



THE FLYING TIGER LINE INC.

1962 ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31

HIGHLIGHTS

	YEAR ENDED DECEMBER 31	
	1962	1961
Net revenues	\$52,263,061	\$32,420,642
Net income (loss) and special items	\$ 2,810,931	\$(3,649,756)
Net income (loss) and special items per share of common	\$1.94	\$(2.60)
Special items	\$ 478,125	\$(3,627,055)
Special items per share of common	\$.34	\$(2.55)
Working capital	\$ 7,597,944	\$ 1,404,069
Total assets at end of year . .	\$72,661,909	\$68,774,659
Number of stockholders at end of year—		
Common	6,589	7,204
Preferred	1,269	1,390
Net worth	\$14,035,701	\$11,251,646
Net worth per share of common	\$9.15	\$7.21
Shares of common outstanding	1,424,990	1,422,190

RES:

This report shows the financial condition of the Company for the year ended December 31, 1962. Included in this report is a summary of the financial condition of the Company on that date. Prior to December 31, 1961, the Company's financial condition was reported on a semi-annual basis, ending June 30. On January 1, 1962, we changed our reporting period. Therefore, these statements represent the first report of the Company for the year ended December 31, 1962. For comparison purposes, the corresponding figures for the year ended December 31, 1961 are also shown.

for the year ended December 31, 1961.

The net income reported for 1962 is after depreciation and amortization expense of \$6,300,933 compared to \$5,144,888 for the previous calendar year. For the purpose of computing the Company's liability for Federal income tax, we have taken advantage of accelerated depreciation on our new fleet of aircraft. Even though the Company will not be obligated to pay Federal income taxes currently because of the accelerated depreciation policy, the Company nevertheless has deducted from income in the year 1962 and set up in a Reserve for Deferred Federal Income Taxes \$3,045,000 to provide for income taxes which may be payable in future years.

Our cash flow for the year 1962 totaled \$12,156,865 or \$8.53 per share of common stock versus \$5,096,188 or \$3.58 per share for the year 1961.



TO OUR STOCKHOLDERS:

THE BALANCE SHEET at the close of this report shows the financial condition of the Company as of December 31, 1962. Included in this report is a summary of income and expenses for the year ended on that date. Prior to December 31, 1961, the Company was on a fiscal year basis ending June 30. On January 1, 1962, we changed to a calendar year basis. Therefore, these statements represent the first report issued on a calendar year basis. For comparison purposes, the corresponding figures for the preceding calendar year ended December 31, 1961 are also shown.

NET INCOME

NET INCOME for the year ended December 31, 1962 is \$2,810,931 compared to a loss of \$3,649,756 for the year ended December 31, 1961. This represents \$1.94 per share on 1,424,990 shares of common stock outstanding at December 31, 1962 compared to a loss of \$2.60 per share on 1,422,190 shares outstanding at December 31, 1961. The net income for the year ended December 31, 1962 represents the highest yearly earnings, exclusive of special items, since the inception of the Company in 1945.

Included in this 1962 net income figure are special income items amounting to \$478,125 or \$0.34 per share. The 1961 net loss included a \$3,627,055 special charge against income, representing provision for obsolescence of 1049H aircraft amounting to \$2.55 per share.

Net revenues increased to \$52,263,061 during 1962, an increase of 61% over the revenues

for the year ended December 31, 1961.

The net income reported for 1962 is after depreciation and amortization expense of \$6,300,933 compared to \$5,144,888 for the previous calendar year. For the purpose of computing the Company's liability for Federal income tax, we have taken advantage of accelerated depreciation on our new fleet of aircraft. Even though the Company will not be obligated to pay Federal income taxes currently because of the accelerated depreciation policy, the Company nevertheless has deducted from income in the year 1962 and set up in a Reserve for Deferred Federal Income Taxes \$3,045,000 to provide for income taxes which may be payable in future years.

Our cash flow for the year 1962 totaled \$12,156,865 or \$8.53 per share of common stock versus \$5,096,188 or \$3.58 per share for the year 1961.

FINANCIAL POSITION

THE FINANCIAL position of the Company as of December 31, 1962 is the strongest since the inception of the Company in 1945. During the year, the Company retired bank loans and other short and long term obligations amounting to \$6,137,792. At the end of the year, the Company had \$37,657,785 in Equipment Trust Certificates outstanding, of which \$5,712,989 are due within one year and the balance due over a five-year period commencing January 1964.

