

ANNUAL REPORT FOR 1963



# THE FLYING TIGER LINE INC. ANNUAL REPORT

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*Flying Tiger's CL-44's are the backbone of the airline's trans-Pacific charter operations for the Military Air Transport Service. This unusual scene shows three of the big ships at Okinawa, major U. S. military base in the Far East. Military cargo is being unloaded from the two in the foreground while a third in the background is being serviced for a return flight to the United States.*

## 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—Operations
GEORGE T. CUSSEN . . . . .	Vice-President
JOSEPH J. HEALY . . . . .	Vice-President—Eastern Region
L. S. KIMBALL . . . . .	Vice-President—Public Relations
JAMES McLACHLAN, JR. . . . .	Vice-President—Maintenance
GEORGE S. OBERDORF . . . . .	Vice-President—Assistant to the President
O. R. BURGHARDT . . . . .	Secretary and Assistant Treasurer
NORMAN L. MEYERS . . . . .	Assistant Secretary
RALPH B. STUMP . . . . .	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 . . . . .	Vice-President, E. W. Axe & Co., Inc., New York
FRED BENNINGER . . . . .	Executive Vice-President-Treasurer
ALLEN T. CHASE . . . . .	President, Standardized Aircraft, Inc., Los Angeles
JOHN C. COSGROVE . . . . .	Executive Vice-President, Marsh & McLennan-Cosgrove & Co., Los Angeles
LAURENCE C. CRAIGIE . . . . .	Vice-President, American Machine & Foundry Co.
BORIS GRESOV . . . . .	Chairman, Standard Metals Corp., President, Excelstior Fund, Inc.
ARTHUR G. LINKLETTER . . . . .	Guedel-Linkletter Productions, Los Angeles
CHARLES LUCKMAN . . . . .	Charles Luckman Associates, Los Angeles
NORMAN L. MEYERS . . . . .	Meyers & Batzell, Washington, D.C.
ROBERT W. PRESCOTT . . . . .	President
HOUSTON REHRIG . . . . .	President, Rehrig Pacific Co., 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 15, N. Y.

BANK OF AMERICA  
660 South Spring Street  
Los Angeles 54, California

## REGISTRARS

THE BANK OF NEW YORK  
48 Wall Street  
New York 15, N. Y.

CITIZENS NATIONAL TRUST & SAVINGS BANK  
457 South Spring Street  
Los Angeles 54, California

## GENERAL COUNSEL

MEYERS & BATZELL  
Shoreham Building  
Washington 5, D. C.

## AUDITORS

ARTHUR ANDERSEN & Co.  
1320 West Third Street  
Los Angeles 17, California

## EXECUTIVE OFFICES

LOCKHEED AIR TERMINAL  
Burbank, California

## TO OUR STOCKHOLDERS:

ALTHOUGH YOUR COMPANY, in the year 1963, suffered a substantial decrease in gross revenues, and as a result of such decrease in revenues earned substantially less net income in comparison to 1962, the Company nevertheless has made substantial gains in its efforts to diversify its sources of revenues, increase its operating efficiency, and remain a financially strong and healthy Company.



### NET INCOME

NET INCOME, including special items, for the year ended December 31, 1963 was \$113,226, compared to \$2,810,931 for the year ended December 31, 1962. This represents earnings of \$.04 per share on 1,514,848 shares of common stock outstanding as an average during the year of 1963, and after providing for the dividend on the preferred shares outstanding.

The drop in earnings experienced during 1963 can be attributed completely to the drop in gross revenues. Over-all revenues of the Company for 1963 were \$42,200,000 compared to \$52,200,000 in the year 1962. Although commercial business increased by almost \$1,000,000 during 1963, revenues earned by the Company from business done with the Military Air Transport Service (MATS) decreased almost \$11 million during this period.

Since our costs of operations are to a great extent fixed costs that cannot be reduced to coincide with "peaks and valleys" of revenue earned, a sharp

drop in the over-all revenue of the Company causes a drop in earnings in almost the same proportion as the decrease in revenues. Although interest expense declined from \$2,792,175 in 1962 to \$2,425,034 in 1963, depreciation and amortization expense in 1963 amounted to \$6,661,067 compared to \$6,300,933 in 1962.

