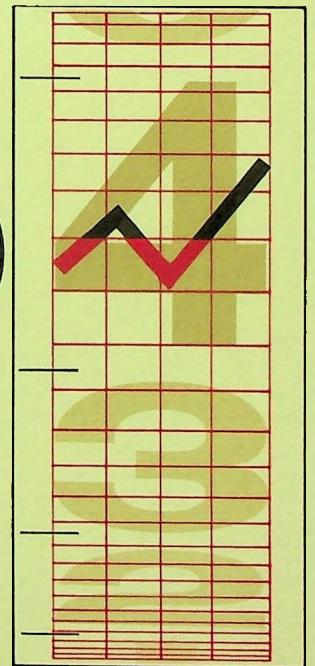




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## OFFICERS OF THE COMPANY

ROBERT W. PRESCOTT	.....	<i>President</i>
FRED BENNINGER	.....	<i>Executive Vice-President-Treasurer</i>
PETER T. ALBERT	.....	<i>Vice-President—Sales</i>
WILLIAM E. BARTLING	.....	<i>Vice-President—Operations</i>
GEORGE T. CUSSEN	.....	<i>Vice-President</i>
JOSEPH J. HEALY	.....	<i>Vice-President—Ground Operations</i>
L. S. KIMBALL	.....	<i>Vice-President—Public Relations</i>
JAMES McLACHLAN, JR.	.....	<i>Vice-President—Maintenance</i>
GEORGE S. OBERDORF	.....	<i>Vice-President—Assistant to the President</i>
O. R. BURGHARDT	.....	<i>Secretary and Assistant Treasurer</i>
NORMAN L. MEYERS	.....	<i>Assistant Secretary</i>

## BOARD OF DIRECTORS

SAMUEL B. MOSHER	.....	<i>Chairman of the Board</i> <i>Chairman of the Board of Signal Oil &amp; Gas Company, Los Angeles</i>
RUTH AXE	.....	<i>Vice-President, E. W. Axe &amp; Co., Inc., New York</i>
FRED BENNINGER	.....	<i>Executive Vice-President-Treasurer</i>
JOHN C. COSGROVE	.....	<i>President</i> <i>Marsh &amp; McLennan, Inc. of California, Southern Division, Los Angeles</i>
LAURENCE C. CRAIGIE	.....	<i>Lockheed Aircraft Co., Burbank</i>
BORIS GRESOV	.....	<i>Chairman, Standard Metals Corp., President,</i> <i>Excelsior Fund, Inc.</i>
ARTHUR G. LINKLETTER	.....	<i>Guedel-Linkletter Productions, Los Angeles</i>
CHARLES LUCKMAN	.....	<i>Charles Luckman Associates, Los Angeles</i>
NORMAN L. MEYERS	.....	<i>Meyers &amp; Batzell, Washington, D.C.</i>
ROBERT W. PRESCOTT	.....	<i>President</i>
HOUSTON REHRIG	.....	<i>President, Rehrig Pacific Co., Los Angeles</i>
JOHN C. TYLER	.....	<i>Co-Chairman of the Board of</i> <i>Farmers Insurance Group, Los Angeles</i>

## 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.  
UNION BANK, 8th and Hill Sts., Los Angeles 54, California

## GENERAL COUNSEL

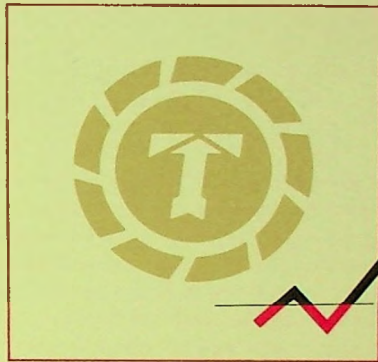
MEYERS & BATZELL, Shoreham Building, Washington 5, D.C.

## AUDITORS

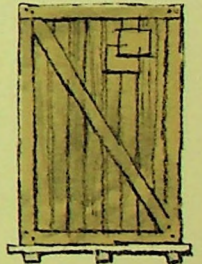
ARTHUR ANDERSEN & CO., 1320 West Third Street, Los Angeles  
17, California

## EXECUTIVE OFFICES

LOCKHEED AIR TERMINAL, Burbank, California



'64



NET INCOME AND SPECIAL ITEMS Net income, including special items, for the year ended December 31, 1964 was \$1,500,708, as compared to \$113,226 for the preceding year. Earnings per share on 1,529,324 shares of common stock outstanding at December 31, 1964 were \$.95 per share.

Operating revenues for 1964 amounted to \$45,468,385, an increase of \$3,258,519 over the \$42,209,866 amount reported for 1963.

Revenues derived from business done with the Military Air Transport Service (MATS) declined approximately \$4,300,000 in the year 1964, whereas revenues from scheduled freight operations and charter operations increased \$2,800,000 and \$4,800,000, respectively, and are commented upon subsequently in this report.

Operating profit for the year ended December 31, 1964 was \$4,004,709 compared to \$1,764,574 for the 1963 year, or

- an increase in
- operating profit
- of \$2,240,135.

# To our Stockholders

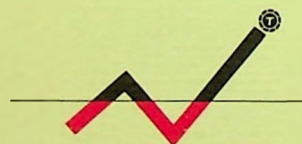
**The year 1964 was a year of growth and prosperity for the Company. The results of efforts to diversify sources of revenue and to improve operating efficiencies have been gratifying and are reflected in the substantial net income and financial strength of the Company.**

This increase in operating profit is significant inasmuch as revenues increased only \$3,258,519. Factors contributing to this improvement in operating profit are (1) reduction in cost per hour to maintain the CL-44D aircraft due to extended periods of time between overhauls of engines, components and airframes and increased efficiency in maintenance, and (2) reduction in depreciation provision as a result of 1049H Super Constellation aircraft reaching residual values during 1964.

