



***THE FLYING TIGER LINE INC.***

***ANNUAL REPORT 1966***



*THE FUTURE OF AIR CARGO*

*Page 12*

**1966 IN BRIEF**

**FINANCIAL**

	<u>1966</u>	<u>1965</u>
Revenues . . . . .	\$86,018,911	\$56,155,859
Net income . . . . .	\$12,105,203	\$ 3,641,732
Common shares outstanding at year-end* . . . . .	4,439,364	4,438,042
Net income per common share . . . . .	\$2.72	\$ .81
Working capital . . . . .	\$15,458,874	\$ 9,145,034
Net worth . . . . .	\$40,482,363	\$19,413,976
Book value per common share* . . . . .	\$9.12	\$6.40
Cash flow . . . . .	\$20,725,968	\$13,797,519

\*Adjusted for two-for-one stock split effective February 28, 1967 and conversions in 1966.

**EVENTS**

This was a year of unprecedented progress for Flying Tiger Line. New equipment, new corporate headquarters, new opportunities and new plans were all a part of 1966. Among the significant highlights were:

**FEBRUARY**—Your Company moved into its new World Headquarters at Los Angeles International Airport. Our modern general offices and vastly expanded maintenance facilities are now among the nation's finest.

**APRIL**—Negotiations were begun with Douglas Aircraft Company, Inc. for the purchase of ten new Douglas DC8-63F Jumbo Jet airfreighters.

**MAY**—By order of the Civil Aeronautics Board, the Company was made a party to the Pacific Route Case,

an issue of major importance to the entire airfreight industry. Formal exhibits were filed by Flying Tiger Line in November, 1966.

**JUNE**—A \$44,711,308 basic contract for airlift service in the Pacific area was awarded to the Company by the United States Military Airlift Command. The contract, which ends on June 30, 1967, is subject to expansion should additional airlift service be required by the Armed Forces. During 1966, this expansion provision accounted for an additional \$20,765,000 in revenue.

**OCTOBER**—The United States Supreme Court upheld the authority of the Civil Aeronautics Board to grant all-cargo carriers exclusive use of the "Blocked Space" tariff, thus permitting the Company to offer special discount rates to volume shippers.

TO THE STOCKHOLDERS OF THE FLYING TIGER LINE INC.



Robert W. Prescott, President

Now that the results are in, we can tell you with considerable pleasure that the past year has far exceeded our expectations and the records set during our twentieth anniversary year of 1965. 1966 was by far the most outstanding year in the history of your Company.

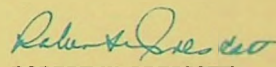
Total revenues for the year were increased by 53% — establishing a new high of over \$86,000,000. Net income after taxes passed the \$12,000,000 mark, a dramatic rise over the \$3,600,000 of the previous year. An increase in overall service capabilities, including full-year utilization of jet aircraft, accounted for much of this impressive record.

Just as 1966 exceeded the record-breaking successes of 1965, 1967 is expected to be another year of outstanding accomplishments for Flying Tiger Line.

Your Board of Directors on February 9, 1967

approved a two-for-one split in the common shares of the Company, effective February 28, 1967. Your Board also announced a new policy of paying an annual cash dividend of ten cents per share on each new share, the first to be paid April 14, 1967 to shareholders of record on February 28, 1967.

The Board of Directors and I wish to extend our very warm appreciation to our employees, customers and stockholders. You have made possible not only the bright achievements of the past year, but the great expectations for the years ahead.

  
ROBERT W. PRESCOTT,  
President

**FINANCIAL REVIEW**



Fred Benninger.  
Executive Vice President-Treasurer

**A NEW HIGH IN REVENUES AND EARNINGS**

The substantial increase in the Company's revenue in 1966 reflects the impact of new equipment acquired in the latter part of 1965. There were increases in all phases of business, military and commercial, as shown in the revenue figures below:

	1966	1965	Percent of Increase
Scheduled freight operations . . .	\$23,483,188	\$17,086,910	37%
Military Airlift Command . . .	48,074,385	30,237,475	59
Charters, service sales, etc. . . .	14,461,338	8,831,474	64
<b>Total revenues . . .</b>	<b><u>\$86,018,911</u></b>	<b><u>\$56,155,859</u></b>	<b><u>53%</u></b>

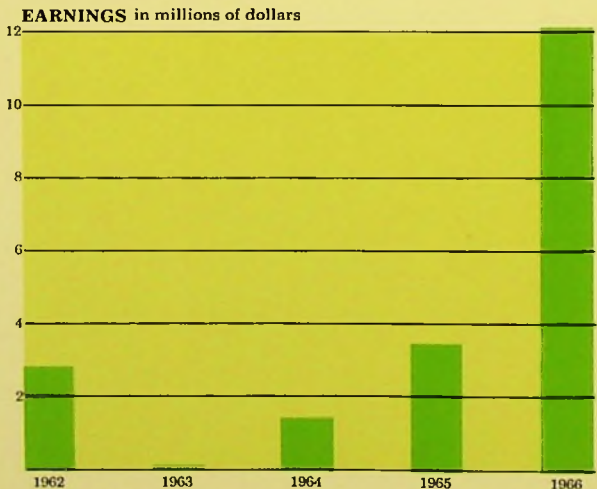
Along with the larger volume of business made possible by the additions to our air fleet were many improvements in operational efficiency. These factors are clearly mirrored in the net income from operations of the Company, which grew from \$8,819,926 in 1965 to \$20,460,164 in 1966—a gain of 132%.

