .01
Extraordinary items	(.17)	.15	—	.05	.07
Net income	\$1.50	\$2.69	\$ .86	\$ .40	\$ .08

### OPERATING STATISTICS

Miles flown	29,649	27,730	19,452	15,542	14,507
Domestic cargo ton miles	163,250	170,530	128,124	99,992	78,982
Total ton miles	486,280	483,571	335,853	237,264	207,568



## FINANCIAL POSITION

The Company's financial condition at December 31, 1967 showed continued strength:

	December 31	
	1967	1966
Cash . . . . .	\$12,683,091	\$15,416,088
Working Capital . . . . .	\$19,679,067	\$19,570,874
Net Current Ratio . . . . .	2.12 to 1.00	2.05 to 1.00
Stockholders' Equity . . . . .	\$47,366,959	\$40,482,363
Amount per Share . . . . .	\$10.44	\$8.95

In 1967 and early 1968, the Company exercised its option to purchase seven additional Douglas DC8-Super 63F Jumbo Jet aircraft. This increased the total order to seventeen. Delivery is scheduled at the rate of approximately one per month beginning in June, 1968.

In connection with the financing of the first ten Jumbo Jets and related spare engines and spare parts, the Company completed a \$51.0 million public offering of equipment trust certificates. \$46.6 million were issued at December 31, 1967, the balance is issuable under delayed delivery contracts. Negotiations were also completed for the private placement of approximately \$38.0 million of equipment trust certificates. Financing of the last seven Douglas DC8-Super 63F aircraft has not been completed at this date.

Pre-delivery deposits made in 1967 on the Jumbo Jets

and related equipment amounted to \$11,866,679, of which \$5,541,967 represented cash outlay, and the balance represented equipment purchase notes.

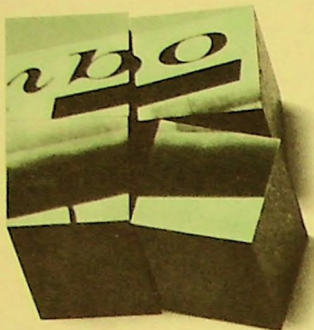
Negotiations were completed in 1967 for the financing of a newly constructed flight training center and the re-financing of the construction loan on the Los Angeles headquarters facilities. Under the terms of the agreement, debt was increased from \$3.5 to \$4.0 million, and repayment was extended over twenty years.

In 1967, \$500,000 principal amount of Series A debentures were converted into 42,552 shares of common stock. Additionally, long-term debt was reduced by \$7,737,212 through normal debt payments. At December 31, 1967, long-term debt outstanding, including maturities due within one year, amounted to \$87.0 million. Of these funds, \$46.6 million was temporarily invested in securities and will be applied to purchase of aircraft.

In accordance with action taken by your Board of Directors in approving a two-for-one stock split, 2,269,069 shares of common stock were distributed to shareholders of record as of February 28, 1967. A cash dividend of ten cents per share was paid to common shareholders of record as of the same date in accordance with a policy established by the Board. This was the first cash dividend declared by the Company since 1959. A summary of changes in stockholders' equity accounts is shown in the financial section of this report.



## COMMON CARRIAGE FREIGHT OPERATIONS



Revenues from domestic common carriage airfreight traffic in 1967 totaled \$21,689,211. This was a decrease of eight per cent from the record high of \$23,483,188 established in 1966 — but a gain of twenty-seven per cent over 1965 when revenues totaled \$17,086,910.

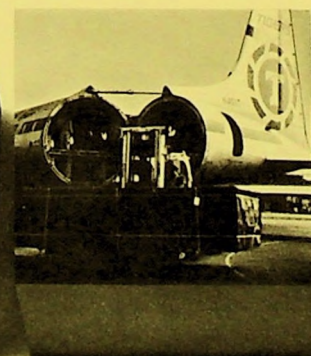
Strikes were major factors strongly affecting results for both 1967 and 1966. In 1966, the Company's common carriage freight operations were inflated as a result of a strike against various major air carriers. The 1967 strike within the automobile industry, an important source of traffic for Flying Tiger Line, adversely affected the Company's revenue.

Various steps were taken in 1967 to improve service and to meet the substantial expansion in pure jet freighter service scheduled by competitive combination carriers. During the year, two additional Canadair CL-44 airfreighters were added to common carriage operations. The Boeing pure jet freighters were retained on international operations to fulfill military contract requirements. Also, direct service was inaugurated between the Pacific Northwest and Chicago, thereby eliminating the longer routing via San Francisco.

### BLOCKED SPACE

At the end of 1967, the Company had eighteen Blocked Space contracts in operation, calling for a monthly movement of 1,548,000 pounds of freight. The Civil Aeronautics Board has indicated that it believes Blocked Space authority, now reserved exclusively for all-cargo carriers, should be extended to the combination carriers. The Company does not oppose this premise provided:

1. That a sounder and more economical pricing structure is developed for the airfreight industry. This pricing structure should offer levels of rates and services that would substantially increase the use of airfreight and return a better margin of profit to the carrier.
2. That the all-cargo carrier be given substantially expanded opportunities to engage in charter operations, particularly in the passenger area. With the introduction of Douglas DC8-Super 63F aircraft into its fleet, this expansion in operating rights would be of great importance to the Company.
3. That Flying Tiger Line be granted authority to continue Blocked Space service until the end of 1968. This authority would permit an orderly transition of contracts for shippers using the service, as well as for the Company.