The Company suffered the largest part of the decrease in gross revenues during the first quarter of 1963. This was due to the substantial curtailment of military business which resulted from the heavy military expenditures made during the last quarter of 1962 as a result of the Cuban crisis.

Although the cash flow of the Company during 1963 totaled only \$6,897,293, or \$4.55 per share of common stock, compared to \$12,156,865, or \$8.12 per share for 1962, the cash flow in 1963 nevertheless was adequate to service the debt of the Company, and preserve the financial strength of the Company.

## FINANCIAL POSITION

INCLUDED IN THE FINANCIAL section of this report is a schedule reflecting the changes in the working capital of the Company. Our cash profit from operations during 1963 was \$6,444,910, and the current ratio at December 31, 1963 was 1.57 to 1.00 as compared to the current ratio of 1.69 to 1.00 as of the same date a year ago.

During the year the Company reduced its Equipment Trust Certificates obligations by \$5,704,382, leaving a balance due of \$31,421,902, of which \$5,904,298 is due in 1964 and the balance during

the years 1965 through 1969.

Common shares outstanding increased from 1,424,990 shares as of December 31, 1962 to 1,528,924 shares at December 31, 1963 due to the issuance of 71,249 shares as a 5% stock dividend to stockholders of record January 2, 1963, and the issuance of 32,685 shares as a result of the exercise of stock options by key employees of the Company.

The following schedule summarizes the changes in the capital structure of the Company during 1963.

	<i>Preferred Shares</i>	<i>Common Shares</i>	<i>Capital Surplus</i>	<i>Earned Surplus</i>	<i>Total Stockholders' Equity</i>
Balances, January 1, 1963.....	\$991,120	\$1,424,990	\$7,002,801	\$4,616,790	\$14,035,701
Net (loss) and special items for the year.....				113,226	113,226
Cash dividend on preferred shares—\$.50 per share.....				(49,556)	(49,556)
5% stock dividend.....		71,249	1,006,036	(1,077,285)	—
Issuance of 32,685 common shares under stock options.....		32,685	219,317		252,002
Balances, December 31, 1963.....	\$991,120	\$1,528,924	\$8,228,154	\$3,603,175	\$14,351,373

With the present fleet of CL-44D turboprop aircraft, the Company at this time cannot foresee any immediate requirements for additional aircraft and therefore can foresee during the next few years a gradual reduction in interest expense and other operational costs as the efficiencies of the aircraft continue to increase. We constantly study and evaluate new aircraft that are either

being manufactured or designed for future production, in an effort to acquire aircraft that are suitable for all-cargo operation, and will reduce the operational cost per ton mile below the costs of the Company's present aircraft. We foresee nothing in the future which would make our present aircraft obsolete from an economic standpoint.

## AIR CARGO

THE YEAR OF 1963 reflected a reversal of the previous years' trend of decrease in the revenues from domestic air cargo operations. Our revenues from this source during 1963 were \$10,918,796, compared to \$10,259,168, an increase of approximately 6½% in spite of a substantial increase in competition by our competitors through the introduction of all-cargo jet equipment. Revenue ton miles carried increased from 74,196,841 in 1962 to 78,300,423 in 1963.

During the year of 1962 we introduced several new programs for the purpose of increasing the volume of air cargo now being carried. The Skyroad program inaugurated in the last quarter of 1962 has gradually been accepted by the shipper as an acceptable and economic method of shipping airfreight to off-line points within the United States. This program was designed to inaugurate integrated transportation by the joint use of air and truck to more than 1800 cities throughout the