Due to full utilization of its tax net operating loss carry-over, the Company became obligated to pay Federal income taxes on a current basis. Therefore, 1966 marked the first year in which Flying Tiger Line was in a position to utilize a portion of the Investment Tax Credit which had accumulated since 1962. The end result was an effective tax rate of 38.4% in 1966, as compared to 46.0% recorded for 1965. Net income after

taxes and earnings per share for 1966, compared to the previous year, were:

	1966	1965
Net income . . . . .	\$12,105,203	\$3,641,732
Common shares outstanding at year-end* . . . . .	4,439,364	4,438,042
Per share . . . . .	\$2.72	\$.81
Average shares outstanding during year, before stock split . . . . .	1,964,075	1,607,995
Per share . . . . .	\$6.14	\$2.23

\*Adjusted for two-for-one stock split effective February 28, 1967 and conversions in 1966.



## FINANCIAL POSITION

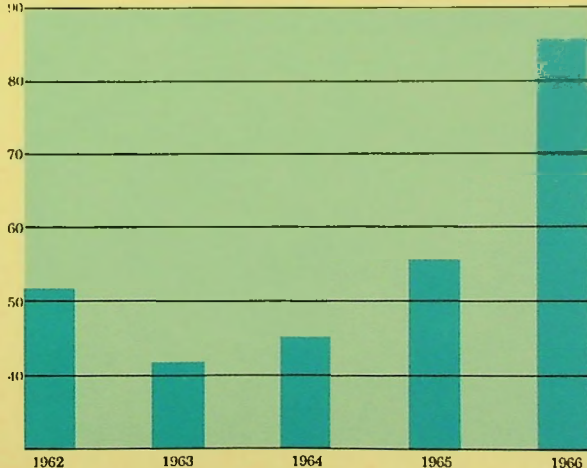


The Company's financial position continued to improve during 1966:

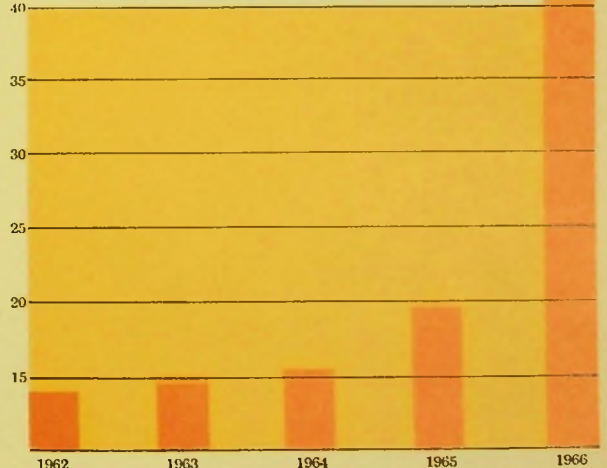
	December 31	
	1966	1965
Cash . . . . .	\$15,416,088	\$ 5,334,138
Working capital . . . . .	\$15,458,874	\$ 9,145,034
Net current ratio . . . . .	1.68 to 1.00	1.74 to 1.00
Debt due after one year . . . . .	\$34,866,830	\$48,154,480
Book value per common share . . . . .	\$9.12	\$6.40

In September of 1966, the Company completed negotiations with Douglas Aircraft Company, Inc. for the purchase of ten new Douglas DC8-63F aircraft. These Jumbo Jets are to be delivered at the rate of one a month, beginning early in 1968. Cost of the aircraft, including spare parts and related equipment, will be approximately \$105,000,000. Plans for the financing of this sum are well advanced. As of December 31, 1966, deposits on the total equipment purchase price amounted to \$10,010,141. Of this amount, \$5,742,926 represented equipment purchase notes (subordinated), with the balance provided from working capital.

**REVENUE** in millions of dollars



**NET WORTH** in millions of dollars





Early in 1966 the Company completed the construction of its new world headquarters located in the heart of the Los Angeles International Airport complex. These general office and maintenance facilities were occupied in February of 1966. The construction loan of \$3,500,000 applicable to the building of our new headquarters is expected to be refinanced during 1967 through a long-term real estate loan.

During the year, the company paid \$9,337,918 on debt secured by equipment trust certificates and a promissory note. Also, during the year, Series B and Series C debentures totaling \$10,000,000 were converted into 611,026 shares of common stock with a

resultant increase in capital stock and capital surplus of \$611,026 and \$9,388,974, respectively.

On February 9, 1967, the Board of Directors approved a two-for-one common stock split. The additional shares were distributed to shareholders of record as of February 28, 1967. All per share amounts in this report have been adjusted to give effect to this split.