## INTERNATIONAL OPERATIONS

In 1967, the Company's lease of additional Boeing 707 aircraft substantially increased its operation of pure jet flights for the Military Airlift Command. The increase in revenue, however, was partially offset by a reduction in MAC rates. Had there been no reduction in rates, operating revenues and income would have been \$3,200,000 greater than reported.

The Government imposed a sharp cutback in military cargo requirements in the latter part of 1967. Inasmuch as the cutback was not in the military passenger field, the Company converted a portion of its Boeing fleet to engage in military passenger service.

International commercial charter traffic in 1967 produced revenues of \$7,773,038, compared to \$8,597,396 in 1966. The Company was able to obtain a liberalization of the Civil Aeronautics Board policy restricting charter operations in the Pacific area. As a result, Flying Tiger Line can now commercially charter military flights which might otherwise return empty to the United States. Substantial amounts of traffic, such as clothing, electronics and toys, have been generated out of such terminals as Manila, Hong Kong and Taipei.



## PREPARATION FOR THE FUTURE

### DC8-SUPER 63F

1967 was a year of preparation both in equipment and marketing for the advent of the Company's newest fleet of aircraft, seventeen DC8-Super 63F Jumbo Jets. Delivery of these aircraft is scheduled to start in June, 1968. Completion of the order is set for the latter part of 1969.

The Super 63F Jumbo Jet will be the largest and most economical airfreighter ever put in the air. Its payload capacity of 110,000 pounds is more than 40% greater than the effective payload of the Boeing 707-320C and almost 85% greater than that of the CL-44. In terms of pallets or containers, the Super 63F Jumbo Jet will handle

eighteen units compared to the thirteen-unit capacity of the 707 and the ten-unit capacity of the CL-44.

Even with this greatly increased payload, the DC8-Super 63F is expected to operate at a cost only 13% higher than that of the 707. The Company expects this efficiency factor will prove highly beneficial in overall operating results.

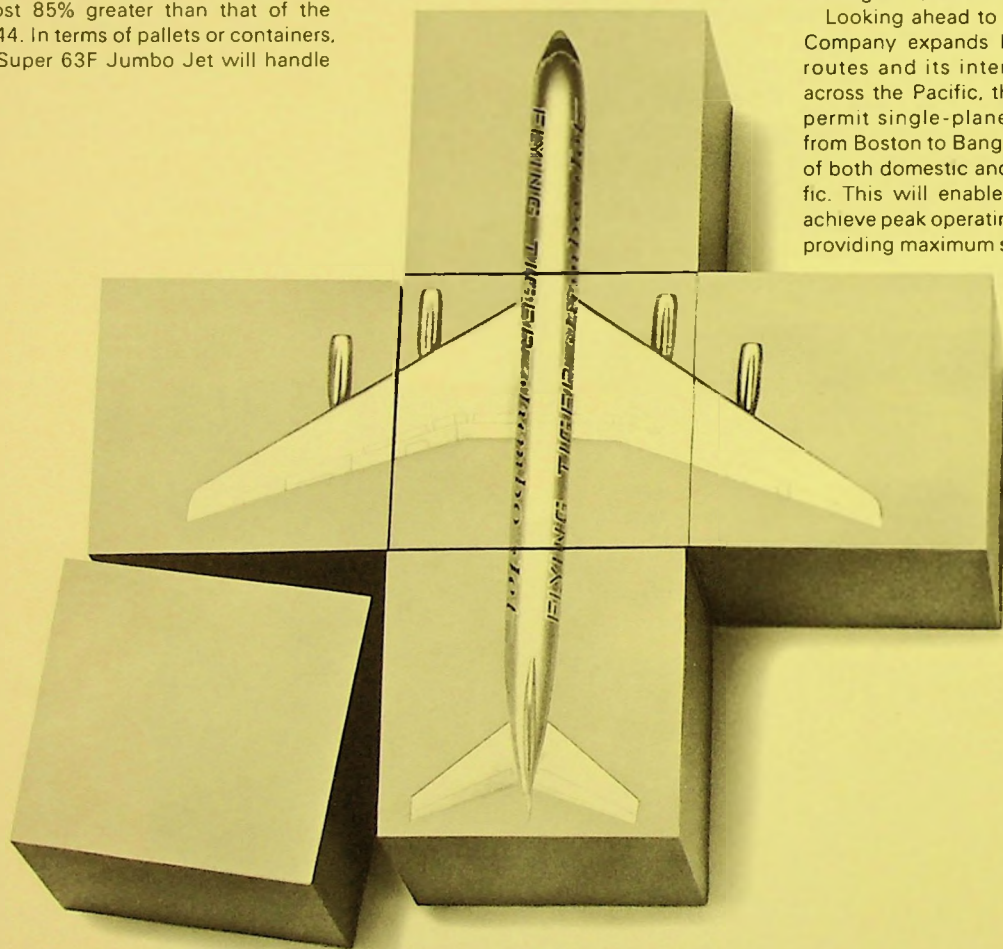
The Super 63F's ability to carry long-range, large payloads at a cruising speed well in excess of 500 miles per hour will be of significant benefit on both domestic and overseas routes. It will enable the Company to fly its military contracts at a per-ton-mile cost less than that of any other equipment

being utilized today. Thus the Company will be in a prime position to meet military contract requirements.

