

Annual Report



1960

year ended June 30, 1960



1960 IN BRIEF...

for the fiscal year ended June 30,

	1960	1959
Operating Revenues.....	\$25,987,014	\$34,579,936
Operating Expenses.....	\$26,774,763	\$31,773,547
Operating Income (Loss).....	(\$ 787,749)	\$ 2,806,389
Interest Expense.....	\$ 922,362	\$ 774,958
Net Income (Loss) After Interest and Income Taxes.....	(\$ 1,172,477)	\$ 1,011,140
Special Item.....	\$ 173,809	\$ 380,226
Net Income (Loss) and Special Item.....	(\$ 998,668)	\$ 1,391,366
Per Common Share Outstanding (Average for Year)...	(\$.74)	\$ 1.23
Investment in Property and Equipment (Gross).....	\$31,604,018	\$33,823,594
Long-Term Debt.....	\$15,271,448	\$16,138,379
Stockholders' Equity at Book Value.....	\$14,949,439	\$16,105,435
Per Common Share.....	\$ 9.87	\$ 11.22
Total Assets.....	\$38,526,418	\$43,311,205
Working Capital.....	\$ 1,107,448	\$ 1,849,085



LOCKHEED AIR TERMINAL
BURBANK, CALIFORNIA
TRIANGLE 7-3411

September 10, 1960

TO OUR STOCKHOLDERS:

We herewith report to you the results of operations for the 15th year of the Company's existence and a statement of condition as of June 30, 1960. The loss for the year was \$998,668. Principal reason for the loss, compared to a profit of \$1,391,366 last year, was a paralyzing rate situation in the Military contract field. We pointed this out to you in last year's report and predicted the situation would worsen. This condition has been brought about chiefly by the existence of a large number of four-engine piston aircraft which became surplus to the passenger airline needs as they initiated their jet fleets. Because no market existed for these airplanes they could be obtained on very reasonable terms. Some smaller carriers took advantage of this situation and, apparently through lack of experience, bid the contracts at prices below their costs. This has caused us a loss in business and has taken a few of these companies to the verge of bankruptcy. We have refused to bid on these contracts at prices less than our costs.

Steps are now being taken by both the Military and the Civil Aeronautics Board to correct this situation. The Civil Aeronautics Board has announced that it will not give authority to fly the contracts unless the prices therefor adhere to certain standards set up by the Civil Aeronautics Board.

In addition, the Military has indicated that beginning in January, 1961, they are changing their methods of awarding contracts. In the past, all contracts have been let under strict competitive bidding, with the lowest bidder taking the business regardless of any other factors.

We are advised that the new policy will contain some new features that are very important to us: (1) The contracts will be let on a negotiated basis. This should allow for reasonable pricing. (2) Preference will be given aircraft enrolled in the Civil Reserve Air Fleet. (3) Prior consideration will be given those companies who have ordered modern turbine-powered cargo airplanes. Our order for the CL-44D turbo-propeller fleet is the largest of any in the industry, and the CL-44D is considered the most modern cargo airplane available. If these policies are put into effect, our immediate future will be brightened considerably.

On July 25, 1960, the Examiner for the Civil Aeronautics Board on the Pacific Route Case recommended The Flying Tiger Line Inc. for certification for an all-cargo and mail route from points in the United States, such as New York, Chicago, Detroit, Los Angeles, San Francisco, Seattle, Portland, to Pacific points such as Honolulu, Guam, Tokyo, Okinawa, Manila and Hongkong. While the Examiner's recommendation is not the final decision, it is certainly a great step in the right direction. Two steps remain: the decision by the Civil Aeronautics Board itself, and the final approval by the President, since this is an international route. We have good reason to believe that this case may be settled by the end of this year. This route, coupled with our acquisition of the CL-44D fleet will enhance our earnings prospects tremendously in the future.

Our commercial airfreight volume has continued to increase at a satisfactory rate. This year the Company carried a total of 86,095,933 ton miles versus 79,634,602 ton miles for the previous year. With the coming of the new CL-44 fleet, as described for you elsewhere in this report, we feel optimistic that there will be a substantial increase both in volume and profitability in this phase of our operations.

Our thanks to our stockholders and employees for their loyalty and cooperation during this past year.

For the Board of Directors

Sincerely,

President



THE FLEET ON ORDER

IN MAY, 1959 THE COMPANY placed orders with Canadair, Ltd. and Rolls-Royce Ltd. for ten CL-44D turboprop airfreighters. These aircraft will be delivered to the Company in the Spring of 1961 and the Company expects to serve its domestic airfreight route with the new fleet of CL-44D turboprop aircraft by July 1, 1961. The CL-44D aircraft is an advanced turboprop design reducing the per ton mile direct operating cost 40% below that presently incurred by the Super Constellations. Essential to the development of a large scale airfreight industry is a large volume, low cost aircraft. Only with low rates will air transportation tap the huge potential of property and mail to be carried coast to coast. The CL-44D aircraft represent the first and presently the only uncompromised all-cargo aircraft essential to the development of the airfreight business. The aircraft will carry freight loads in excess of 65,000 pounds coast to coast and will have "swing tails" to facilitate speedy and more economical loading of cargo.

The financing of these aircraft has been completed through deposits already made and equipment trust certificates to be issued upon delivery of the equipment. The aircraft are sufficient in number to service the Company's domestic airfreight Route 100 with adequate surplus capacity to provide substantial supplemental contract operations.

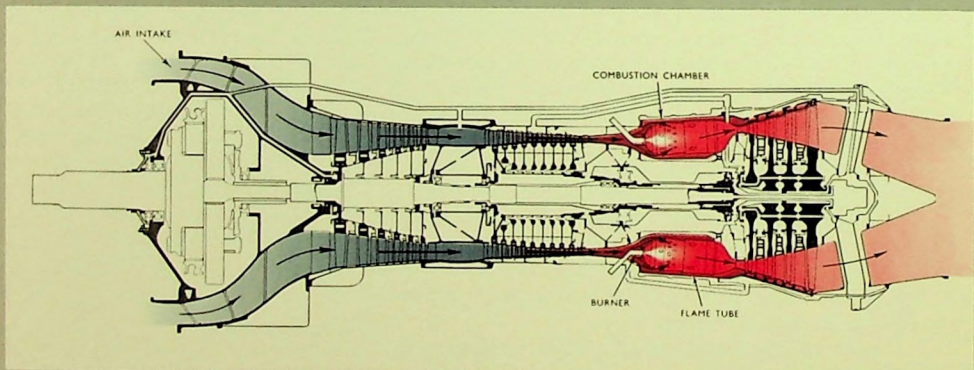
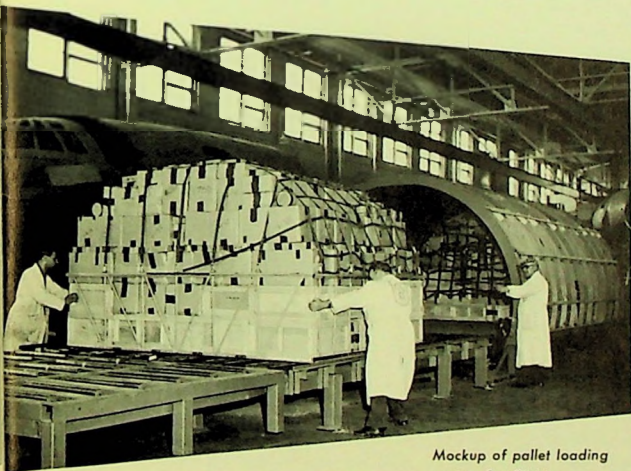


DIAGRAM OF
ROLLS-ROYCE TURBOPROP ENGINE

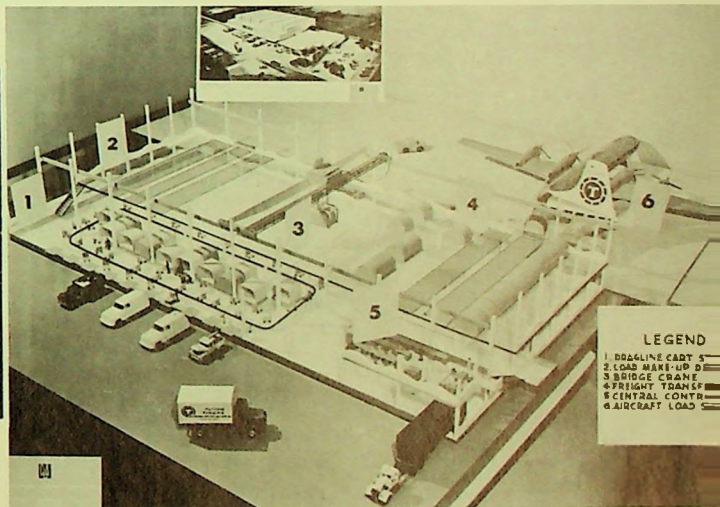
NEW GROUND FACILITIES

THE COMPANY IS PREPARING its ground facilities for the introduction of the new CL-44D turboprop airfreighter into the domestic all-cargo operation during this coming year. The "swing tail" feature in the CL-44D aircraft will permit the Company to introduce mechanized loading and unloading of cargo, thereby reducing substantially the cost of handling air cargo and its related indirect costs such as increased utilization of aircraft, reduction in damage to cargo and more economical utilization of personnel.