In addition to the increase in operating profit, our net income in 1964 was also increased by a drop in interest expense for the second straight year. Interest expense for the year ended December 31, 1964 was \$2,120,286 compared to \$2,425,034 for 1963.

Depreciation and amortization in 1964 amounted to \$6,045,182 compared to \$6,661,067 in 1963. Although the Company is not obligated to pay Federal income taxes due to accelerated depreciation on CL-44D equipment and net operating loss carryover from prior years, \$1,123,000 has been charged against income in 1964 with an offsetting increase in the Reserve for Deferred Federal Income Taxes.

The cash flow of the Company during 1964 totaled \$8,668,890 or \$5.67 per share of common stock outstanding at year-end, compared to \$6,897,293 or \$4.55 per share for 1963. Even though the Company had considerable financial strength at the beginning of the year, it was further improved as a result of 1964 operations.



## HIGHLIGHTS FOR THE YEARS ENDED DECEMBER 31

	1964	1963
Revenues . . . . .	\$45,468,385	\$42,209,866
Net income (loss) and special items . . . . .	\$ 1,500,708	\$ 113,226
Net income (loss) and special items per share of common . . . . .	\$ .95	\$ .04
Special items . . . . .	\$ 199,439	\$ 317,360
Special items per share of common . . . . .	\$ .13	\$ .21
Working capital . . . . .	\$ 7,706,596	\$ 6,035,556
Working capital ratio . . . . .	1.60 to 1.00	1.57 to 1.00
Total assets at end of year . . . . .	\$64,021,388	\$66,090,777
Net worth . . . . .	\$15,805,608	\$14,351,373
Book value per share of common . . . . .	\$9.69	\$8.74
Shares of common outstanding . . . . .	1,529,324	1,528,924
Long-term debt, less current installments . . . . .	\$29,283,388	\$36,017,604
Interest expense . . . . .	\$ 2,120,286	\$ 2,425,034
Cash profit . . . . .	\$ 7,974,369	\$ 6,444,910
Depreciation and amortization . . . . .	\$ 6,045,182	\$ 6,661,067

### FINANCIAL POSITION

As shown in the Statement of Funds in the financial section of this report, the Company's working capital increased from \$6,035,556 at December 31, 1963 to \$7,706,596 at December 31, 1964, an increase of \$1,671,040. The cash profit from 1964 operations was \$7,974,369 and the working capital ratio increased from 1.57 to 1.00 at December 31, 1963 to the ratio of 1.60 to 1.00 at the end of 1964.

Indebtedness on Equipment Trust Certificates was reduced \$6,485,400 during the year 1964, leaving \$24,936,502 owing at December 31, 1964, of which \$6,153,115 is due in 1965.

Book value per share of common stock outstanding increased from \$8.74 at December 31, 1963 to \$9.69 at December 31, 1964.

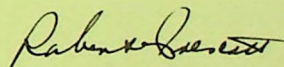
### OUTLOOK

Earnings of the Company for the 1964 year were the second highest in the past nine years and the Company, at December 31, 1964, was in a strong financial position.

We will continue to seek business from whatever sources are available and will continually strive to find methods to improve our efficiency in operations.

Although our participation in the commercial charter business and our blocked-space program have been challenged and no decisions have been reached to date, we intend to defend with vigor our rights to engage in these activities in the future.

We thank our employees, stockholders and customers for their help in making 1964 a successful year and we look optimistically to the future.



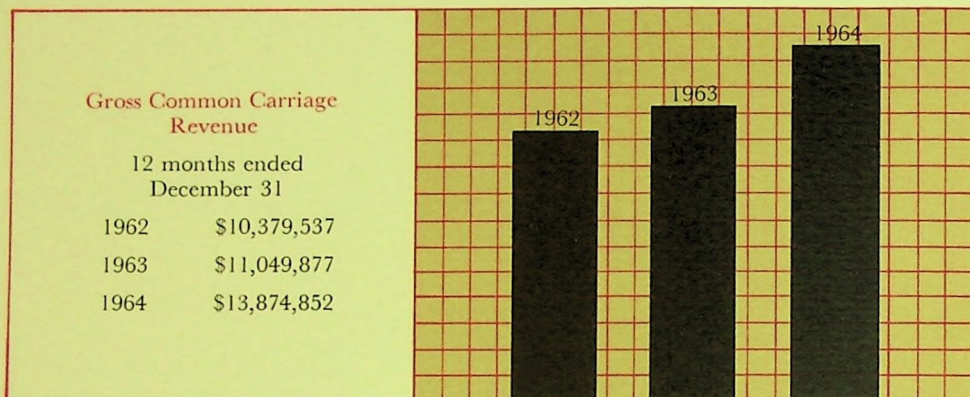
ROBERT W. PRESCOTT  
*President*

March 4, 1965.

Revenues from common carriage freight operations amounted to \$13,707,443 for the year ended December 31, 1964, a 26% increase over the \$10,918,796 reported for the year 1963. Revenue ton miles increased from 78,300,423 in 1963 to 99,489,005 in 1964.

The graph below shows the upward trend which has been experienced in gross common carriage airfreight revenue since 1962. Despite the most competitive situation in many years, the year 1964 was outstanding for the Company.

Several of the new programs introduced in 1962 and 1963 are factors contributing to the increase in common carriage revenue. The Sky-road program provides an economical method of shipping airfreight, by joint



use of air and truck, to more than 1800 cities throughout the United States not served direct by air.