Equipment Trust Certificates, Series "A", as of December 31, 1962, amounting to \$29,361,479, are payable in Canadian funds, but are recorded in the accompanying financial statements at the exchange rate in effect when aircraft were

delivered, although the equivalent obligation in U. S. funds is equal to \$28,220,440 as of December 31, 1962.

Even though the Company took delivery of a new fleet of CL-44D turboprop airfreighters, costing approximately \$50 million, the Company improved its current ratio to 1.69:1.00 compared to a current ratio of 1.11:1.00 for December 31, 1961.

The Company has made provision in the accompanying financial statements for Federal taxes on income, increasing the Reserve for Deferred Income Taxes by \$3,045,000, even though the Company will not be obligated to pay the Federal taxes on its income for several years as a result of using accelerated depreciation on its new aircraft.

STATEMENT OF CHANGES IN NET WORKING CAPITAL *year ended December 31, 1962*

ADDITIONS TO NET WORKING CAPITAL:

Net income for the year.....	\$ 2,810,931
Depreciation and other noncash items.....	8,670,046
Proceeds on equipment retired.....	3,063,235
	<hr/>
	\$14,544,212

USES OF NET WORKING CAPITAL:

Capital expenditures.....	\$ 2,955,461
Training costs, etc.....	798,760
Dividends on preferred stock.....	49,556
Payment of bank loans, equipment trust certificates, etc.....	4,546,560
	<hr/>
	\$ 8,350,337

INCREASE IN NET WORKING CAPITAL.....	<hr/> <hr/>
	\$ 6,193,875

CL-44D AIRCRAFT

IN APRIL 1962, we took delivery of the last CL-44D aircraft of the original ten aircraft purchased in 1959. The performance of the aircraft has been extremely satisfactory and the net operating results which the Company experienced during 1962 are attributable largely to the introduction of the new CL-44D turboprop aircraft into the Company's operations.

Even though the operating results of the CL-44D aircraft have been most gratifying, there is still a long period of improvement ahead for the Company to lower the operational costs and increase the revenue of these aircraft. During the next two years, we hope to increase the utilization from nine hours per day to twelve hours per day. The overhaul life of the engines and the major components will increase substantially. These factors will decrease our operational costs during the coming years.

It is the general practice in the air transportation industry to depreciate modern turbine-powered aircraft over a period of ten to fourteen years. We adopted a policy of depreciating the new CL-44D aircraft over a ten-year period with a 15% residual for book purposes only.

At the end of the year, the Company was operating a fleet consisting of ten CL-44D aircraft and eight 1049H Constellation aircraft, provided a reasonable sale price can be secured, we have utilized these aircraft at a utilization factor of better than twelve hours per day during 1962 and therefore have not been able to release them from the Company's operations.



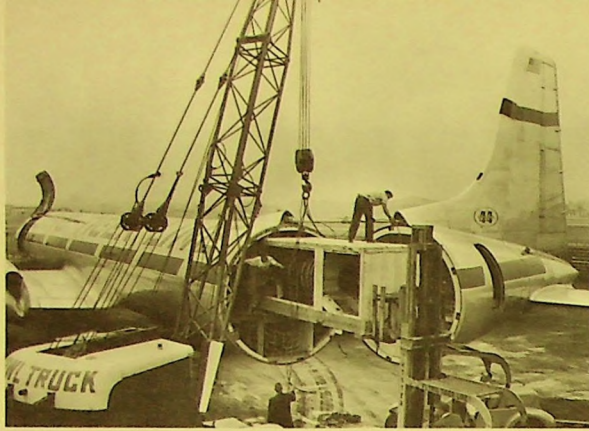
Overhead view depicts size of CL-44D. Compare with figures of men in plane foreground.



Interior view of CL-44D main cargo hold, which is 98 feet long, including swingtail compartment, 11½ feet wide and 6¾ feet high. Rigging on left is cargo netting used to secure freight.



Turbo-prop jet swingtail CL-44D ready for take-off with 65,000-pound freight load.



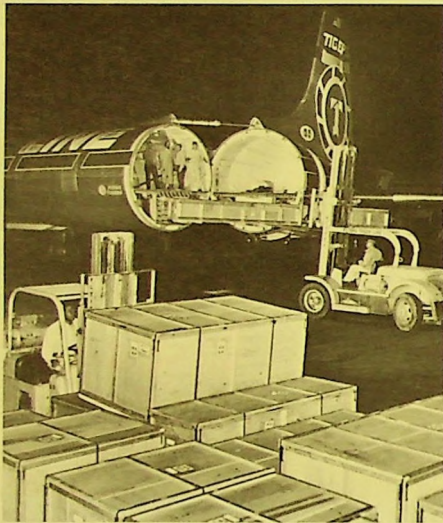
Newark, N. J.—A 35,000-pound turbine generator—single largest piece of airfreight ever flown—is loaded aboard a CL-44D for non-stop flight to Los Angeles for the Southern California Edison Company. Air shipment enabled Edison to get a plant in operation a week ahead of schedule.