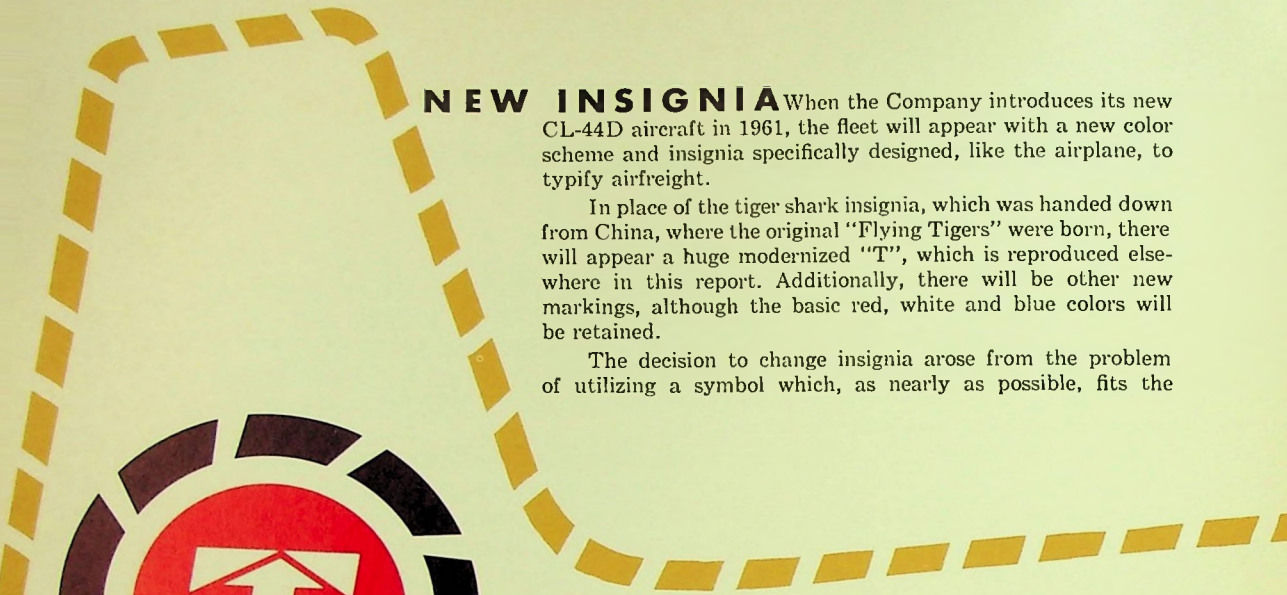
The Company will shortly break ground for the construction of a new automated freight terminal at the O'Hare Airport in Chicago, Illinois. This freight terminal will represent the most modern and economical cargo terminal in the world. The design of the terminal will permit the loading and unloading of the new turboprop CL-44D aircraft in a matter of minutes instead of hours and will substitute mechanical devices for hand labor. Although the air cargo industry has made substantial improvements in the development of a more economical cargo aircraft during the past decade, virtually no improvement has been made in the methods of handling of air cargo. The Company has been aware of this deficiency and, recognizing the advantages of the design features of the CL-44D aircraft, the Company will embark on a program of upgrading the ground facilities to take full advantage of the economies that the new aircraft will offer.



Mockup of pallet loading system for CL44



Working model of interior operation of new automatic freight terminal.



NEW INSIGNIA When the Company introduces its new CL-44D aircraft in 1961, the fleet will appear with a new color scheme and insignia specifically designed, like the airplane, to typify airfreight.

In place of the tiger shark insignia, which was handed down from China, where the original "Flying Tigers" were born, there will appear a huge modernized "T", which is reproduced elsewhere in this report. Additionally, there will be other new markings, although the basic red, white and blue colors will be retained.

The decision to change insignia arose from the problem of utilizing a symbol which, as nearly as possible, fits the



FLYING TIGER LINE

AIRFREIGHT

broad needs of the airline. While the shark insignia could be readily displayed on a business card or letterhead, it was impossible to read at any distance on the airplane or a large sign, or a fast-traveling pickup and delivery truck.

The trend in Company identification to simple letter symbols provided the solution to the problem of getting general usefulness out of an insignia. Fortunately, the Tigers could use the letter "T", which is one of the most readable and strongest of all letter symbols. It could be displayed on the huge tail section of the CL-44D, which is 36 feet high, so that it could be read at almost any useful distance, and likewise on major advertising signs and trucks.

In development of the "T", as well as other markings, the motif of freight identification was used. The arrow in the "T" and on the fuselage, the large, bold letters, the dashed line, are all typical symbols used daily in marking freight, all intended to achieve quick, easy readability.

On the Company name, outsize letters are used so that the Company's aircraft will be the most visible at any airport, a trend which we believe will be followed in the future in place of the small, restrained lettering now common. Such letters give the greatest advertising value and, in addition, since the Company's aircraft are always quartered at freight terminals usually a long distance from passenger areas, such lettering will enable viewers to recognize the Company's aircraft easily and thus enhance the advertising value of the name.



Sales Research Staff studies new rate proposals. Left to right are Philip Schary, Noe Cadena, Albert Sachs, Vice-President John L. Higgins and Robert Brunner, Manager of Rates and Tariffs.

SALES RESEARCH AND DEVELOPMENT

RECOGNIZING THAT THE DEVELOPMENT of air cargo potential was becoming a more immediate requirement with the CL-44D, the Company, in 1959, established the Sales Research and Development Department. This group was given the assignment of studying the air cargo market, and developing plans to meet the challenge offered by the new aircraft. While many forecasts have been made of the industry potential, it was necessary to translate their general tone of optimism into specific programs for the Company to use in developing this market.

The department embarked on a threefold program: (1) to analyze the trends within the air cargo market, (2) to study the shifting patterns of surface transportation, and (3) to examine the pricing structures of all forms of transportation, as a guide for future policy and pricing recommendations. The objective underlying these studies was to develop programs to insure success in the future air cargo markets, utilizing the experience of the transportation industry in the past.

The results of this preliminary research program and the resulting recommendations were completed in June of this year. Centered primarily around a new pricing structure, these recommendations were planned to fulfill the Company objectives of developing the growth potential in air cargo, achieving an optimum profit for performing air cargo service, and to maintain the position of leadership in the air cargo industry which the Company has always enjoyed.

These recommendations are being implemented in the continuance of the research and planning necessary for the development of this price structure, through shipper surveys, a contracted study by members of the faculty of the University of Washington to scientifically analyze industrial material flows and distribution costs (known by the newly created word, "rhochematics"), analysis of internal data, and the development of new techniques for the marketing of airfreight.



AIRFREIGHT

IN THE 1960 FISCAL YEAR the Company experienced a further gain in airfreight and established a new record in airfreight revenues. The total airfreight revenue for the fiscal year 1960 was \$15,181,013, as compared to the previous high of \$13,993,414 in 1959. This amounted to an increase of \$1,187,599, a gain of over 8%.

In the fiscal year 1960, on four different occasions a new monthly record was established. The previous highest month on record was December 1958, when an all time record of \$1,356,125 was recorded. In fiscal 1960, this record was eclipsed by July with revenues of \$1,377,967; by September with \$1,449,236; by October with \$1,570,118 and again by December with \$1,378,150.

