

THE FLYING TIGER LINE INC.



ANNUAL REPORT 1961

SIX MONTHS ENDED
DECEMBER 31

OFFICERS OF THE COMPANY

Robert W. Prescott
Fred Benninger
Frank B. Lynott
John L. Higgins
William E. Bartling
L. S. Kimball
George T. Cussen
George S. Oberdorf
O. R. Burghardt
Norman L. Meyers
Ralph B. Stump

President
Executive Vice-President-Treasurer
Executive Vice-President—Operations
Vice-President—Sales
Vice-President—Research
Vice-President—Public Relations
Vice-President—Interline Freight Development
Vice-President—Assistant to the President
Secretary and Assistant Treasurer
Assistant Secretary
Assistant Secretary

BOARD OF DIRECTORS

Samuel B. Mosher

Ruth Axe
Fred Benninger
Allen T. Chase
John C. Cosgrove

Boris Gresov
Arthur G. Linkletter
Charles Luckman
Norman L. Meyers
Robert W. Prescott
Houston Rehrig
John C. Tyler

Chairman of the Board
Chairman of the Board of Signal Oil & Gas Company, Los Angeles
Vice-President, E. W. Axe & Co., Inc., New York
Executive Vice-President-Treasurer
President, Standardized Aircraft, Inc., Los Angeles
Executive Vice-President,
Marsh & McLennan-Cosgrove & Co., Los Angeles
Economist, New York
Guedel-Linkletter Productions, Los Angeles
Charles Luckman Associates, Los Angeles
Meyers & Batzell, Washington, D.C.
President
President, Rehrig Pacific Co., Los Angeles
Co-Chairman of the Board of
Farmers Insurance Group, Los Angeles

TRANSFER AGENTS

The Chase Manhattan Bank
1 Chase Manhattan Place, New York 15, N. Y.

Bank of America
660 S. Spring St., Los Angeles 54, California

REGISTRARS

The Bank of New York
48 Wall Street, New York 15, N. Y.

Citizens National Trust & Savings Bank
457 S. 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

HIGHLIGHTS

for the six months ended December 31, 1961

Operating Revenues	\$18,573,495
Operating Expenses	\$17,892,271
Operating Income	\$ 681,224
Interest Expense	\$ 991,193
Net (Loss) After Interest and Income Tax Credit	\$ (328,496)
Special Item—Adjustment of Aircraft Values	\$ (3,627,055)
Net (Loss) and Special Item	\$ (3,955,551)
Per Common Share Outstanding	\$ (2.80)
Investment in Property and Equipment (Gross)	\$59,333,541
Long-Term Debt	\$43,379,759
Stockholders' Equity at Book Value	\$11,251,646
Per Common Share	\$ 7.21
Total Assets	\$68,774,659
Working Capital	\$ 1,404,069



New queen of the Tiger fleet, the Canadair CL-44, turbo prop-jet and largest commercial ship of its kind, lands at the Tiger Burbank base.

TO OUR STOCKHOLDERS:

We are reporting to you the results of operations for the six months ending December 31, 1961, and a statement of the financial condition of your company as of that date. It is the desire of the Civil Aeronautics Board that all air carriers be uniform in their fiscal year endings and that the fiscal year coincide with the calendar year. We therefore decided to make the change-over at this time. Thus, we are in effect making an annual report for this six months period, and are beginning a new fiscal year as of January 1, 1962.

This six months period has covered the introduction into our operations of our new CL-44D aircraft. We received delivery of our first plane on June 1, 1961. Because of production delays, we are almost a year behind our schedule of deliveries. We have thus far received eight of the planes and expect delivery of the final two by the end of March 1962.

Since the CL-44D was a new design without any previous operating experience, the breaking-in period has been accompanied by a considerable number of extraordinary deficiencies. As a result of these, our operations with the airplane have been somewhat hampered. The expense of overcoming these deficiencies has been great and has hurt our financial results. In the first quarter, we lost \$376,885. However, the performance of the plane had improved to such an extent that we were able to make a small profit of \$48,389 in the second quarter. At present, the plane continues to improve operationally and we look forward to greatly improved results when we have the whole fleet completely utilized.

On October 1, 1961, the Civil Aeronautics Board, at our urging, removed the Minimum Rate Order for airfreight tariffs that had been in existence since 1949, as a result of rate war activities existing at that time. It was our hope and belief that the Civil Aeronautics Board would be prepared to act swiftly and decisively to avert any chaotic rate condition that might result from the removal of the Minimum Rate Order. In their comments on removal of the order, they stated that they would. This the Civil Aeronautics Board has utterly failed to do. As a result, we have a hodgepodge rate condition in existence that is seriously hampering all carriers, ourselves included. After months of trying, we have finally been able to get an investigation started that we hope may result in some sort of rate stabilization.

On January 26, 1962, the Civil Aeronautics Board issued a press release stating that they had tentatively voted to grant The Flying Tiger Line Inc. a permanent certificate on its airfreight Route 100. While this action does not in any way affect our immediate financial outlook, it does relieve us of the burdensome and expensive task of renewing our temporary certificate every five years.

Our volume of contract and charter business during this period increased to \$13,305,366 over \$7,679,549 for the like period the year before. We have reason to believe that this will continue to increase during the current year.