AIR CARGO

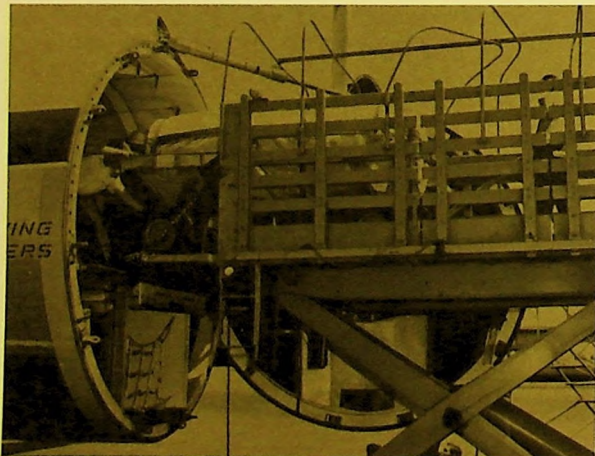
THE YEAR 1962 has again reflected a gain in the Company's volume of freight carried in domestic operations. Ton miles carried in the year ended December 31, 1962 were 74,196,841 as compared to 66,750,019 ton miles carried in the year ended December 31, 1961—an increase of eleven percent. This increase in volume, however, was offset by lower rates in the early months of 1962, resulting in approximately the same gross dollar volume of revenue from this type of operation in the two years.

The Company introduced a new concept of airfreight rate-making by filing a "class rate" form of tariff. This tariff was flexible enough to allow the necessary experimenting with airfreight rates in an attempt to test the feasibility of converting cargo that is now being carried by other forms of transportation into air cargo. The tariff was the first scientific attempt to eliminate some of the problems that have plagued the airfreight industry for the last fifteen years, namely: cube versus weight and value of the product versus cost of transportation, to mention only two of the considerations. The tariff was introduced after two years of extensive research by the Company and, although the tariff was more complicated than the previous airfreight tariff in effect since 1945, it nevertheless protected the Company's return under the present tariff carried in addition to having adequate flexibility to attract additional air cargo volume not carried as air cargo.

Unfortunately, the Company had to abandon its class rate tariff in May 1962 and revert to the previous single rate tariff because the Civil Aeronautics Board did not approve the low experimental rates included in the new class rate tariff, which were the key to attract new volumes of air cargo. Since the early summer of 1962, the Company has introduced numerous lower rates for certain commodities and movements after extensive and time consuming presentations to the Civil Aeronautics Board. The Company is continuing to make progress in introducing the flexible rate structure on a piecemeal basis.



San Francisco, Calif.—Bulky freight is easily and quickly loaded on a swing-tail CL-44D.



Hartford, Conn.—Jet engine is wheeled onto CL-44D from hydraulic lift-bed truck.

Our extensive research program during the past two years has convinced us more than ever that the future of the air cargo industry lies to a large extent upon its ability to become part of an integrated transportation system, wherein each form of transportation finds its role and works together rather than competes with each other. It is also apparent that it is economically impossible to give direct air cargo service to every small service point in the United States, even though the complexity of distribution of goods, competition, marketing and production increase year by year the demand for greater speed in the transportation of goods. We therefore have come to the conclusion that a combination of more than one form of transportation will result in a compromised form of transportation at lower costs and faster movement of goods. Consequently, we have inaugurated an extensive program to integrate air transportation into truck transportation. Our truck-air program, "Skyroad," encompasses approximately 1,500 cities in the United States, providing superior transportation services to many cities having no airfreight service or infrequent service.