As a result of a call for redemption, the 99,112 shares of Series A, \$10 par value preferred stock, outstanding since 1951, were redeemed and cancelled as of November 7, 1966 for a cash outlay of \$991,120. Changes in stockholders' equity accounts are summarized in the table below:

	<u>Preferred Shares</u>	<u>Common Shares</u>	<u>Capital Surplus</u>	<u>Earned Surplus</u>	<u>Total Stockholders' Equity</u>
Balances, January 1, 1966 . . .	\$991,120	\$1,607,995	\$ 9,508,351	\$ 7,306,510	\$19,413,976
Net income for year . . . . .				12,105,203	12,105,203
Cash dividends on preferred shares				(50,547)	(50,547)
Conversion of debentures . . . . .		611,026	9,388,974		10,000,000
Issuance of 661 common shares under stock options . . . . .		661	4,190		4,851
Redemption of preferred shares . . .	(991,120)				(991,120)
Balances, December 31, 1966 . . .	<u>\$ —</u>	<u>\$2,219,682</u>	<u>\$18,901,515</u>	<u>\$19,361,166</u>	<u>\$40,482,363</u>

**INCREASED DOMESTIC CARGO VOLUME**

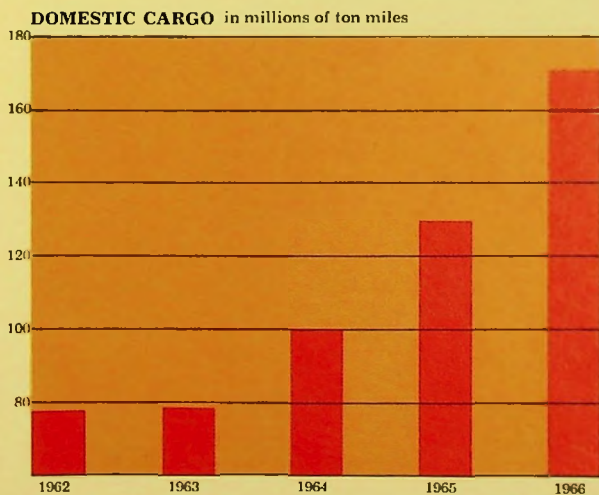
The addition of new equipment in the latter part of 1965 substantially strengthened the Company's position in the domestic common carriage airfreight field. The addition of two Canadair CL-44D aircraft to the seven CL-44D and two Lockheed 1049H aircraft already serving the Company's domestic route created substantially larger capacities for service. Revenues from scheduled freight operations expanded 37% during the year, reaching an all-time high of \$23,483,188.

Our position in the industry was strengthened further by the following programs:

**SKYROAD** service, which links surface truckers with airfreighters, continued to grow throughout 1966. Meas-

ures were taken to achieve a closer liaison between the Company and its **SKYROAD** participating truckers—with the desired result of an improved coordinated service to our customers. Today the **SKYROAD** network covers 1,500 cities and includes 150 trucking firms.

**"BLOCKED SPACE"** gained momentum after the United States Supreme Court upheld the March 2, 1966 United States Court of Appeals decision granting all-cargo carriers the exclusive right to market this program. **"Blocked Space"** enables your Company to offer special reduced rates to volume shippers who contract for specified amounts of space on a regular basis. The number of customers who have entered into **"Blocked**



Peter T. Albert, Vice President — Marketing



Space" contracts with the Company has increased considerably and revenues derived from this program exceeded 3.5 million dollars during 1966. Firms utilizing this service vary in nature from an automotive company to a Chinese vegetable merchant.

SEA/AIR experienced a substantial increase in business in 1966. During the year, the SEA/AIR program was expanded to points in Europe through interline connections at New York with trans-Atlantic airlines. Under this program, freight from the Orient is moved by steamship to the West Coast, then flown by air-freighter to domestic or European cities, and vice-versa.

Cargo loads at Flying Tiger terminal at Los Angeles International Airport




CONTAINERIZATION increased throughout the industry during the year. This program provides unitization and density incentives for users of intermodal containers, thus building savings for the carrier as well as the shipper.

PERISHABLE sales program development resulted in the transportation of 5 million pounds of fresh and frozen fruits and vegetables during the year. This was an increase of 25 percent over the previous year. Additions to our domestic air fleet, of course, will increase the Company's ability to build daylight traffic in these commodities during 1967.

"Blocked Space" shipment of helium by Gardner Cryogenics loads aboard CL-44





**REGIONAL AIR CARGO WORKSHOPS.** a program jointly sponsored by the Civil Aeronautics Board and the National Industrial Traffic League, were undertaken during the year. It is anticipated that these shipper/carrier meetings will result in a closer relationship between both groups in the areas of claims prevention, containerization, improved methods of freight handling, etc. Flying Tiger representatives served on the Planning Committee and played a vital role in these workshops.

Throughout the coming year, we shall continue to increase our marketing efforts, accelerate our sales pro-

Military cargo loads aboard Flying Tiger 707 for shipment to Vietnam



motional activities and add to the domestic air fleet at a pace consistent with the growing demand for scheduled all-cargo service.

#### **AIRLIFT FOR DEFENSE**

This is an area in which the personnel and facilities of Flying Tiger Line have come to play an almost traditional role. As in all other areas of airfreight operations, equipment played a vital part in the increase of revenues from military contracts. Flying Tigers' introduction of Boeing 707 aircraft for military cargo accounted for an appreciable growth in airlift capacity and resultant revenue growth of 59% — \$48,074,385 in 1966, as compared to \$30,237,475 in 1965.

This growth in airlift capacity was the direct result of full-year utilization of two Boeing 707 aircraft owned by the Company, combined with the additional lift capacity acquired by leasing three additional Boeing 707s, two of which were leased from foreign carriers.