Since deliveries of the new turboprop CL-44D aircraft will be completed in March 1962, our present fleet of 1049H aircraft will become surplus to our future needs. Although we expect to utilize the 1049H aircraft until they are sold and we do expect to realize a substantial resale value, we nevertheless decided upon the conservative financial policy of writing down the book value of our 1049H aircraft and related spare engines to give recognition to the obsolescence factor. The extraordinary loss resulting from this write-down was \$3,627,055 after tax credit. This write-down does not affect the financial strength of the Company, but will reduce the depreciation charges on this equipment in the 1962 income statement by \$1,660,000. This extraordinary write-down of the 1049H aircraft may be offset in future years if the aircraft are sold at prices in excess of the lower depreciated book values.

Robert W. Brewster

President

Main fuselage section of a Lockheed F104, the world's fastest jet fighter, is slipped into the cargo hold of a CL-44, which is so large it can carry two of these fighter aircraft.



 FLYING
TIGERS

THE AIR CARGO PICTURE

PERMANENT CERTIFICATE

On January 26, 1962, the Civil Aeronautics Board announced its tentative decision on the issues of the Domestic Cargo-Mail Service Case in which the Company applied for a permanent certificate. The Civil Aeronautics Board unanimously voted to grant the Company a permanent certificate for the carriage of cargo and mail over Route 100, which covers the cities that the Company has been serving for the last five years.

The permanent certificate authorizes the transportation of cargo and mail on a non-subsidy basis.

NEW TARIFF

On August 28, 1961, upon the petition of the Company, the Civil Aeronautics Board removed the Minimum Rate Order which had established minimum airfreight rates. The removal of this "floor" permitted the Company to file its new tariff, which had been designed to (1) revolutionize air concepts of property shipping charges and (2) increase the volume of airfreight through diversion from other modes of transportation. On October 16, 1961, the first phase of the Company's new tariff became effective. This phase of the new tariff was designed to recognize in the form of the rates quoted (1) the density factor of the shipment, (2) the value of the shipment and (3) the cost of carrying the cargo. This concept of an airfreight tariff was new and revolutionary compared to the previous tariff wherein every commodity had the same rate. While the new tariff passes on to the shipper the expected savings in utilizing the new turboprop CL-44D airfreighter, it nevertheless prorates equitably the shipping charges to the various shippers on the basis of density as well as weight. It is the Company's opinion that this concept must be adopted by the airfreight industry in order to give the proper stimulus for the necessary increase in volume, a fair return to the carrier, and an equitable distribution of costs.

Almost immediately after the Company had filed the first phase of its new tariff, and in spite of the previous statement by the Civil Aeronautics Board that they would act decisively to avert any chaotic rate condition that might result from the removal of the Minimum Rate Order, the competing airfreight carriers filed rates which, in the opinion of the Company, violated all principles of sound rate making, being below the air carriers' cost of operation, giving no credence to the density factor of the shipment nor the value of the service rendered. This action brought on a chaotic condition in the airfreight industry to such an extent that the Civil Aeronautics Board had to step in and suspend certain portions of the various airfreight carriers' tariffs and institute an investigation of the rates filed. This suspension by the Civil Aeronautics Board has temporarily prevented the Company from instituting the second phase of its new tariff, consisting of volume rates which have been designed to attract the required volume of airfreight from other modes of transportation.

It is the Company's hope that as a result of the Civil Aeronautics Board's rate investigation, the Civil Aeronautics Board will issue certain guides to the airfreight industry for future rate filings which will stabilize the future rates commensurate with sound rate making principles and a fair return to the air carriers.

Because of the delay in the delivery of the CL-44D aircraft and the unstable airfreight situation, the Company has refrained from integrating the CL-44D aircraft into the domestic airfreight operations, utilizing the aircraft in its contract operations. Within the next month, however, as the deliveries of the CL-44D aircraft are completed, the Company will introduce the CL-44D into its domestic airfreight system.



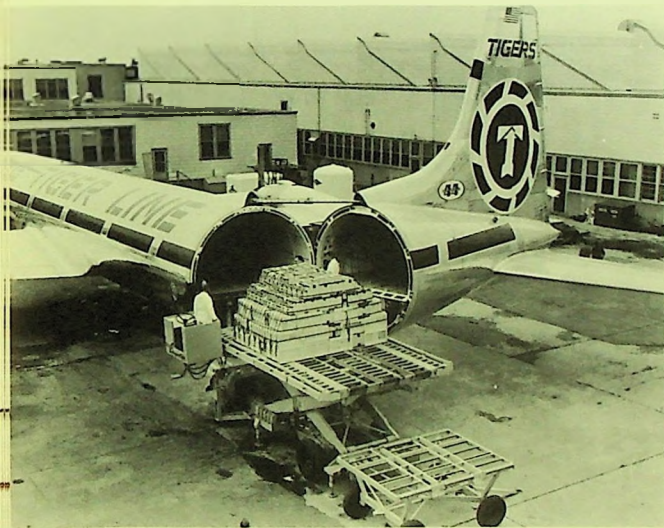
Sailors board a trans-Pacific flight by the Flying Tiger Line for the Military Air Transport Service at Travis Air Force Base, Fairfield, California.