Another program originated in 1962 contributing to the growth of the Company's airfreight business is Sea-Air. As a member of the Pacific Steamship Conference, the Company has derived revenue from the carriage across the United States of high value goods shipped from the Orient by steamship to the West Coast, for transloading on Company aircraft.

The Company introduced a new feature to this program in 1964, called, "Official Export Tariff." It is designed to attract shipments arriving in New York from Europe with West Coast destination, as well as shipments originating in New York for transportation across the United States to West Coast ports for movement to the Orient. Because of the ease and simplicity of format (all expense factors are included in one through rate), the Company expects to attract many shipments which presently are moving by surface transportation in the United States.

To properly service the increase in domestic freight business, additional aircraft were assigned to this phase of the Company's operations in the latter part of the 1964 year. It is the Company's intention to continue providing the required additional aircraft and ground facilities to its domestic airfreight operations in order to give the best service possible to its customers.



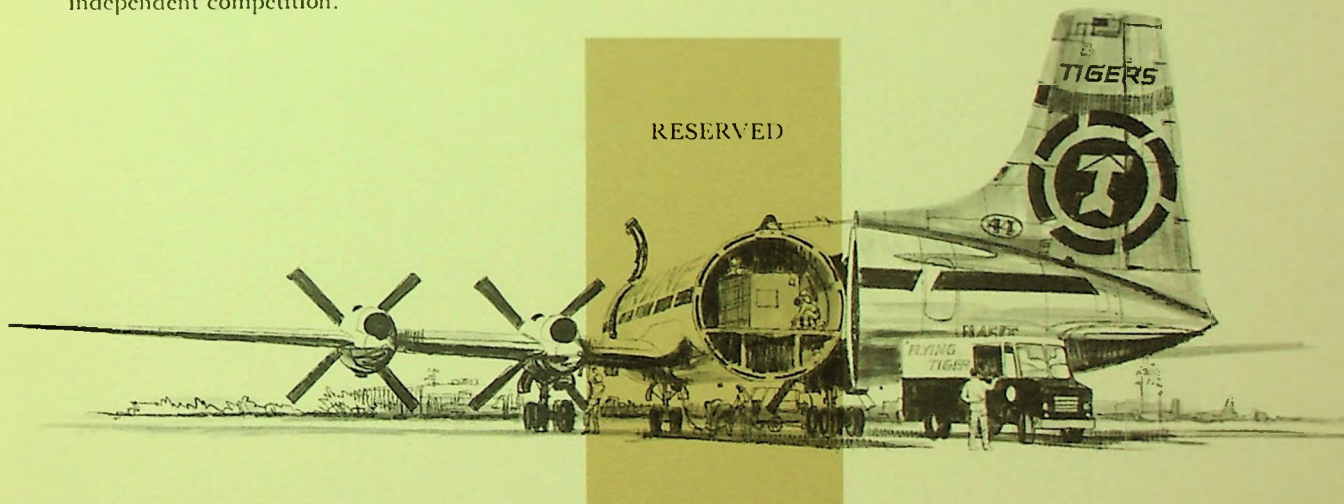
In August 1964, the Civil Aeronautics Board adopted a revision to its rules to provide the all-cargo carriers with exclusive rights to sell "Blocked Space" at wholesale rates to combination passenger and cargo airlines, freight forwarders, and large-volume shippers.

"Blocked Space" is the term designated by the Civil Aeronautics Board for the sale of airfreight in bulk by an all-cargo airline. Under the blocked space arrangement, the shipper must pay for the minimum amount of space for which he has contracted, and the airline guarantees the space.

Your Company filed an initial tariff offering service between New York and San Francisco and between New York and Los Angeles, which the Civil Aeronautics Board accepted in December 1964. Additional tariffs will be filed to expand this service to many more cities.

Certain of the combination passenger lines have questioned the legality of the Civil Aeronautics Board ruling and have filed with the United States District Court for the District of Columbia for a full court hearing on the matter. As of the date of this report, no decision has been rendered by the Court.

An aggressive campaign was conducted in Washington by the Company to center attention on the excessive competition with which the combination carriers have saturated the air cargo field in an obvious attempt to put the all-cargo carriers out of business. Full page advertisements in Washington newspapers plus informative letters to shippers and extensive publicity were used to bring the attention of shippers to the dangerous situation confronting the all-cargo lines. The gist of this campaign was to demonstrate the fact that without the competitive spur of the all-cargo lines, shippers would be at the mercy of the rate policies of the combination carriers. It was pointed out that after the elimination of the independent air coach operators in 1957, combination carriers raised coach rates an average of 80 per cent over the routes where they no longer had independent competition.

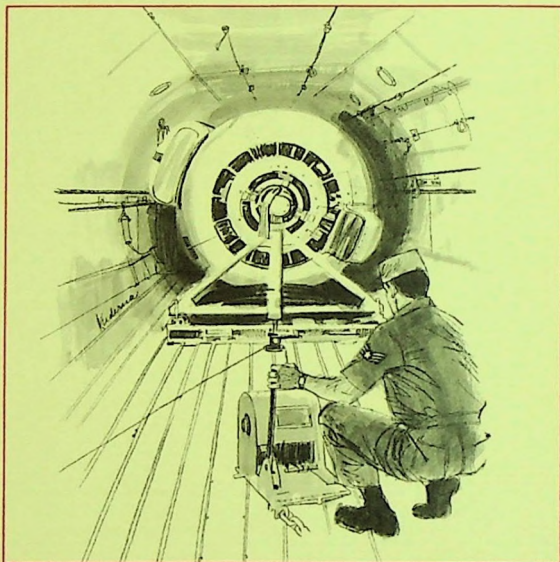


Revenue from business done with the Military Air Transport Service (MATs) amounted to \$23,151,385 in the year ended December 31, 1964. Revenue from this source has declined in the past two years when \$38,394,750 and \$27,465,723 in revenues were reported for the years 1962 and 1963, respectively. The decrease in 1964 MATs revenue was due to (a) reduction in rate and (b) reduction in miles flown.