#### **COMMERCIAL CHARTERS**

Along with the growing emphasis placed on its specialization in airfreight, the Company has placed commensurate emphasis on the charter market for the carriage of airfreight. In addition to operating many military flights with a leased Boeing 707, the Company operated regularly scheduled flights across the Atlantic for a five month period for a foreign carrier. The prospects for increasing this type of Civil Aeronautics Board-approved contract work are extremely bright for 1967.

## EQUIPMENT



The Company's airlift capacity during 1966 was augmented substantially by the use of three Boeing 707 aircraft during the first half of the year, with the number increasing to four during the last six months. In addition, the Company operated fifteen Canadair CL-44D aircraft and eight Lockheed 1049H aircraft for the major portion of the year. Additions and retirements of aircraft are detailed below:

During 1966, the Company leased three Boeing 707 aircraft, one of which was returned to the lessor prior to year-end. In January 1966, the Company took delivery of the fourth CL-44D aircraft under the terms of its interchange agreement with another airline. One Company-owned CL-44D aircraft was destroyed in March.

A second CL-44D, leased under the interchange agreement, was destroyed in December.

In 1966, the Company exercised its option to purchase two 1049H aircraft which it had been operating under lease. In addition, three other 1049H aircraft were acquired by purchase and two were sold.

The most significant step forward in equipment acquisitions, however, was the Company's contract agreement for the purchase of ten new Douglas DC8-63Fs and option to acquire an additional four. These Jumbo Jet airfreighters will carry up to ten tons more cargo than the Boeing 707 and at speeds of 600 mph. They will be the largest, farthest-ranging cargo aircraft yet to be utilized in commercial service.

Models show greater capacity of Tigers' new DC8-63F Jumbo Jet compared to standard DC-8

E. A. Pinke,  
Vice President - Operations



## ROUTE EXPANSION

Flying Tiger Line's inclusion among the airlines petitioning the Civil Aeronautics Board in the Pacific Route Case presents us with one of the most important route expansion opportunities in many years.

The nations of the Pacific represent a vast and growing trade area with great potential. In contrast with the North Atlantic where trade has been in the process of development for a number of years, the market centers of the Pacific are largely undeveloped for air cargo service.

In both its written and oral presentations to the Civil Aeronautics Board, your Company has spelled out in detail the many reasons why it believes the cargo potential of the Pacific can best be realized by Flying Tiger

Director of Marketing R. A. Blanks and Manager Market Analysis R. Cashman check points applied for in Pacific



Line. Among the prime qualifications cited, the Company emphasized that: (1) The Pacific is the only major trade area in the world not presently served by an all-cargo airline—and, as the world's largest, most experienced all-cargo airline, Flying Tigers would be an ideal choice for serving this area. (2) Flying Tiger Line has a proven record of pioneering and doing more to improve the airfreight industry than any other airline. (3) Flying Tiger has over twenty years' experience throughout the Pacific, and a background inextricably linked with the nations of Asia. (4) The Company's new DC8-63F Jumbo Jets provide the nucleus of a vast air fleet ideally suited to the large volume, long-range hauls the immense Pacific area requires. (5) To bring the cost of trans-Pacific airfreight within reach of almost every shipper, the Company plans to reduce average airfreight rates throughout the area by 55% under present rates. (6) And finally, the Company plans to make sweeping service improvements that will make trans-Pacific shipping as easy as transcontinental shipping.

These qualifications lead us to look forward with optimism to the outcome of this case.

In addition to the trans-Pacific Case, other hearings will be held during 1967 concerning various domestic and Canadian cities. Your Company is also petitioning the Civil Aeronautics Board in these cases. Many of the market centers involved are not presently served by an all-cargo airline; others enjoy only a limited amount of such service.

The markets presently at issue are: St. Louis, Memphis, Nashville, Indianapolis, New Orleans, Miami, Atlanta, Charlotte, Melbourne, Dallas, Fort Worth, Houston, Toronto and Montreal.