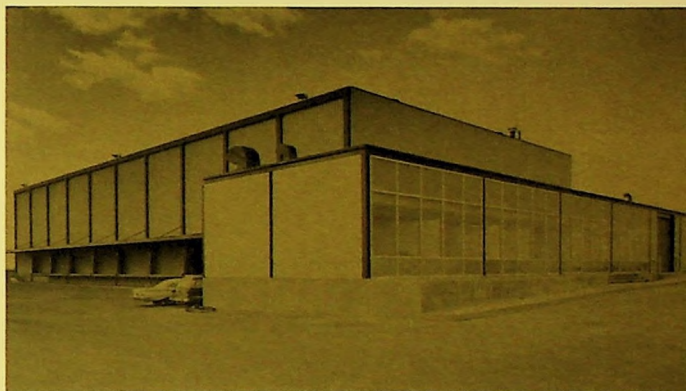
Several months ago we became the first airline to become a member of the Pacific Steamship Conference, wherein we are providing combination steamship-air transportation service from points in the Orient to the major cities in the Midwest and East Coast of the United States.

All of these programs are designed to protect our present overnight premium air cargo service, and the revenue from such service, with the additional business, will build volume to increase the utilization of the Company's equipment and facilities.

The Company now has four CL-44D turbo-jet aircraft and four 1049H Constellation aircraft assigned to the domestic air cargo business. Although the available lift was almost doubled during the winter of 1962 through the introduction of the new CL-44D aircraft, the load factors and the increase in air cargo volume have been satisfactory and in accordance with our forecasts.



Burbank, Calif.—New-type racing hydroplane being loaded aboard CL-44D. Note how air shipment permits uncrated handling of boat, thus greatly reducing shipping costs.



Chicago, Ill.—Flying Tiger's new O'Hare Terminal cargo base. Offices are located in foreground, with truck receiving dock in background.



Burbank, Calif.—Generator is unloaded into flat-bed truck.



Travis Air Force Base, Calif.—Flying Tiger CL-44D readied for boarding of troops for trans-Pacific flight for the Military Air Transport Service (MATS).



Los Angeles, Calif.—Dental Society group, 165 strong, board Flying Tiger CL-44D on convention tour to Amsterdam, Holland. Flight is a part of Tiger low-cost group tourist program.

MILITARY CONTRACTS

DURING THE YEAR 1962, \$38,394,750 of our revenue came from business done with the Military Air Transport Service (MATS). This volume is comparable to \$20,840,239 of MATS business contracted for during the year ended December 31, 1961.

Approximately one-half of the MATS volume was based upon a fixed annual contract; the balance of the military business came from day-by-day requirements of MATS. Although the volume of such air transportation requirements depends to a certain extent upon the political situation throughout the world, the principal reason for the Company's increase in military contract work during the year 1962 was the fact that the Company had in operation the largest fleet of modern air cargo transports for such military requirements.

PASSENGER CHARTERS

FOR MANY YEARS, the Company has been engaged in the low-cost group passenger charter business to points in Europe. During 1962, the Company flew sixty-four group charters across the North Atlantic to various European points, producing \$1,839,522 in revenue. This business is principally performed during the summer months, but has steadily increased in volume throughout the years because the low, economical per-passenger costs make it possible for a large segment of vacation seekers to enjoy a three- or four-week trip to Europe.

These passenger charters have been performed under exemptions granted to us by the Civil Aeronautics Board. During 1962, we applied to the Civil Aeronautics Board for a permanent certificate permitting the Company to engage in such charter business in future years. After appropriate hearings before the Civil Aeronautics Board, the Examiner recommended that the Civil Aeronautics Board grant the Company the requested rights. It is our opinion that, should the Civil Aeronautics Board render a favorable decision, the Company's revenues from such charter business would increase substantially during the coming years.

In the past, the Company was prevented by law from engaging in passenger charters within the United States. During the summer of 1962, the United States Congress gave the Company the right to engage in passenger charters within the United States. Although the year 1962 reflected a small amount of revenue from this source, preliminary sales surveys and efforts have demonstrated that a great undeveloped potential exists in this field and, with our sales efforts inaugurated during the last few months in 1962, the revenues from this business for future years will, we hope, be substantial.