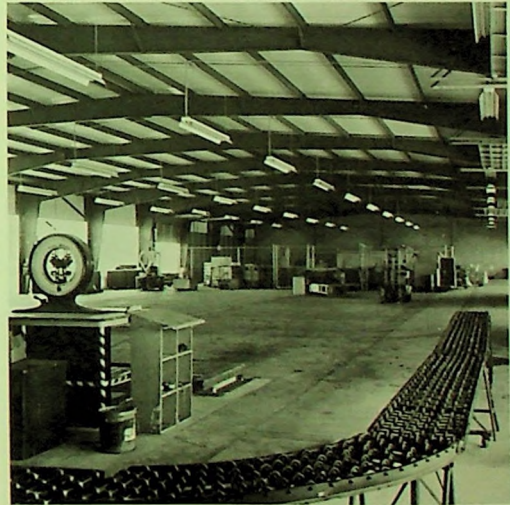
United States not served direct by air. We anticipate that better than 10% of our air cargo revenue will be derived from this source in 1964.

In our previous reports we commented upon our pioneering efforts in providing a steamship-air transportation service for high value goods originating in the Orient destined for major cities on the East Coast of the United States which was accomplished through our participation as a member of the Pacific Steamship Conference. Although this program has been copied by our competitors, our revenue from this program during 1963 has been satisfactory, and we anticipate that it will double during 1964 as more shippers become aware of the economies of this service.

During 1963 we entered into a joint rail-air-freight service agreement with The New York Central Railroad, offering joint rail-air service to 33 communities served by The New York Central Railroad. Although this service became effective



Part of a planeload of premium china for big chain store promotion is unloaded from Flying Tiger swingtail CL-44.



Interior view of Flying Tiger's new 300-foot long Los Angeles terminal, newest freight facility on the airline. Freight is transferred from trucks through doors on right to the metal conveyor system in foreground, weighed and then segregated on warehouse floor in background or moved directly on to the aircraft through freight bay doors on left.

only during the last quarter of 1963, indications are that the service will be attractive to many shippers and that the program will be a success.

With the advent of steady increases in surface parcel post rates during the last few years, and the decline in service, the Company inaugurated a pilot program during 1963 testing the economic feasibility of carrying surface parcel post packages via air at surface parcel post rates. The program, labeled "Parcel Post-By-Air" was designed to transport via airfreight the packages and small shipments usually transported via the U. S. Post Office from the West Coast of the United States to practically all cities east of Kansas City according to the rules and charges normally made by the U. S. Post Office, but the in-transit time being reduced considerably through the use of airfreight instead of rail transportation.

The initial limited pilot program conducted by the Company during the year 1963 was so successful and economical to large U. S. parcel post ship-

pers, that the Company in the last quarter of 1963 extended the pilot program to a full and regular transcontinental service in both directions. We are highly optimistic of the future potential revenues from this program, and it is our hope that this service will ultimately convince the U. S. Post Office that it is economically feasible for the Post Office to use airfreight for the transportation of all surface parcel post throughout the United States, even at the present surface parcel post rate.

We have repeatedly during the past five years proposed that the U. S. Post Office use airfreight instead of rail transportation for surface parcel post. It has been the Company's contention that (i) the public is entitled to the faster means of transportation at the price the public is presently paying for surface parcel post, (ii) many countries throughout the world have been providing such service for many years, and (iii) the present surface parcel post rates are adequate to pay for air transportation and the handling costs of the U. S.



*Part of a planeload of compact cars is rolled directly from truck carry-all into CL-44 cargo hold.*



*With this electrically-powered winch, secured to the aircraft floor, a huge airplane engine is quickly and smoothly pulled into tie-down position aboard a Tiger airfreighter. Such equipment greatly expedites loading of heavy freight, a specialty of Tiger service.*

Post Office for such traffic. Our Parcel Post-By-Air program represents concrete proof of the feasibility of such changeover of service by the U. S. Post Office.

The U. S. Government has for many years contracted with private air carriers for the transportation of military cargo between military bases and depots located throughout the United States. It has been the Company's endeavor to convince the government to transport such materiel via common carriage, utilizing the all-cargo carriers certificated in such areas, thereby permitting the government the maximum flexibility, reducing their cost of transportation and improving the service through the use of modern and faster aircraft. This program has finally been accepted by the government on a limited basis and will be inaugurated on an experimental basis beginning in 1964.