SEOUL

SOUTH  
KOREA

TOKYO

JAPAN

TAIWAN  
TAIPEI

OKINAWA

RYUKYU ISLANDS

CLARK AFB

MANILA

PHILIPPINES

GUAM

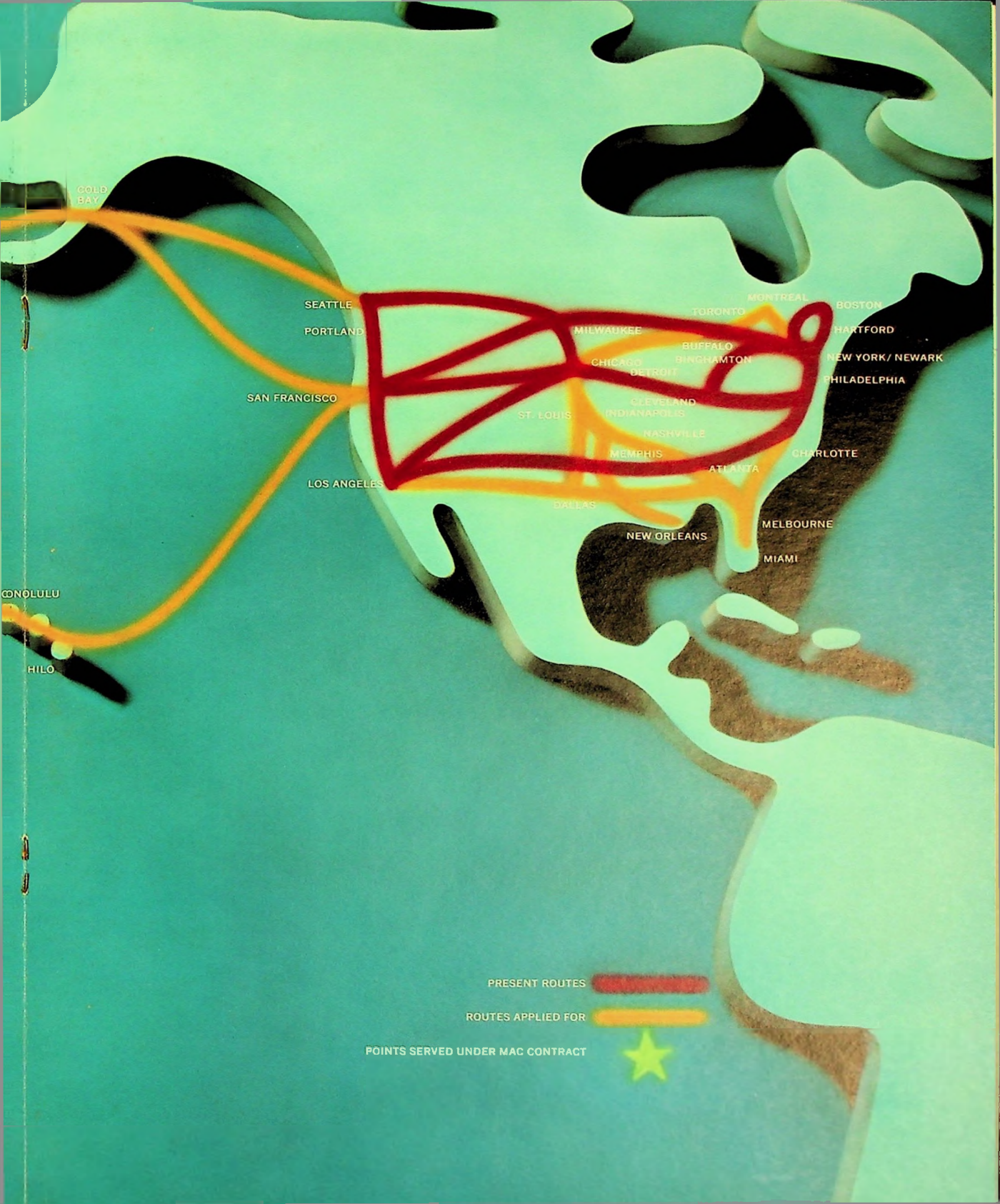
SOUTH  
VIETNAM

SAIGON

THAILAND

BANGKOK

HONG KONG



## THE FUTURE OF AIR CARGO

The entire history of your Company has been one of constant exploration and development of opportunities. In 1967, there are greater opportunities than ever to establish new records in our pattern of expansion.

We join all people everywhere in an earnest hope that the hostilities in Vietnam will soon end. Although times of military crisis invariably create increases in government cargo contracts, this is not the kind of airfreight business on which your Company bases its future. Flying Tiger Line prefers to devote all its efforts and facilities to the development of the many domestic and international opportunities in the commercial airfreight business. These opportunities can only be fully developed when the entire resources of our Company are devoted to them.

During the past decade, airfreight volume grew four-fold. By 1975, we estimate this volume will increase seven times present levels and by 1980, approximately 12 times the current annual figures.

In recent years, airfreight has been growing at about twice the annual rate of growth for air passenger traffic. Factors such as palletized freight, automatic loading, new and larger aircraft and new air cargo concepts, like "Blocked Space," should help to sustain the continued growth of air cargo transportation.

As yet only about one-tenth of one percent of the world's freight is carried by air. As methods are improved and rates continue to drop, an ever-increasing quantity of goods will be transported over a constantly expanding network of freight skyways.

Flying Tiger Line's World Headquarters at Los Angeles International Airport



**PROGRESS IN TEN YEARS**

**ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY**

	<u>1966</u>	<u>1965</u>	<u>1956</u>
Cash and marketable securities . . . . .	\$ 15,416,088	\$ 5,334,138	\$ 3,085,998
Working capital . . . . .	\$ 15,458,874	\$ 9,145,034	\$ 5,525,264
Property and equipment, at cost . . . . .	\$ 97,812,569	\$99,513,972	\$ 7,968,027
Total assets . . . . .	\$110,389,947	\$89,291,899	\$17,701,128
Long-term debt . . . . .	\$ 34,866,830	\$48,154,480	\$ 2,724,000
Net worth . . . . .	\$ 40,482,363	\$19,413,976	\$10,367,685
Book value per common share* . . . . .	\$9.12	\$6.40	\$4.14

**REVENUES, EXPENSES AND INCOME**

Revenues . . . . .	\$ 86,018,911	\$56,155,859	\$21,931,320
Operating expenses . . . . .	\$ 65,558,747	\$47,335,933	\$21,849,250
Net income . . . . .	\$ 12,105,203	\$ 3,641,732	\$ 603,664**
Depreciation and amortization expenses . . . . .	\$ 7,936,428	\$ 6,674,913	\$ 1,728,788
Common shares outstanding at year-end* . . . . .	4,439,364	4,438,042	2,263,604
Net income per common share . . . . .	\$2.72	\$ .81	\$ .24

**OPERATING STATISTICS**

Miles flown (000) . . . . .	27,730	19,452	14,393
Domestic cargo ton miles (000). . . . .	170,530	128,124	49,649
Total ton miles (000) . . . . .	483,571	335,853	78,225

\*Adjusted for two-for-one stock split effective February 28, 1967, conversions in 1966 and common stock dividends since 1956.