Domestically, the Super 63F can be scheduled for three trans-continent flights daily. This high utilization of the aircraft allows the Company to obtain the lowest operating cost and produce the highest profitability.

The addition of the DC8-Super 63F will mark the third consecutive time that the Company has pioneered in big fleet operation of the newest type of airfreighter. In 1957, the Company introduced a fleet of Lockheed Super H Constellation aircraft. In 1961, the Company was first with turbine-powered airfreighters, the Canadair CL-44.

Looking ahead to the day when the Company expands both its domestic routes and its international service across the Pacific, the Super 63F will permit single-plane through-flight from Boston to Bangkok, with a mixture of both domestic and international traffic. This will enable the Company to achieve peak operating efficiency while providing maximum service to shippers.



## GROUND EQUIPMENT AND TERMINAL FACILITIES

Several ground equipment programs were completed in 1967 and new programs tying in with the DC8-Super 63F aircraft were instituted.

The Company's San Francisco base now occupies new quarters four times larger than the previous facility. This terminal's new hangar facilities resulted in greatly improved servicing of both domestic and trans-Pacific aircraft.

The Company's plans for 1968 include modernization and expansion of eight domestic stations. This is the first phase of an improvement program which represents a long term investment of approximately \$25,000,000. In addition to these expanded terminal facilities, the program includes investment in automatic loading facilities with the capacity to load/unload a Super 63F's eighteen pallets or containers in one hour.

The Company's first fully automated terminal, specifically designed to service the Super 63F, was completed in Los Angeles early in 1968. Twice the size of the original facility, it will serve as a training center for DC8-Super 63F Ground Operations personnel.



## TRAINING PROGRAMS

Of foremost importance in training of personnel for the Super 63F was the completion early in 1968 of a \$2,250,000 flight training center at the Company's general headquarters in Los Angeles. This facility, equipped with a Super 63F flight simulator and training classrooms, will permit the Company to train all of its flight crews as well as sell time in this operation to other carriers not so equipped.

By providing the equipment for this highly important task, the Company will greatly expedite its own crew training and effectively reduce costs in this area.

Training of maintenance personnel for the servicing of the new Jumbo Jets was largely completed in 1967 and this program will be finished well in advance of the delivery of the first aircraft.



## MARKETING PROGRAMS

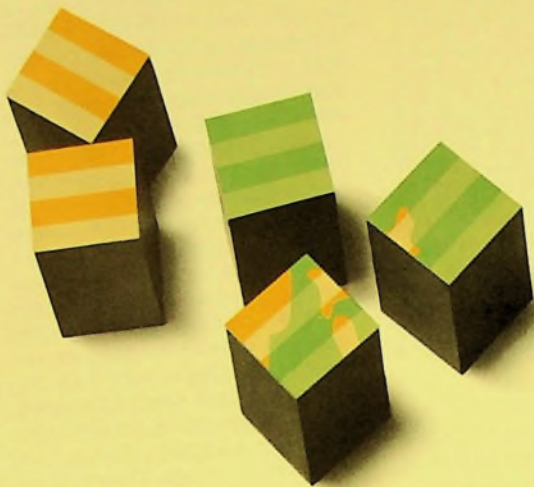
Among the most challenging preparatory tasks facing the Company with the introduction of the DC8-Super 63F fleet are innovations in pricing and marketing strategies to secure new volume at profitable levels.

In 1967, an examination was begun by the Company's pricing experts on ways and means to price airfreight so that shippers will receive more economical, more useful service while the Company itself will receive an improved profit structure. In this regard, the Company is working toward the elimination of complex levels of service and toward the implementation of a simplified rate program based on shippers' service requirements. Into this rate program, the Company plans to build incentives for volume shippers to utilize pre-packed pallets and containers to a far greater degree, thus improving terminal efficiency.

Another major field for development lies in market development programs that will show shippers how to expand and improve their use of airfreight by an overhaul of distribution systems. Since the problems of two companies, even within an industry, are seldom alike, this requires an expertise individually tailored to the needs of a single company. In 1967, the Company completed a realignment of its Marketing Division aimed at effective selling of such specialized programs.