Rates of return were reduced by MATs as of January 1, 1964 for both cargo and passenger flights and again on July 1, 1964 for cargo flights only. If rates prevailing at December 31, 1963 had continued in effect throughout the year 1964, the Company revenue for business performed for MATs would have been \$24,700,000, or 7% greater than reported.

Inasmuch as military requirements depend to a large extent upon political conditions throughout the world and the volume of revenue fluctuates accordingly, considerable efforts have been made to augment MATs revenue with revenue from commercial sources, resulting in a more stable Company operation.

Revenue from MATs operations in 1962 amounted to 73% of total Company revenue, whereas it decreased in 1963 to 65% and in 1964 to 51% of total Company revenue.



The commercial charter business, both international and domestic, has grown along with the common carriage of airfreight. The resultant increase in revenue from this source in 1964 was substantial. Commercial charter revenues in 1964 amounted to \$7,576,408, compared to \$3,015,255 for the previous year.

In September 1964, the Civil Aeronautics Board amended and re-issued Part 207 of its Economic Regulations. The amendment of this section of the Regulation places restrictions upon the volume of off-route charter business which certificated air carriers can perform, beginning January 1, 1965.

The restriction in the Company's future commercial charter business, as a result of this amendment, would be substantial. Management is of the opinion that the action taken by the Civil Aeronautics Board is invalid and that certain sections of Part 207 of the Board's Economic Regulations are without statutory authority and therefore void. In support of its contention, the Company through its Counsel, filed in the United States District Court for the District of Columbia a Complaint for Declaratory Judgment and Injunction against the Civil Aeronautics Board members. No decision on the matter has been received as of the date of this report.

GROUP CHARTERS: SOCIAL • ETHNIC • ATHLETIC • RELIGIOUS • INDUSTRIAL • EDUCATIONAL & CULTURAL • GOVERNMENTAL

**TIGERS**

CHINESE AMERICAN A.V.C.

DUTCH CLUB N.Y.I.O.

BRITISH TEACHERS ASSOCIATION

NEW ZEALAND MISSIONARY SOCIETY

ATHENS CHAMBER OF COMMERCE & INDUSTRY

COMITE OLIMPICO ARGENTINA

ASSUMPTION GREEK CHURCH

MY SCOTLAND CLUB

GERMAN CLUB OF SANTA MONICA

KOREAN ORPHANS

WORLD FRIENDS ITALIANE

ESTONIAN EDUCATIONAL SOCIETY

V.A.S.A. ORGANIZATION OF AMERICA

CHAMBER OF COMMERCE OF EL SALVADOR

FINLANDIA CLUB

FRENCH FOUNDATION

FINNISH LUTHERAN CHURCH

CENTRAL ESPANOL CULTURAL CLUB

JAPAN SOCIETY

VIENNA UNIVERSITY

BELFAST TRADESMEN SOCIAL CLUB

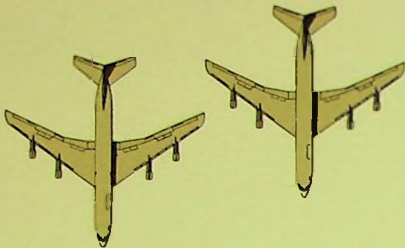
STANISLAUS CHURCH

PHILIPINO STUDENTS

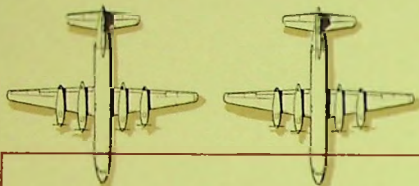
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# OUR FLEET