\*\*Excluding \$2,372,107 from gain on trade-in of DC-6 fleet.

BALANCE SHEETS DECEMBER 31, 1966 AND 1965



ASSETS

	<u>1966</u>	<u>1965</u>
<b>CURRENT ASSETS (including prepaid engine overhaul cost) :</b>		
Cash, including \$10,800,000 certificates of deposit at December 31, 1966 . . . . .	\$ 15,416,088	\$ 5,334,138
Receivables, less reserves—		
Freight customers . . . . .	5,102,779	3,078,317
Charters, service sales, etc.—		
United States Government . . . . .	6,245,501	4,474,633
Other . . . . .	2,920,173	2,249,421
Materials and supplies, at average cost . . . . .	3,317,007	2,487,665
Aircraft acquired for sale . . . . .	1,102,984	1,145,620
Prepaid insurance, rents, etc. . . . .	1,951,117	1,016,864
Prepaid engine overhaul cost . . . . .	2,195,233	1,769,690
Total current assets . . . . .	<u>\$ 38,250,882</u>	<u>\$21,556,348</u>
 <b>PROPERTY AND EQUIPMENT, at cost (Notes 1 and 2) :</b>		
Aircraft, engines and other flight equipment . . . . .	\$ 88,995,273	\$92,246,785
Other equipment . . . . .	2,670,599	2,225,452
Land and buildings . . . . .	6,146,697	5,041,735
	<u>\$ 97,812,569</u>	<u>\$99,513,972</u>
Less—Reserves for depreciation . . . . .	40,272,054	35,742,912
	<u>\$ 57,540,515</u>	<u>\$63,771,060</u>
Deposits on aircraft, engines, etc. . . . .	10,035,142	—
	<u>\$ 67,575,657</u>	<u>\$63,771,060</u>
 <b>OTHER ASSETS AND DEFERRED CHARGES :</b>		
Unamortized debt expense . . . . .	\$ 110,852	\$ 294,583
Long-term prepayments, etc. . . . .	1,028,797	768,046
Training and other costs applicable to aircraft, being amortized . . . . .	3,423,759	2,901,862
	<u>\$ 4,563,408</u>	<u>\$ 3,964,491</u>
	<u>\$110,389,947</u>	<u>\$89,291,899</u>

**LIABILITIES**

	<u>1966</u>	<u>1965</u>
<b>CURRENT LIABILITIES:</b>		
Current installments of equipment purchase obligations . . . . .	\$ 6,934,537	\$ 6,417,879
Accounts payable and accrued liabilities . . . . .	10,517,045	5,773,374
Accrued Federal income taxes . . . . .	5,122,600	—
Unearned contract revenue . . . . .	217,826	220,061
Total current liabilities . . . . .	<u>\$ 22,792,008</u>	<u>\$12,411,314</u>
 <b>LONG-TERM DEBT</b> (See Summary) (Note 2) . . . . .	 <u>\$ 34,866,830</u>	 <u>\$48,154,480</u>
 <b>DEFERRED CREDITS:</b>		
Deferred Federal income taxes (Note 4) . . . . .	\$ 11,234,437	\$ 9,061,436
Overhaul liability—leased aircraft and engines . . . . .	1,014,309	250,693
	<u>\$ 12,248,746</u>	<u>\$ 9,312,129</u>
 <b>CAPITAL STOCK AND SURPLUS:</b>		
Preferred shares—\$10 par value, Series A—		
Authorized, 500,000 shares		
Outstanding, 99,112 shares (1965) . . . . .	\$ —	\$ 991,120
Preferred shares—\$1 par value—		
Authorized, 1,000,000 shares		
Outstanding, none . . . . .	—	—
Common shares—\$1 par value (Note 2)		
Authorized, 5,000,000 shares		
Outstanding, 2,219,682 shares (1966) and		
1,607,995 shares (1965) . . . . .	2,219,682	1,607,995
Capital surplus . . . . .	18,901,515	9,508,351
Earned surplus (Note 3) . . . . .	19,361,166	7,306,510
	<u>\$ 40,482,363</u>	<u>\$19,413,976</u>
	 <u>\$110,389,947</u>	 <u>\$89,291,899</u>