Although your Company has pioneered and introduced many new programs in an attempt to increase the volume of air cargo, the Company has

not always been successful in securing the necessary Civil Aeronautics Board authority for the introduction of all the programs the Company originated.

During 1963 the Company signed an agreement with the Railway Express Agency wherein this Agency would have used air transportation in lieu of rail transportation for the transcontinental shipment of Railway Express freight. It was our belief that this agreement would have been beneficial to both your Company and the Railway Express Agency, converting a large volume of surface cargo to air cargo. Unfortunately, the Civil Aeronautics Board did not approve the agreement and the Company was not able to introduce the program.

Nevertheless, we feel confident that our volume of air cargo will increase during the year 1964 as we continue to provide a better and more reliable air cargo service, and as the various programs we have introduced are exploited and developed.



*Big size freight like this part of a Polaris missile is made to order for Flying Tiger's CL-44, the only commercial aircraft which can handle such shipments.*



*Rigging crane is used to load part of a 57,000-pound General Electric turbine shipment, largest ever flown, for the Southern California Edison Co., aboard CL-44 at Newark. No other type of airfreighter could have handled such a shipment.*

## MILITARY CONTRACTS

REVENUES from the Military Air Transport Service (MATS) are subject to extreme fluctuations caused to a large extent by political and military situations throughout the world. Our gross revenues from MATS business during 1963 amounted to \$27,465,723 compared to \$38,394,750 during 1962. The Company has a basic annual contract with MATS to provide air transportation services for personnel and cargo from the West Coast of the United States to various military bases throughout the Pacific area. This basic contract is subject to expansion by MATS as the need for such expansion arises on a day-by-day basis.

Although the volume of traffic on the basic contract for the year of 1963 only decreased slightly from 1962, the volume of expansion business required and contracted for by MATS during 1963 decreased in excess of \$10 million. Most of this decrease in volume was experienced during the first quarter of 1963 caused by an unusually heavy curtailment of military expenditures in an effort to offset the heavy military expenditures during the last quarter of 1962, caused by the Cuban crisis.



French Army delegation is welcomed at Los Angeles on national tour of U. S. military installations. Flying Tiger was chosen to fly this important charter for the U. S. Government.



Members of the Mother Seton Guild, 160 strong, board a Tiger CL-44 at New York for their 200th trip to Rome to participate in beatification rites of the religious order.

## PASSENGER CHARTERS

ALTHOUGH THE COMPANY has been engaged in extensive international passenger charters since 1948, such charters were operated under special exemptions issued by the Civil Aeronautics Board. It was not until the latter part of 1962 that the United States Congress gave the Company the right to engage in domestic and international passenger charters without the necessity of special Civil Aeronautics Board exemptions. Our revenue from domestic passenger charters during 1962 was only \$60,000. However, with the inauguration of an extensive sales program during 1963, the revenue from this source of business has increased to an amount in excess of \$1 million and it is our estimate that the revenue will double for the year 1964.

Revenues from international passenger charters always have been an important segment of our business, and have contributed substantially to the gross revenues and profits of the Company.



University of Nebraska alumni living in California board a Flying Tiger charter at Los Angeles to fly to Lincoln for the annual homecoming football game. This is a typical use made of Tiger aircraft in 1963, when the airline acquired rights to fly passengers on charters within the United States.

It permits the Company to equalize the "peaks and valleys" of both the military contract business, as well as the domestic air cargo business, thereby enabling better utilization of equipment and facilities throughout the year.

In previous years, most of the international passenger charters represented tourist, student and teacher groups traveling across the North Atlantic to European countries. However, we have been aware that with the introduction of economic and reasonable rates across the Pacific, a new passenger charter market is rapidly developing for group travel to the Orient. As a consequence, we have stressed our sales program towards the increasing Far Eastern group travel, and as a result, 1964 will be the first year in which the Company will have extensive passenger charters across both oceans.