FLYING TIGER SKYROAD

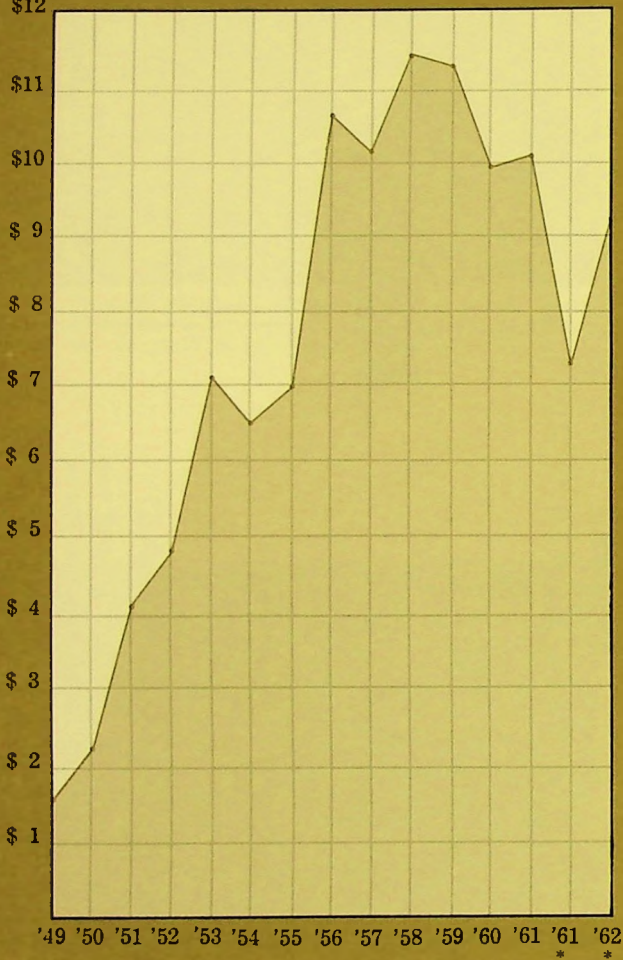
These terminals are the gateway points for rapid Skyroad connection via truck or train to more than 1500 cities and towns.

Legend

- Flying Tiger Airfreight Route #100
- Areas Served By Affiliated Skyroad Surface Carriers

NET
WORTH
PER
SHARE
\$12

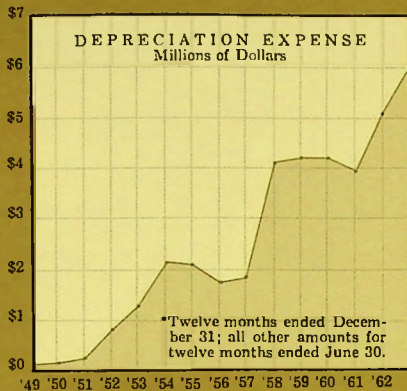
GROWTH IN EQUITY



* December 31; all other dates are as of June 30.

Millions

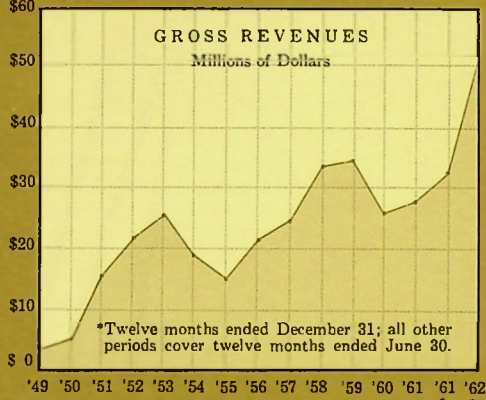
DEPRECIATION EXPENSE Millions of Dollars



*Twelve months ended December 31; all other amounts for twelve months ended June 30.

Millions

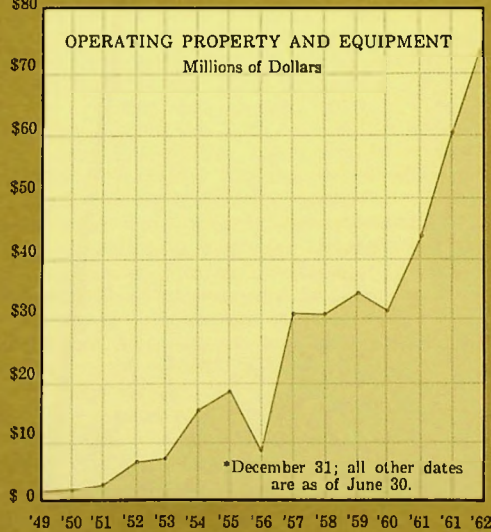
GROSS REVENUES Millions of Dollars



*Twelve months ended December 31; all other periods cover twelve months ended June 30.

Millions

OPERATING PROPERTY AND EQUIPMENT Millions of Dollars



*December 31; all other dates are as of June 30.

DIVIDENDS

IT IS STILL the Company's policy, over the long pull, to plow back its earnings into new equipment to further improve its earning base, thereby increasing the capital value of the common stock. In line with this policy, your Directors declared a 5% stock dividend payable February 15, 1963 to stockholders of record January 2, 1963.

At the close of the year, the net book value

of the Company's stock was \$9.15 on the 1,424,990 shares outstanding.