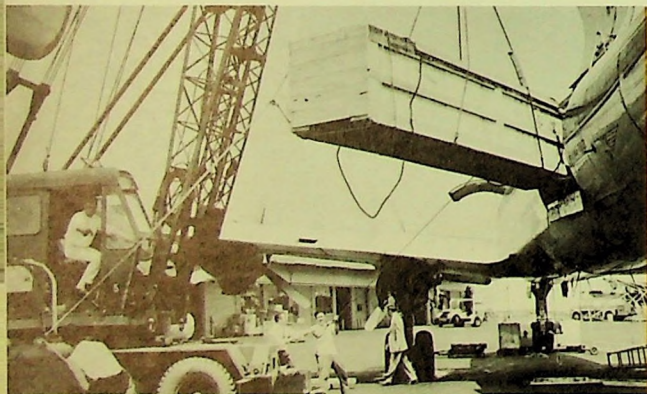
Load factors were slightly lower in 1960 than in 1959, the average for 1959 being 74.6% as against 70.3% for 1960. This was because the Company, in an effort to attract more business, added additional lift capacity to its common carriage fleet. While in 1959 the number of aircraft in the domestic fleet varied from four to seven, in 1960 the fleet consisted of never less than six Constellations with one C-46 serving the Pacific Northwest. From September to April, eight Constellations were in domestic airfreight with a daily capacity of approximately 320,000 pounds. This huge capacity manifested itself in a slightly lower load factor.

In fiscal 1960, every month exceeded the one million dollar figure with the exception of February. In that month the revenues were \$906,516 against the other eleven months' average of \$1,297,682. It is evident that except for the strike, which occurred in February, the Company would have exceeded the million dollar figure for every month of the year.

The constancy of the revenues attained in 1960 indicate that new plateaus have been established in airfreight. These increased revenues should increase in volume as the shipping public becomes more cognizant of the advantages airfreight offers. The turbo-prop CL-44D to be introduced by the Company in 1961 will stimulate the volume of airfreight through improved service. The reduction of rates that will be made possible by this aircraft should provide an impetus that should raise revenues to a figure that will dwarf the figures of 1959-1960.

An important change of schedules and service during June of 1960 saw the retirement from the common carriage fleet of its last C-46. This aircraft had been used to service the Northwest.

14,000-pound ship turbine for Tokyo loading at Newark



Tige-Air-Van household goods movement underway at Seattle



To use a C-46 for this flight leg any longer would have stifled the growth of these markets, and therefore the larger Constellation aircraft was introduced.

Schedule changes or modifications in the past have been predicated on service, revenues and operational costs. Today in schedule changes, another factor must be taken into consideration. That factor is the imminence of the CL-44D and the lower rates. Planning today must give weight to these factors. We are preparing today for the introduction of these radically new aircraft in 1961.

Of importance in the fiscal year 1960 was the effort by the Post Office Department to broaden its use of airfreight for first class mail. The experiment had been going on for some time and was very successful; it had been beneficial to the public and the air carriers alike. The Post Office advocated expansion of this program. Mail could be dispatched late and yet arrive far earlier than was the case with the slower methods previously used. The expansion was opposed by the railroads and their efforts were successful. The Company feels, however, that progress cannot be stopped and eventually the public will enjoy the benefits offered by this program.

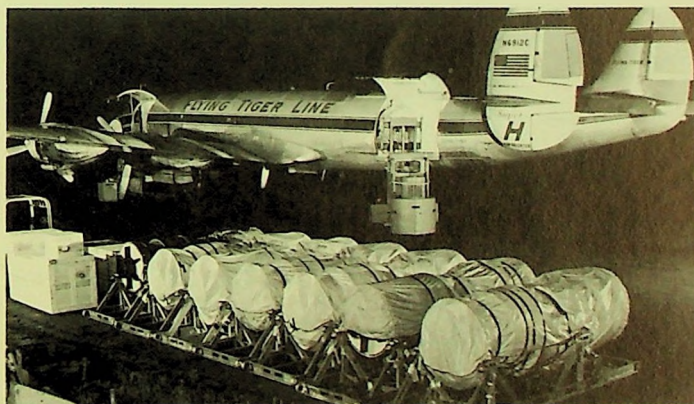
The impact of airfreight on general industry is becoming more apparent. Today many companies are taking advantage of the economic advantages offered by such programs as "Landed Costs" or "Total Cost of Distribution."

The programs are basically simple ones revolving around the concept of the "factory-to-you" theory. Traditionally, many manufacturers put their products into a long cycle of events and costs before they reach the consumer. This cycle entails transportation, warehousing, the use of jobbers, distributors, and finally to retailers.

"Landed Costs" refers to a method of eliminating these many costly operations. It has been demonstrated that a manufacturer can eliminate costly warehousing and inventories through bypassing these many operations and shipping direct by air.

Heretofore, slow transportation made warehouses necessary. Today, the airplane can resupply almost anywhere overnight, thus eliminating costly inventories and allowing capital to be turned more times per year.

Planeload of jet engines at Hartford



THE FLYING T

CONTRACT AN



"Good-by" from a tiny tot on a Europe-bound group tourist flight from New York

DURING THE FISCAL YEAR 1960, general economic conditions of the contract, and especially the military, business underwent a radical change. Heretofore, the Company had operated its military business primarily on long-term contracts. These contracts were let on competitive bids.

In October, 1959, the annual contract for the Pacific ended and new bids were solicited by MATS. Despite the Company's efficiencies in reduction of costs and consequent lower bid, the contract was not renewed. It went to competition at a rate that would not have been compensatory to the Company.

This seemed to start a cycle of low bids that reduced returns on military business to a point where many trips were flown at a loss. At the same time, there occurred an influx of independent operators to bid on military business that caused a dilution and drove the returns per mile even lower.

Recognizing these conditions, the Company undertook a program to offset them. Although the decline in the military revenues could not be replaced in its entirety, the contract and military sales department did achieve a figure of \$10,424,322. Of this amount \$8,000,083 was derived from short-term military business. Progress was made on commercial contract work which resulted in revenues of \$2,424,239. This revenue was represented by international trips and leases of aircraft. Chief among these contracts was that with Lufthansa, the German airline. With 110 crossings of the Atlantic, revenues on this contract totaled \$1,013,401.

The Company flew a total of 408 crossings on the Pacific, carrying 16,300 passengers and 3,368 tons of cargo. On the Atlantic, 3,626 passengers and 1,440 tons of cargo were carried.

A further concentration on Civilian Air-Military (CAM) trips domestically was made because of the competitive nature of the international



Tourists boarding at New York for flight to England



Off for a holiday in Europe on a Flying Tiger low-cost group tourist flight

Model conception of Flying Tig



GER LINE INC.

MILITARY OPERATIONS

military contracts. This resulted in 96 domestic trips, carrying approximately 10,000 passengers for revenues of almost one-half million dollars.

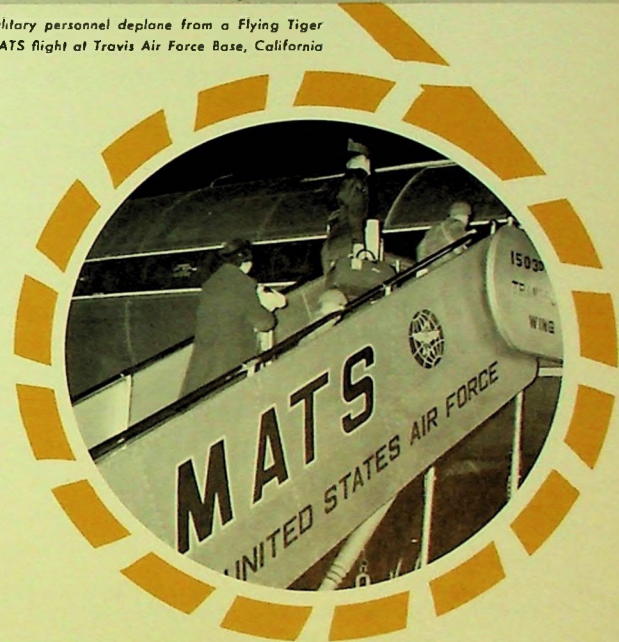
Recognizing the returns to be gained from a high volume, low tariff operation, the Company has inaugurated an intensive and aggressive campaign to establish itself as a leader in the field of tourist chartering, which it pioneered in 1950. In addition to sales offices now located in London, New York, Tokyo and Los Angeles, new offices have been opened in Chicago and Frankfurt, Germany. Plans are currently under way to locate Tiger sales offices in all the major cities of the world.

Whereas in prior years our tourist business has been limited to traffic to and from European points, the 1961 program is designed to solicit charters on a world-wide basis. This diversification has already been highlighted by recent trips to and from Australia, New Zealand, Greece and South Africa, in addition to the more than 6,000,000 passenger miles flown over the Atlantic during the Summer of 1960.

To emphasize its intensified efforts to sell a maximum number of tourist charters, the Company has developed tariffs which will permit travel to and from European points for as low as \$230 per passenger, providing the traveler does not remain in Europe in excess of 23 days. For those tourists who remain in excess of 23 days, a rate of \$245 will be offered for the round trip. This fifteen dollar price break is designed to capture the short-term, high-peak seasonal traffic, and will assist us in obtaining passenger loads in both directions, thus avoiding the necessity of flying non-revenue ferries back to the United States after deplaning passengers at a foreign point, as well as eliminating the empty flight out to pick up the passengers for the return trip. These newly developed tariffs also provide equally low rates to Mideast, Asiatic and South Pacific points.



