



# THE FLYING TIGER LINE™

1965 ANNUAL REPORT

## OFFICERS OF THE COMPANY

Robert W. Prescott	President
Fred Benninger	Executive Vice President-Treasurer
Peter T. Albert	Vice President—Sales
William E. Bartling	Vice President—Research and Planning
George T. Cussen	Vice President—Sales Administration
Joseph J. Healy	Vice President—Ground Operations
L. S. Kimball	Vice President—Public Relations
James McLachlan, Jr.	Vice President—Maintenance
E. A. Plinke	Vice President—Operations
R. T. Smith	Vice President—Industry Affairs
O. R. Burghardt	Secretary and Assistant Treasurer
Norman L. Meyers	Assistant Secretary

## BOARD OF DIRECTORS

Samuel B. Mosher	Chairman of the Board Chairman of the Board of Signal Oil & Gas Company, Los Angeles
Ruth Axe	President, E. W. Axe & Co., New York
Fred Benninger	Executive Vice President-Treasurer
John C. Cosgrove	Marsh & McLennan, Inc., Los Angeles
Laurence C. Craigie	Lockheed Aircraft Corporation, Burbank
Arthur G. Linkletter	Guedel-Linkletter Productions, Los Angeles
Charles Luckman	Charles Luckman Associates, Los Angeles
Norman L. Meyers	Meyers & Dryer, Washington, D. C.
Robert W. Prescott	President
Houston Rehrig	Lady's Choice Foods, Los Angeles
John C. Tyler	Co-Chairman of the Board of Farmers Insurance Group, Los Angeles

## TRANSFER AGENTS

THE CHASE MANHATTAN BANK  
1 Chase Manhattan Plaza  
New York, N.Y. 10015

BANK OF AMERICA  
660 South Spring Street  
Los Angeles, California 90054

## REGISTRARS

THE BANK OF NEW YORK  
48 Wall Street, New York, N.Y. 10015

UNION BANK  
8th and Hill Streets  
Los Angeles, California 90054

## GENERAL COUNSEL

MEYERS & DRYER  
Shoreham Building  
Washington, D. C. 20005

## AUDITORS

ARTHUR ANDERSEN & CO.  
1320 West Third Street  
Los Angeles, California 90017

## EXECUTIVE OFFICES

7401 World Way West  
International Airport  
Los Angeles, California 90009

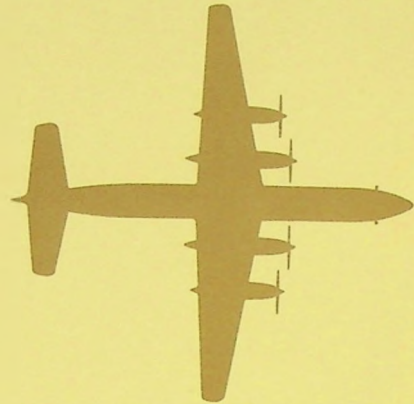
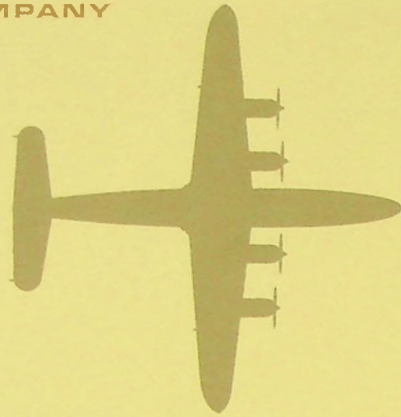
## FINANCIAL HIGHLIGHTS OF 1965

	<u>1965</u>	<u>1964</u>
Revenues .....	\$56,155,859	\$45,468,385
Net income and special item .....	\$ 3,641,732	\$ 1,500,708
Net income and special item per share of common .....	\$2.23	\$.90*
Working capital .....	\$ 9,145,034	\$ 7,706,596
Working capital ratio .....	1.74 to 1.00	1.60 to 1.00
Property and equipment at cost .....	\$99,513,972	\$72,240,396
Total assets at end of year .....	\$89,291,899	\$64,021,388
Net worth .....	\$19,413,976	\$15,805,609
Book value per share of common .....	\$11.46	\$9.23*
Shares of common stock outstanding .....	1,607,995	1,605,895*
Long-term debt .....	\$48,154,480	\$29,283,388
Depreciation and amortization .....	\$ 6,674,913	\$ 6,045,182
Interest expense .....	\$ 2,423,063	\$ 2,120,286
Cash profit .....	\$13,797,519	\$ 7,974,369

\*Adjusted to give retroactive effect to 1965 stock dividend on common shares.



OFFICERS OF THE COMPANY



Peter T. Albert,  
*Vice President—Sales*



L. S. Kimball,  
*Vice President—Public Relations*



James McLachlan, Jr.,  
*Vice President—Maintenance*



E. A. Pinke,  
*Vice President—Operations*



Robert W. Prescott,  
*President*



Fred Benninger,  
*Executive Vice President-Treasurer*



William E. Bartling,  
*Vice President—Research and Planning*



George T. Cussen,  
*Vice President—Sales Administration*



Joseph J. Healy,  
*Vice President—Ground Operations*



R. T. Smith,  
*Vice President—Industry Affairs*



O. R. Burghardt,  
*Secretary and Assistant Treasurer*



Norman L. Meyers,  
*Assistant Secretary*

## TO OUR STOCKHOLDERS:

Your Company celebrated its twentieth anniversary in June 1965 and it is most gratifying to report to you that 1965 was a record year for the Company. All-time highs were reached in both operating revenue and net income. The present fleet of modern, efficient aircraft gives us the largest airlift capacity in the history of our Company, and, with additional jet aircraft on order for delivery in 1966, our twenty-first year promises to be another record year.

## NET INCOME

The operating results for the year ended December 31, 1965 compared to the previous year were as follows:

	Year Ending Dec. 31	
	1965	1964
Net Income . . . . .	\$ 3,641,732	\$ 1,500,708
Earnings per share . . . . .	\$2.23	\$ .90*
Operating Revenues —		
Domestic Scheduled		
Airfreight . . . . .	\$17,086,910	\$13,707,443
Military Airlift		
Command . . . . .	30,237,475	23,151,385
Commercial charters, etc. . . . .	8,831,474	8,609,557
Total . . . . .	\$56,155,859	\$45,468,385
Operating Profit . . . . .	\$ 8,819,926	\$ 4,004,709
Depreciation & Amortization . . . . .	\$ 6,674,913	\$ 6,045,182
Cash Flow . . . . .	\$13,416,645	\$ 8,668,890
Per Share of Common Stock . . . . .	\$8.34	\$5.67

\*After adjustment for 5% stock dividend paid in 1965.

The improvements in the operating results for the year of 1965 were principally due to increased volume in both commercial as well as Military Airlift

Command business, and a continued improvement in operating efficiencies.

For the greatest part of the year, the Company suffered from the lack of sufficient aircraft capacity to service both commercial as well as military demands. The additional equipment the Company has acquired was not available until the end of the year so that the full impact of the new equipment upon the Company's operating results is not reflected in the 1965 figures.

Although the Company provided Federal income tax provision for the year of 1965 in the amount of \$3,100,000, such amount was credited to the Reserve for Deferred Federal Income Taxes since the Company is not obligated to pay Federal income taxes currently due to its policy of applying accelerated depreciation on its aircraft. In computing such reserve, the Company has not considered the future benefits which it may realize from the substantial Investment Tax Credits available at such time as the Company has to pay the Federal income taxes.

## FINANCIAL POSITION

The Company's financial position as of December 31, 1965 has been considerably strengthened, as follows:

	December 31	
	1965	1964
Working capital . . . . .	\$9,145,034	\$7,706,596
Net current ratio . . . . .	1.74 to 1.00	1.60 to 1.00
Book value per common share . . . . .	\$11.46	\$9.23

Although the Company made heavy investments in new aircraft and ground facilities during 1965, the financial position of the Company has improved in 1965. The two CL-44D aircraft acquired by the Company in January 1965 were financed through Equip-



*Flying Tiger's two top executives, President Robert W. Prescott (left) and Executive Vice-President Fred Benninger in Mr. Prescott's office.*

ment Trust Certificates requiring amortization in late 1968 when the Equipment Trust Certificates on the first ten CL-44D aircraft have been liquidated.