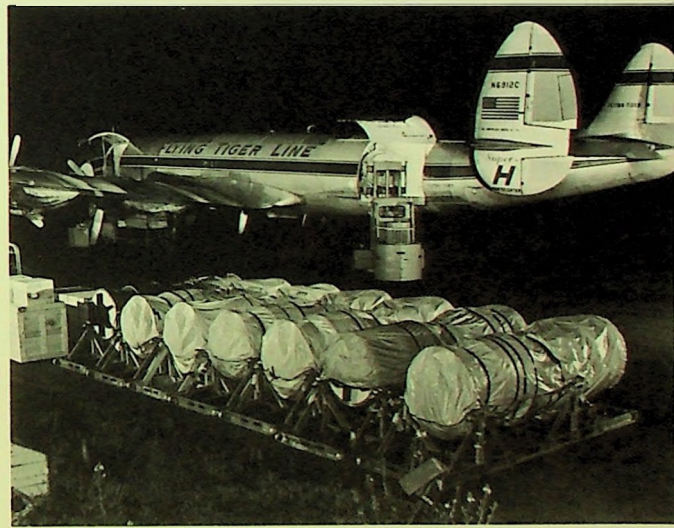
A baby elephant, gift of the children of India to the children of Los Angeles through the efforts of Director Art Linkletter (left), is welcomed at Burbank by President Bob Prescott and his son, Peter (back to camera), after a long air voyage on a Flying Tiger airfreighter.



Part of an annual shipment of more than two million pounds of turkey eggs carried from the West Coast to midwestern and eastern hatcheries is loaded on a freighter at San Francisco.



Use of automatic loading equipment for the CL-44, is demonstrated at the Canadair factory, where the ships are built. This huge lift will handle single loads as heavy as 20,000 pounds.



A shipment of turbo-jet engines, destined for the Boeing Airplane Co., at Seattle, from the Pratt & Whitney plant at Hartford, Conn., is loaded on a Flying Tiger airfreighter.

CONTRACT OPERATIONS

MILITARY SALES

Total revenues from military and commercial charter sales for the six months ending December 31, 1961 amounted to \$13,305,366 compared to \$7,679,549 for the like period in 1960.

The Company received a contract from the Military Air Transport Service for the carriage of military passengers and cargo between the West Coast of the United States and various military bases in the Pacific area, commencing July 1, 1961. The contract represents a basic guaranteed volume of \$10,173,411 during the fiscal year ending June 30, 1962 subject to day-by-day expansion as the needs of the Military Air Transport Service arise. This contract is subject to two annual renewals after June 30, 1962 on a negotiated basis.

The minimum rates applied by the Civil Aeronautics Board to the military contract business in October 1960 have eliminated the uneconomical rate practices of the past few years and have stabilized this segment of the Company's business to permit proper planning and operation at an economic level.

COMMERCIAL SALES

The ease of loading and unloading through the swingtail of the CL-44D aircraft has opened new fields of outsize cargo that can now be carried by air for commercial charter customers. During the six months ending December 31, 1961, the Company commenced the carriage of F-104 aircraft from the United States to various foreign countries friendly to the United States. It is the Company's estimate that the volume of charters for outsize cargo will produce several million dollars in revenue during the 1962 year.