Military personnel deplane from a Flying Tiger MATS flight at Travis Air Force Base, California



Military personnel and families boarding a Flying Tiger MATS flight at Tokyo

new airfreighter, the Canadair CL-44



40,000-pound meat charter in flood emergency in Northern California



CIVIL AERONAUTICS BOARD PROCEEDINGS

THE CIVIL AERONAUTICS BOARD granted the Company its original Certificate of Public Convenience and Necessity on July 29, 1949. This certificate was a temporary certificate with a five year term and denied subsidy or the right to subsidy to the Company—as it has done in the case of all property carriers. The certificate was renewed for an additional five year period on March 12, 1956.

In a proceeding before the Civil Aeronautics Board held in January, 1960, the Company applied for a permanent certificate of Public Convenience and Necessity as an air carrier of property and mail to serve an expanded number of points on its route. No decision has been rendered in this case, although counsel for the Bureau of Air Operations of the Civil Aeronautics Board has recommended to the Examiner the issuance of a permanent certificate for the Company.

On January 8, 1959, the Company filed with the Civil Aeronautics Board an application for a Certificate of Public Convenience and Necessity for a Trans-Pacific route for the transportation of property and mail, providing an end-on-end junction with the Company's domestic transcontinental route. The hearings in this case had been completed this spring and on July 25, 1960, the Examiner recommended to the Civil Aeronautics Board that the Board grant the Company a temporary five year Certificate of Public Convenience and Necessity for the carriage of property and mail on a non-subsidy basis across the Pacific.

LABOR RELATIONS

DURING THE PAST YEAR the Company experienced an interruption of service of approximately four weeks due to strikes by the pilots, navigators and flight engineers. The labor dispute was settled on February 19, 1960, and satisfactory labor agreements have been concluded with all labor organizations representing personnel employed by the Company.

Effective July 1, 1960, the Company has agreed to establish a pension plan for pilot personnel employed by the Company in accordance with the terms negotiated between the Company and the Air Line Pilots Association.

DIVIDENDS PAID

THE COMPANY PAID a 5% stock dividend and a cash dividend of \$.08 per common share on January 15, 1960 to common stock shareholders of record of November 20, 1959. In anticipation of possible future conversion of the presently outstanding convertible debentures, the Company's Board of Directors, on June 1, 1960, voted to increase the authorized common shares from 2,000,000 shares to 2,500,000.



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 sheet of *THE FLYING TIGER LINE INC.* (a Delaware corporation) as of June 30, 1960, and the related statements of income and surplus for the year then ended. Our examination was 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 June 30, 1960, but we satisfied ourselves by other auditing procedures with respect thereto. We had made a similar examination for the year ended June 30, 1959.

In our opinion, the accompanying balance sheet and statements of income and surplus present fairly the financial position of The Flying Tiger Line Inc. as of June 30, 1960, and the results of its operations for the year then ended, 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.
August 22, 1960.



THE FLYING TIGER LINE INC.

ASSETS	1960	1959
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash.....	\$ 1,281,947	\$ 3,834,795
U. S. Treasury notes, at cost.....	1,005,315	—
Receivables—		
Freight customers.....	1,351,820	1,894,213
Charters, service sales, etc.—		
United States Government.....	647,947	2,166,898
Other.....	1,324,456	1,184,507
Reserve for bad debt losses.....	(210,000)	(100,000)
Materials and supplies, at average cost.....	750,786	794,706
Prepaid insurance, rents, etc.....	259,604	285,668
Prepaid engine overhaul cost (net)—Note 8.....	656,038	—
Total current assets.....	<u>\$ 7,067,913</u>	<u>\$10,060,787</u>
PROPERTY AND EQUIPMENT—Notes 1 and 2:		
Cost—		
Aircraft, engines and other flight equipment.....	\$29,577,953	\$31,764,423
Other equipment.....	1,180,528	1,266,281
Land and buildings.....	845,537	792,890
	<u>\$31,604,018</u>	<u>\$33,823,594</u>
Less—Reserves for depreciation.....	13,192,053	11,228,524
	<u>\$18,411,965</u>	<u>\$22,595,070</u>
Progress payments on aircraft and engines on order.....	12,551,888	10,201,231
	<u>\$30,963,853</u>	<u>\$32,796,301</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Long-term prepayments and receivables.....	\$ 379,527	\$ 406,292
Other.....	115,125	47,825
	<u>\$ 494,652</u>	<u>\$ 454,117</u>
	<u>\$38,526,418</u>	<u>\$43,311,205</u>

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

BALANCE SHEETS JUNE 30, 1960 AND 1959

LIABILITIES	1960	1959
CURRENT LIABILITIES:		
Current installments of debt.....	\$ 3,307,633	\$ 3,307,633
Accounts payable and accrued liabilities.....	2,088,814	3,983,111
Federal income taxes (Note 7).....	—	321,000
Reserve for vacations.....	368,094	349,268
Advance charter deposits.....	195,924	250,690
Total current liabilities.....	\$ 5,960,465	\$ 8,211,702
LONG-TERM DEBT—Notes 2, 3 and 4:		
Bank loans, secured by 1049-H aircraft and engines, bearing interest at rates varying from 5% to 6%, less current installments included above.....	\$ 2,643,106	\$ 5,950,738
Series A 5½% debentures due 1967 (subordinate).....	500,000	500,000
Series B 5½% debentures due 1974 (subordinate).....	5,000,000	—
5½% note, exchanged for debentures in August, 1959.....	—	3,000,000
Equipment purchase obligations— 5½% notes due 1961, including interest, (to be refunded with equipment trust certificates).....	7,001,353	6,531,200
Other.....	126,989	156,441
	\$15,271,448	\$16,138,379
DEFERRED CREDITS AND NONCURRENT LIABILITIES:		
Deferred income taxes.....	\$ 2,174,514	\$ 2,484,000
Deferred income, etc.....	46,124	150,067
Maintenance liability—leased airframes and engines.....	124,428	221,622
	\$ 2,345,066	\$ 2,855,689
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, 2,000,000 shares of \$1 par value (at June 30, 1960, 330,295 shares were reserved for conversion of debentures and 70,000 shares for stock options)—Notes 3 and 5 Outstanding, 1,414,490 shares.....	1,414,490	1,347,134
Capital surplus.....	6,928,251	6,065,421
Earned surplus (Note 4).....	5,615,578	7,701,760
	\$14,949,439	\$16,105,435
	\$38,526,418	\$43,311,205

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

STATEMENTS OF INCOME AND SURPLUS

FOR THE YEARS ENDED JUNE 30, 1960 AND 1959

INCOME

	1960	1959
OPERATING REVENUES:		
Scheduled freight operations.....	\$ 14,656,314	\$ 13,315,698
Charters, service sales, etc.....	11,330,700	21,264,238
Total.....	<u>\$ 25,987,014</u>	<u>\$ 34,579,936</u>
OPERATING EXPENSES:		
Flying operations.....	\$ 9,595,824	\$ 12,581,150
Ground operations.....	3,635,737	3,424,136
Maintenance.....	6,179,402	8,455,587
Sales, advertising and publicity.....	1,286,980	1,245,137
General and administrative.....	1,914,271	1,898,418
Depreciation and amortization.....	4,162,549	4,169,119
Total.....	<u>\$ 26,774,763</u>	<u>\$ 31,773,547</u>
Net income (loss) from operations.....	<u>\$ (787,749)</u>	<u>\$ 2,806,389</u>
OTHER (INCOME) AND EXPENSE:		
Interest expense.....	\$ 922,362	\$ 774,958
Amortization of debt discount and expense.....	2,010	16,558
Miscellaneous (net).....	(145,644)	38,733
Total.....	<u>\$ 778,728</u>	<u>\$ 830,249</u>
Net income (loss) before Federal income taxes.....	<u>\$ (1,566,477)</u>	<u>\$ 1,976,140</u>
PROVISION OR (CREDIT) FOR FEDERAL INCOME TAXES—Note 7		
Net income (loss).....	(394,000)	965,000
	<u>\$ (1,172,477)</u>	<u>\$ 1,011,140</u>
SPECIAL ITEM:		
Gain on disposals of aircraft, etc., less provision of \$58,000 and \$52,000 for income taxes in respective years.....	173,809	380,226
Net income (loss) and special item.....	<u>\$ (998,668)</u>	<u>\$ 1,391,366</u>
CAPITAL SURPLUS		
BALANCE AT BEGINNING OF YEAR		
	\$ 6,065,421	\$ 3,448,855
ADD—		
Surplus arising from conversion of 5½% debentures into 314,318 common shares.....	—	2,273,283
Excess of fair value of stock dividends over par value.....	862,830	343,283
BALANCE AT END OF YEAR		
	<u>\$ 6,928,251</u>	<u>\$ 6,065,421</u>
EARNED SURPLUS		
BALANCE AT BEGINNING OF YEAR		
	\$ 7,701,760	\$ 6,752,414
ADD—		
From accompanying statement—		
Net income (loss).....	(1,172,477)	1,011,140
Special item.....	173,809	380,226
	<u>\$ 6,703,092</u>	<u>\$ 8,143,780</u>
DEDUCT—		
Cash dividends on—		
Preferred shares—fifty cents per share.....	\$ 49,556	\$ 49,556
Common shares —eight cents per share.....	107,772	—
Five per cent common share dividend—67,356 shares at fair value of \$13.81 per share in 1960 and 49,181 shares at fair value of \$7.98 per share in 1959.....	930,186	392,464
	<u>\$ 1,087,514</u>	<u>\$ 442,020</u>
BALANCE AT END OF YEAR (Note 4)		
	<u>\$ 5,615,578</u>	<u>\$ 7,701,760</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS — JUNE 30, 1960