## ROUTE EXPANSIONS

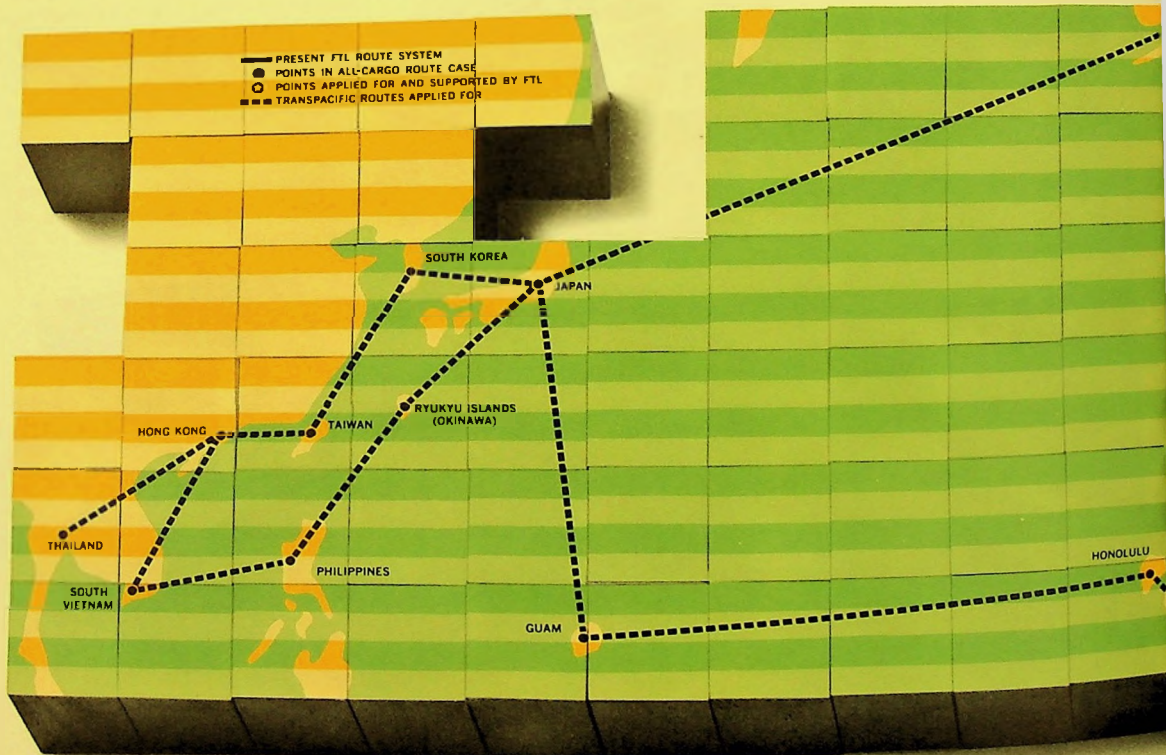


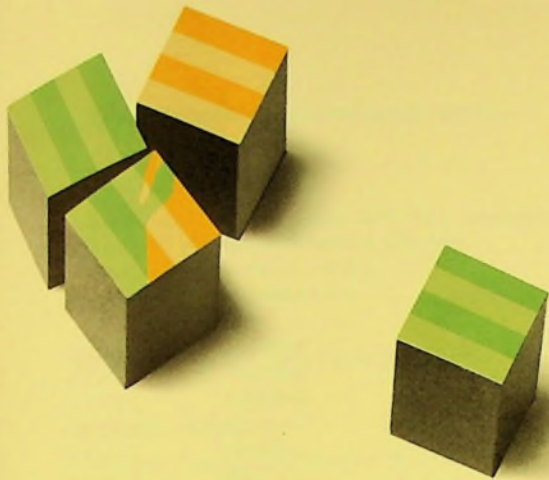
## TRANS-PACIFIC ROUTE

During 1967, the Company completed the presentation of its case before the Civil Aeronautics Board for extension of its domestic route across the Pacific Ocean to ten major nations of the Orient. The application is presently under

study by the Board. Whether any decision, which must ultimately be approved by the President, will be forthcoming in 1968 is unknown. However, the Company's prospects for receiving this extension are favorable for several basic reasons:

1. The Pacific area represents the largest, most undeveloped air-trade area in the world, an area with vast traffic potential.
2. No all-cargo service is presently provided by an all-cargo carrier, although such service is now offered across the North Atlantic and to South America.
3. With more than twenty years of trans-Pacific flying in military contract and commercial charter operations, the company has the broadest experience in this area of any cargo operator.
4. The Bureau of Operating Rights (BOR), a body within the CAB established to examine the fitness of applicants and the need for services, in an official "statement of position" strongly recommended approval of the Company's application for an all-cargo route, stating, "Flying Tigers is the best qualified and the most logical choice... and presented by far the best case."
5. The Company will be the first carrier in a position to offer big fleet service with the DC8-Super 63F. These Jumbo Jets are better suited for long-range over-ocean route operations than any other type of equipment now being flown by any airline.





### DOMESTIC ROUTE

With the advent of the DC8-Super 63F fleet, the Company is in a position to offer a scope of service much greater than that embraced in its present system. As such, applications were completed in 1967 before the Civil Aeronautics Board for a major expansion of the Company's domestic airfreight system, Route No. 100.

In conjunction with the Company's application, the

CAB, in one of the most significant steps ever taken affecting the air cargo industry, established a separate hearing to consider issues for all-cargo service for twenty-seven major domestic terminals.

In an order issued February 23, 1968, the Board stated, "...we believe it preferable to resolve issues concerning all-cargo service in a proceeding limited to examination of such issues rather than in a case containing extensive issues involving passenger as well as cargo operations. Such handling should facilitate concentration on the problems peculiar to all-cargo operations."