Cash dividends paid on the Company's common stock since 1945 amount to \$107,770. Stock dividends paid through January 2, 1963 total 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

OUR LABOR RELATIONS with four unions and with nonorganized employees have been on a very satisfactory plane during the year. The Company completed negotiations with the International Association of Machinists, representing our mechanics, cargo personnel and other related crafts and the new labor agreements will remain in effect until 1965. New labor agreements nego-

tiated with unions representing pilots and flight engineers will be in effect until 1964 and 1967, respectively.

The Company has agreed to inaugurate a Retirement Benefit Plan for its nonflight employees as of January 1, 1963, which will benefit both the employees and the Company in maintaining a harmonious working relationship.

SUMMARY

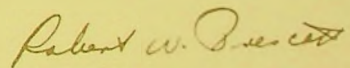
FROM AN EARNING standpoint, the year 1962 has been the best year since the inception of the Company seventeen years ago. At the end of the year, the Company enjoyed a stronger financial position than ever attained in previous years. Although many problems face us in our highly competitive field, I am personally encouraged by the year's results. We have reached a new plateau in earnings and financial security, and I am optimistic that we not only will continue but will expand into the coming years the improvements we have shown for this year.

It has been our past and will continue to be our future policy to satisfy our customers, stockholders and employees. In order for the Company to reap the full benefits from this policy, each employee of the Company has been requested to cooperate fully with this policy.

To our customers, we strive to give consistently better service at a fair and competitive price. We also strive constantly to improve our efficiency and lower our operating costs, passing on to our customers, investors and employees the savings gained thereby.

We express our thanks for the help we have received in the past from our customers, employees, stockholders and the general public.

By order of the Board of Directors,



ROBERT W. PRESCOTT
President

Burbank, California
March 7, 1963

BALANCE SHEETS *December 31, 1962 and 1961*

A S S E T S

	DECEMBER 31	
	1 9 6 2	1 9 6 1
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash, including \$8,050,000 certificates of deposit at December 31, 1962	\$10,442,671	\$ 3,343,379
United States Treasury notes, at cost	—	1,996,073
Receivables—		
Freight customers	1,406,091	1,487,130
Charters, service sales, etc.—		
United States Government	2,247,234	3,146,795
Other	1,337,676	1,345,553
Federal income tax refund	—	347,980
Reserve for bad debt losses	(100,000)	(155,000)
Materials and supplies, at average cost	1,568,144	1,064,258
Prepaid insurance, rents, etc.	725,960	442,034
Prepaid engine overhaul cost (net)	963,722	816,724
Total current assets	<u>\$18,591,498</u>	<u>\$13,834,926</u>
PROPERTY AND EQUIPMENT (Notes 1 and 2):		
Cost—		
Aircraft, engines, and other flight equipment	\$71,353,967	\$57,082,081
Other equipment	1,601,971	1,371,535
Land and buildings	1,263,946	879,925
	<u>\$74,219,884</u>	<u>\$59,333,541</u>
Less—Reserves for depreciation	24,231,805	20,530,597
	<u>\$49,988,079</u>	<u>\$38,802,944</u>
Progress payments on aircraft and engines on order	—	12,059,508
	<u>\$49,988,079</u>	<u>\$50,862,452</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expense	\$ 1,083,164	\$ 1,326,586
Long-term prepayments, etc.	225,567	478,835
Training and other costs applicable to CL-44D aircraft, being amortized over a ten-year period	2,773,601	2,271,860
	<u>\$ 4,082,332</u>	<u>\$ 4,077,281</u>
	<u>\$72,661,909</u>	<u>\$68,774,659</u>