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

STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	<u>1966</u>	<u>1965</u>
<b>OPERATING REVENUES:</b>		
Scheduled freight operations . . . . .	\$23,483,188	\$17,086,910
Military Airlift Command . . . . .	48,074,385	30,237,475
Charters, service sales, etc. . . . .	14,461,338	8,831,474
	<u>\$86,018,911</u>	<u>\$56,155,859</u>
<b>OPERATING EXPENSES:</b>		
Flying operations . . . . .	\$26,640,082	\$16,014,963
Ground operations . . . . .	10,027,491	7,775,265
Maintenance . . . . .	15,809,280	12,665,366
Sales, advertising and publicity . . . . .	2,574,898	2,330,534
General and administrative . . . . .	3,554,170	2,323,867
Depreciation and amortization . . . . .	6,952,826	6,225,938
	<u>\$65,558,747</u>	<u>\$47,335,933</u>
Net income from operations . . . . .	<u>\$20,460,164</u>	<u>\$ 8,819,926</u>
<b>OTHER EXPENSE:</b>		
Interest expense . . . . .	\$ 2,302,390	\$ 2,423,063
Miscellaneous (net) . . . . .	(1,497,429)	(344,869)
	<u>\$ 804,961</u>	<u>\$ 2,078,194</u>
Net income before provision for Federal income taxes . . . . .	\$19,655,203	\$ 6,741,732
<b>PROVISION FOR FEDERAL INCOME TAXES (Note 4) . . . . .</b>	<u>7,550,000</u>	<u>3,100,000</u>
Net income . . . . .	<u>\$12,105,203</u>	<u>\$ 3,641,732</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF SURPLUS FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965

	<u>1966</u>	<u>1965</u>
<b>CAPITAL SURPLUS</b>		
BALANCE AT BEGINNING OF YEAR . . . . .	\$ 9,508,351	\$ 8,230,838
ADD —		
Excess of proceeds over par value of 661 and 2,100 common shares, in respective years, issued under stock options . . . . .	4,190	14,091
Surplus arising from conversion of debentures (\$10,000,000) into 611,026 common shares . . . . .	9,388,974	—
Excess of fair market value of stock dividend over par value . . . . .	—	1,263,422
BALANCE AT END OF YEAR . . . . .	<u>\$18,901,515</u>	<u>\$ 9,508,351</u>
<b>EARNED SURPLUS</b>		
BALANCE AT BEGINNING OF YEAR . . . . .	\$ 7,306,510	\$ 5,054,327
ADD —		
Net income . . . . .	12,105,203	3,641,732
	<u>\$19,411,713</u>	<u>\$ 8,696,059</u>
DEDUCT —		
Cash dividends on preferred shares . . . . .	50,547	49,556
Five per cent common stock dividend, 76,571 shares at fair value of \$17.50 per share . . . . .	—	1,339,993
BALANCE AT END OF YEAR (Note 3) . . . . .	<u>\$19,361,166</u>	<u>\$ 7,306,510</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF FUNDS FOR THE YEARS ENDED DECEMBER 31, 1966 AND 1965



	<u>1966</u>	<u>1965</u>
<b>WORKING CAPITAL AT BEGINNING OF YEAR</b> . . . . .	<b>\$ 9,145,034</b>	<b>\$ 7,706,596</b>
<b>SOURCE OF FUNDS:</b>		
Net income . . . . .	\$12,105,203	\$ 3,641,732
Add (Deduct)—		
Depreciation and amortization provisions . . . . .	7,936,428	6,674,913
Deferred tax provision . . . . .	2,173,000	3,100,000
Gain on retirement of property and equipment . . . . .	(1,488,663)	(159,098)
Accrued interest due after one year . . . . .	—	539,972
Total funds from operations . . . . .	<u>\$20,725,968</u>	<u>\$13,797,519</u>
Proceeds from common stock issued upon exercise of restricted stock options . . . . .	4,851	16,191
Proceeds from retirement of property and equipment . . . . .	<u>4,635,661</u>	<u>350,253</u>
	<u>\$25,366,480</u>	<u>\$14,163,963</u>
<b>FUNDS APPLIED:</b>		
Payments on equipment trust certificates . . . . .	\$ 9,337,918	\$ 6,153,115
Deferred training costs applicable to aircraft . . . . .	1,037,114	1,121,091
Deposits on equipment, net of related indebtedness of \$5,742,926 . . . . .	4,292,216	—
Purchase of property and equipment . . . . .	3,283,442	4,516,845
Lease deposits . . . . .	194,506	615,884
Retirement of preferred shares . . . . .	991,120	—
Cash dividends on preferred shares . . . . .	50,547	49,556
All other, net . . . . .	(134,223)	269,034
	<u>\$19,052,640</u>	<u>\$12,725,525</u>
<b>WORKING CAPITAL AT END OF YEAR</b> . . . . .	<b><u>\$15,458,874</u></b>	<b><u>\$ 9,145,034</u></b>

The accompanying notes are an integral part of these statements.