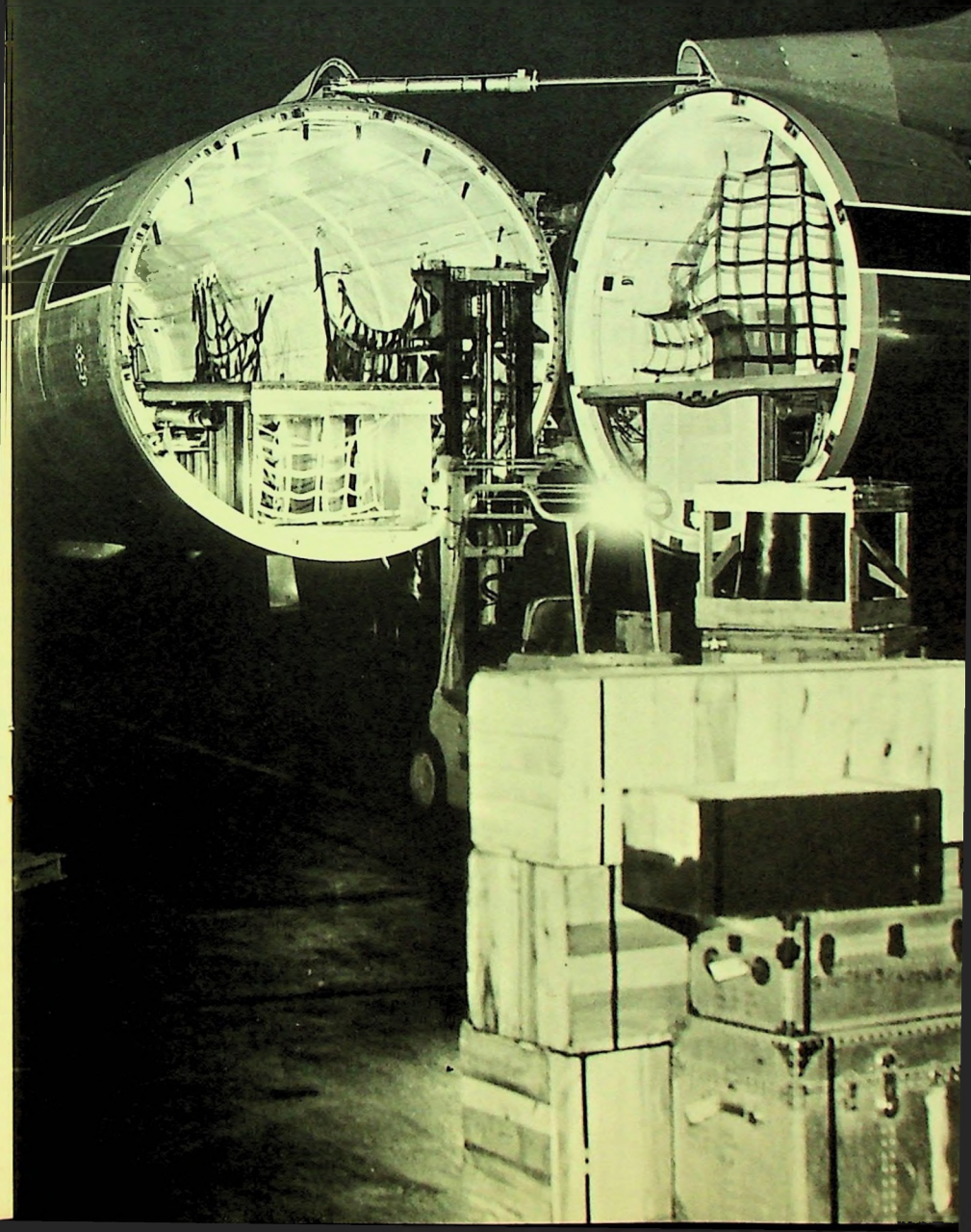
TOURIST CHARTERS

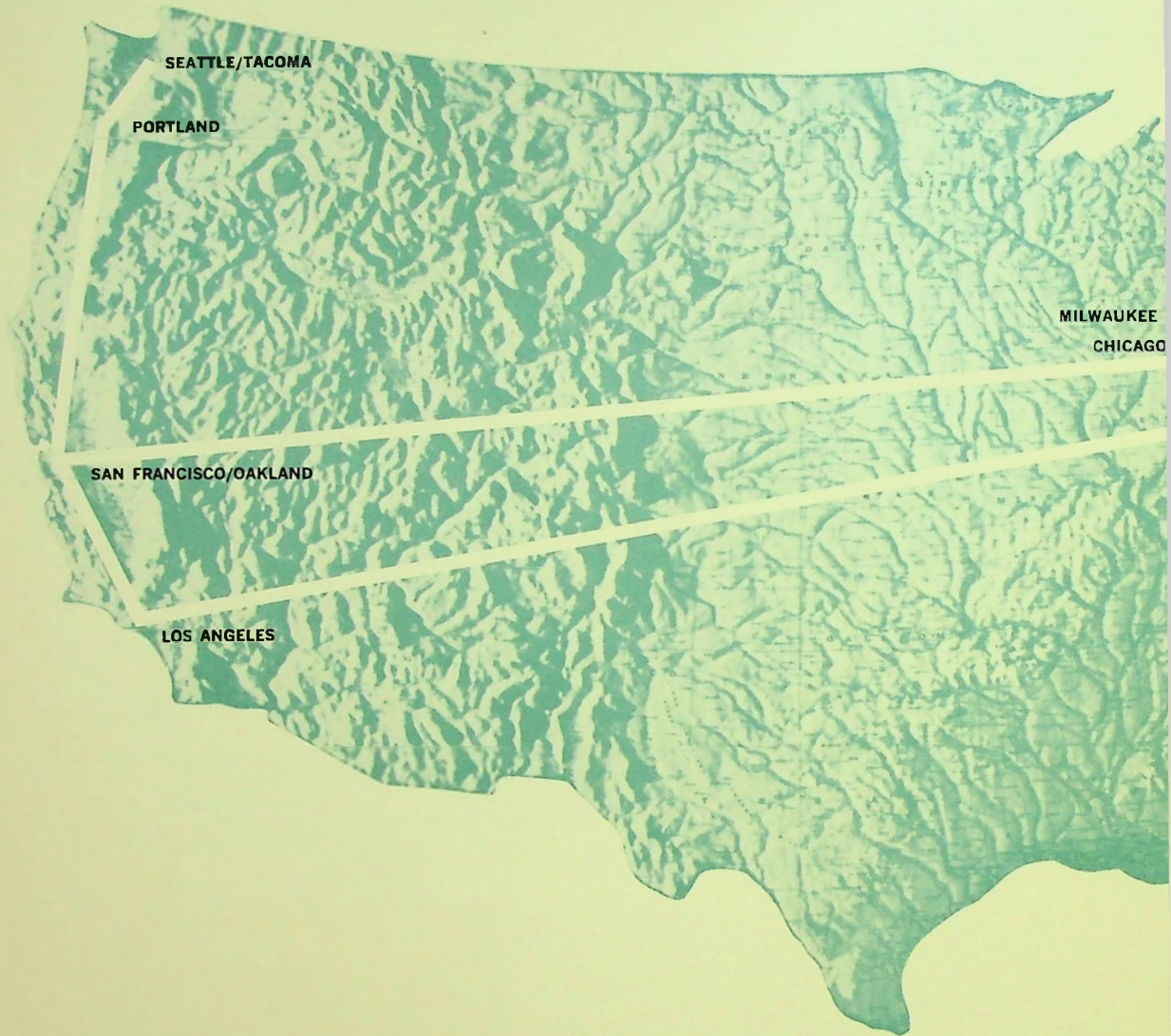
During the summer of 1961, the Company engaged in low-cost tourist charters to Europe which produced revenues of \$1,678,000. These charters consisted of homogeneous groups comprised of social clubs, industrial companies and educational and religious organizations.