Two Boeing 707 aircraft purchased by the Company in October 1965, were financed by down payments from current working funds, and Equipment Trust Certificates payable over a ten year period beginning in 1967.

The Company also leased two DC-8F aircraft for a period of four years with options to renew and purchase such equipment. Two additional Boeing 707 aircraft contracted for delivery to the Company in June and December 1966, were also acquired through lease arrangements with options to renew such leases and purchase the aircraft.

The Company commenced construction of a new headquarters office building and maintenance and overhaul facilities. The total estimated expenditure is \$4.5 million, and the Company has a construction loan for \$3.5 million pending completion of the facilities and permanent long term financing. The new facilities were completed in February 1966.

The 5½% Promissory Note (Subordinated) due 1976 was converted on December 1, 1965 to Series C 5½% Debentures (Subordinate) due 1976.

As of January 31, 1966, Series B and Series C Debentures (Subordinate) in the principal amounts of \$111,000 and \$2,085,000, respectively, were converted into 127,798 common shares of the Company.

Gross Common Carriage Revenue		1965			
		12 months ended December 31		1964	
		1962	1963		
1962	\$10,379,537				
1963	\$11,049,877				
1964	\$13,874,852				
1965	\$17,347,022				

	<u>Preferred Shares</u>	<u>Common Shares</u>	<u>Capital Surplus</u>	<u>Earned Surplus</u>	<u>Total Stockholders' Equity</u>
Balances, January 1, 1965 . . . . .	\$991,120	\$1,529,324	\$8,230,838	\$5,054,327	\$15,805,609
Net income for year . . . . .				3,641,732	3,641,732
Cash dividend on preferred shares— \$ .50 per share . . . . .				(49,556)	(49,556)
5% stock dividend . . . . .		76,571	1,263,422	(1,339,993)	
Issuance of 2,100 common shares under stock options . . . . .		2,100	14,091		16,191
Balances, December 31, 1965 . . . . .	<u>\$991,120</u>	<u>\$1,607,995</u>	<u>\$9,508,351</u>	<u>\$7,306,510</u>	<u>\$19,413,976</u>



*This over-all aerial view shows the cantilevered hangar, largest of its type in the west, which forms part of the main base of the Flying Tiger Line at Los Angeles International Airport. Three Boeing jets, such as the one shown in the foreground, can be hungared at one time in this huge 78,200 square foot structure, which is 460 feet long, and 170 feet wide. To the left of the parking area is the general office building, while in the background are the Santa Monica mountains which rim the northern area of Los Angeles. The Pacific Ocean can also be seen in the background.*

## DOMESTIC AIRFREIGHT

The Company's twentieth anniversary year in airfreight was marked by record performances in revenues and ton miles.

To illustrate the growth of our domestic all-cargo business since our first year of operation, which also represents the birth of the all-cargo industry in the United States, we are presenting the following statistics for representative years throughout our twenty years.

	<i>Revenues</i>	<i>Ton Miles</i>
1965 . . . .	\$17,254,426	128,123,804
1964 . . . .	13,978,846	99,991,965
1959 . . . .	13,993,414	79,634,602
1955 . . . .	6,028,516	36,890,469
1950 . . . .	4,118,252	15,672,689
1946 . . . .	358,428	2,757,141

Total domestic air cargo revenue, including mail and express traffic, was \$17,254,426, a gain of 23

per cent over the preceding year. Comparatively, air cargo revenues alone, not including revenues from overseas contract and charter operations, were approximately 35 times as much as total revenues received by the Company in its first year of operation twenty years ago. Such is the growth that has occurred in domestic air cargo since the founding of the airline as the nation's first all-cargo carrier in 1945.

Total domestic air cargo in 1965 reached a record figure of 128,123,804 ton miles. This was a gain of 28 per cent over the preceding year.

While it is true that air cargo revenues in 1965 were materially increased by the crisis in Viet Nam, the year saw encouraging results from traffic development programs which the Company has been pioneering over the last several years. Results would have been even more significant had it been possible to secure additional equipment. The balancing of the need for aircraft on domestic routes with the demands made upon the Company for overseas military airlift in connection with the Viet Nam crisis made it necessary for the Company to forego some of its goals in further development of domestic traffic.

However, with the addition of new equipment in the latter part of the year—two Boeing 707 airplanes and four Canadair CL-44D swingtail freighters—it will be possible to achieve a further expansion of domestic service in 1966. This should add importantly to our domestic cargo results. It is the intention of the Company to materially expand the domestic air cargo capacity in 1966, to improve and increase the service to our customers.

Programs which the Company has been developing in recent years to create new fields of airfreight traffic include Sea-Air, Skyroad, and airfreight shipping associations by various industries.

In 1965, we experienced an increase of 84 per cent in Sea-Air traffic. In this type of movement, freight from the Orient to domestic markets is moved by steamship to West Coast terminals and then transported by airfreight to domestic destinations. This greatly speeds up final delivery at an over-all cost which the shipper can afford. To this end we have been strengthening our field offices in the Orient and we look forward confidently to an even greater traffic growth in this field in the years ahead.

Our Skyroad program, which unites the surface trucker with the airfreighter, enables an increasingly large number of companies located within 100 to 200 miles of major air terminals to utilize effectively the combination of surface truck traffic from their cities to major air terminals, with the airfreighter delivering the long haul portion of the shipment. In 1965, our traffic showed a gain of 31 per cent in this field.

The aerospace industry is now effectively utilizing joint shipping agreements which permit related companies to pool traffic at major terminals from common suppliers and to ship jointly to major destinations, thus speeding up delivery and achieving a lower overall shipping cost. These agreements take considerable time to work out but we expect to see the format grow importantly in the years ahead.

Major forwarders also are utilizing joint loading of freight and it is significant that this program, pioneered by us, has made our Company the major carrier of forwarder traffic. In 1965, traffic of this type showed a gain of 31 per cent.

With the expansion which we expect to undertake early in 1966 through our recent acquisition of additional equipment, we hope to obtain a gain of about 25 per cent in domestic traffic in 1966.

The Company's "blocked space" program was challenged in the courts by the combination air carriers and for a long time was under court consideration. During this time, the Company did not stress the development of this program. On March 2, 1966, the full U. S. Court of Appeals rendered a decision in favor of the "blocked space" program and the Company plans to actively pursue this method of shipment.

## CONTRACT OPERATIONS

Revenues derived from contract operations in 1965 amounted to \$38,249,773 compared to \$31,602,868 for the preceding year. Of the foregoing amounts, \$30,237,475 and \$23,151,385, for the respective years, were applicable to flights performed for the Military Airlift Command. The substantial increase in military business was due primarily to the crisis in Viet Nam. Demands upon the Company for military airlift over the Pacific Ocean were extremely heavy, accounting for the 30 per cent increase in revenue from this source.

The acquisition of two Boeing 707 jet aircraft and three Canadair CL-44D airfreighters late in 1965 made it possible for the Company to help meet these demands without seriously affecting its requirements for aircraft on domestic cargo operations.

During the year we operated commercial charter flights to many parts of the world, delivering equipment in support of both military and space programs for the United States and its affiliated NATO nations. We also performed commercial charter flights to Caribbean, European and South American areas for various charter groups.

Two major contracts were inaugurated during 1965. The Company was successful in acquiring the Navy Quicktrans supply contract, which provides



*An aerial view of a Boeing 707 Intercontinental Jet and a small passenger Lear Jet are pictured here at the main Tiger base. Flying Tiger leases and sells Lear Jet aircraft.*

daily service across the nation to major Navy bases, carrying Navy materiel. The contract covers the twelve months ending June 30, 1966 and revenues for the first six months approximated \$1,400,000.

During the late fall and winter months, the Company operated over the North Atlantic under a contract for British Overseas Airways Corporation. Using Canadair CL-44D equipment, the Company provided British Overseas Airways Corporation with commercial all-cargo service, pending delivery of that airline's Boeing freighter equipment in the spring of 1966.

The Company inaugurated three years ago the development of world-wide charter programs for the transportation of commercial passengers and cargo charters. This program resulted in increasing the Company's revenues from these sources from an annual volume of \$500,000 to \$8 million. The 1965 volume of commercial charter business could have continued to reflect its dynamic growth in 1965 if the Company had had the necessary aircraft. With the introduction of additional equipment in 1966, the Company expects to continue the spectacular growth of this business for 1966.