SUMMARY OF LONG-TERM DEBT DECEMBER 31, 1966 AND 1965

	<u>1966</u>	<u>1965</u>
Debentures (subordinate) —		
Series A — 5½% due 1967 . . . . .	\$ 500,000	\$ 500,000
Series B — 5½% due 1974 . . . . .	—	5,000,000
Series C — 5½% due 1976 . . . . .	—	5,000,000
1959 Equipment Trust Certificates, less current installments —		
Series A — 5½% due 1967-1971 . . . . .	8,589,257	15,364,679
Series B — 5½% due 1967-1969 . . . . .	791,864	2,385,148
1964 Equipment Trust Certificates (Series A — 5½%) due 1967-1971, less current installments . . . . .	2,921,098	2,921,153
5½% Promissory Note, due 1968-1971 . . . . .	1,106,685	1,627,500
1965 Equipment Trust Certificates, less current installments		
Series A — 5¼%, due 1967-1971 . . . . .	5,375,000	6,340,000
Series B — 5¾%, due 1971-1975 . . . . .	6,340,000	6,340,000
5½% Construction Loan (subordinated) due 1968-1969 . . . . .	3,500,000	2,676,000
Equipment Purchase Notes (subordinated), prime interest rate plus ½ per cent, due upon delivery of equipment . . . . .	5,742,926	—
Total (Note 2) . . . . .	<u>\$34,866,830</u>	<u>\$48,154,480</u>

The accompanying notes are an integral part of this summary.

## NOTES TO FINANCIAL STATEMENTS

### (1) LEASE AND PURCHASE COMMITMENTS—

At December 31, 1966, the Company had long-term leases on real property, aircraft and engines for which annual rentals will be approximately \$6,200,000 in 1967, including one additional Boeing 707 accepted on February 8, 1967, and total rentals will aggregate approximately \$33,600,000 for the minimum lease periods. The minimum lease periods range from four years on aircraft to 33 years on real property. There are renewal and purchase options on the aircraft and engines.

During 1966, the Company entered into purchase agreements to acquire 10 DC8-63F aircraft, engines, etc. with deliveries commencing in 1968 for an aggregate cost of approximately \$100,000,000.

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

On February 9, 1967, the Board of Directors approved a two-for-one common stock split, the additional shares to be distributed to the stockholders of record on February 28, 1967. The par value of the additional shares issuable will be charged to capital surplus. The shares and per share amounts below have been adjusted to give effect to the stock split.

At December 31, 1966, 85,106 common shares were reserved for conversion of debentures and 290,908 shares for stock options.

At December 31, 1966, there were outstanding options to officers for purchase of 13,670 shares of common stock at \$3.90 a share granted in 1960 (exercisable to 1968) and 128,000 shares granted at \$20.06 in 1966 (exercisable in 1968-1971).

The Series A debentures (subordinate) are redeemable at a premium of 10 per cent, and currently are convertible into common shares at \$5.875 a share until June 27, 1967.

The 5½ per cent Construction Loan is secured by certain equipment in addition to the general offices and maintenance facilities, and the 5½ per cent Promissory Note is secured by a chattel mortgage on 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 these provisions, earned surplus at December 31, 1966 available for the

payment of cash dividends on common shares is approximately \$6,400,000. The equipment purchase commitments summarized in Note (1) exceed the restrictive provisions for capital expenditures under certain of the agreements.

### (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 1966 provision includes \$5,377,000 currently payable, which has been reduced by \$1,817,000 investment tax credit.

### (5) PENSION PLANS—

As of December 31, 1966, the unfunded liability for past service benefits under various pension plans was approximately \$1,935,000. Past service benefits are being provided for over a 20-year period.

The total cost of the pension plans for 1966 was approximately \$786,000, including \$72,000 for past service benefits.

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, 1966 and 1965, 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, 1966 and 1965, 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 15, 1967

## 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

Laurence C. Craigie ..... Lockheed Aircraft Corporation,  
Burbank

Myer Feldman ..... Ginsburg & Feldman, Washington, D. C.

Charles Luckman ..... Charles Luckman Associates,  
Los Angeles

Norman L. Meyers ..... Meyers & Dryer, Washington, D. C.

Robert W. Prescott ..... President

Houston Rehrig ..... President, Lady's Choice Foods  
Los Angeles

Clarence A. Shoop ..... Vice President, Hughes Aircraft Co.,  
Culver City

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

## OFFICERS OF THE COMPANY

Robert W. Prescott ..... *President*

Fred Benninger ..... *Executive Vice President—Treasurer*

Peter T. Albert ..... *Vice President—Marketing*

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

George T. Cussen ..... *Vice President—Public Affairs*

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

Howard M. Jones ..... *Vice President—Industrial Relations*

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

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

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

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

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

Dwight D. Christy, Jr. .... *Assistant Secretary*

Myer Feldman ..... *Assistant Secretary*

Norman L. Meyers ..... *Assistant Secretary*

## GENERAL COUNSEL

Ginsburg & Feldman  
1700 Pennsylvania Avenue, N.W., Washington, D. C. 20006

## AUDITORS

Arthur Andersen & Co.  
1320 West Third Street, Los Angeles, California 90017

## EXECUTIVE OFFICES

7401 World Way West, International Airport  
Los Angeles, California 90009

## DOMESTIC SALES OFFICES

ATLANTA, GEORGIA  
1001 Virginia Ave.  
Hapeville, Georgia  
766-2704

BINGHAMTON, NEW YORK  
Broome County Airport  
729-1591

BOSTON, MASSACHUSETTS  
Logan International Airport  
567-6161

BUFFALO, NEW YORK  
81 Botsford St.  
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 International 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  
No. 16, Cargo Terminal  
Kai Tak Airport  
820211, Ext. 7241

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  
Suite 475  
Hotel New Japan  
581-5511, Ext. 8475