Significantly, the Board denied petitions for reconsideration and modification by three passenger carriers which argued that matters of all-cargo service in many of the markets were already under consideration in pending passenger cases.

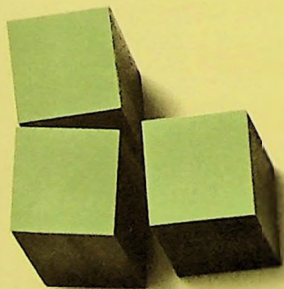
Although the date for this separate hearing has not yet been set, its development is highly encouraging to the Company as an all-cargo carrier heretofore involved in proceedings weighed down with complex passenger traffic considerations irrelevant to its own operation.

Of the twenty-seven major terminals made a part of this hearing, the Company has applied for and supported sixteen, primarily in the Eastern, Southern and Midwestern sections of the country. If approved, this route expansion will enable the Company to provide direct airfreight service to virtually every major market in the United States.



**BALANCE SHEETS**  
DECEMBER 31, 1967 AND 1966

ASSETS	<u>1967</u>	<u>1966</u>
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash, including \$11,500,000 and \$10,800,000 of certificates of deposit at December 31, 1967 and 1966, respectively . . . . .	\$ 12,683,091	\$ 15,416,088
Receivables, less reserves—		
Freight customers . . . . .	4,433,736	5,102,779
Charters, service sales, etc.—		
United States Government . . . . .	6,535,955	6,245,501
Other . . . . .	4,071,079	2,920,173
Materials and supplies, at average cost . . . . .	4,668,237	3,317,007
Aircraft acquired for sale . . . . .	—	1,102,984
Prepaid insurance, rents, etc. . . . .	2,574,796	1,951,117
Prepaid engine overhaul cost . . . . .	<u>2,237,855</u>	<u>2,195,233</u>
Total current assets . . . . .	\$ <u>37,204,749</u>	\$ <u>38,250,882</u>
TEMPORARY CASH INVESTMENTS, RESTRICTED TO DISBURSEMENT FOR EQUIPMENT ACQUISITION . . . . .		
	\$ <u>46,630,000</u>	\$ —
PROPERTY AND EQUIPMENT, at cost (Notes 1 and 2):		
Aircraft, engines and other flight equipment . . . . .	\$ 89,501,268	\$ 88,995,273
Other equipment . . . . .	3,316,144	2,670,599
Land and buildings . . . . .	6,387,706	6,146,697
	\$ 99,205,118	\$ 97,812,569
Less—Reserves for depreciation . . . . .	<u>47,042,091</u>	<u>40,272,054</u>
	\$ 52,163,027	\$ 57,540,515
Deposits on aircraft, engines, etc. . . . .	<u>22,401,821</u>	<u>10,035,142</u>
	\$ <u>74,564,848</u>	\$ <u>67,575,657</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expense . . . . .	\$ 1,166,961	\$ 110,852
Long-term lease deposits, receivables, etc. . . . .	1,218,026	1,028,797
Training costs applicable to aircraft, being amortized . . . . .	<u>3,003,475</u>	<u>3,423,759</u>
	\$ 5,388,462	\$ 4,563,408
	<u>\$163,788,059</u>	<u>\$110,389,947</u>



LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1967</u>	<u>1966</u>
<b>CURRENT LIABILITIES:</b>		
Current installments of long-term debt . . . . .	\$ 7,053,521	\$ 6,934,537
Accounts payable and accrued liabilities . . . . .	9,923,161	10,734,871
Accrued Federal income taxes . . . . .	549,000	1,010,600
Total current liabilities . . . . .	<u>\$ 17,525,682</u>	<u>\$ 18,680,008</u>
 LONG-TERM DEBT (See Summaries) (Note 2) . . . . .	 <u>\$ 79,966,506</u>	 <u>\$ 34,866,830</u>
 <b>DEFERRED CREDITS:</b>		
Deferred Federal income taxes (Note 4) . . . . .	\$ 16,806,236	\$ 15,346,437
Overhaul liability-leased aircraft and engines . . . . .	2,122,676	1,014,309
	<u>\$ 18,928,912</u>	<u>\$ 16,360,746</u>
 <b>STOCKHOLDERS' EQUITY (Note 2):</b>		
Common shares—\$1 par value—		
Authorized, 10,000,000 shares		
Outstanding, 4,538,138 shares (1967) and 2,219,682 shares (1966) . . . . .	\$ 4,538,138	\$ 2,219,682
Additional paid-in capital . . . . .	17,136,441	18,901,515
Retained earnings (Note 3) . . . . .	25,692,380	19,361,166
	<u>\$ 47,366,959</u>	<u>\$ 40,482,363</u>
	<u>\$163,788,059</u>	<u>\$110,389,947</u>

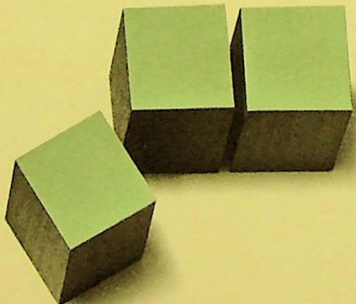
The accompanying notes and summaries of long-term debt are an integral part of these balance sheets.