Big freight, as well as small, goes easily through the swingtail of a Flying Tiger CL-44D prop-jet, mainstay of the Tiger freight fleet.



A close-up aerial view of the new World Headquarters of the Flying Tiger Line at Los Angeles International Airport. Here are housed the executive, flight and ground operations, sales, treasury and industrial relations offices of the company.

## AIRCRAFT

For the greatest part of the year, the Company was operating twelve CL-44D aircraft and ten 1049H aircraft.

In October 1965 the Company purchased and received delivery of two Boeing 707 convertible cargo-passenger aircraft. The Company has also contracted with The Boeing Company, through lease, for the delivery of two additional Boeing 707 convertible aircraft, one of which is to be delivered in June 1966 and the other in December 1966.

In September 1965, the Company also acquired two Douglas DC-8F convertible passenger aircraft through lease arrangements with options to renew the lease and purchase the aircraft. The use of the two DC-8 aircraft was interchanged with another airline in exchange for the use of four CL-44D aircraft by the Company at no additional consideration. The last of the four CL-44D aircraft under the interchange agreement was delivered to the Company on January 4, 1966.

The Company sold one 1049H aircraft, and one 1049H aircraft was destroyed in December 1965.

Therefore, the Company's fleet of aircraft for 1966 will be as follows:

As of January 1, 1966

	CL-44D	707	1049H
Owned . . . . .	12	2	6
Leased . . . . .	4	—	2
<i>To be Delivered</i>			
<i>in 1966 . . . . .</i>	—	2	—
Total . . . . .	<u>16</u>	<u>4</u>	<u>8</u>

By the end of 1966, the Company will have doubled its aircraft airlift capacity over 1965.

## GROUND FACILITIES

In our 1964 annual report we commented upon the expiration of the Company's lease at Lockheed Air Terminal in Burbank, California and that, for this reason as well as to effect certain cost savings, the Company was relocating its headquarters and maintenance facilities to Los Angeles International Airport. We are pleased to report that construction of the facilities is now completed and we are operating at the new location. Cost of construction is within our original estimate of \$4,500,000, of which \$3,500,000 is financed by a construction loan which will be refinanced upon completion of construction.

The new airfreight terminal at Cleveland, Ohio is now under construction and occupancy is anticipated by April, 1966. The cost of this facility was financed primarily by an airline industry-owned firm of which



*Flying Tiger's newest freighter, the Boeing 707 Intercontinental Jet, in flight*

our Company is a stockholder.

During 1965, the Company moved its facilities into the main airfreight terminal at Philadelphia, Pennsylvania, in order to avail itself of additional space and better location.

Various changes and improvements of facilities at other locations are presently under consideration.

## **DIVIDENDS**

As previously commented upon in this report, a 5% common stock dividend was paid December 15, 1965 to common shareholders of record on October 29, 1965. The net book value of the Company's common stock at December 31, 1965 was \$11.46 on the 1,607,995 shares outstanding.

In 1965, as in past years, the Company paid semi-annual dividends, totaling \$.50 per share, on the preferred shares outstanding.

During the Company's twenty years of operations, five stock dividends of 5 per cent each have been paid on common shares, in addition to payment of 99,112 shares of \$10 par value preferred stock and an eight cent cash dividend, for a total of \$5,245,850 charged to earned surplus for dividends on common shares.

## **OUTLOOK**

It is very gratifying to report to you the results of our

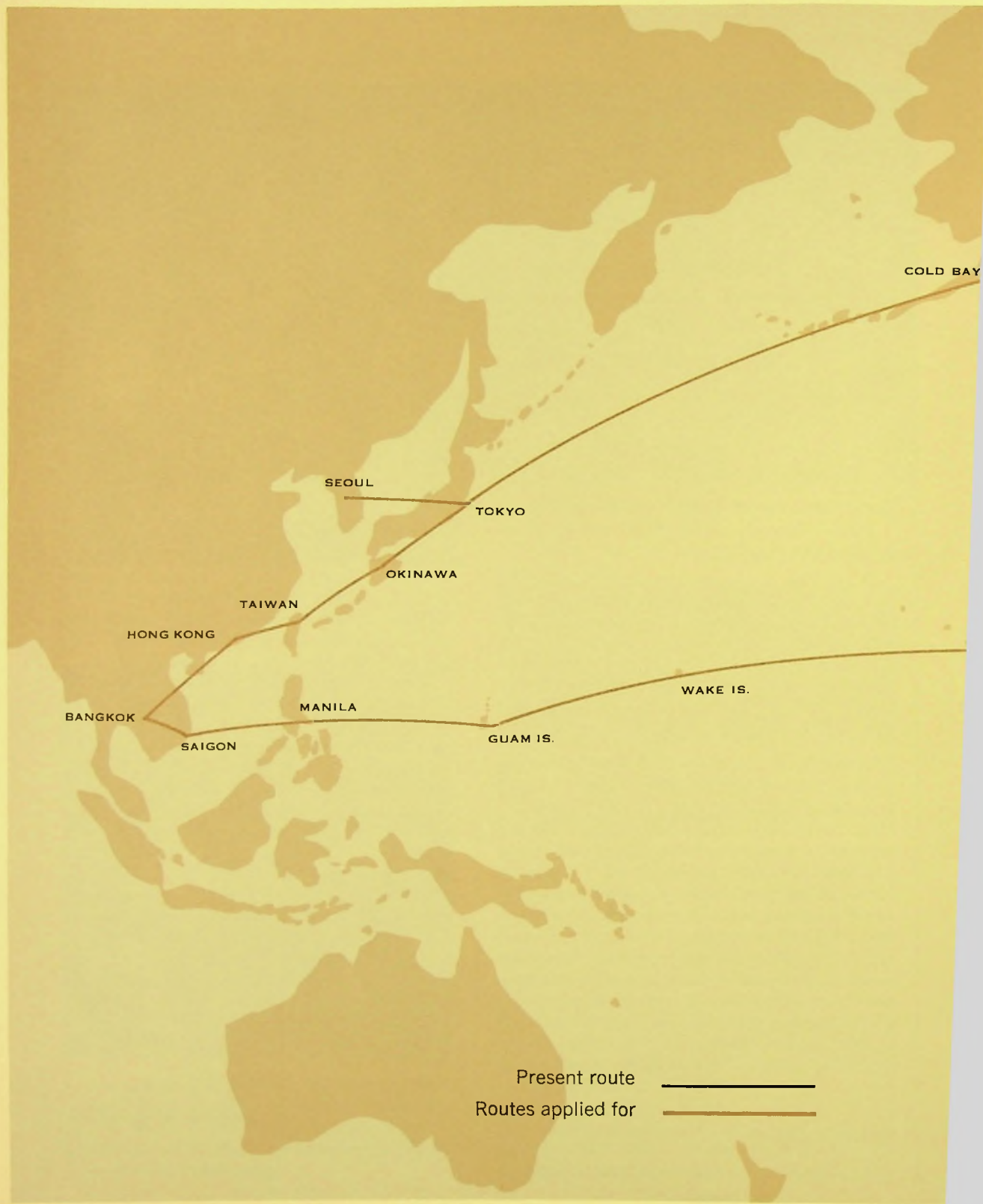
operations for the year 1965—the most successful year in the Company's history. We start our second twenty years with a fleet of the most efficient aircraft available in the airfreight and charter business and, with our expanding fleet and "Can Do" personnel, we look forward to 1966 with even greater optimism.