(1) AIRCRAFT

At June 30, 1960, the Company's fleet consisted of twelve 1049-H Super Constellation aircraft owned and two under contract.

Under the contracts covering the use of two 1049-H Super Constellation aircraft, the Company makes monthly payments which it charges to rental expense. The contracts provide that the Company may discontinue the payments and return the aircraft at any time without further obligation, and also that it may acquire title to the aircraft upon the payment of amounts which at June 30, 1960 would have aggregated \$2,967,054 for the two aircraft.

The Company leases two DC-6A aircraft under contract expiring April 30, 1963, with certain renewal and purchase options. These DC-6A's have been subleased, with purchase options, to another airline for periods ending in September, 1961, at monthly rentals approximating the amounts paid by the Company.

(2) EQUIPMENT PURCHASE AND LEASE COMMITMENTS

The Company has purchase agreements for ten Canadair CL-44D turboprop aircraft at a total cost, including spare parts and engines, of approximately \$51,000,000. The agreements provide for cash payments of approximately \$5,000,000, in addition to payments already made, and the issuance on delivery of the aircraft of approximately \$40,500,000 equipment trust certificates maturing over 60 months, with interim financing through interim purchase notes. Delivery of the aircraft is anticipated beginning in June, 1961.

The Company has long-term leases on airport facilities requiring payment of approximately \$250,000 annually, of which payments of \$80,000 do not commence until 1962.

(3) DEBENTURES AND NOTES

The Series A and Series B debentures 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 Company has arranged to borrow \$5,000,000 from The New York Central Railroad Company December 1, 1961, on 5½% promissory notes (subordinate) due 1976, to be convertible into common shares, initially at \$19.05 per share.

(4) RESTRICTIONS UNDER DEBT AGREEMENTS

The bank credit agreement and other long-term agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowings, capital expenditures, etc. Under these provisions, the earned surplus at June 30, 1960 was restricted against the payment of cash dividends on common shares.

(5) CAPITAL STOCK OPTIONS

Options have been granted to certain key employees to purchase 63,800 shares of the Company's common stock, at a price of approximately \$8.10 per share, exercisable during the period from August 20, 1960 to February 20, 1961. On June 1, 1960, the Board of Directors changed the plan by extending to February 20, 1964 the period during which the options presently outstanding may be exercised and providing that any additional options granted will be exercisable during a period commencing four and one-half years after the options are granted and ending eight years after the date granted. These changes are subject to the approval of the Corporation Commissioner of the State of California and the stockholders.

(6) PENSION PLAN

A pension plan for pilots, applicable to future service, negotiated as a part of a union contract, will become effective beginning July 1, 1960. The plan had not been formally adopted at June 30, 1960.

(7) FEDERAL INCOME TAXES

Federal income tax returns for the years 1952 through 1959 have been examined by the Internal Revenue Service. Deficiencies resulting from these examinations have been offset by the carryback of the 1960 net operating loss.

(8) PREPAID ENGINE OVERHAUL COST

Under regulations of the Federal Aviation Agency, engine overhauls are required after a specific number of hours flown. Since the cost of a new engine includes the prepaid overhaul cost and since an engine is usually overhauled several times a year, as of June 30, 1960 the prepaid overhaul cost, less a reserve provision based upon hours flown since the last overhaul of each engine (the Company's engines are overhauled by outside contractors), has been reclassified from property and equipment. This reclassification had the effect of increasing reported working capital by \$656,038 as of June 30, 1960.



OFFICERS—

ROBERT W. PRESCOTT	<i>President</i>
FRED BENNINGER	<i>Executive Vice-President-Treasurer</i>
FRANK B. LYNOTT	<i>Executive Vice-President—Operations</i>
JOHN L. HIGGINS	<i>Vice-President—Sales</i>
WILLIAM E. BARTLING	<i>Vice-President—Research</i>
L. S. KIMBALL	<i>Vice-President—Public Relations</i>
GEORGE T. CUSSEN	<i>Vice-President—Western Region Sales</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>

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>
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>Axe Science & Electronics Corp., 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>Farmers Insurance Group, Los Angeles</i>

TRANSFER AGENTS—

THE CHASE MANHATTAN BANK
40 Wall Street
New York 15, N. Y.

BANK OF AMERICA
600 S. Spring St.
Los Angeles 54, Calif.

REGISTRARS—

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

CITIZENS NATIONAL TRUST & SAVINGS BANK
457 S. Spring St.
Los Angeles 54, Calif.

GENERAL COUNSEL—

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

AUDITORS—

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

EXECUTIVE OFFICES—

LOCKHEED AIR TERMINAL
Burbank, California



THE FLYING TIGER LINE INC.

SALES OFFICES

AKRON-CANTON, OHIO
Akron-Canton Airport
Akron: Tyler 6-2353
Canton: Hyacinth 9-5900

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

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

BOSTON, MASS.
Logan International Airport
Logan 7-6161

BUFFALO, N. Y.
81 Batsford Place
Bedford 5055

CHICAGO, ILL.
5833 So. Central Ave.
Partsmouth 7-8200

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

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. 4-4111, Ext. 4-3190

LONDON, ENGLAND
2 Marlborough House
Courlands
Richmond, Surrey
Surrey 3350

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

MILWAUKEE, WIS.
Mitchell Field
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 1-1158

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.
Boeing Field
Parkway 3-5916

SOUTH BEND, IND.
1415 So. Olive Street
Atlantic 8-4441

TOKYO, JAPAN
Room 110 Masonic Bldg.
#13 Shiba Sakae-Cho, Minato-Ku
Tel. 431-4121, Ext. 110

TOLEDO, OHIO
1831 E. Manhattan Blvd.
Randolph 6-5681



THE FLYING TIGER LINE INC.
-----AIRFREIGHT----->

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.



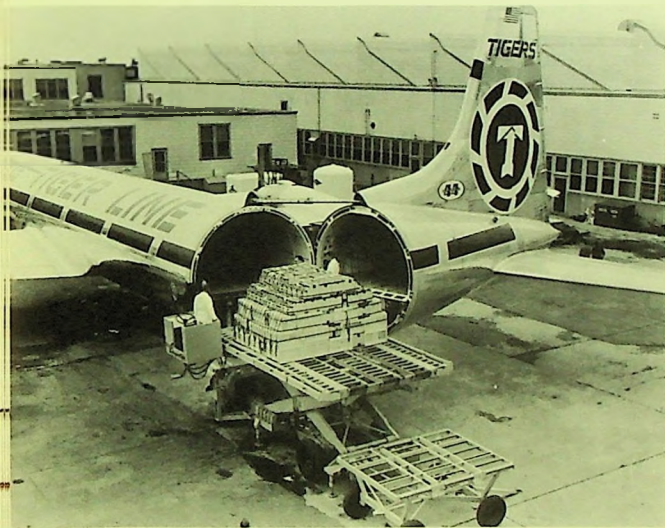
Sailors board a trans-Pacific flight by the Flying Tiger Line for the Military Air Transport Service at Travis Air Force Base, Fairfield, California.