#### OUR FLEET

AT DECEMBER 31, 1963, the Company's aircraft fleet consisted of ten Canadair CL-44D turboprop aircraft and nine 1049H Super Constellation aircraft. In addition, the Company is leasing two 1049H Super Constellation aircraft on a temporary basis.

During the year of 1963 the Company sold one 1049H Super Constellation aircraft and rebuilt two 1049H aircraft principally from parts owned by the Company.

As of December 31, 1963, the 1049H Super Constellation aircraft and spares are on the books of the Company at almost the residual value for such aircraft.

#### DIVIDENDS

AS PREVIOUSLY MENTIONED, a 5% common stock dividend was paid February 15, 1963 to common shareholders of record on January 2, 1963. The net book value of the Company's common stock at December 31, 1963 was \$8.74 on the 1,528,924 shares outstanding.

Regular semi-annual dividends, totaling \$.50 per share, were paid in 1963 on preferred shares outstanding.

Stock dividends paid from inception of the Company through December 31, 1963 amounted

to 20% in common stock, and an additional payment of 99,112 shares of \$10 par value preferred stock, for a total of \$3,798,086 charged to earned surplus for stock dividends.

#### LABOR RELATIONS

DURING 1963 the Company's labor relations continued to be harmonious and extremely satisfactory.

The Company has negotiated a three year contract with its flight attendants and a five year contract with the navigators.

A Retirement Benefit Plan for nonflight employees was placed in effect as of January 1, 1963 requiring contributions by both the Company and the employees.

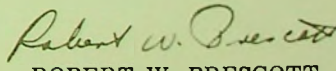
#### SUMMARY

FROM AN EARNINGS STANDPOINT, the year 1963 has been disappointing compared to 1962. However, the Company is in a strong financial position. It was able to diversify to a certain extent its sources of revenue by increasing its percentage of commercial business in relation to its government military volume, and it was able to recover from the operating losses suffered during the first quarter of 1963.

We have made great strides to improve our operating efficiency, thereby lowering our operating costs for the benefit of our customers, employees and investors.

We express our thanks for the confidence and help we have received from our employees, stockholders and customers during 1963, and we will continue to strive in the coming year to offer a more consistent and better service at a fair and competitive price.

By Order of the Board of Directors

  
ROBERT W. PRESCOTT  
President

Burbank, California  
March 16, 1964

BALANCE SHEETS *December 31, 1963 and 1962*

ASSETS

	<u>1963</u>	<u>1962</u>
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash, including \$6,100,000 certificates of deposit at December 31, 1963	\$ 8,829,068	\$10,442,671
Receivables—		
Freight customers . . . . .	1,477,941	1,406,091
Charters, service sales, etc.—		
United States Government . . . . .	1,953,382	2,247,234
Other . . . . .	1,002,777	1,337,676
Reserve for bad debt losses . . . . .	(123,000)	(100,000)
Materials and supplies, at average cost . . . . .	1,812,199	1,568,144
Prepaid insurance, rents, etc. . . . .	463,593	725,960
Prepaid engine overhaul cost (net) . . . . .	1,300,720	963,722
	<u>\$16,716,680</u>	<u>\$18,591,498</u>
PROPERTY AND EQUIPMENT (Note 1):		
Cost—		
Aircraft, engines and other flight equipment . . . . .	\$70,824,511	\$71,353,967
Other equipment . . . . .	1,938,177	1,601,971
Land and buildings . . . . .	1,467,708	1,263,946
	<u>\$74,230,396</u>	<u>\$74,219,884</u>
Less—Reserves for depreciation . . . . .	28,324,386	24,231,805
	<u>\$45,906,010</u>	<u>\$49,988,079</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expense . . . . .	\$ 770,958	\$ 1,083,164
Long-term prepayments, etc. . . . .	249,834	225,567
Training and other costs applicable to CL-44D aircraft, being amortized over a ten-year period . . . . .	2,447,295	2,773,601
	<u>\$ 3,468,087</u>	<u>\$ 4,082,332</u>
	<u>\$66,090,777</u>	<u>\$72,661,909</u>