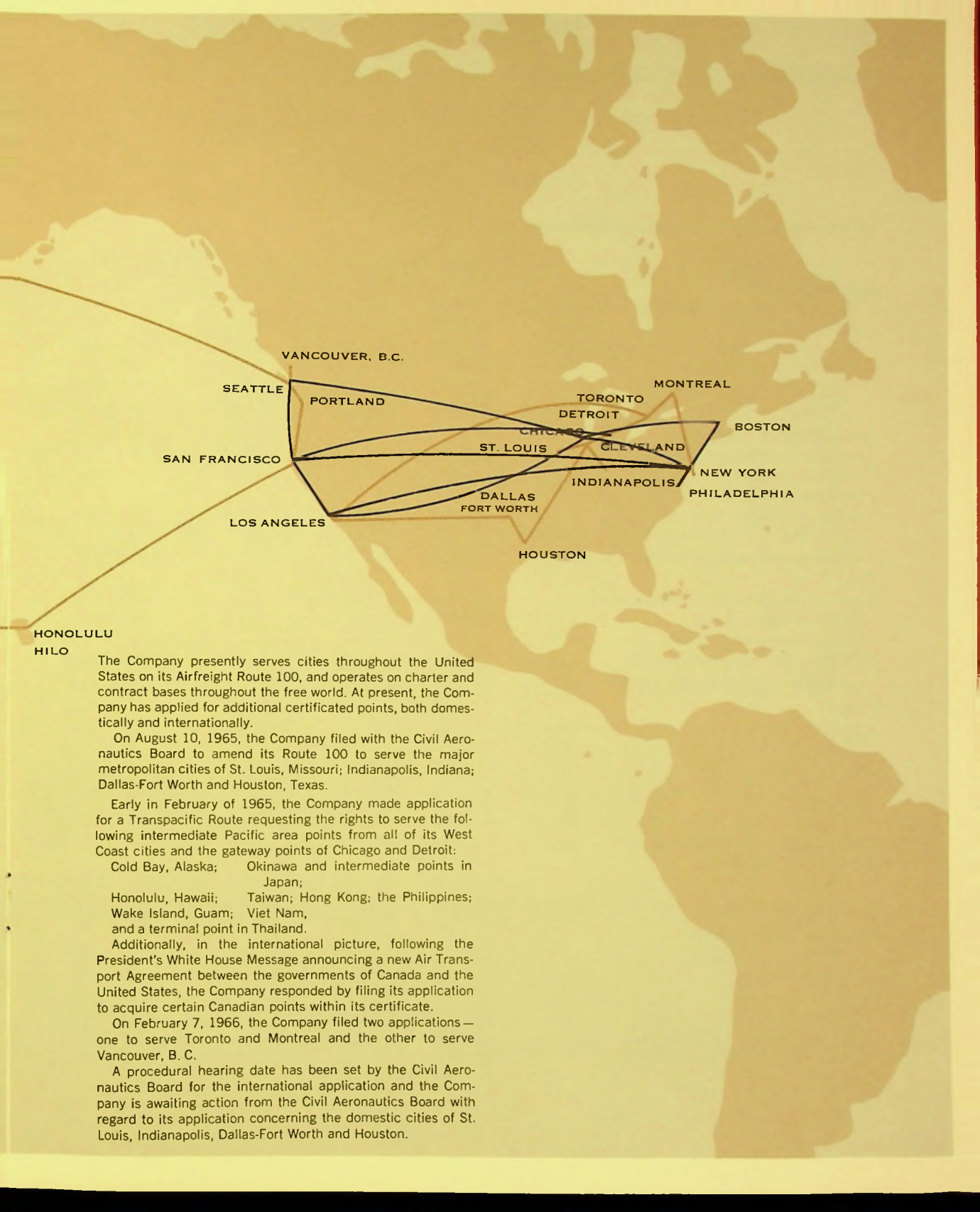
As mentioned previously in this report, two Boeing 707 aircraft and three Canadair CL-44D aircraft were acquired late in 1965. Part of the time these aircraft were used for crew training; only a limited amount of use was made for revenue-producing flights in 1965. With curtailment of training flights and with the introduction of two additional Boeing 707 aircraft and the additional Canadair CL-44D aircraft in 1966, the Company's airlift capacity will be considerably greater than it was for the year 1965.

As the new aircraft will be delivered to us, we will expand our commercial business and increase our contribution to the demand for military airlift occasioned by the Viet Nam emergency.

On behalf of the Directors, I express our deep appreciation to the employees, our customers and stockholders, who helped produce 1965's record of achievement.

ROBERT W. PRESCOTT  
President





HONOLULU  
HILO

The Company presently serves cities throughout the United States on its Airfreight Route 100, and operates on charter and contract bases throughout the free world. At present, the Company has applied for additional certificated points, both domestically and internationally.

On August 10, 1965, the Company filed with the Civil Aeronautics Board to amend its Route 100 to serve the major metropolitan cities of St. Louis, Missouri; Indianapolis, Indiana; Dallas-Fort Worth and Houston, Texas.

Early in February of 1965, the Company made application for a Transpacific Route requesting the rights to serve the following intermediate Pacific area points from all of its West Coast cities and the gateway points of Chicago and Detroit:

Cold Bay, Alaska; Okinawa and intermediate points in Japan;

Honolulu, Hawaii; Taiwan; Hong Kong; the Philippines; Wake Island, Guam; Viet Nam, and a terminal point in Thailand.

Additionally, in the international picture, following the President's White House Message announcing a new Air Transport Agreement between the governments of Canada and the United States, the Company responded by filing its application to acquire certain Canadian points within its certificate.

On February 7, 1966, the Company filed two applications — one to serve Toronto and Montreal and the other to serve Vancouver, B. C.

A procedural hearing date has been set by the Civil Aeronautics Board for the international application and the Company is awaiting action from the Civil Aeronautics Board with regard to its application concerning the domestic cities of St. Louis, Indianapolis, Dallas-Fort Worth and Houston.

## COMPARATIVE BALANCE SHEET DATA

(Dollars expressed in thousands except per share figures)

	<i>December 31</i>				
	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
<b>CURRENT ASSETS:</b>					
Cash and marketable securities . . . . .	\$ 5,334	\$ 9,362	\$ 8,829	\$10,442	\$ 5,339
Receivables . . . . .	9,802	7,049	4,311	4,891	6,173
Inventories of materials and supplies . . . . .	3,633	2,327	1,812	1,568	1,064
Prepaid insurance, rents, etc. . . . .	1,017	456	464	726	442
Prepaid engine overhaul cost . . . . .	1,770	1,312	1,301	964	817
Total current assets . . . . .	<u>\$21,556</u>	<u>\$20,506</u>	<u>\$16,717</u>	<u>\$18,591</u>	<u>\$13,839</u>
<b>LESS CURRENT LIABILITIES:</b>					
Current installments of debt . . . . .	\$ 6,418	\$ 6,153	\$ 5,904	\$ 5,713	\$ 7,176
Accounts payable . . . . .	4,171	4,885	3,182	4,030	3,843
Reserve for vacations . . . . .	797	638	573	578	468
Other current liabilities . . . . .	1,025	1,123	1,022	672	947
Total current liabilities . . . . .	<u>\$12,411</u>	<u>\$12,799</u>	<u>\$10,681</u>	<u>\$10,993</u>	<u>\$12,433</u>
Net Current Assets—Working Capital . . . . .	\$ 9,145	\$ 7,707	\$ 6,036	\$ 7,598	\$ 1,404
<b>ADD:</b>					
Noncurrent receivables, investments, etc. . . . .	1,063	753	1,020	1,309	1,808
Deferred training costs . . . . .	2,902	2,121	2,447	2,773	2,272
Deposits on new equipment . . . . .	—	—	—	—	12,060
Property and equipment (net) . . . . .	63,771	40,641	45,906	49,988	38,803
Total assets less current liabilities . . . . .	<u>\$76,881</u>	<u>\$51,222</u>	<u>\$55,409</u>	<u>\$61,668</u>	<u>\$56,344</u>
<b>LESS:</b>					
Long-term debt . . . . .	\$48,154	\$29,283	\$36,018	\$42,785	\$43,380
Deferred income, etc. . . . .	252	172	202	132	42
Deferred income taxes . . . . .	9,061	5,961	4,838	4,715	1,670
Total . . . . .	<u>\$57,467</u>	<u>\$35,416</u>	<u>\$41,058</u>	<u>\$47,632</u>	<u>\$45,092</u>
Net Assets . . . . .	<u>\$19,414</u>	<u>\$15,806</u>	<u>\$14,351</u>	<u>\$14,036</u>	<u>\$11,252</u>
<b>BOOK VALUE PER COMMON SHARE . . . . .</b>	\$11.46	\$9.69	\$8.74	\$9.15	\$7.21
<b>SHARES OUTSTANDING:</b>					
Preferred shares . . . . .	99,112	99,112	99,112	99,112	99,112
Common shares . . . . .	<u>1,607,995</u>	<u>1,529,324</u>	<u>1,528,924</u>	<u>1,424,990</u>	<u>1,422,190</u>
<b>SHAREHOLDERS EQUITY:</b>					
Preferred shares . . . . .	\$ 991	\$ 991	\$ 991	\$ 991	\$ 991
Common shares . . . . .	1,608	1,529	1,529	1,425	1,422
Capital surplus . . . . .	9,508	8,231	8,228	7,003	6,983
Earned surplus . . . . .	7,307	5,055	3,603	4,617	1,856
Total shareholders' equity . . . . .	<u>\$19,414</u>	<u>\$15,806</u>	<u>\$14,351</u>	<u>\$14,036</u>	<u>\$11,252</u>