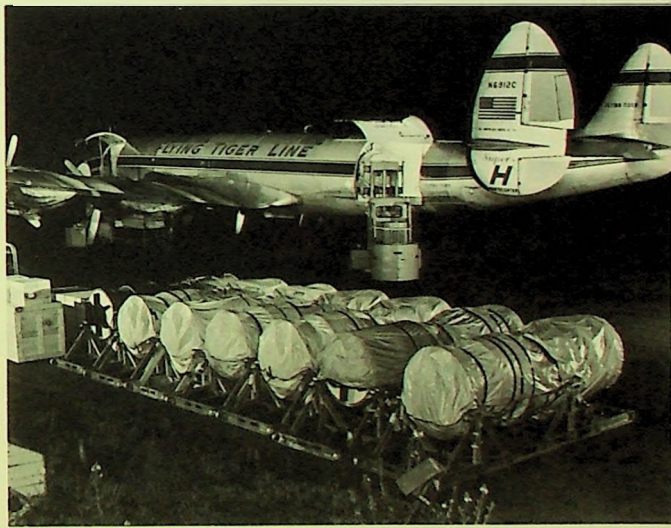
A baby elephant, gift of the children of India to the children of Los Angeles through the efforts of Director Art Linkletter (left), is welcomed at Burbank by President Bob Prescott and his son, Peter (back to camera), after a long air voyage on a Flying Tiger airfreighter.



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.

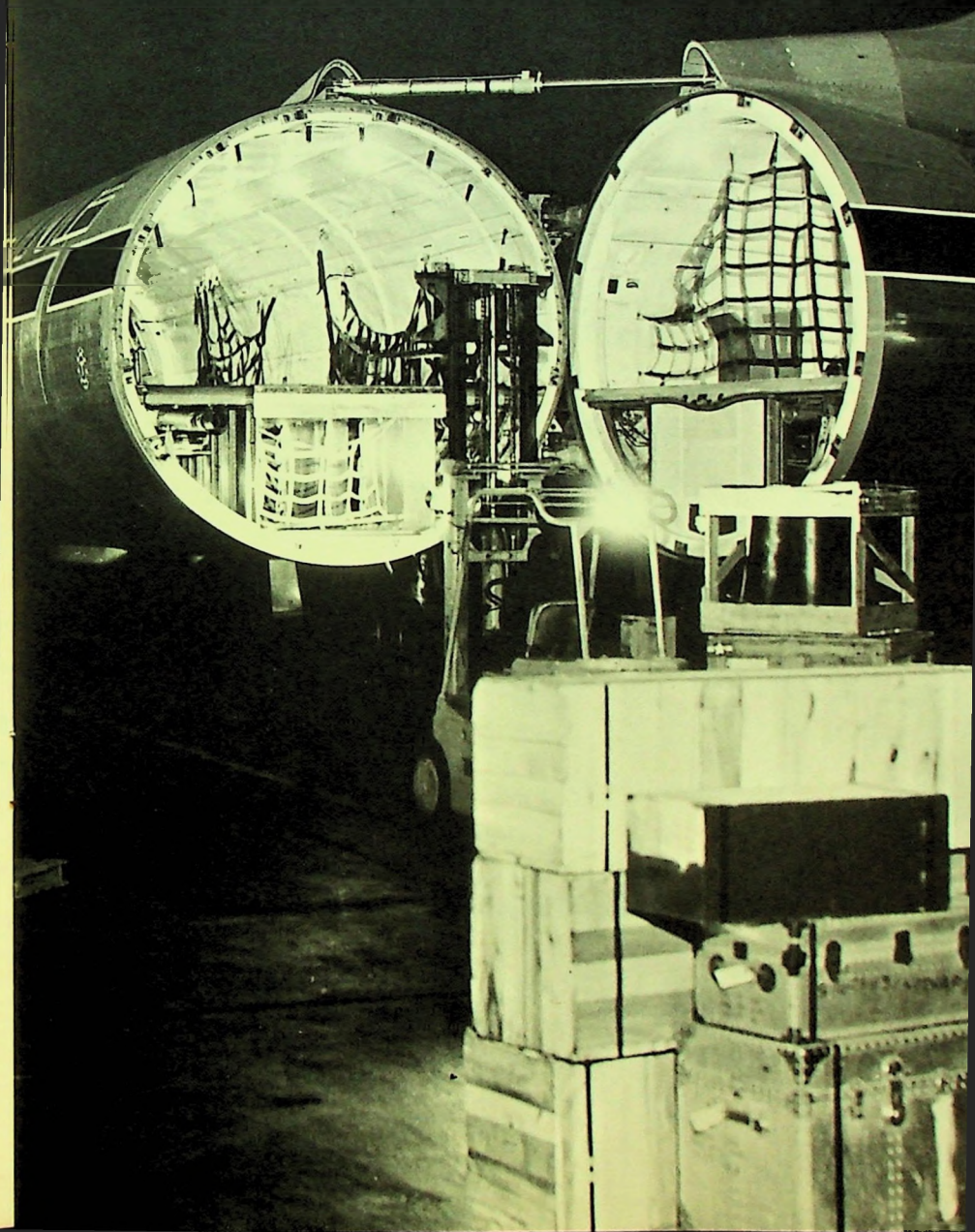
TOURIST CHARTERS

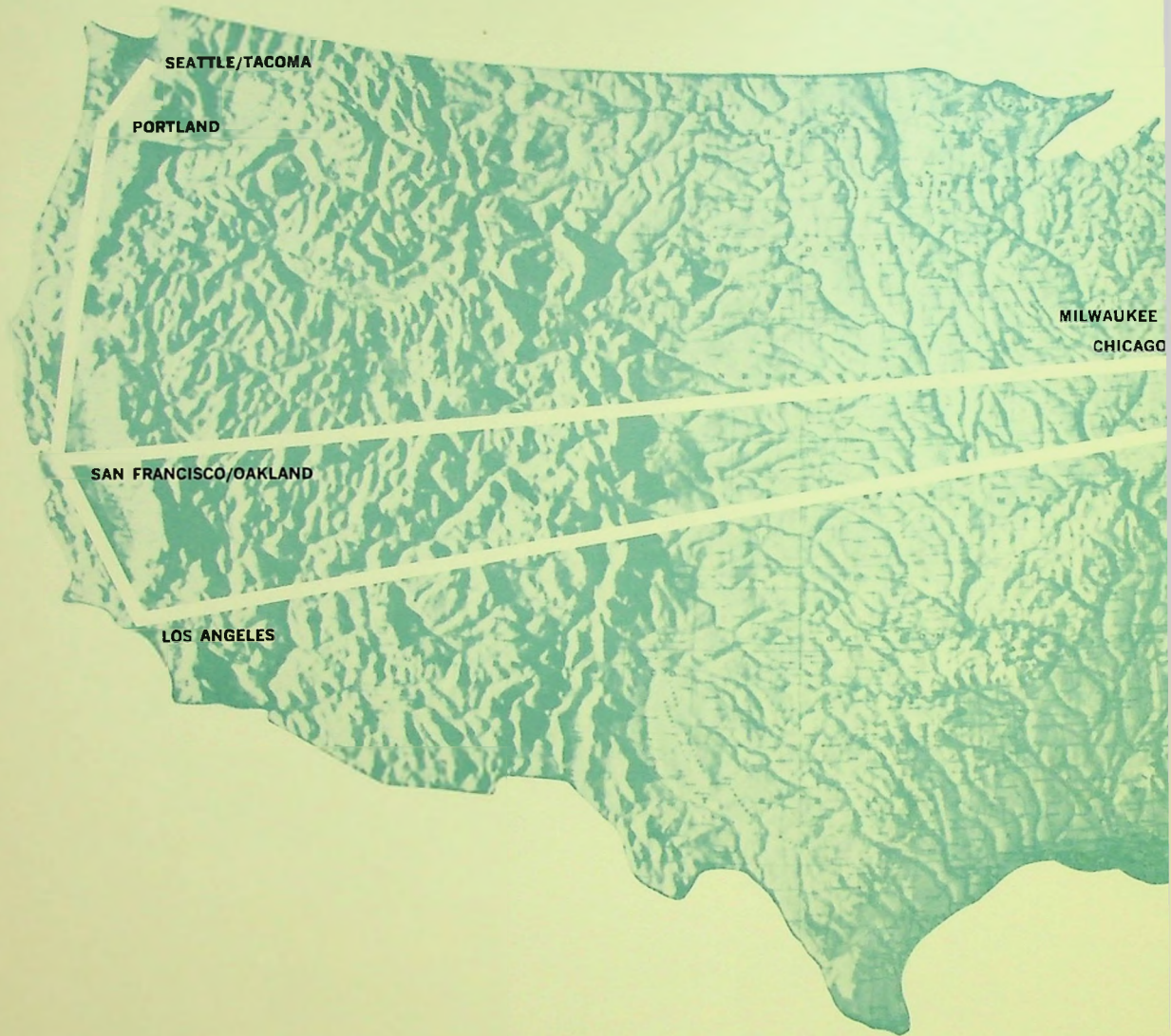
During the summer of 1961, the Company engaged in low-cost tourist charters to Europe which produced revenues of \$1,678,000. These charters consisted of homogeneous groups comprised of social clubs, industrial companies and educational and religious organizations.