'64



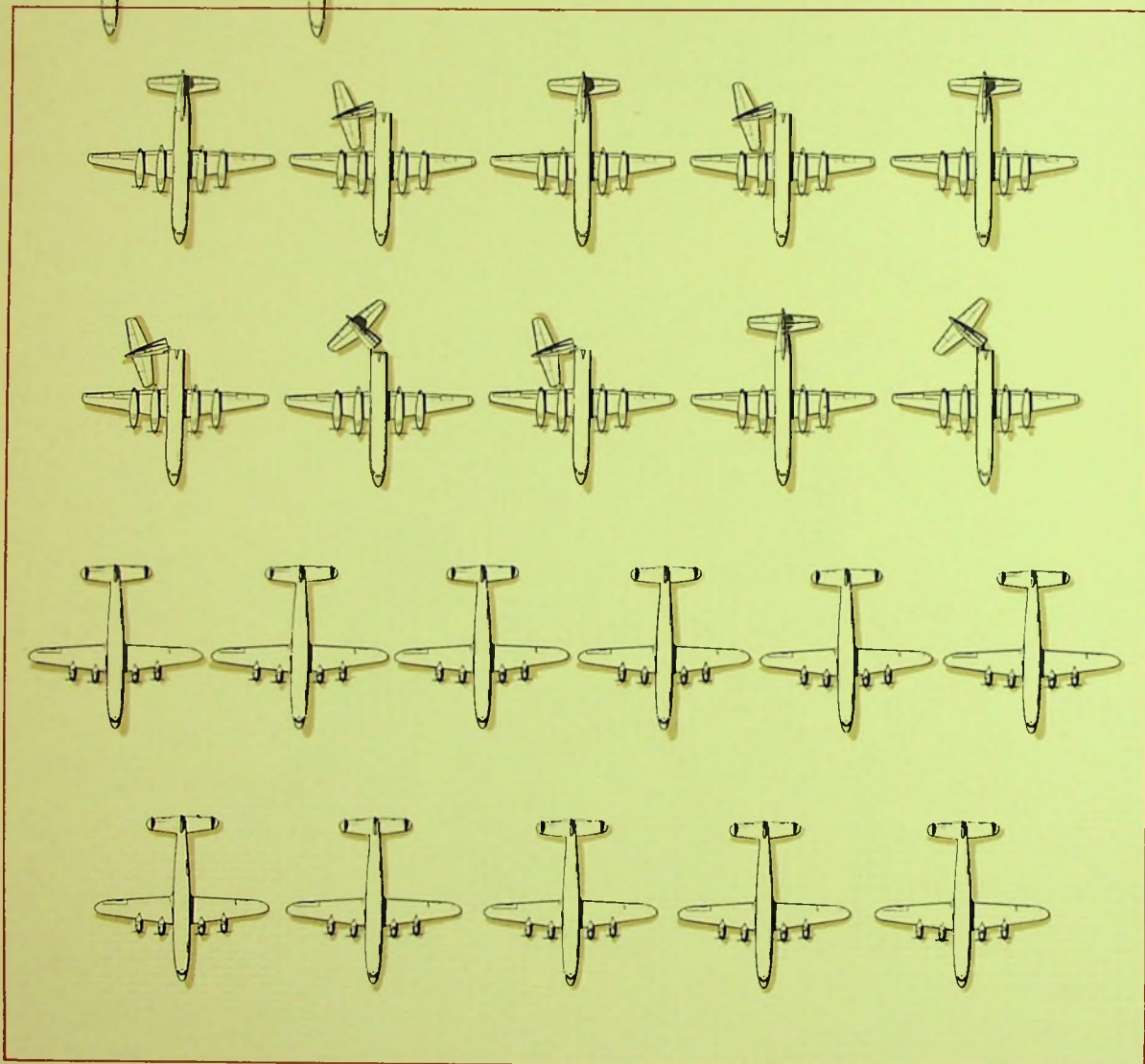
TWO CL-44'S ADDED TO FLEET IN JANUARY, 1965;  
TWO BOEING 707-349C'S JETS TO BE ADDED FALL OF 1965.



At December 31, 1964, the Company's fleet consisted of ten Canadair CL-44D turbo-prop aircraft owned, eight 1049H Super Constellation owned and three Super Constellation aircraft under lease contract.

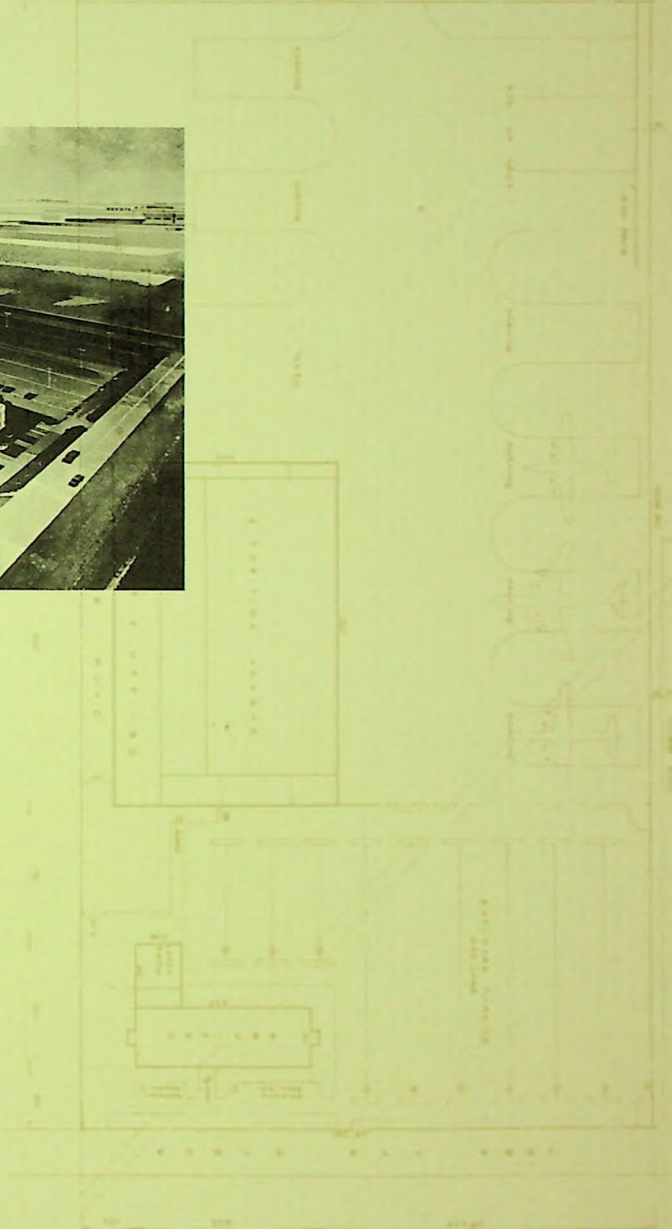
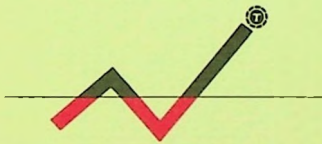
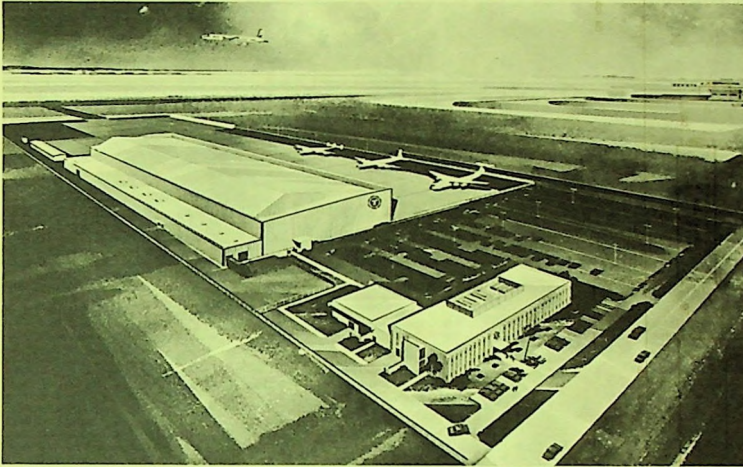
In January 1965, the fleet was increased by the acquisition of two additional Canadair CL-44D aircraft. The acquisition of these two aircraft does not require any increase in current outlay of funds since payments, including interest, on the indebtedness are integrated with the original debt and payment period is extended.