June 30

1961	1960	1959	1958	1957	1956	1955	1950	1946
\$ 3,791	\$ 2,287	\$ 3,835	\$ 2,182	\$ 2,572	\$ 3,086	\$ 944	\$ 326	\$1,413
3,687	3,114	5,146	5,170	5,705	4,458	4,040	898	93
769	751	795	719	581	549	531	194	29
430	260	285	195	385	376	244	58	106
909	656	—	—	—	—	—	—	—
<u>\$ 9,586</u>	<u>\$ 7,068</u>	<u>\$10,061</u>	<u>\$ 8,266</u>	<u>\$ 9,243</u>	<u>\$ 8,469</u>	<u>\$ 5,759</u>	<u>\$1,476</u>	<u>\$1,641</u>
\$ 6,856	\$ 3,308	\$ 3,308	\$ 3,266	\$ 3,589	\$ —	\$ 1,481	\$ 232	\$ 61
2,342	1,719	3,340	2,688	5,500	1,896	1,521	304	167
435	368	349	328	357	233	199	—	—
1,452	566	1,215	913	1,032	815	541	239	58
<u>\$11,085</u>	<u>\$ 5,961</u>	<u>\$ 8,212</u>	<u>\$ 7,195</u>	<u>\$10,478</u>	<u>\$ 2,944</u>	<u>\$ 3,742</u>	<u>\$ 775</u>	<u>\$ 286</u>
\$ (1,499)	\$ 1,107	\$ 1,849	\$ 1,071	\$ (1,235)	\$ 5,525	\$ 2,017	\$ 701	\$1,355
1,855	495	454	750	832	199	307	64	—
568	—	—	399	583	—	—	—	—
22,479	12,552	10,201	—	—	5,506	—	—	—
26,336	18,412	22,595	24,521	25,420	3,527	11,316	1,065	811
<u>\$49,739</u>	<u>\$32,566</u>	<u>\$35,099</u>	<u>\$26,741</u>	<u>\$25,600</u>	<u>\$14,757</u>	<u>\$13,640</u>	<u>\$1,830</u>	<u>\$2,166</u>
\$31,927	\$15,271	\$16,138	\$11,848	\$13,167	\$ 2,724	\$ 6,991	\$ —	\$ —
317	171	372	787	285	568	218	134	—
2,263	2,175	2,484	1,930	1,230	1,097	—	—	—
<u>\$34,507</u>	<u>\$17,617</u>	<u>\$18,994</u>	<u>\$14,565</u>	<u>\$14,682</u>	<u>\$ 4,389</u>	<u>\$ 7,209</u>	<u>\$ 134</u>	<u>\$ —</u>
<u>\$15,232</u>	<u>\$14,949</u>	<u>\$16,105</u>	<u>\$12,176</u>	<u>\$10,918</u>	<u>\$10,368</u>	<u>\$ 6,431</u>	<u>\$1,696</u>	<u>\$2,166</u>
\$10.01	\$9.87	\$11.22	\$11.37	\$10.09	\$10.57	\$6.93	\$2.23	\$2.98
99,112	99,112	99,112	99,112	99,112	99,112	99,112	—	—
<u>1,422,190</u>	<u>1,414,490</u>	<u>1,347,134</u>	<u>983,635</u>	<u>983,635</u>	<u>886,796</u>	<u>784,452</u>	<u>761,227</u>	<u>726,000</u>
\$ 991	\$ 991	\$ 991	\$ 991	\$ 991	\$ 991	\$ 991	\$ —	\$ —
1,422	1,414	1,347	984	984	887	785	761	726
6,983	6,928	6,065	3,449	3,449	2,641	1,732	1,638	1,639
5,836	5,616	7,702	6,752	5,494	5,849	2,923	(703)	(199)
<u>\$15,232</u>	<u>\$14,949</u>	<u>\$16,105</u>	<u>\$12,176</u>	<u>\$10,918</u>	<u>\$10,368</u>	<u>\$ 6,431</u>	<u>\$1,696</u>	<u>\$2,166</u>

# COMPARATIVE INCOME AND OPERATING SUMMARY

(Dollars expressed in thousands except per share figures)

	Year Ended December 31			
	1965	1964	1963	1962
<b>OPERATING REVENUES:</b>				
Scheduled freight operations . . . . .	\$17,087	\$13,707	\$10,919	\$10,259
Military Air Transport Service and Pacific Airlift . . . . .	30,237	23,151	27,466	38,395
Charters, service sales, etc. . . . .	8,832	8,610	3,825	3,609
Total operating revenues . . . . .	<u>\$56,156</u>	<u>\$45,468</u>	<u>\$42,210</u>	<u>\$52,263</u>
<b>OPERATING EXPENSES:</b>				
Depreciation and amortization . . . . .	\$ 6,226	\$ 5,671	\$ 6,186	\$ 5,962
All other . . . . .	41,110	35,792	34,259	38,564
Total operating expenses . . . . .	<u>\$47,336</u>	<u>\$41,463</u>	<u>\$40,445</u>	<u>\$44,526</u>
Net income from operations . . . . .	<u>\$ 8,820</u>	<u>\$ 4,005</u>	<u>\$ 1,765</u>	<u>\$ 7,737</u>
<b>NONOPERATING INCOME AND EXPENSES (Net):</b>				
Interest expense . . . . .	\$ (2,423)	\$ (2,120)	\$ (2,425)	\$ (2,792)
All other (net) . . . . .	345	355	234	( 85)
Total nonoperating income and expenses . . . . .	<u>\$ (2,078)</u>	<u>\$ (1,765)</u>	<u>\$ (2,191)</u>	<u>\$ (2,877)</u>
Net income (loss) before income taxes . . . . .	<u>\$ 6,742</u>	<u>\$ 2,240</u>	<u>\$ ( 426)</u>	<u>\$ 4,860</u>
<b>PROVISION FOR FEDERAL INCOME TAXES</b> . . . . .	3,100	939	( 222)	2,527
Net income (loss) . . . . .	<u>\$ 3,642</u>	<u>\$ 1,301</u>	<u>\$ ( 204)</u>	<u>\$ 2,333</u>
<b>SPECIAL ITEMS, LESS INCOME TAXES</b> . . . . .	—	200	317	478
Net income (loss) and special items . . . . .	<u>\$ 3,642</u>	<u>\$ 1,501</u>	<u>\$ 113</u>	<u>\$ 2,811</u>
<b>NET INCOME AND SPECIAL ITEMS PER COMMON SHARE</b> . . . . .	<u>\$2.23</u>	<u>\$0.95</u>	<u>\$0.04</u>	<u>\$1.85</u>
<b>COMPARATIVE OPERATING DATA:</b>				
Miles flown (000) . . . . .	19,452	15,542	14,507	18,770
Hours flown . . . . .	59,828	50,533	46,036	63,554
Average daily aircraft utilization (hours)—				
C-46 . . . . .	—	—	—	—
C-47 . . . . .	—	—	—	—
C-54 . . . . .	—	—	—	—
DC-6 . . . . .	—	—	—	—
1049H . . . . .	3.6	4.3	4.8	9.7
CL-44D . . . . .	9.8	8.7	8.3	8.5
B-707 . . . . .	11.4	—	—	—
Aircraft operating fleet at year-end—				
C-46 . . . . .	—	—	—	—
C-47 . . . . .	—	—	—	—
C-54 . . . . .	—	—	—	—
DC-6 . . . . .	—	—	—	—
1049H . . . . .	9	11	11	8
CL-44D . . . . .	15	10	10	10
B-707 . . . . .	2	—	—	—
Ton miles of common carriage and domestic charter freight carried (000) . . . . .				
	128,124	99,992	78,982	74,197
Revenue per ton mile (cents) for domestic freight . . . . .				
	14.77	15.39	15.46	15.68
Airlift ton mile capacity at year-end . . . . .				
	<u>930,120</u>	<u>607,680</u>	<u>607,680</u>	<u>545,040</u>