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.

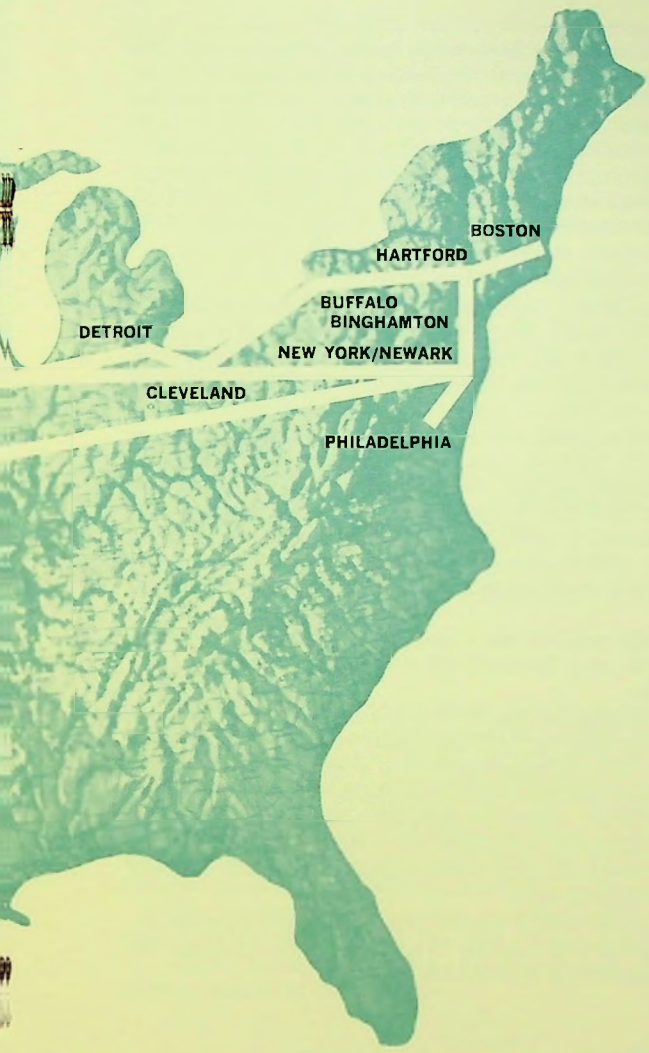
The Company commenced an aggressive sales campaign during the fall of 1961 for low-cost group charters for the 1962 summer and expects revenues of approximately \$3 million from this type of traffic.

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
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	\$ 4,077,281	\$ 2,423,511
	<hr/>	<hr/>
	\$68,774,659	\$60,824,311
	<hr/>	<hr/>

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
		<hr/>
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
		<hr/>
Net income from operations		\$ 681,224
OTHER (INCOME) AND EXPENSE:		
Interest expense	\$ 991,193	
Miscellaneous (net)	128,527	1,119,720
		<hr/>
Net (loss) before credit for Federal income taxes . .		\$ (438,496)
CREDIT FOR FEDERAL INCOME TAXES—Note 6 . .		
		110,000
		<hr/>
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)
		<hr/>
Net (loss) and special item		<u>\$ (3,955,551)</u>

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



**annual
report**

FOR THE YEAR
ENDED JUNE 30

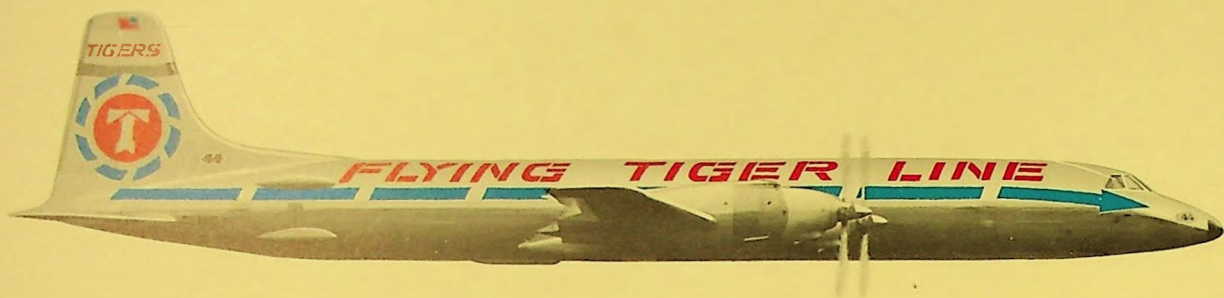
1961

TIGERS



44

THE FLYING TIGER LINE INC.



1961 IN BRIEF

for the fiscal year ended June 30

	1961	1960
Operating Revenues	\$27,965,491	\$25,987,014
Operating Expenses	\$26,913,826	\$26,774,763
Operating Income (Loss)	\$ 1,051,665	\$ (787,749)
Interest Expense	\$ 674,858	\$ 922,362
Net Income (Loss) After Interest and Income Taxes ..	\$ 169,212	\$ (1,172,477)
Special Item	\$ 100,510	\$ 173,809
Net Income (Loss) and Special Item	\$ 269,722	\$ (998,668)
Per Common Share Outstanding (Average for Year)	\$.15	\$ (.74)
Investment in Property and Equipment (Gross)	\$42,790,014	\$31,604,018
Long-Term Debt	\$31,926,893	\$15,271,448
Stockholders' Equity at Book Value	\$15,231,975	\$14,949,439
Per Common Share	\$ 10.01	\$ 9.87
Total Assets	\$60,824,311	\$38,526,418
Working Capital (Deficit)	\$ (1,499,265)	\$ 1,107,448



THE **FLYING TIGER LINE** INC.

OFFICE OF
THE PRESIDENT

August 24, 1961

TO OUR STOCKHOLDERS:

This report sets forth the results of operations for our 16th year of doing business. It also contains a statement of condition as of June 30, 1961.

The net income and special item for the year was \$269,722 compared to a loss of \$998,668 for the previous year. The principal reason for this improvement was a change in the procurement policies of the Military insofar as air transportation is concerned, and rate stabilization policies on military contracts instituted by the Civil Aeronautics Board.

Prior to October 1, 1960, all contracts for air transportation for the Military were let on an open bid basis and operators of any and all aircraft capable of trans-oceanic flight were eligible to bid.

Effective October 1, 1960, the Civil Aeronautics Board established minimums for passenger and freight transportation so that the rates are now compensatory.

At the same time, the Military instituted a procurement policy wherein only those aircraft enrolled in the Civilian Reserve Air Fleet (CRAP) were eligible to fly military traffic. Also, those carriers who are modernizing their fleets to the ultimate benefit of our national defense needs receive preferential treatment. The purpose of this, of course, is to encourage the industry to build up modern, standby transport reserves for emergency use.

Of the types desired by the Military, the turbine-powered convertible aircraft (suitable for passenger or freight) is number one on the list. This, of course, fits our pattern exactly with our new CL-44D fleet, described for you elsewhere in this report.

Since 51% of our total transport business this year was military contract work, these changes described have a very decided effect on our operating results.

Our revenue from commercial freight operations declined during this year. Principal reasons for this decline were, (1) general business decline, (2) the national strike of the flight engineers which involved our company, and (3) increased all-cargo competition from the combination carriers.

Our great hope in this phase of our business lies in the introduction of the CL-44D fleet. Since these aircraft will operate at almost half the ton-mile cost of our previous fleet, we will be able to make drastic cuts in our tariff which will enable us to penetrate enormously larger markets at a profit.

There has been in existence since 1948 a Minimum Rate Order issued by the Civil Aeronautics Board. It is necessary that this be removed before our new rate structure can be put into effect. All procedural steps have been completed toward this end, and we expect action from the Civil Aeronautics Board momentarily.

On June 1 of this year we received delivery of the first CL-44D aircraft. Our original delivery schedule was to begin in January 1961, but technical difficulties delayed the delivery. We now have five of the ten aircraft ordered. We are presently engaged in crew training and have commenced operations on the Pacific for the Military Air Transport Service. We are pleased to state that thus far we have encountered no major difficulties in the operation of the new aircraft. The speed and performance have checked out satisfactorily. We see no reason why the aircraft will not operate at the costs that we had projected.