During the summer of 1961, these low-cost tourist charters were carried by the Company under a blanket exemption issued to the Company by the Civil Aeronautics Board. In August 1961, the Civil Aeronautics Board decided that in the future, such low-cost tourist charters could be carried only by air carriers which are the holders of a certificate issued by the Civil Aeronautics Board, and instituted a Transatlantic Charter Investigation. Accordingly, the Company has applied for a certificate to permit it to engage in low-cost tourist charters. The Civil Aeronautics Board hearing to determine the granting of the certificates is scheduled to begin in April 1962.

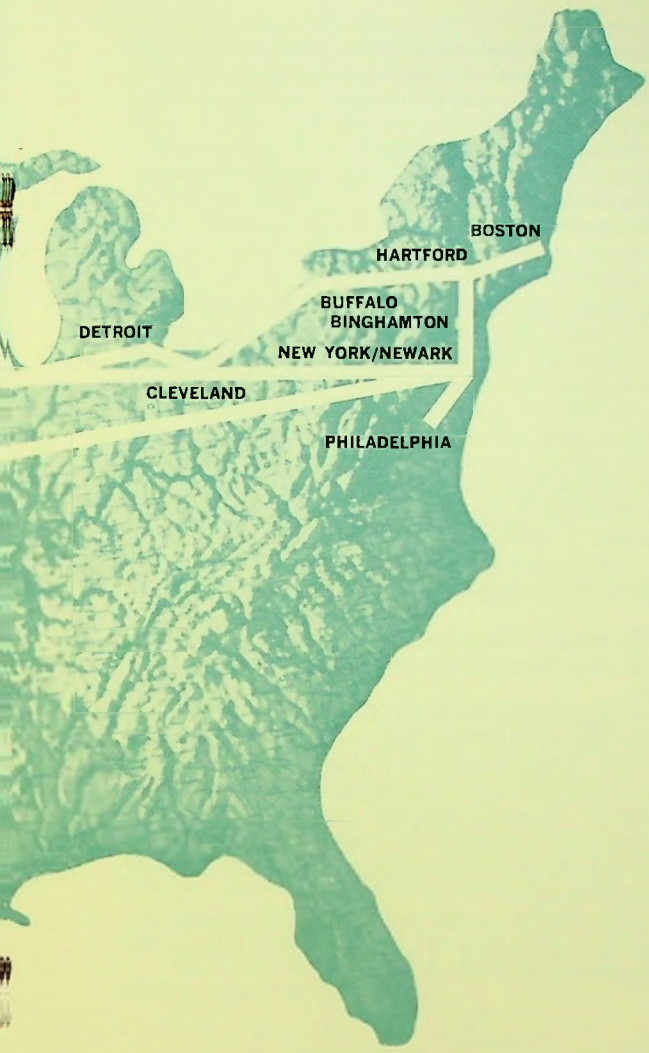
The Company commenced an aggressive sales campaign during the fall of 1961 for low-cost group charters for the 1962 summer and expects revenues of approximately \$3 million from this type of traffic.

Night loading of an urgent trans-Pacific shipment of military freight is started aboard a CL-44 at Travis Air Force base, main western terminal of the Military Air Transport Service.





FLYING TIGER AIRFREIGHT ROUTE No. 100



SALES OFFICES

AKRON-CANTON, OHIO
184 E. Buchtel
896-2353

ALBANY, N. Y.
Erie Street
Hemlock 4-8223

ATLANTA, GEORGIA
768 No. Central Ave.
Hapeville, Georgia
Tel.: 766-6289

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

BOSTON, MASS.
Logan International Airport
Logan 7-6161

BUFFALO, N. Y.
81 Botsford Place
Trinity 6-5055

CHICAGO, ILL.
O'Hare Field
686-7100

CLEVELAND, OHIO
Cleveland Hopkins Airport
Winton 1-5777

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

GRAND RAPIDS, MICH.
525 Burton St., S.W.
Cherry 1-2221

FRANKFURT, GERMANY
Room 245
TWA Hangar
Rhine Main Airport
Frankfurt/Main
Germany

HARTFORD, CONN.-SPRINGFIELD, MASS.
Bradley Field, Windsor Locks, Conn.
Hartford: Jackson 2-3145
Springfield: Republic 4-5675

HONOLULU, HAWAII
Honolulu International Airport
Honolulu, Hawaii
Tel.: 8-11835

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

LOS ANGELES, CALIF.
Lockheed Air Terminal, Burbank
Triangle 7-3411

MILWAUKEE, WIS.
107 E. Lincoln
Humboldt 3-5000

MINNEAPOLIS-ST. PAUL, MINN.
2424 Minnehaha Ave.
Parkway 9-8321

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

NEW YORK, N. Y.
International Airport
Olympia 6-5157

Newark Airport
Whitehall 3-8787
60 East 42nd Street
Oxford 7-8850

PHILADELPHIA, PA.
International Airport
Saratoga 6-7100

PORTLAND, ORE.
International Airport
Atlantic 1-1153

PROVIDENCE, R. I.
577 So. Main Street
Elmhurst 1-8500

ROCHESTER, N. Y.
175 Jay Street
Baker 5-1473

SAN DIEGO, CALIF.
8050 Othello Street
Browning 8-4100

SAN FRANCISCO-OAKLAND, CALIF.
San Francisco International Airport
Plaza 5-9405

SEATTLE, WASH.
Seattle-Tacoma International Airport
Cherry 4-1747

SOUTH BEND, IND.
1415 So. Olive Street
Atlantic 8-1441

TOKYO, JAPAN
Bldg. 3865 West
Tachikawa Air Force Base
Tachikawa City
Tokyo, Japan
22104-22382