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

BALANCE SHEETS *December 31, 1962 and 1961*

LIABILITIES

DECEMBER 31

	1962	1961
CURRENT LIABILITIES:		
Current portion of bank loans.....	\$ —	\$ 1,604,983
Current installments of equipment purchase obligations, etc.....	5,712,989	4,719,694
Other notes payable.....	—	851,525
Accounts payable and accrued liabilities.....	4,599,638	4,528,910
Reserve for vacations.....	577,851	464,916
Advance charter deposits.....	103,076	260,829
	<hr/>	<hr/>
Total current liabilities.....	\$10,993,554	\$12,430,857
	<hr/>	<hr/>
LONG-TERM DEBT (Notes 2, 3 and 4):		
Bank loans, secured by 1049H aircraft and engines, less current portion.....	\$ —	\$ 1,583,760
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, less current installments Equipment trust certificates due 1963-1969— Series A—5½%.....	25,182,994	15,710,053
Series B—5½%.....	6,761,802	7,811,059
Interim equipment purchase notes (5½%) and interest, refunded with equipment trust certificates.....	—	6,596,193
5½% promissory note (subordinated) due 1976.....	5,000,000	5,000,000
Other, due 1963-1966 (6%), less current portion.....	340,293	1,178,694
	<hr/>	<hr/>
	\$42,785,089	\$43,379,759
	<hr/>	<hr/>
DEFERRED CREDITS:		
Deferred income taxes (Note 5).....	\$ 4,715,436	\$ 1,670,436
Deferred income, etc.....	132,129	41,961
	<hr/>	<hr/>
	\$ 4,847,565	\$ 1,712,397
	<hr/>	<hr/>
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, 1,424,990 shares (1962) and 1,422,190 shares (1961).....	1,424,990	1,422,190
Capital surplus.....	7,002,801	6,982,921
Earned surplus (Note 4).....	4,616,790	1,855,415
	<hr/>	<hr/>
	\$14,035,701	\$11,251,646
	<hr/>	<hr/>
	\$72,661,909	\$68,774,659
	<hr/>	<hr/>

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

STATEMENTS OF INCOME
for the years ended December 31, 1962 and 1961

	1962	1961 (Note 6)
OPERATING REVENUES:		
Scheduled freight operations.....	\$10,259,168	\$10,620,421
Charters, service sales, etc.....	42,003,893	21,800,221
	\$52,263,061	\$32,420,642
OPERATING EXPENSES:		
Flying operations.....	\$16,740,263	\$11,882,559
Ground operations.....	5,619,582	4,168,674
Maintenance.....	12,535,648	6,558,025
Sales, advertising and publicity.....	1,845,291	1,619,261
General and administrative.....	1,823,641	1,722,604
Depreciation and amortization.....	5,961,544	5,054,040
	\$44,525,969	\$31,005,163
Net income from operations.....	\$ 7,737,092	\$ 1,415,479
OTHER EXPENSE:		
Interest expense.....	\$ 2,792,175	\$ 1,302,454
Miscellaneous (net).....	85,111	161,726
	\$ 2,877,286	\$ 1,464,180
Net income (loss) before provision (credit) for Federal income taxes.....	\$ 4,859,806	\$ (48,701)
PROVISION (CREDIT) FOR FEDERAL INCOME TAXES (Note 5).....	2,527,000	(26,000)
Net income (loss).....	\$ 2,332,806	\$ (22,701)
SPECIAL ITEMS:		
Provision for obsolescence of 1049H aircraft, less applicable reduction of \$851,801 in deferred Federal income taxes..	—	(3,627,055)
Adjustment on aircraft destroyed, less applicable provision of \$518,000 for deferred Federal income taxes.....	478,125	—
Net income (loss) and special items.....	\$ 2,810,931	\$ (3,649,756)

The accompanying notes are an integral part of these statements.

STATEMENTS OF SURPLUS
for the year ended December 31, 1962

EARNED SURPLUS

BALANCE AT BEGINNING OF PERIOD.....	\$ 1,855,415
ADD—Per accompanying statement:	
Net income.....	2,332,806
Special item.....	478,125
	\$ 4,666,346
DEDUCT—Cash dividends on preferred shares—\$.50 per share.....	49,556
BALANCE AT END OF PERIOD (Note 4).....	\$ 4,616,790

CAPITAL SURPLUS

BALANCE AT BEGINNING OF PERIOD.....	\$ 6,982,921
ADD—Excess of proceeds over par value of 2,800	
common shares issued under stock options.....	19,880
	\$ 7,002,801
BALANCE AT END OF PERIOD.....	\$ 7,002,801

The accompanying notes are an integral part of these statements.

(1) *Aircraft—*

At December 31, 1962, the Company's fleet consisted of ten Canadair CL-44D turbo-prop aircraft and eight 1049H Super Constellation aircraft. Effective January 1, 1962, the Company changed the estimated service lives and residual values of the Canadair CL-44D aircraft from seven years and 10 per cent residual values to ten years and 15 per cent residual values. The amortization period for deferred training and other costs applicable to the CL-44D aircraft was also changed from seven to ten years. Provisions for depreciation and amortization for 1961 have not been restated, since the change would have had no material effect in that year.