Also, in January 1965, the Company entered into a contract to lease two Boeing 707-349C jet aircraft. Delivery is scheduled for October and November 1965, and the lease term is for four years, with Company option to extend the lease for two additional two-year periods.



Due to the substantial expansion of common carriage business and the limited facilities available at various airports, the Company has found it necessary to build new, or enlarge presently existing, cargo terminals. In January 1964, the Company moved into its newly constructed air cargo terminal at Los Angeles International Airport. Due to the expiration of its lease at Lockheed Air Terminal at Burbank, California and in order to effect certain cost-savings, the Company plans to relocate its headquarters and maintenance facilities to Los Angeles International Airport. Construction is presently underway and the move is anticipated early in 1966.

The Company is also negotiating for the construction of new facilities at Cleveland, Ohio and for the expansion of its present facilities at Philadelphia, Penna.



# BALANCE SHEETS

DECEMBER 31, 1964 AND 1963

## ASSETS

### CURRENT ASSETS (including prepaid engine overhaul cost):

	1964	1963
Cash, including \$7,100,000 certificates of deposit at December 31, 1964.	\$ 9,361,857	\$ 8,829,068
Receivables—		
Freight customers.....	2,259,938	1,477,941
Charters, service sales, etc.—		
United States Government.....	3,114,305	1,953,382
Other.....	1,754,971	1,002,777
Reserve for bad debt losses.....	(80,000)	(123,000)
Materials and supplies, at average cost.....	2,326,450	1,812,199
Prepaid insurance, rents, etc.....	456,142	463,593
Prepaid engine overhaul cost (net).....	1,312,394	1,300,720
	<u>\$20,506,057</u>	<u>\$16,716,680</u>

Total current assets.....

### PROPERTY AND EQUIPMENT (Notes 1 and 2):

#### Cost:

Aircraft, engines and other flight equipment.....	\$68,837,189	\$70,824,511
Other equipment.....	1,876,395	1,938,177
Land and buildings.....	1,526,812	1,467,708
	<u>\$72,240,396</u>	<u>\$74,230,396</u>
Less—Reserves for depreciation.....	31,599,608	28,324,386
	<u>\$40,640,788</u>	<u>\$45,906,010</u>

### OTHER ASSETS AND DEFERRED CHARGES:

Unamortized debt expense.....	\$ 486,207	\$ 770,958
Long-term prepayments, etc.....	267,347	249,834
Training and other costs applicable to CL-44D aircraft, being amortized	2,120,989	2,447,295
	<u>\$ 2,874,543</u>	<u>\$ 3,468,087</u>
	<u>\$64,021,388</u>	<u>\$66,090,777</u>



BALANCE SHEETS  
DECEMBER 31, 1964 AND 1963

LIABILITIES

CURRENT LIABILITIES:

	1964	1963
Current installments of equipment purchase obligations . . . . .	\$ 6,153,115	\$ 5,904,298
Accounts payable and accrued liabilities . . . . .	5,569,008	3,987,557
Reserve for vacations . . . . .	637,934	572,343
Advance charter deposits, etc. . . . .	439,403	216,926
Total current liabilities . . . . .	\$12,799,460	\$10,681,124

LONG-TERM DEBT—(Notes 2 and 3):

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 1965—1969, less current installments		
Series A—5½% . . . . .	14,939,355	20,214,687
Series B—5½% . . . . .	3,844,033	5,302,917
5½% promissory note (subordinated) due 1976 . . . . .	5,000,000	5,000,000
	\$29,283,388	\$36,017,604

DEFERRED CREDITS:

Deferred income taxes (Note 5) . . . . .	\$ 5,961,436	\$ 4,838,436
Deferred income, etc. . . . .	171,495	202,240
	\$ 6,132,931	\$ 5,040,676

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, 1,529,324 shares (1964) and 1,528,924 shares (1963)	1,529,324	1,528,924
Capital surplus . . . . .	8,230,838	8,228,154
Earned surplus (Note 4) . . . . .	5,054,327	3,603,175
	\$15,805,609	\$14,351,373
	\$64,021,389	\$66,090,777

The accompanying notes are an integral part of these statements.

# STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1964 AND 1963

	1964	1963
<b>OPERATING REVENUES:</b>		
Scheduled freight operations .....	\$13,707,443	\$10,918,796
Military Air Transport Service .....	23,151,385	27,465,723
Charters, service sales, etc. ....	8,609,557	3,825,347
	<u>\$45,468,385</u>	<u>\$42,209,866</u>
<b>OPERATING EXPENSES:</b>		
Flying operations .....	\$15,310,677	\$14,187,489
Ground operations .....	6,630,090	5,215,657
Maintenance .....	9,631,842	10,913,683
Sales, advertising and publicity .....	2,220,986	1,788,208
General and administrative .....	1,999,012	2,154,043
Depreciation and amortization .....	5,671,069	6,186,212
	<u>\$41,463,676</u>	<u>\$40,445,292</u>
Net income from operations .....	<u>\$ 4,004,709</u>	<u>\$ 1,764,574</u>
<b>OTHER EXPENSE:</b>		
Interest expense .....	\$ 2,120,286	\$ 2,425,034
Miscellaneous (net) .....	(355,846)	(234,326)
	<u>\$ 1,764,440</u>	<u>\$ 2,190,708</u>
Net income (loss) before provision (credit) for Federal income taxes .....	\$ 2,240,269	\$ (426,134)
<b>PROVISION (CREDIT) FOR FEDERAL INCOME TAXES (Note 5) . . .</b>	<u>939,000</u>	<u>(222,000)</u>
Net income (loss) .....	<u>\$ 1,301,269</u>	<u>\$ (204,134)</u>
<b>SPECIAL ITEMS:</b>		
Gain on foreign exchange contracts (\$383,439 in 1964 and \$362,360 in 1963), less applicable provisions of \$184,000 and \$189,000 in respective years, for deferred Federal income taxes . . . .	\$ 199,439	\$ 173,360
Adjustment of prior period maintenance expense (\$300,000), less applicable provision of \$156,000 for deferred Federal income taxes .....	—	144,000
Total .....	<u>\$ 199,439</u>	<u>\$ 317,360</u>
Net income (loss) and special items .....	<u>\$ 1,500,708</u>	<u>\$ 113,226</u>

The accompanying notes are an integral part of these statements.

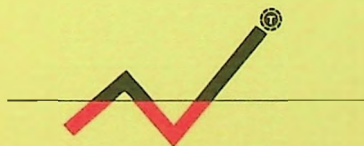
STATEMENTS OF SURPLUS  
FOR THE YEARS ENDED DECEMBER 31, 1964 AND 1963

CAPITAL SURPLUS

	1964	1963
BALANCE AT BEGINNING OF YEAR.....	\$ 8,228,154	\$ 7,002,801
ADD—		
Excess of proceeds over par value of 400 and 32,685 common shares, in respective years, issued under stock options.....	2,684	219,317
Excess of fair market value of stock dividend over par value.....	—	1,006,036
BALANCE AT END OF YEAR.....	<u>\$ 8,230,838</u>	<u>\$ 8,228,154</u>

EARNED SURPLUS

BALANCE AT BEGINNING OF YEAR.....	\$ 3,603,175	\$ 4,616,790
ADD—		
Net income (loss).....	1,301,269	(204,134)
Special items.....	199,439	317,360
	<u>\$ 5,103,883</u>	<u>\$ 4,730,016</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>\$ 5,054,327</u>	<u>\$ 3,603,175</u>



The accompanying notes are an integral part of these statements.

# STATEMENTS OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1964 AND 1963

	1964	1963
WORKING CAPITAL AT BEGINNING OF YEAR .....	<u>\$ 6,035,556</u>	<u>\$ 7,597,944</u>
SOURCE OF FUNDS:		
Net income (loss) .....	\$ 1,301,269	\$ (204,134)
Special items .....	199,439	317,360
Add (Deduct)—		
Depreciation and amortization provisions .....	6,045,182	6,661,067
Deferred tax provision .....	1,123,000	123,000
(Gain) loss on retirement of property and equipment .....	(113,419)	79,117
(Gain) on exchange applicable to long-term debt .....	(581,102)	(531,500)
Total funds from operations .....	<u>\$ 7,974,369</u>	<u>\$ 6,444,910</u>
Proceeds from 400 shares and 32,685 shares, respectively, of common stock issued upon exercise of restricted stock options .....	3,084	252,001
Proceeds from sale of property and equipment .....	315,566	429,606
	<u>\$ 8,293,019</u>	<u>\$ 7,126,517</u>
FUNDS APPLIED:		
Payments on equipment trust certificates .....	\$ 5,904,298	\$ 5,704,382
Payments on other long-term debt .....	—	392,293
Purchase of property and equipment .....	556,622	2,364,309
Cash dividends on preferred shares .....	49,556	49,556
All other .....	111,503	178,365
	<u>\$ 6,621,979</u>	<u>\$ 8,688,905</u>
WORKING CAPITAL AT END OF YEAR .....	<u>\$ 7,706,596</u>	<u>\$ 6,035,556</u>

The accompanying notes are an integral part of these statements.

## (1) Aircraft—

At December 31, 1964, the Company's fleet consisted of ten Canadair CL-44D turbo-prop aircraft owned, eight 1049H Super Constellation aircraft owned and three 1049H Super Constellation aircraft under contract. Aircraft and related engines of approximately \$13,600,000 were fully depreciated at December 31, 1964.

Under the contracts covering the use of the three 1049H aircraft, the Company makes payments based upon flight hours which it charges to rental expense. The contracts provide that the Company may return the aircraft at any time without further obligation, and also that it may acquire title to two of the aircraft.