TOLEDO, OHIO
518 Jefferson
Cherry 4-1123

RESULTS FOR THE SIX MONTHS ENDING DECEMBER 31, 1961

CHANGE IN FISCAL YEAR

The Company has been on a June 30 fiscal year basis since its inception in 1945. The summer months have traditionally been the months with the largest volume and the most activity. Also, most of the personnel take their annual vacation during the summer months. These factors have always placed a large burden upon the Company's personnel for a June 30 closing. The Civil Aeronautics Board has urged the Company to change its accounting year to a calendar year. Therefore, the Board of Directors of the Company passed a resolution to change the June 30 fiscal year to a calendar year basis effective December 31, 1961. Hence, the Report to Stockholders submitted herewith is only for the six months ending December 31, 1961.

SPECIAL WRITE-DOWN OF CONSTELLATION AIRCRAFT

Included in the results for the six months ending December 31, 1961 is a special write-down of \$3,627,055 applicable to the present fleet of 1049H Constellation aircraft and spare engines. The Company had entered into a contract to purchase ten turboprop CL-44D aircraft which will replace its present fleet of 1049H aircraft. Through December 31, 1961, the Company had taken delivery of six CL-44D aircraft, the balance of the CL-44D aircraft ordered to be delivered by March 15, 1962. The fleet of twelve 1049H aircraft were acquired by the Company during 1957 and were being depreciated on the books of the Company over a seven year basis. For income tax purposes, however, the Company had been depreciating the 1049H aircraft on an accelerated basis accruing a Reserve for Deferred Income Taxes on the difference. At the time the fleet of 1049H aircraft were purchased in 1957, the Company traded in its fleet of DC-6A aircraft to the manufacturer of the 1049H aircraft. The gain on the trade-in of the DC-6A aircraft was treated as a non-taxable trade-in, thereby reducing the depreciable value of the 1049H aircraft acquired.

The 1049H aircraft will be surplus to the needs of the Company after the Company has received delivery of the ten CL-44D aircraft and therefore will commence disposing of the 1049H aircraft within the next few months.

Because the fleet of 1049H aircraft will become surplus to the needs of the Company during this coming calendar year, and because of the uncertainty of the resale value of such aircraft, the Board of Directors of the Company felt that the conservative step would be to write down the book value of the 1049H aircraft and spare engines to give recognition to the obsolescence factor, which was accomplished on December 31, 1961. Although the Company is unable to project at this time the ultimate amount that will be realized from the sale of the present fleet of 1049H aircraft, it is the Company's opinion that the Company will realize at least the adjusted book value of such equipment upon its sale.

As a result of this special write-down of the 1049H aircraft and spares on December 31, 1961, the charges to the income statement for depreciation of such equipment during the calendar year 1962 will be reduced by approximately \$1,660,000.

LOSS FOR THE SIX-MONTH PERIOD

The financial results for the six months ending December 31, 1961 reflected a net loss, before special write-down of Constellation aircraft, of \$328,496, or \$0.24 per share after dividend on preferred stock. Although the Company earned an operating profit of \$637,242 during the three months ending December 31, 1961, it was not sufficient to completely eliminate the losses

sustained during the three months ending September 30, 1961 and the higher interest costs incurred during the three months ending December 31, 1961.

The operating losses sustained during the quarter ending September 30, 1961 were due to the nonrecurring expenses of introducing the CL-44D turboprop aircraft into the Company's operating fleet and correcting the deficiencies of the new aircraft. The operating results for the quarter ending December 31, 1961 have been extremely encouraging as to both volume, performance of the new CL-44D aircraft and operating profit. The operating performance of the CL-44D aircraft improved considerably and we are convinced that in due time the performance of the aircraft will exceed the Company's expectations and the manufacturer's specifications. The net revenue for the six months ending December 31, 1961 was \$18,573,495 compared to \$14,118,344 for the comparable period in 1960. The operating profit for the six months ending December 31, 1961 was \$681,224 compared to \$317,410 for the like period in 1960.

It is the Company's opinion that during the next few months, the net revenues and operating profits will increase substantially as the Company is able to introduce the additional CL-44D aircraft into the fleet and enjoy the benefits of increased aircraft utilization and improved performance.

THE FINANCIAL PICTURE

The financial strength of the Company has improved considerably during the six months ending December 31, 1961. The net working capital of the Company increased during the six months by \$2,903,334, as follows:

	December 31 1961	June 30 1961
Current assets	\$13,834,926	\$ 9,586,366
Current liabilities	12,430,857	11,085,631
Working capital (deficit)	<u>\$ 1,404,069</u>	<u>\$ (1,499,265)</u>

This increase was in spite of the increase of equipment purchase obligations current in the amount of \$1,925,322 as the number of CL-44D aircraft delivered increased.