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

The Series A equipment trust certificates are payable in Canadian dollars (\$35,654,775 less future interest \$5,251,370) and at December 31, 1962, have been converted to U. S. dollars at the conversion rates in effect on the various delivery dates of the related aircraft. At December 31, 1961, they were stated in U.S. dollars at par for Canadian dollars. The exchange adjustment from par to conversion rates at delivery was reflected in the cost of equipment, as were exchange adjustments applicable to payments on the indebtedness to December 31, 1962.

The Company has long-term leases on airport facilities and equipment requiring annual payments of approximately \$450,000.

(3) *Capital stock and subordinated debt—*

On December 6, 1962, the Board of Directors declared a 5 per cent stock dividend on common shares, payable February 15, 1963. After giving effect to the dividend, 346,892 common shares were reserved for conversion of debentures, 275,634 shares for conversion of 5½ per cent promissory note, and 59,500 shares for stock options. The following information in respect of subordinated debt and stock options also reflects such stock dividend.

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, 1962, there were outstanding options to key employees for purchase of 46,725 shares of common stock at \$7.71 a share granted during 1956-1958 (including 41,475 exercisable to 1964 and 5,250 exercisable 1963-1967), and for 6,510 shares at \$8.20 a share granted November 21, 1960 and exercisable 1965-1969.

(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 the provisions, the earned surplus at December 31, 1962 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) *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. The statement of income for the year ended December 31, 1961, has been prepared for purposes of comparison but it has not been examined by Arthur Andersen & Co.

(7) *Change in pension and profit-sharing plans—*

A contributory pension plan, applicable to future service, will become effective January 1, 1963, for certain employees not previously covered by the pension plan for pilots. The annual cost of the plan will be dependent on the number of employees who participate in it. Following approval by the Internal Revenue Service and any final contribution which may be made in 1963, the Company's profit-sharing and retirement plan will be abandoned.

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

1320 WEST THIRD STREET
LOS ANGELES 17

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, 1962 and 1961, and the related statements of income and surplus for the year ended December 31, 1962. 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 and surplus present fairly the financial position of The Flying Tiger Line Inc., as of December 31, 1962 and 1961, and the results of its operations for the year ended December 31, 1962, in conformity with generally accepted accounting principles applied, except for the change in the estimated service lives and residual values of the CL-44D aircraft as set forth in Note 1 of the notes to the financial statements, on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Los Angeles, California,
March 5, 1963

OFFICERS OF THE COMPANY

ROBERT W. PRESCOTT	<i>President</i>
FRED BENNINGER	<i>Executive Vice-President-Treasurer</i>
JOHN L. HIGGINS	<i>Vice-President—Sales</i>
WILLIAM E. BARTLING	<i>Vice-President—Operations</i>
L. S. KIMBALL	<i>Vice-President—Public Relations</i>
JAMES McLACHLAN, JR.	<i>Vice-President—Maintenance</i>
GEORGE T. CUSSEN	<i>Vice-President</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>
RALPH B. STUMP	<i>Assistant Secretary</i>

BOARD OF DIRECTORS

SAMUEL B. MOSHER	<i>Chairman of the Board</i>
	<i>Chairman of the Board of Signal Oil & Gas Company, Los Angeles</i>
RUTH AXE	<i>Vice-President, E. W. Axe & Co., Inc., New York</i>
FRED BENNINGER	<i>Executive Vice-President-Treasurer</i>
ALLEN T. CHASE	<i>President, Standardized Aircraft, Inc., Los Angeles</i>
JOHN C. COSGROVE	<i>Executive Vice-President,</i> <i>Marsh & McLennan-Cosgrove & Co., Los Angeles</i>
BORIS GRESOV	<i>Chairman, Shattuck Denn Mining Corporation, New York</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 & 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.

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

SALES OFFICES

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
941-5777

DETROIT, MICH.

Detroit-Metropolitan Airport
Logan 2-9700

FRANKFURT, GERMANY

Room 245
TWA Hangar
Rhine Main Airport
Frankfurt/Main
Germany
Tel.: 697205

HARTFORD, CONN.-SPRINGFIELD, MASS.

Bradley Field, Windsor Locks, Conn.
Hartford: 522-3145
Springfield: Republic 4-5675

HONOLULU, HAWAII

Honolulu International Airport
Honolulu, Hawaii
Tel.: 9-34093

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

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 1-1158

SAN FRANCISCO - OAKLAND, CALIF.

San Francisco International Airport
761-1100

SEATTLE, WASH.

Seattle-Tacoma International Airport
Cherry 4-4747

TOKYO, JAPAN

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