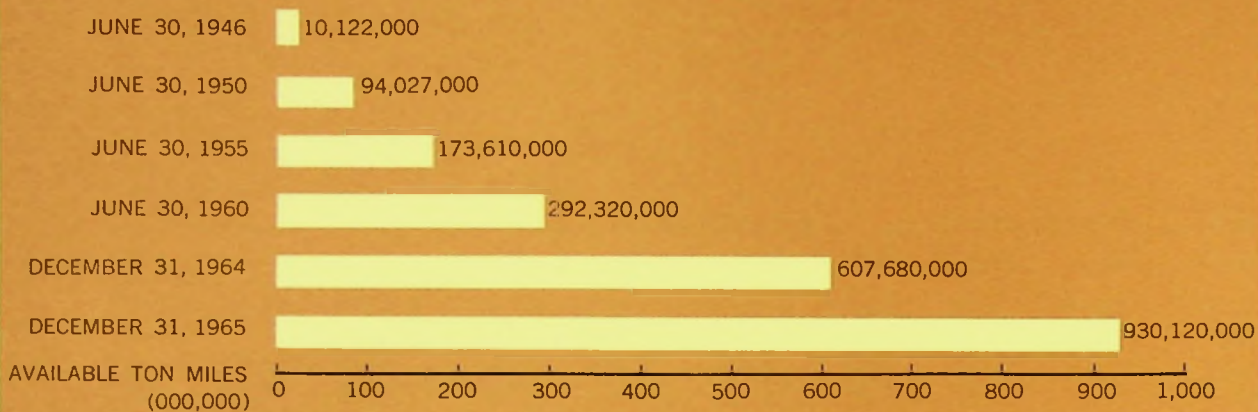
( ) Denotes negative figure.  
\* Figures not available.

Six Months  
Ended  
Dec. 31  
1961

Year Ended June 30

	1961	1960	1959	1958	1957	1956	1955	1950	1946
5,268	\$11,791	\$14,656	\$13,316	\$ 9,595	\$ 8,448	\$ 7,817	\$ 5,105	\$2,169	\$358
11,121	13,435	8,116	15,779	18,833	6,045	—	1,044	—	—
2,184	2,739	3,215	5,485	5,433	10,158	14,114	9,214	2,795	123
<u>18,573</u>	<u>\$27,965</u>	<u>\$25,987</u>	<u>\$34,580</u>	<u>\$33,861</u>	<u>\$24,651</u>	<u>\$21,931</u>	<u>\$15,363</u>	<u>\$4,964</u>	<u>\$481</u>
3,111	\$ 3,906	\$ 4,163	\$ 4,169	\$ 4,080	\$ 1,828	\$ 1,713	\$ 2,061	\$ 176	\$ 92
14,781	23,007	22,612	27,605	28,381	23,840	20,136	12,701	4,397	677
<u>17,892</u>	<u>\$26,913</u>	<u>\$26,775</u>	<u>\$31,774</u>	<u>\$32,461</u>	<u>\$25,668</u>	<u>\$21,849</u>	<u>\$14,762</u>	<u>\$4,573</u>	<u>\$769</u>
681	\$ 1,052	\$ ( 788)	\$ 2,806	\$ 1,400	\$ (1,017)	\$ 82	\$ 601	\$ 391	(\$288)
( 991)	\$ ( 675)	\$ ( 922)	\$ ( 775)	\$ ( 804)	\$ ( 384)	\$ ( 315)	\$ ( 412)	\$ (10)	\$ ( 7)
( 128)	( 61)	144	( 55)	260	121	36	72	26	—
<u>(1,119)</u>	<u>\$ ( 736)</u>	<u>\$ ( 778)</u>	<u>\$ ( 830)</u>	<u>\$ ( 544)</u>	<u>\$ ( 263)</u>	<u>\$ ( 279)</u>	<u>\$ ( 340)</u>	<u>\$ 16</u>	<u>\$ ( 7)</u>
( 438)	\$ 316	\$ (1,566)	\$ 1,976	\$ 856	\$ (1,280)	\$ ( 197)	\$ 261	\$ 407	(\$295)
( 110)	147	( 394)	965	412	( 666)	( 102)	136	166	—
( 328)	\$ 169	\$ (1,172)	\$ 1,011	\$ 444	\$ ( 614)	\$ ( 95)	\$ 125	\$ 241	(\$295)
(3,627)	101	173	380	864	716	3,071	275	259	95
<u>(3,955)</u>	<u>\$ 270</u>	<u>\$ ( 999)</u>	<u>\$ 1,391</u>	<u>\$ 1,308</u>	<u>\$ 102</u>	<u>\$ 2,976</u>	<u>\$ 400</u>	<u>\$ 500</u>	<u>(\$200)</u>
\$(2.67)	\$0.15	\$(0.71)	\$0.90	\$1.28	\$0.05	\$3.30	\$0.45	\$0.66	(\$0.27)
7,818	10,899	9,874	12,389	13,551	15,004	14,393	10,202	5,238	1,044
8,366	41,868	38,515	48,341	54,748	72,561	74,260	54,163	29,040	6,706
—	—	5.8	4.8	3.4	3.3	4.6	3.2	6.4	—
—	—	—	—	—	—	—	—	3.4	*
—	—	—	—	11.6	9.9	10.1	7.4	7.0	*
—	—	—	—	8.5	11.2	11.4	10.0	—	—
10.8	9.4	8.3	9.6	10.2	10.1	—	—	—	—
7.1	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	1	2	15	19	23	6	—
—	—	—	—	—	—	—	—	1	*
—	—	—	—	—	6	8	7	11	*
—	—	—	—	—	2	4	3	—	—
12	12	14	14	13	12	—	—	—	—
6	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
246	70,138	86,096	79,635	57,012	56,465	49,649	36,890	15,673	2,757
7.18	18.78	18.61	18.68	18.29	17.47	17.22	18.84	15.23	13.01
<u>1,360</u>	<u>250,560</u>	<u>292,320</u>	<u>295,830</u>	<u>278,460</u>	<u>373,770</u>	<u>181,890</u>	<u>173,610</u>	<u>94,027</u>	<u>10,122</u>