The Company paid off \$4,477,870 in bank loans and equipment trust certificates applicable to the 1049H and CL-44D aircraft during the six months ending December 31, 1961.

On December 1, 1961, the Company issued and sold to Clearfield Bituminous Coal Corporation (a subsidiary of The New York Central Railroad Company) a convertible note (subordinated) in the amount of \$5,000,000. This note is due in 1976 and is convertible into common stock of the Company at \$19.05 per share until 1971 and \$23.81 per share thereafter.

The Company has been able to refinance the equipment trust certificates applicable to the CL-44D aircraft from a five year term to a seven year term.

As of December 31, 1961, the aircraft fleet of the Company consisted of the following aircraft owned by the Company:

1049H	12
CL-44D	6
Total	<u>18</u>

Subsequently, two 1049H aircraft have been lost in accidents and an additional two CL-44D turboprop aircraft have been received.

BALANCE SHEETS

December 31 and June 30, 1961

ASSETS

	<u>DECEMBER 31</u>	<u>JUNE 30</u>
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash	\$ 3,343,379	\$ 3,790,697
U. S. Treasury notes, at cost	1,996,073	—
Receivables—		
Freight customers	1,487,130	1,167,711
Charters, service sales, etc.—		
United States Government	3,146,795	1,614,955
Other	1,345,553	1,124,257
Federal income tax refund	347,980	—
Reserve for bad debt losses	(155,000)	(220,000)
Materials and supplies, at average cost	1,064,258	769,614
Prepaid insurance, rents, etc.	442,034	430,349
Prepaid engine overhaul cost (net)	816,724	908,783
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Total current assets	\$13,834,926	\$ 9,586,366
	<hr/>	<hr/>
PROPERTY AND EQUIPMENT—Notes 1 and 2:		
Cost—		
Aircraft, engines, and other flight equipment	\$57,082,081	\$40,612,445
Other equipment	1,371,535	1,316,404
Land and buildings	879,925	861,165
	<hr/>	<hr/>
	\$59,333,541	\$42,790,014
Less—Reserves for depreciation	20,530,597	16,454,241
	<hr/>	<hr/>
	\$38,802,944	\$26,335,773
Progress payments on aircraft and engines on order	12,059,508	22,478,661
	<hr/>	<hr/>
	\$50,862,452	\$48,814,434
	<hr/>	<hr/>
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expense	\$ 1,326,586	\$ 1,360,229
Long-term prepayments and receivables	435,465	453,170
Training and other costs applicable to CL-44D aircraft, being amortized over a seven-year period	2,271,860	568,157
Other	43,370	41,955
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	\$ 4,077,281	\$ 2,423,511
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	\$68,774,659	\$60,824,311
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The accompanying notes are an integral part of these balance sheets.

BALANCE SHEETS

December 31 and June 30, 1961

LIABILITIES

	DECEMBER 31	JUNE 30
CURRENT LIABILITIES:		
Current portion of bank loans	\$ 1,604,983	\$ 3,288,827
Current installments of equipment purchase obligations, etc.	4,719,694	3,567,019
Other notes payable	851,525	—
Accounts payable and accrued liabilities	4,528,910	2,930,791
Reserve for vacations	464,916	435,719
Advance charter deposits	260,829	863,275
Total current liabilities	<u>\$12,430,857</u>	<u>\$11,085,631</u>
LONG-TERM DEBT—Notes 2, 3 and 4:		
Bank loans, secured by 1049-H aircraft and engines—		
Due 1962-1963 (5½% to 6%)	\$ 1,381,379	\$ 4,108,162
Due 1962-1964 (5½%)	1,807,364	364,695
Less—Current portion	(1,604,983)	(3,288,827)
Debentures (subordinate)—		
Series A 5½% due 1967	500,000	500,000
Series B 5½% due 1974	5,000,000	5,000,000
Equipment purchase obligations—		
Equipment trust certificates due 1961-1966—		
Series A—5½%—5¾% \$20,803,156, less future interest of \$2,789,705	18,013,451	6,264,961
Series B—6½%	9,436,764	7,800,466
Interim equipment purchase notes (5½%) due 1962 and interest, to be refunded with equipment trust certificates upon delivery of aircraft	7,307,906	14,282,351
Less—Current installments	(4,640,816)	(3,567,019)
5½% promissory note (subordinated) due 1976	5,000,000	—
Other, due 1962-1966 (5½%-6%), less current portion	1,178,694	462,104
	<u>\$43,379,759</u>	<u>\$31,926,893</u>
DEFERRED CREDITS:		
Deferred income taxes (Note 6)	\$ 1,670,436	\$ 2,263,125
Deferred income, etc.	41,961	316,687
	<u>\$ 1,712,397</u>	<u>\$ 2,579,812</u>
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 (at December 31, 1961, 330,295 and 262,467 shares were reserved for conversion of debentures and 5½% promissory note, respectively, and 62,300 shares for stock options)—Notes 3 and 5.		
Outstanding, 1,422,190 shares	1,422,190	1,422,190
Capital surplus	6,982,921	6,982,921
Earned surplus (Note 4)	1,855,415	5,835,744
	<u>\$11,251,646</u>	<u>\$15,231,975</u>
	<u>\$68,774,659</u>	<u>\$60,824,311</u>