## (2) Equipment purchase obligations and commitments

The Series A equipment trust certificates are payable in Canadian dollars (\$23,510,543 less future interest \$2,384,788) 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. Exchange adjustments applicable to payments on the indebtedness subsequent to December 31, 1962, have been recognized as miscellaneous income and adjustments applicable to exchange contracts have been included in special items.

In January 1965, the fleet was increased by the acquisition of two additional CL-44D turbo-prop aircraft, and the Company issued notes for \$1,750,000 (Canadian) and additional equipment trust certificates in the principal amount of \$8,350,000 (Canadian). The obligation amounts to approximately \$9,400,000 (U.S.) and, by reason of an extension of the payment period on the previously issued equipment trust certificates, will not have the effect of increasing annual payments on such certificates. The Company has also agreed to lease two Boeing 707-349C jet aircraft commencing in October and November 1965, for \$2,209,296 annually over a period of four years, with renewal and purchase options, and to purchase four spare engines at a cost of approximately \$1,030,000.

The Company has long-term leases on airport facilities and equipment requiring annual payments of approximately \$318,000 and aggregating \$5,640,000 for the remaining lease periods ranging up to 35 years. Subsequent to December 31, 1964, the Company entered into a contract to construct maintenance and

general office facilities at Los Angeles International Airport, for approximately \$4,500,000.

## (3) Capital stock and subordinated debt—

At December 31, 1964, 346,892 common shares were reserved for conversion of debentures, 275,634 shares for conversion of the 5½ per cent promissory note, and 26,415 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, 1964, there was outstanding one option for purchase of 6,510 shares of common stock 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, 1964 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—

As of December 31, 1964, the unfunded liability for past service benefits under the pension plan for pilots was approximately \$818,000, which is to be provided for over a nineteen-year period.

During 1964, a variable annuity plan for pilots and a pension plan for flight engineers were adopted. The additional annual cost of these plans is estimated to be \$222,000, based upon present employment levels.

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, 1964 and 1963, 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. 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.

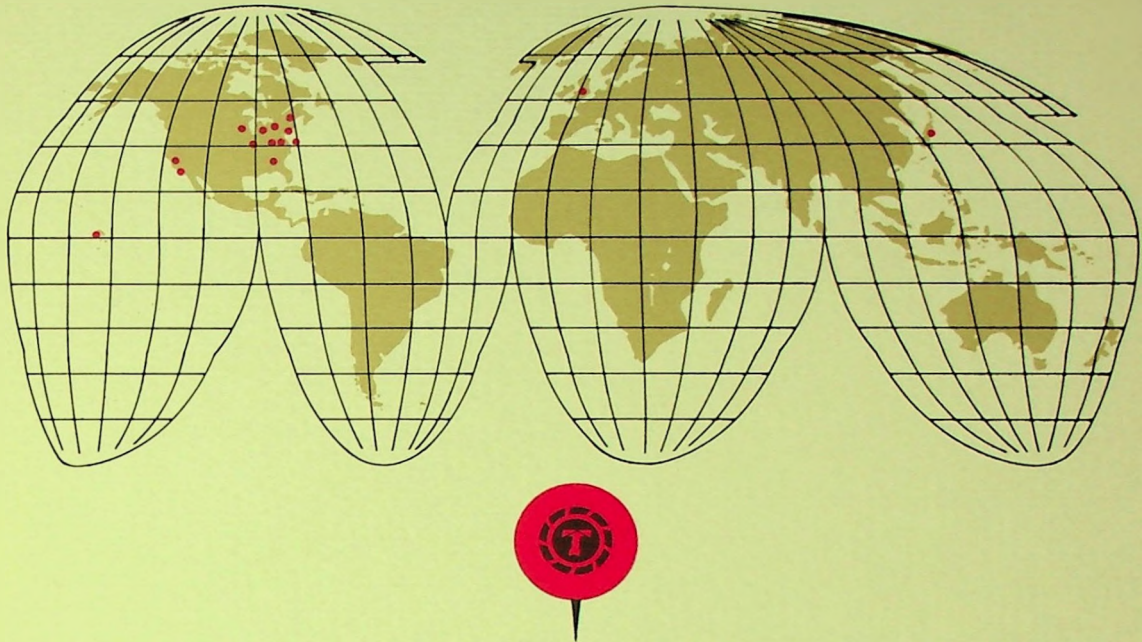
In our opinion, the accompanying balance sheets and statements of income, surplus, and funds present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1964 and 1963, and the results of its operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Los Angeles, California,  
March 4, 1965.



## SALES OFFICES



GENERAL SALES OFFICES Lockheed Air Terminal, Burbank, California, 877-3411

### 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

**CHICAGO, ILL.**  
O'Hare Field  
686-7100

**CLEVELAND, OHIO**  
Cleveland Hopkins Airport  
267-3575

**DETROIT, MICH.**  
Detroit-Metropolitan Airport  
562-9700

### PASSENGER AND FREIGHT CHARTERS

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

**LONDON, ENGLAND**  
10 Golden Square  
London W. 1  
Gerrard 3627

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

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

**MILWAUKEE, WIS.**  
General Mitchell Field  
483-5000

**NEWARK, N.J.**  
Newark Airport  
624-3700

**NEW YORK, N.Y.**  
John F. Kennedy Airport  
943-8787

**PHILADELPHIA, PA.**  
International Airport  
726-7100

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

**NEW YORK, N.Y.**  
John F. Kennedy Airport  
995-9715

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

**PITTSBURGH, PA.**  
Box 9555  
443-5850

**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

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