## FLEET AVAILABLE ANNUAL LIFT CAPACITY



*Budd RB-1*

150 MPH

7,500 LBS



*Douglas C-47*

150 MPH

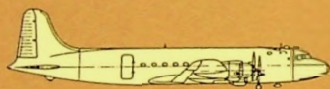
7,500 LBS



*Curtiss C-46*

180 MPH

13,000 LBS

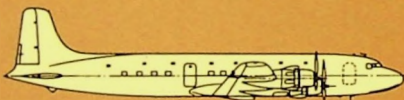


*Douglas C-54*

180 MPH

20,000 LBS

*Douglas DC-6*

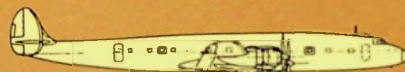


275 MPH

32,000 LBS

*Lockheed 1049-H*

290 MPH



40,000 LBS

*Canadair CL-44D*

350 MPH



60,000 LBS

*Boeing 707*

500 MPH

73,000 LBS



**FINANCIAL REVIEW  
OF THE YEAR**

1965



## BALANCE SHEETS

December 31, 1965 and 1964

### ASSETS

	<u>1965</u>	<u>1964</u>
<b>CURRENT ASSETS</b> (including prepaid engine overhaul cost):		
Cash, including \$4,000,000 certificates of deposit at December 31, 1965 . . . . .	\$ 5,334,138	\$ 9,361,857
Receivables, less reserves—		
Freight customers . . . . .	3,078,317	2,214,938
Charters, service sales, etc.—		
United States Government . . . . .	4,474,633	3,114,305
Other . . . . .	2,249,421	1,719,971
Materials and supplies, at average cost . . . . .	2,487,665	2,326,450
Aircraft acquired for sale . . . . .	1,145,620	—
Prepaid insurance, rents, etc. . . . .	1,016,864	456,142
Prepaid engine overhaul cost . . . . .	<u>1,769,690</u>	<u>1,312,394</u>
Total current assets . . . . .	<u>\$21,556,348</u>	<u>\$20,506,057</u>
<b>PROPERTY AND EQUIPMENT, at cost</b> (Notes 1 and 2):		
Aircraft, engines and other flight equipment . . . . .	\$92,246,785	\$68,837,189
Other equipment . . . . .	2,225,452	1,876,395
Land and buildings . . . . .	<u>5,041,735</u>	<u>1,526,812</u>
	\$99,513,972	\$72,240,396
Less—Reserves for depreciation . . . . .	<u>35,742,912</u>	<u>31,599,608</u>
	<u>\$63,771,060</u>	<u>\$40,640,788</u>
<b>OTHER ASSETS AND DEFERRED CHARGES:</b>		
Unamortized debt expense . . . . .	\$ 294,583	\$ 486,207
Long-term prepayments, etc. . . . .	768,046	267,347
Training and other costs applicable to aircraft, being amortized . . . . .	<u>2,901,862</u>	<u>2,120,989</u>
	<u>\$ 3,964,491</u>	<u>\$ 2,874,543</u>
	<u>\$89,291,899</u>	<u>\$64,021,388</u>

## BALANCE SHEETS

December 31, 1965 and 1964

### LIABILITIES

#### CURRENT LIABILITIES:

	1965	1964
Current installments of equipment purchase obligations . . . . .	\$ 6,417,879	\$ 6,153,115
Accounts payable and accrued liabilities . . . . .	4,976,486	5,569,008
Reserve for vacations . . . . .	796,888	637,934
Advance charter deposits, etc. . . . .	220,061	439,403
Total current liabilities . . . . .	\$12,411,314	\$12,799,460

LONG-TERM DEBT (See Summary) (Note 3) . . . . .	\$48,154,480	\$29,283,388
---	--------------	--------------

#### DEFERRED CREDITS:

Deferred Federal income taxes (Note 5) . . . . .	\$ 9,061,436	\$ 5,961,436
Deferred income, etc. . . . .	250,693	171,495
	\$ 9,312,129	\$ 6,132,931

#### CAPITAL STOCK AND SURPLUS:

Preferred shares—		
Authorized, 500,000 shares of \$10 par value		
Outstanding, 99,112 shares Series A, 5% cumulative . . . . .	\$ 991,120	\$ 991,120
Common shares—		
Authorized, 2,500,000 shares of \$1 par value (Note 3)		
Outstanding, 1,607,995 shares (1965) and 1,529,324 shares (1964) . . . . .	1,607,995	1,529,324
Capital surplus . . . . .	9,508,351	8,230,838
Earned surplus (Note 4) . . . . .	7,306,510	5,054,327
	\$19,413,976	\$15,805,609
	\$89,291,899	\$64,021,388

The accompanying notes are an integral part of these balance sheets.

# STATEMENTS OF INCOME

For the Years Ended December 31, 1965 and 1964

	<u>1965</u>	<u>1964</u>
<b>OPERATING REVENUES:</b>		
Scheduled freight operations . . . . .	\$17,086,910	\$13,707,443
Military Airlift Command . . . . .	30,237,475	23,151,385
Charters, service sales, etc. . . . .	<u>8,831,474</u>	<u>8,609,557</u>
	<u>\$56,155,859</u>	<u>\$45,468,385</u>
<b>OPERATING EXPENSES:</b>		
Flying operations . . . . .	\$16,014,963	\$15,310,677
Ground operations . . . . .	7,775,265	6,630,090
Maintenance . . . . .	12,665,366	9,631,842
Sales, advertising and publicity . . . . .	2,330,534	2,220,986
General and administrative . . . . .	2,323,867	1,999,012
Depreciation and amortization . . . . .	<u>6,225,938</u>	<u>5,671,069</u>
	<u>\$47,335,933</u>	<u>\$41,463,676</u>
Net income from operations . . . . .	<u>\$ 8,819,926</u>	<u>\$ 4,004,709</u>
<b>OTHER EXPENSE:</b>		
Interest expense . . . . .	\$ 2,423,063	\$ 2,120,286
Miscellaneous (net) . . . . .	<u>(344,869)</u>	<u>(355,846)</u>
	<u>\$ 2,078,194</u>	<u>\$ 1,764,440</u>
Net income before provision for Federal income taxes . . . . .	\$ 6,741,732	\$ 2,240,269
<b>PROVISION FOR FEDERAL INCOME TAXES</b> (Note 5) . . . . .	<u>3,100,000</u>	<u>939,000</u>
Net income . . . . .	<u>\$ 3,641,732</u>	<u>\$ 1,301,269</u>
<b>SPECIAL ITEM:</b>		
Gain on foreign exchange contracts (\$383,439) less applicable provision of \$184,000 for deferred Federal income taxes . . . . .	<u>—</u>	<u>199,439</u>
Net income and special item . . . . .	<u>\$ 3,641,732</u>	<u>\$ 1,500,708</u>

The accompanying notes are an integral part of these statements.

## STATEMENTS OF SURPLUS

For the Years Ended December 31, 1965 and 1964

	1965	1964
<b>CAPITAL SURPLUS</b>		
BALANCE AT BEGINNING OF YEAR . . . . .	\$ 8,230,838	\$ 8,228,154
ADD—		
Excess of proceeds over par value of 2,100 and 400 common shares, in respective years, issued under stock options . . . . .	14,091	2,684
Excess of fair market value of stock dividend over par value . . . . .	<u>1,263,422</u>	<u>—</u>
BALANCE AT END OF YEAR . . . . .	<u>\$ 9,508,351</u>	<u>\$ 8,230,838</u>
<b>EARNED SURPLUS</b>		
BALANCE AT BEGINNING OF YEAR . . . . .	\$ 5,054,327	\$ 3,603,175
ADD—		
Net income . . . . .	3,641,732	1,301,269
Special item . . . . .	<u>—</u>	<u>199,439</u>
	\$ 8,696,059	\$ 5,103,883
DEDUCT—		
Cash dividends on preferred shares—\$.50 per share . . . . .	49,556	49,556
Five per cent common stock dividend, 76,571 shares at fair value of \$17.50 per share . . . . .	<u>1,339,993</u>	<u>—</u>
BALANCE AT END OF YEAR (Note 4) . . . . .	<u>\$ 7,306,510</u>	<u>\$ 5,054,327</u>

The accompanying notes are an integral part of these statements.

# STATEMENTS OF FUNDS

For the Years Ended December 31, 1965 and 1964

	<u>1965</u>	<u>1964</u>
<b>WORKING CAPITAL AT BEGINNING OF YEAR</b> .....	\$ 7,706,596	\$ 6,035,556
<b>SOURCE OF FUNDS:</b>		
Net income .....	\$ 3,641,732	\$ 1,301,269
Special item .....	—	199,439
Add (Deduct) —		
Depreciation and amortization provisions .....	6,674,913	6,045,182
Deferred tax provision .....	3,100,000	1,123,000
Gain on retirement of property and equipment .....	(159,098)	(113,419)
Gain on exchange applicable to long-term debt .....	—	(581,102)
Accrued interest due after one year .....	539,972	—
Total funds from operations .....	<u>\$13,797,519</u>	<u>\$ 7,974,369</u>
Proceeds from common stock issued upon exercise of restricted stock options .....	16,191	3,084
Proceeds from sale of property and equipment .....	350,253	315,566
	<u>\$14,163,963</u>	<u>\$ 8,293,019</u>
<b>FUNDS APPLIED:</b>		
Payments on equipment trust certificates .....	\$ 6,153,115	\$ 5,904,298
Deferred training costs applicable to aircraft .....	1,121,091	—
Purchase of property and equipment, net of \$24,750,000 long-term debt issued in connection with purchases in 1965 .....	4,516,845	556,622
Lease deposits .....	615,884	—
Cash dividends on preferred shares .....	49,556	49,556
All other .....	269,034	111,503
	<u>\$12,725,525</u>	<u>\$ 6,621,979</u>
<b>WORKING CAPITAL AT END OF YEAR</b> .....	<u>\$ 9,145,034</u>	<u>\$ 7,706,596</u>

The accompanying notes are an integral part of these statements.