**STATEMENTS OF INCOME**  
FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
<b>OPERATING REVENUES:</b>		
Scheduled freight operations . . . . .	\$21,689,211	\$23,483,188
Military Airlift Command . . . . .	53,413,028	48,074,385
Charters, service sales, etc. . . . .	11,929,255	14,461,338
	<u>\$87,031,494</u>	<u>\$86,018,911</u>
<b>OPERATING EXPENSES:</b>		
Flying operations . . . . .	\$31,173,364	\$26,640,082
Ground operations . . . . .	10,549,561	10,027,491
Maintenance . . . . .	19,021,222	15,809,280
Sales, advertising and publicity . . . . .	2,861,996	2,574,898
General and administrative . . . . .	4,027,215	3,554,170
Depreciation and amortization . . . . .	7,118,426	6,952,826
	<u>\$74,751,784</u>	<u>\$65,558,747</u>
Operating income . . . . .	<u>\$12,279,710</u>	<u>\$20,460,164</u>
<b>OTHER (INCOME) EXPENSE:</b>		
Interest expense . . . . .	\$ 1,775,305	\$ 2,302,390
Miscellaneous (net) . . . . .	(896,973)	(244,527)
	<u>\$ 878,332</u>	<u>\$ 2,057,863</u>
Net income before provisions for Federal income taxes and extraordinary items . . . . .	<u>\$11,401,378</u>	<u>\$18,402,301</u>
<b>PROVISIONS FOR FEDERAL INCOME TAXES (Note 4):</b>		
Current . . . . .	\$ 2,061,000	\$ 1,265,000
Deferred . . . . .	1,754,000	5,684,000
	<u>\$ 3,815,000</u>	<u>\$ 6,949,000</u>
NET INCOME BEFORE EXTRAORDINARY ITEMS . . . . .	<u>\$ 7,586,378</u>	<u>\$11,453,301</u>
<b>EXTRAORDINARY ITEMS, less applicable income taxes:</b>		
Write-down of retired Constellation aircraft . . . . .	(801,350)	—
Gain on retirement of aircraft (Note 6) . . . . .	—	651,902
NET INCOME . . . . .	<u>\$ 6,785,028</u>	<u>\$12,105,203</u>

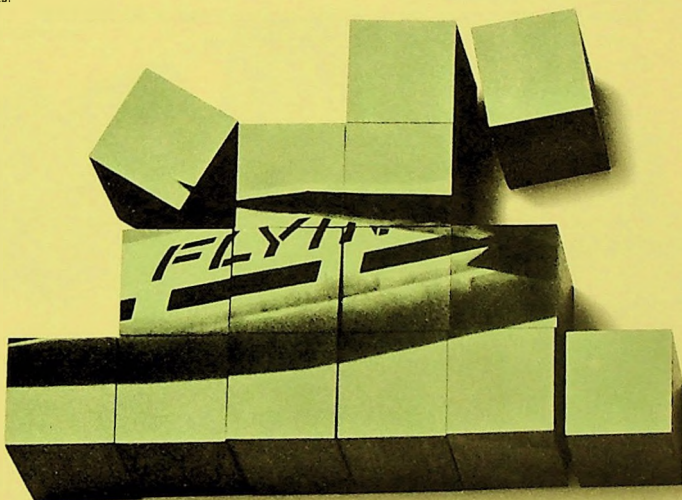
The accompanying notes are an integral part of these statements.



**STATEMENTS OF STOCKHOLDERS' EQUITY**  
 FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967			1966	
	\$1 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Total	Total
Balance, Beginning of year . . . . .	\$2,219,682	\$18,901,515	\$19,361,166	\$40,482,363	\$19,413,976
Add—					
Net income for year . . . . .	—	—	6,785,028	6,785,028	12,105,203
Conversion of debentures . . . . .	42,552	457,448	—	500,000	10,000,000
Issuance of shares under stock options . . . . .	6,835	46,547	—	53,382	4,851
	\$2,269,069	\$19,405,510	\$26,146,194	\$47,820,773	\$41,524,030
Deduct—					
Cash dividends on common stock—\$.10 a share . . . . .	—	—	453,814	453,814	—
Cash dividends on preferred stock prior to redemption . . . . .	—	—	—	—	50,547
Redemption of preferred stock . . . . .	—	—	—	—	991,120
	\$2,269,069	\$19,405,510	\$25,692,380	\$47,366,959	\$40,482,363
Transfer to stated capital in connection with two-for-one stock split effected as a stock dividend . . . . .	2,269,069	(2,269,069)	—	—	—
Balance, End of year (Note 3) . . . . .	\$4,538,138	\$17,136,441	\$25,692,380	\$47,366,959	\$40,482,363

The accompanying notes are an integral part of these statements.