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

STATEMENT OF INCOME
for the six months ended December 31, 1961

OPERATING REVENUES:		
Scheduled freight operations	\$ 5,268,129	
Charters, service sales, etc.	13,305,366	\$18,573,495
OPERATING EXPENSES:		
Flying operations	\$ 6,759,112	
Ground operations	2,248,427	
Maintenance	4,003,580	
Sales, advertising and publicity	831,278	
General and administrative	938,926	
Depreciation and amortization	3,110,948	17,892,271
Net income from operations		\$ 681,224
OTHER (INCOME) AND EXPENSE:		
Interest expense	\$ 991,193	
Miscellaneous (net)	128,527	1,119,720
Net (loss) before credit for Federal income taxes . .		\$ (438,496)
CREDIT FOR FEDERAL INCOME TAXES—Note 6 . .		
		110,000
Net (loss)		\$ (328,496)
SPECIAL ITEM:		
Provision for obsolescence of 1049H aircraft, less applicable reduction of \$851,801 in deferred Federal income taxes — Note 1		(3,627,055)
Net (loss) and special item		\$ (3,955,551)

The accompanying notes are an integral part of this statement.

STATEMENT OF EARNED SURPLUS
for the six months ended December 31, 1961

BALANCE AT BEGINNING OF PERIOD	<u>\$5,835,744</u>
DEDUCT:	
Per accompanying statement—	
Net loss	\$ 328,496
Special item	3,627,055
Cash dividend on preferred shares—\$.25 per share	24,778
	<u>\$3,980,329</u>
BALANCE AT END OF PERIOD (Note 4)	<u><u>\$1,855,415</u></u>

The accompanying notes are an integral part of this statement.

(1) *Aircraft—*

At December 31, 1961, the Company's fleet consisted of six Canadair CL-44D turbo-prop aircraft and twelve 1049H Super Constellation aircraft. Subsequently, two 1049H aircraft have been lost and two additional CL-44D aircraft have been received. Since it is anticipated that the 1049H aircraft will be replaced on scheduled freight operations early in 1962 by the CL-44D aircraft, the Company made a provision of \$3,627,055, after applicable reduction in deferred Federal income taxes, for obsolescence of these aircraft.

(2) *Equipment Purchase Obligations and Lease Commitments—*

The remainder of the commitments for the purchase of four Canadair CL-44D turbo-prop aircraft, engines, and spare parts (scheduled for delivery by the end of March, 1962) amounts to approximately \$6,800,000. This amount will be financed with approximately \$6,100,000 in additional equipment trust certificates and approximately \$700,000 in additional bank loans (5½%, due 1962-1964) secured by a chattel mortgage on 1049H aircraft and engines and guaranteed by an outside organization.

Equipment obligations payable in other currencies (guaranteed in substantial part through credit insurance) have been converted to United States dollars at par for Canadian dollars and at \$2.80 for English pounds. Subsequent exchange adjustments are reflected in the cost of equipment. In March, 1962, the equipment trust certificates were revised to reflect a change from a five-year to seven-year amortization and the interest rate was reduced to 5½% on the Series A certificates.

The Company has long-term leases on airport facilities and equipment requiring annual payments of approximately \$325,000.

(3) *Debentures and Promissory Notes—*

The Series A and Series B debentures (subordinate) are redeemable at a premium of 10%, and currently are convertible into common shares until June 27, 1967, at \$12.96 per share for the Series A debentures, and until June 27, 1969, at \$17.14 per share for the Series B debentures. The 5½% promissory note (subordinated) is convertible into common shares at \$19.05 per share until December 1, 1971 and at \$23.81 per share thereafter until June 1, 1976.

(4) *Restrictions Under Debt Agreements—*

The bank credit 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, 1961 was restricted against the payment of cash dividends on common shares.

(5) *Capital Stock Options—*

At December 31, 1961, there were outstanding options to key employees for purchase of 56,100 shares of common stock at \$8.10 per share granted during 1956-1958 (including 50,300 exercisable to 1964 and 5,800 exercisable 1963-1967), and for 6,200 shares at \$8.61 per share granted November 21, 1960 and exercisable 1965-1969.

(6) *Federal Income Taxes—*

Federal income tax returns through the fiscal year ended June 30, 1959, have been examined by the Internal Revenue Service and the deficiencies resulting from these examinations have been paid. The examinations covering the years 1956 through 1959 are still subject to final governmental review. Federal income taxes deferred through accelerated 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.

(7) *Change in Fiscal Year—*

Effective December 31, 1961, the Company changed its fiscal year from a year ending June 30 to a year ending December 31.

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

TO THE STOCKHOLDERS,
THE FLYING TIGER LINE INC.:

1320 WEST THIRD STREET
LOS ANGELES 17

We have examined the balance sheets of *THE FLYING TIGER LINE INC.* (a Delaware corporation) as of December 31 and June 30, 1961, and the related statements of income and earned surplus for the six months ended December 31, 1961. 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 at December 31 and June 30, 1961, but we satisfied ourselves as to such accounts by other auditing procedures.

In our opinion, the accompanying balance sheets and statements of income and earned surplus present fairly the financial position of The Flying Tiger Line Inc. as of December 31 and June 30, 1961, and the results of its operations for the six months ended December 31, 1961, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Los Angeles, California
March 9, 1962