## SUMMARY OF LONG-TERM DEBT

December 31, 1965 and 1964

	<u>1965</u>	<u>1964</u>
Debentures (subordinate)—		
Series A—5½% due 1967 . . . . .	\$ 500,000	\$ 500,000
Series B—5½% due 1974 . . . . .	5,000,000	5,000,000
Series C—5½% due 1976 . . . . .	5,000,000	—
1959 Equipment Trust Certificates, less current installments—		
Series A—5½% due 1966–1971 . . . . .	15,364,679	14,939,355
Series B—5½% due 1966–1969 . . . . .	2,385,148	3,844,033
1964 Equipment Trust Certificates (Series A—6%) due 1966–1971, less current installments . . . . .	2,921,153	—
6% Promissory Note, due 1968–1971 . . . . .	1,627,500	—
1965 Equipment Trust Certificates—		
Series A—5¼%, due 1967–1971 . . . . .	6,340,000	—
Series B—5¾%, due 1971–1975 . . . . .	6,340,000	—
5½% Construction Loan (subordinated) due 1968–1969 . . . . .	2,676,000	—
5½% Promissory Note (subordinated) due 1976 . . . . .	—	5,000,000
Total (Note 3) . . . . .	<u>\$48,154,480</u>	<u>\$29,283,388</u>

## NOTES TO FINANCIAL STATEMENTS

### (1) Aircraft—

At December 31, 1965, the Company's fleet consisted of the following:

	<u>Owned</u>	<u>Leased</u>	<u>Total</u>
Boeing 707 . . . . .	2	—	2
Canadair CL-44D . . . . .	12	3	15
Lockheed 1049H Super Constel- lation . . . . .	7	2	9
Total . . . . .	<u>21</u>	<u>5</u>	<u>26</u>

### (2) Commitments—

At December 31, 1965, the Company had long-term leases on real property, aircraft and engines for which annual rentals will be approximately \$2,550,000 in 1966 and total rentals will aggregate approximately \$22,640,000 for the minimum lease periods. The minimum lease periods range from four years on the aircraft to 34 years on the real property, and there are renewal and purchase options on the aircraft and engines.

Subsequent to December 31, 1965, the Company

agreed to lease two Boeing 707 jet aircraft for delivery in June and December 1966, for annual rentals of approximately \$1,100,000 per aircraft for a minimum period of four years, with renewal and purchase options. Under an agreement with another airline, the Company has leased a Boeing 707 jet aircraft for a minimum of nine months for a total minimum rental of \$1,360,000.

(3) Capital stock and long-term debt—

At December 31, 1965, 653,654 common shares were reserved for conversion of debentures and 24,315 shares for stock options.

The 1959 and 1964 Series A equipment trust certificates and 6% promissory note are payable in Canadian dollars and were stated in U. S. dollars at the conversion rates in effect on the various delivery dates of the related aircraft, adjusted for contracted amounts for Canadian funds required.

The Series A, Series B and Series C debentures (subordinate) are redeemable at a premium of 10 per cent, and currently are convertible into common shares at \$11.75 a share until June 27, 1967 for the Series A debentures, at \$15.54 a share until June 27, 1969 for the Series B debentures, and at \$17.28 a share until December 1, 1971 for the Series C debentures which were issued in exchange for the 5½ per cent promissory note (subordinated).

Since December 31, 1965, Series B and Series C debentures in the principal amounts of \$111,000 and \$2,085,000, respectively, have been converted into 127,798 common shares.

The 5½ per cent Construction Loan is secured by certain equipment in addition to the facilities under construction, and the 6 per cent Promissory Note is secured by a chattel mortgage on aircraft.

At December 31, 1965, there were outstanding

options to three officers for purchase of 676 shares of common stock at \$7.34 a share granted in 1958 (exercisable in 1966), and for 6,835 shares at \$7.81 a share granted November 21, 1960 and exercisable 1966–1968.

(4) 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 these provisions, earned surplus at December 31, 1965 available for the payment of cash dividends on common shares is approximately \$1,115,000.

(5) 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.

(6) Pension plans—

As of December 31, 1965, the unfunded liability for past service benefits under the pension plan for pilots was approximately \$898,000 which is to be provided for over an eighteen-year period.

During 1965, the Company finalized negotiations with the flight engineers to provide past service benefits under their retirement plan. The Company also modified the pension plans for mechanics, ramp servicemen, clerical, administrative and executive employees effective January 1, 1966, to include past service benefits. The amounts of past service liability for these plans has not been determined at this date.

The total cost of the pension plans for 1965 was approximately \$613,000, including \$58,000 for past service benefits.

ARTHUR ANDERSEN & Co.

1020 WEST THIRD STREET  
LOS ANGELES, CALIFORNIA 90017

TO THE STOCKHOLDERS,  
THE FLYING TIGER LINE INC.:

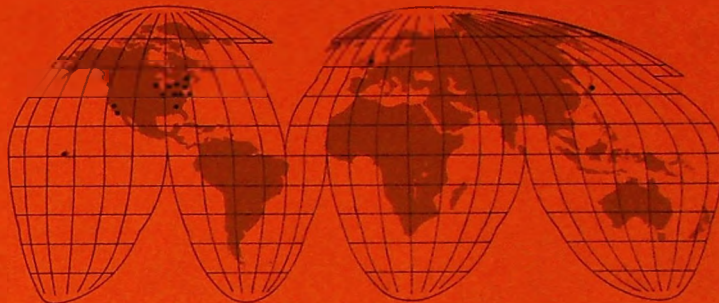
We have examined the balance sheets of THE FLYING TIGER LINE INC. (a Delaware corporation) as of December 31, 1965 and 1964, and the related statements of income, surplus, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income, surplus, and funds present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1965 and 1964, 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.

ARTHUR ANDERSEN & CO.

Los Angeles, California,  
February 8, 1966

## SALES OFFICES



GENERAL SALES OFFICES, 7401 WORLD WAY WEST, INTERNATIONAL AIRPORT  
LOS ANGELES, CALIFORNIA, 646-6161

### FLYING TIGER AIRFREIGHT ROUTE NO. 100

ATLANTA, GA.  
1001 Virginia Ave.  
Hapeville, Ga.  
766-2704

BINGHAMTON, N.Y.  
Broome County Airport  
729-1591

BOSTON, MASS.  
Logan International Airport  
567-6161

BUFFALO, N.Y.  
81 Batford St.  
876-5055

CHICAGO, ILL.  
O'Hare Field  
686-7100

CLEVELAND, OHIO  
Cleveland Hopkins Airport  
267-3575

DETROIT, MICH.  
Detroit-Metropolitan Airport  
562-9700

HARTFORD, CONN.  
Bradley Field  
Windsor Locks, Conn.  
522-3145

LOS ANGELES, CALIF.  
Los Angeles  
International Airport  
646-6161

MILWAUKEE, WIS.  
5300 S. Howell  
Mitchell Field  
485-5000

NEWARK, N. J.  
Newark Airport  
624-3700

NEW YORK, N.Y.  
John F. Kennedy Airport  
656-5285

PHILADELPHIA, PA.  
International Airport  
726-7100

PORTLAND, ORE.  
International Airport  
281-1158

SAN FRANCISCO-OAKLAND,  
CALIF.  
San Francisco International  
Airport  
761-1100

SEATTLE, WASH.  
Seattle Tacoma  
International Airport  
244-4747

SPRINGFIELD, MASS.  
Bradley Field  
Windsor Locks, Conn.  
734-5675

### PASSENGER AND FREIGHT CHARTERS

HONOLULU, HAWAII  
Honolulu International Airport  
Honolulu, Hawaii  
816-828

LONDON, ENGLAND  
10 Golden Square  
London W. 1  
Girrad 3627

LOS ANGELES, CALIF.  
Los Angeles International Airport  
646-4070

NEW YORK, N.Y.  
60 East 42nd Street  
697-8850

TOKYO, JAPAN  
Bldg. 3665 West  
Tachikawa Air Force Base  
Tokyo, Japan  
22104-22282  
Hotel New Japan  
Suite 475  
581-551  
Ext. 9475