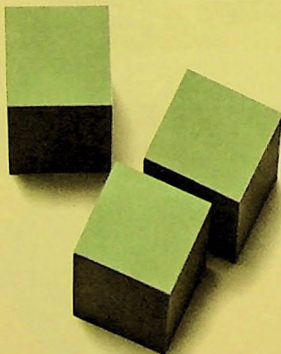


**STATEMENTS OF FUNDS**

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
WORKING CAPITAL AT BEGINNING OF YEAR . . . . .	<u>\$19,570,874</u>	<u>\$ 9,145,034</u>
 <b>SOURCE OF FUNDS:</b>		
Net income . . . . .	\$ 6,785,028	\$12,105,203
Add (Deduct)—		
Depreciation and amortization provisions . . . . .	7,752,526	7,936,428
Deferred tax provision . . . . .	1,754,000	5,684,000
Gain on retirement of property and equipment . . . . .	(170,244)	(235,761)
Extraordinary items . . . . .	<u>801,350</u>	<u>(651,902)</u>
Total funds from operations . . . . .	\$16,922,660	\$24,837,968
Proceeds (\$46,630,000) from issue of 1967 Equipment Trust Certificates, less full temporary investment restricted to disbursement for equipment acquisition . . . . .	—	—
Proceeds from common stock issued upon exercise of restricted stock options . . . . .	53,382	4,851
Proceeds from retirement of property and equipment . . . . .	323,339	4,635,661
All other (net) . . . . .	<u>491,603</u>	<u>134,223</u>
	<u>\$17,790,984</u>	<u>\$29,612,703</u>
 <b>APPLICATION OF FUNDS:</b>		
Payments on equipment trust certificates . . . . .	\$ 7,737,212	\$ 9,337,918
Deferred training costs applicable to aircraft . . . . .	121,395	1,037,114
Deferred debt expense . . . . .	1,174,298	—
Deposits on equipment, net of related indebtedness of \$6,325,872 and \$5,742,926 in 1967 and 1966, respectively . . . . .	5,541,967	4,292,216
Purchase of property and equipment . . . . .	2,654,105	3,283,442
Lease deposits . . . . .	—	194,506
Retirement of preferred shares . . . . .	—	991,120
Cash dividends on common and preferred shares in 1967 and 1966, respectively . . . . .	<u>453,814</u>	<u>50,547</u>
	<u>\$17,682,791</u>	<u>\$19,186,863</u>
WORKING CAPITAL AT END OF YEAR . . . . .	<u>\$19,679,067</u>	<u>\$19,570,874</u>

The accompanying notes are an integral part of these statements.



**SUMMARIES OF LONG-TERM DEBT**  
 DECEMBER 31, 1967 AND 1966

	<u>1967</u>	<u>1966</u>
Debentures (subordinate)—Series A—5½% . . . . .	\$ —	\$ 500,000
1959 Equipment Trust Certificates, less current installments— Series A—5½% due 1968-1971 . . . . .	4,497,254	8,589,257
Series B—5½% due 1968-1969 . . . . .	—	791,864
1964 Equipment Trust Certificates—Series A—5½%, due 1968-1971, less current installments . . . . .	2,451,932	2,921,098
5½% Promissory Note, due 1968-1971 (Note 2) . . . . .	986,797	1,106,685
1965 Equipment Trust Certificates, less current installments— Series A—5¼%, due 1968-1971 . . . . .	3,750,000	5,375,000
Series B—5¼%, due 1971-1975 . . . . .	6,340,000	6,340,000
1967 Equipment Trust Certificates—Series A—6.6%, due 1969-1980* . . . . .	46,630,000	—
7% Promissory Note, due 1968-1988 (Note 2) . . . . .	3,919,400	—
5½% Construction Loan, due 1968-1969 . . . . .	—	3,500,000
Equipment Purchase Notes, including accrued interest at prime rate plus ½ per cent, due upon delivery of equipment . . . . .	<u>12,068,798</u>	<u>5,742,926</u>
	\$80,644,181	\$34,866,830
Less: Cost of \$690,000 principal amount of 1967 Equipment Trust Certificates held in Treasury . . . . .	<u>677,675</u>	<u>—</u>
<b>Total . . . . .</b>	<b><u>\$79,966,506</u></b>	<b><u>\$34,866,830</u></b>

\*Exclusive of \$4,370,000 issuable in 1968 under delayed delivery contracts.

The accompanying notes are an integral part of these summaries.



**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 1967

**(1) LEASE AND PURCHASE COMMITMENTS—**

At December 31, 1967, the Company had long-term leases on real property, aircraft and engines for which annual rentals will be approximately \$7,381,000 in 1968, and total rentals will aggregate approximately \$26,700,000 for the minimum lease periods. The minimum lease periods range from one year on aircraft to 31 years on real property. There are renewal and purchase options on the aircraft and engines.

The Company has entered into purchase agreements to acquire 17 DC8-63F aircraft, engines, etc., with deliveries commencing in 1968 for an aggregate cost of approximately \$185,000,000 net of applicable deposits.

**(2) CAPITAL STOCK AND LONG-TERM DEBT—**

At December 31, 1967, there were 243,600 shares of common stock reserved for issuance under the Qualified Stock Option Plan, of which options to officers for purchase of 169,000 shares of common stock were granted at prices ranging from \$20.06 to \$39.00 per share (exercisable in 1968-1972). Subsequent to December 31, 1967, the Company granted options for 13,000 shares of common stock at \$24.125 and \$27.25 per share (exercisable in 1970-1973).