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

BALANCE SHEETS *December 31, 1963 and 1962*

LIABILITIES

	1963	1962
<b>CURRENT LIABILITIES:</b>		
Current installments of equipment purchase obligations .....	\$ 5,904,298	\$ 5,712,989
Accounts payable and accrued liabilities .....	3,987,557	4,599,638
Reserve for vacations .....	572,343	577,851
Advance charter deposits .....	216,926	103,076
Total current liabilities .....	<u>\$10,681,124</u>	<u>\$10,993,554</u>
<b>LONG-TERM DEBT—(Notes 2, 3 and 4):</b>		
Debentures (subordinate)—		
Series A—5½% due 1967 .....	\$ 500,000	\$ 500,000
Series B—5½% due 1974 .....	5,000,000	5,000,000
Equipment trust certificates due 1964-1969, less current installments		
Series A—5½% .....	20,214,687	25,182,994
Series B—5½% .....	5,302,917	6,761,802
5½% promissory note (subordinated) due 1976 .....	5,000,000	5,000,000
Other .....	—	340,293
	<u>\$36,017,604</u>	<u>\$42,785,089</u>
<b>DEFERRED CREDITS:</b>		
Deferred income taxes (Note 5) .....	\$ 4,838,436	\$ 4,715,436
Deferred income, etc. ....	202,240	132,129
	<u>\$ 5,040,676</u>	<u>\$ 4,847,565</u>
<b>CAPITAL STOCK AND SURPLUS:</b>		
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, 1,528,924 shares (1963) and		
1,424,990 shares (1962) .....	1,528,924	1,424,990
Capital surplus .....	8,228,154	7,002,801
Earned surplus (Note 4) .....	3,603,175	4,616,790
	<u>\$14,351,373</u>	<u>\$14,035,701</u>
	<u>\$66,090,777</u>	<u>\$72,661,909</u>

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

STATEMENTS OF INCOME  
for the years ended December 31, 1963 and 1962

	1963	1962
<b>OPERATING REVENUES:</b>		
Scheduled freight operations.....	\$10,918,796	\$10,259,168
Military Air Transport Service.....	27,465,723	38,394,750
Charters, service sales, etc.....	3,825,347	3,609,143
	\$42,209,866	\$52,263,061
<b>OPERATING EXPENSES:</b>		
Flying operations.....	\$14,187,489	\$16,740,263
Ground operations.....	5,215,657	5,619,582
Maintenance.....	10,913,683	12,535,648
Sales, advertising and publicity.....	1,788,208	1,845,291
General and administrative.....	2,154,043	1,823,641
Depreciation and amortization.....	6,186,212	5,961,544
	\$40,445,292	\$44,525,969
Net income from operations.....	\$ 1,764,574	\$ 7,737,092
<b>OTHER EXPENSE:</b>		
Interest expense.....	\$ 2,425,034	\$ 2,792,175
Miscellaneous (net).....	(234,326)	85,111
	\$ 2,190,708	\$ 2,877,286
Net income (loss) before provision (credit) for Federal income taxes.....	\$ (426,134)	\$ 4,859,806
<b>PROVISION (CREDIT) FOR FEDERAL INCOME TAXES (Note 5).....</b>	<b>(222,000)</b>	<b>2,527,000</b>
Net income (loss).....	\$ (204,134)	\$ 2,332,806
<b>SPECIAL ITEMS:</b>		
Gain on foreign exchange contracts (\$362,360) and adjustment of prior period maintenance expense (\$300,000), less applicable provision of \$345,000 for deferred Federal income taxes.....	317,360	—
Adjustment on aircraft destroyed, less applicable pro- vision of \$518,000 for deferred Federal income taxes.....	—	478,125
Net income (loss) and special items.....	\$ 113,226	\$ 2,810,931

The accompanying notes are an integral part of these statements.

STATEMENTS OF SURPLUS  
for the years ended December 31, 1963 and 1962

CAPITAL SURPLUS

	<u>1963</u>	<u>1962</u>
BALANCE AT BEGINNING OF YEAR.....	\$7,002,801	\$6,982,921
ADD—Excess of proceeds over par value of 32,685 and 2,800 common shares, in respective years, issued under stock options.....	219,317	19,880
Excess of fair market value of stock dividend over par value.....	1,006,036	—
BALANCE AT END OF YEAR.....	<u>\$8,228,154</u>	<u>\$7,002,801</u>

EARNED SURPLUS

BALANCE AT BEGINNING OF YEAR.....	\$4,616,790	\$1,855,415
ADD—		
Net income (loss).....	(204,134)	2,332,806
Special items.....	317,360	478,125
	<u>\$4,730,016</u>	<u>\$4,666,346</u>
DEDUCT—		
Cash dividends on preferred shares—\$.50 per share.....	49,556	49,556
Five per cent common stock dividend, 71,249 shares at fair value of \$15.12 per share.....	1,077,285	—
BALANCE AT END OF YEAR (Note 4).....	<u>\$3,603,175</u>	<u>\$4,616,790</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF SOURCE AND APPLICATION OF FUNDS  
for the years ended December 31, 1963 and 1962

	1963	1962
WORKING CAPITAL AT BEGINNING OF YEAR.....	\$7,597,944	\$ 1,404,069
SOURCE OF FUNDS:		
Net income and special items.....	\$ 113,226	\$ 2,810,931
Add (Deduct)—		
Depreciation and amortization provisions.....	6,661,067	6,561,339
Deferred tax provision.....	123,000	3,045,000
(Gain) loss on retirement of property and equipment.....	79,117	(930,974)
(Gain) on exchange applicable to long-term debt.....	(531,500)	—
Total funds from operations.....	\$6,444,910	\$11,486,296
Proceeds from 32,685 shares and 2,800 shares, respectively, of common stock issued upon exercise of restricted stock options..	252,001	22,680
Proceeds from sale of property and equipment.....	429,606	81,847
Proceeds from insurance on aircraft.....	—	2,919,254
	\$7,126,517	\$14,510,077
FUNDS APPLIED:		
Payments on long-term debt—		
Equipment trust certificates.....	\$5,704,382	\$ 2,235,302
Bank loans (exclusive of current portion).....	—	3,902,490
Other.....	392,293	13,750
Purchase of property and equipment less related debt.....	2,364,309	1,394,679
Cash dividends on preferred shares.....	49,556	49,556
Deferred training and other costs applicable to CL-44D aircraft.....	—	725,473
All other.....	178,365	(5,048)
	\$8,688,905	\$ 8,316,202
WORKING CAPITAL AT END OF YEAR.....	\$6,035,556	\$ 7,597,944

NOTES TO FINANCIAL STATEMENTS *December 31, 1963*

(1) *Aircraft—*

At December 31, 1963, the Company's fleet consisted of ten Canadair CL-44D turbo-prop aircraft owned, nine 1049H Super Constellation aircraft owned and two 1049H Super Constellation aircraft under contract.

Under the contract covering the use of the two 1049H aircraft, the Company makes payments based upon flight hours which it charges to rental expense. The contract provides that the Company may return the aircraft at any time without further obligation, and also that it may acquire title to the aircraft upon the payment of amounts which at December 31, 1963 would have aggregated approximately \$482,000 for the two aircraft.

(2) *Equipment purchase obligation and lease commitments—*

The Series A equipment trust certificates are payable in Canadian dollars (\$29,600,831 less future interest \$3,690,421) and at December 31, 1963, 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 through December 31, 1965. Exchange adjustments applicable to payments on the indebtedness subsequent to December 31, 1962, have been recognized as miscellaneous income.

The Company has long-term leases on airport facilities and equipment requiring annual payments of approximately \$255,000 and aggregating \$4,530,000 for the remaining lease periods.

(3) *Capital stock and subordinated debt—*

At December 31, 1963, 346,892 common shares were reserved for conversion of debentures, 275,634 shares for conversion of 5½ per cent promissory note, and 26,815 shares for stock options.