The 5½ per cent Promissory Note is secured by the Company's equity of redemption in certain aircraft, and the 7 per cent Promissory Note is secured by general office and maintenance facilities and assignment of ground lease.

Subsequent to December 31, 1967, the Company entered into an unsecured bank loan agreement to borrow \$30 million, the proceeds of which will be applied as interest-bearing deposits on purchase of DC8-63F aircraft and will be repaid from Temporary Cash Investments upon delivery of aircraft.

**(3) RESTRICTIONS UNDER DEBT AGREEMENTS—**

The equipment trust agreements and other debt agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowing, capital expenditures, etc. Under the most restrictive provisions, cash dividends are limited to \$500,000 a year until the equipment to be financed by the 1967 Series A Equipment Trust Certificates has been delivered to the Trustee. Cash dividends of \$453,814 have been paid for 1967. Except for

the restriction set forth above, retained earnings at December 31, 1967, available for the payment of cash dividends on common shares, would be \$2,938,700.

**(4) FEDERAL INCOME TAXES—**

Federal income taxes deferred through additional depreciation and other additional deductions for tax purposes have been credited to a reserve, which the Company intends to restore to income as such deferred taxes become payable. The provisions have been reduced by \$1,734,000 and \$1,817,000 investment tax credit in 1967 and 1966, respectively.

The portion deferred for 1966 has been increased and the current portion reduced accordingly from that previously reported to reflect the taxes actually payable on the tax return subsequently filed for the year.

**(5) PENSION PLANS—**

The Company maintains pension plans for substantially all employees. The total pension plan expense for the year ended December 31, 1967, was \$998,396, of which \$148,963 was applicable to the unfunded liability for past service benefits which is being amortized over 20 years. Pension costs are funded as accrued. At December 31, 1967, the actuarially computed vested benefits exceeded pension funds by approximately \$311,520.

**(6) RECLASSIFICATION—**

The Statement of Income for the year ended December 31, 1966, has been restated to reclassify as an extraordinary item the gain on retirement of aircraft previously reported as Miscellaneous Income.

**ARTHUR ANDERSEN & Co.**

1320 WEST THIRD STREET  
LOS ANGELES, CALIFORNIA 90017

TO THE STOCKHOLDERS,  
THE FLYING TIGER LINE INC.:

We have examined the balance sheets of THE FLYING TIGER LINE INC. (a Delaware corporation) as of December 31, 1967 and 1966, and the related statements of income, stockholders' equity, and funds for the years then ended. Our examinations were 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.

In our opinion, the financial statements referred to above present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1967 and 1966, and the results of its operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the periods.

ARTHUR ANDERSEN & Co.

Los Angeles, California  
February 9, 1968

**DOMESTIC SALES OFFICES**

**ATLANTA, GEORGIA**

1001 Virginia Avenue  
Hapeville, Georgia  
766-2704

**BINGHAMTON, NEW YORK**

Broome County Airport  
729-1591

**BOSTON, MASSACHUSETTS**

Logan International Airport  
567-6161

**BUFFALO, NEW YORK**

81 Botsford Street  
876-5055

**CHICAGO, ILLINOIS**

O'Hare International Airport  
686-7100

**CLEVELAND, OHIO**

Cleveland Hopkins Airport  
267-3575

**DETROIT, MICHIGAN**

Metropolitan Airport  
562-9700

**HARTFORD, CONNECTICUT**

International Airport  
Windsor Locks, Connecticut  
522-3145

**LOS ANGELES, CALIFORNIA**

International Airport  
646-6161

**MILWAUKEE, WISCONSIN**

5300 S. Howell  
483-5000

**NEWARK, NEW JERSEY**

Newark Airport  
624-3700

**NEW YORK, NEW YORK**

John F. Kennedy Int'l Airport  
656-5285

**PHILADELPHIA, PENNSYLVANIA**

International Airport  
726-7100

**PORTLAND, OREGON**

International Airport  
281-1158

**SAN FRANCISCO, CALIFORNIA**

International Airport  
761-1100

**SEATTLE, WASHINGTON**

Seattle-Tacoma  
International Airport  
244-4747

**WASHINGTON, D.C.**

1700 Pennsylvania Ave. N.W.  
223-3015

**INTERNATIONAL  
SALES OFFICES**

**CHICAGO, ILLINOIS**

O'Hare International Airport  
686-7100

**HONG KONG**

International Airport  
Kowloon  
820211, Ext. 239

**LONDON, ENGLAND**

10 Golden Square  
Gerrard 3627

**LOS ANGELES, CALIFORNIA**

International Airport  
646-6161

**NEW YORK, NEW YORK**

60 East 42nd Street  
697-8850

**TAIPEI, TAIWAN**

219 Nanking East Road  
51460

**TOKYO, JAPAN**

Sanno Grand Bldg.  
Nagata-cho, Chiyoda-Ku  
Tokyo, Japan  
581-6841



TIGERS



DC-8-63F

FLYING

TIGER