The Series A and Series B debentures (subordinate) are redeemable at a premium of 10 per cent, and currently are convertible into common shares until June 27, 1967, at \$12.34 a share for the Series A debentures, and until June 27, 1969, at \$16.32 a share for the Series B debentures. The 5½ per cent promissory note (subordinated) is convertible into common shares at \$18.14 a share until December 1, 1971, and at \$22.68 thereafter until June 1, 1976.

At December 31, 1963, there were outstanding options to key employees for purchase of 14,040 shares of common stock at \$7.71 a share granted during 1956-1958 and exercisable to 1964, and for 6,510 shares at \$8.20 a share granted November 21, 1960 and exercisable 1965-1968.

(4) *Restrictions under debt agreements—*

The equipment trust agreement and other debt agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowing, capital expenditures, etc. Under these provisions, the earned surplus at December 31, 1963 is restricted against the payment of cash dividends on common shares.

(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—*

In June, 1963, the pension plan for pilots was amended to provide past service benefits. As of December 31, 1963, the unfunded liability for such past service benefits was approximately \$776,000, which is being provided over a twenty-year period. Pension plans applicable to current service were also adopted during the year covering certain employees not previously covered by the pension plan for pilots. The cost of these pension plans was approximately \$328,000 for 1963 including provisions for funding past service benefits for pilots. No contributions were made to the Company's profit-sharing and retirement plan which was abandoned during 1963.

ARTHUR ANDERSEN & CO.  
ACCOUNTANTS AND AUDITORS

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, 1963 and 1962, and the related statements of income, surplus, and source and application of 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. It was not practicable to confirm accounts receivable from the United States Government, but we satisfied ourselves as to such accounts by other auditing procedures.

In our opinion, the accompanying balance sheets and statements of income, surplus, and source and application of funds present fairly the financial position of The Flying Tiger Line Inc., as of December 31, 1963 and 1962, and the results of its operations and changes in working capital for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Los Angeles, California,  
March 3, 1964

## SALES OFFICES

### FLYING TIGER AIRFREIGHT ROUTE No. 100

BINGHAMTON, N. Y.  
Broome County Airport  
Raymond 9-1591

BOSTON, MASS.  
Logan International Airport  
Logan 7-6161

CHICAGO, ILL.  
O'Hare Field  
686-7100

CLEVELAND, OHIO  
Cleveland Hopkins Airport  
267-3575

DETROIT, MICH.  
Detroit-Metropolitan Airport  
Logan 2-9700

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

LOS ANGELES, CALIF.  
Los Angeles International Airport  
776-1732

MILWAUKEE, WIS.  
General Mitchell Field  
Humboldt 3-5000

NEWARK, N. J.  
Newark Airport  
Market 4-3700

PHILADELPHIA, PA.  
8000 Penrose Ave.  
Saratoga 6-7100

PORTLAND, ORE.  
International Airport  
Atlantic 1-1158

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

SEATTLE, WASH.  
Seattle-Tacoma International Airport  
Cherry 4-4747

SPRINGFIELD, MASS.  
Bradley Field  
Windsor Locks, Conn.  
Republic 4-5675

### PASSENGER AND FREIGHT CHARTERS

FRANKFURT, GERMANY  
Rhine Main Airport  
Frankfurt/Main  
Germany  
Tel.: 697244

HONOLULU, HAWAII  
Honolulu International Airport  
Honolulu, Hawaii  
Tel.: 811-835

LONDON, ENGLAND  
168 Regent St.  
London W. 1  
Gerrard 3627

LOS ANGELES, CALIF.  
Los Angeles International Airport  
776-1732

NEW YORK, N. Y.  
John F. Kennedy Airport  
Olympia 6-5157

NEW YORK, N.Y.  
60 East 42nd Street  
Oxford 7-8850

TOKYO, JAPAN  
Bldg. 3865 West  
Tachikawa Air Force Base  
Tachikawa City  
Tokyo, Japan  
22104-22282

### GENERAL SALES OFFICES

Lockheed Air Terminal  
Burbank, California  
Triangle 7-3411