We had an application for an all-cargo route over the Pacific. President Eisenhower on his last day in office rejected all applicants in the Pacific Route Case. We have applied to the Civil Aeronautics Board for reconsideration but so far have not been successful.

We are also awaiting decision on our application for a permanent certificate on our domestic route. A decision by the Civil Aeronautics Board on this matter can be expected any time.

Barring some unforeseeable circumstances that might arise, we have reason to be optimistic about the short-term as well as the long-term prospects for the Company.

We wish to express our thanks to our customers, stockholders and employees for their continued loyalty.

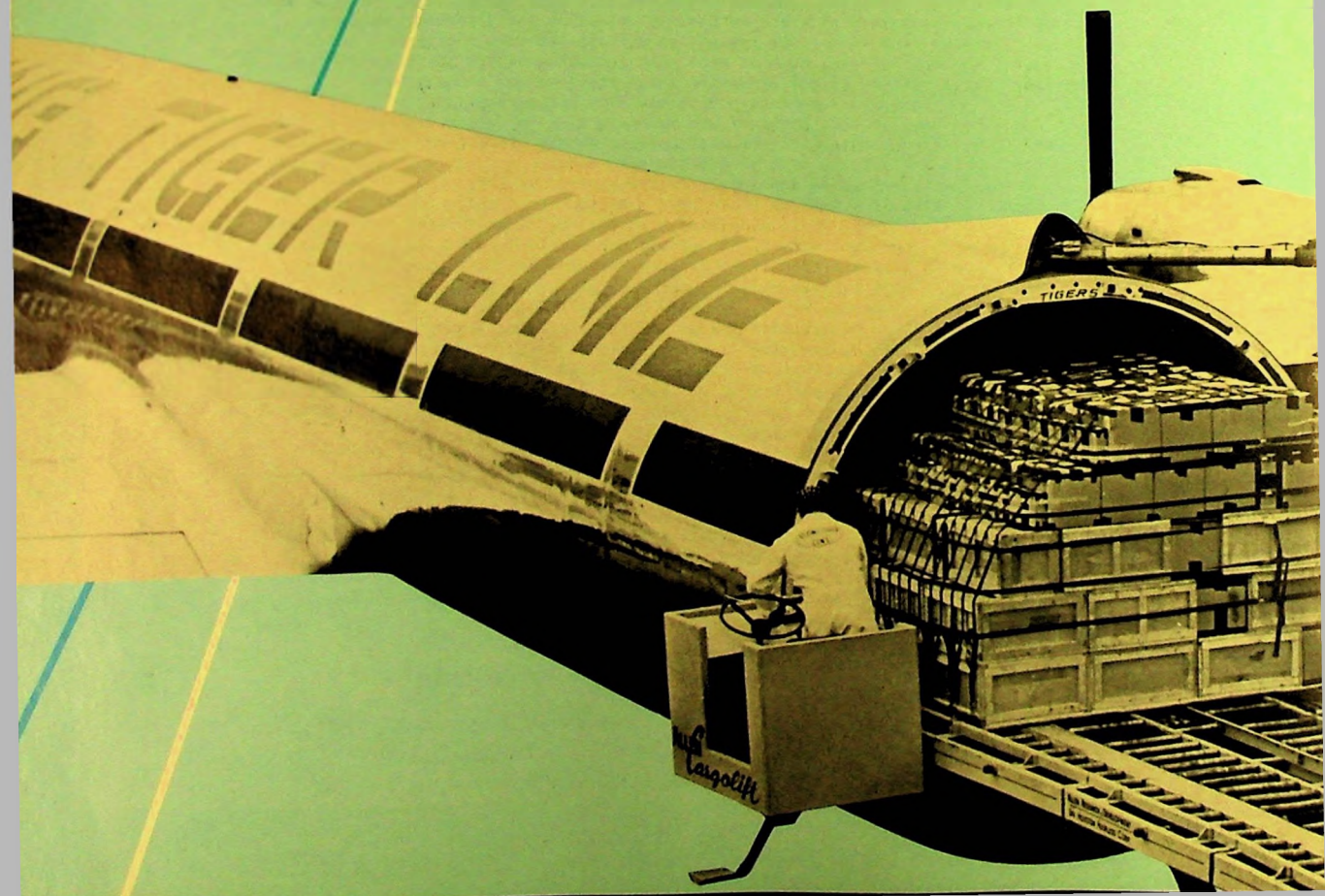
Robert W. Prescott,

President

AIR CARGO ENTERS THE JET AGE

During the autumn of 1961, the Company will integrate the new turbo-prop CL-44D aircraft into its domestic airfreight system. With the introduction of this new aircraft, the air cargo industry of the United States will enter into a new and dynamic era. For the first time in the short history of air cargo, an uncompromised aircraft designed for air cargo only, capable of competing with surface transportation rates, will enter into the services of an airline.

The CL-44D turbo-prop aircraft reduces the direct operating costs 40% below the presently incurred costs of the Company's equipment. The innovation of the swingtail facilitates economical and expeditious loading and unloading, reducing time on the ground and thereby increasing the utilization of the equipment substantially. The CL-44D aircraft has a mechanized loading and unloading system which permits pre-palletiz-

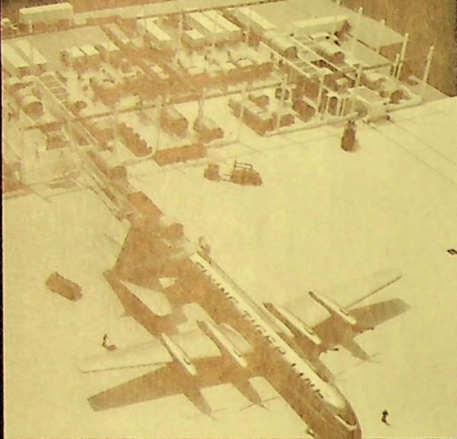


ing of the freight thereby reducing indirect costs due to more economical utilization of personnel.

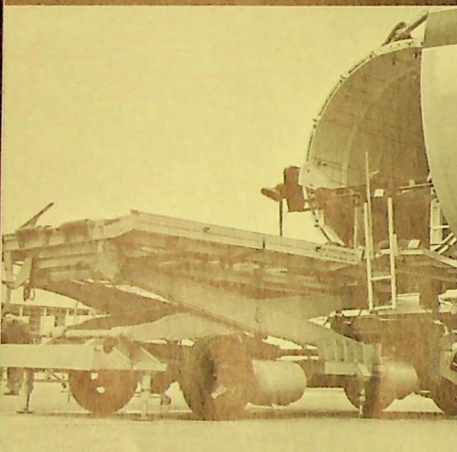
The Company is again pioneering in the air cargo industry by introducing the first jet aircraft into airfreight service, thereby reducing the present airfreight rates to be competitive with surface transportation rates which is essential to the development of a large volume airfreight industry.

The CL-44D aircraft have a payload capacity of 65,000 pounds and are 100 miles an hour faster than the present largest commercial airfreighter in service. Increased speed is not the most important factor in the development of an airfreight industry except as such increase in speed relates to the reduction in per mile costs. The CL-44D turbo-prop aircraft not only has a 35% increase in speed but also reduces the cost of producing the best airfreight service available by 40%.

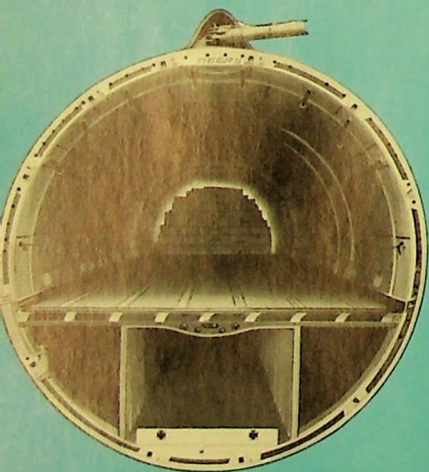




Model of new automated terminal to be completed soon at O'Hare Field, Chicago.



With automatic loader, CL-44D will have a ground turn-around time of 53 minutes.



Main cargo hold. CL-44D carries 44% more cargo than any other airfreighter.

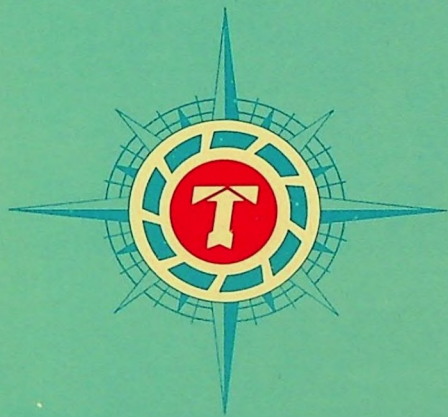
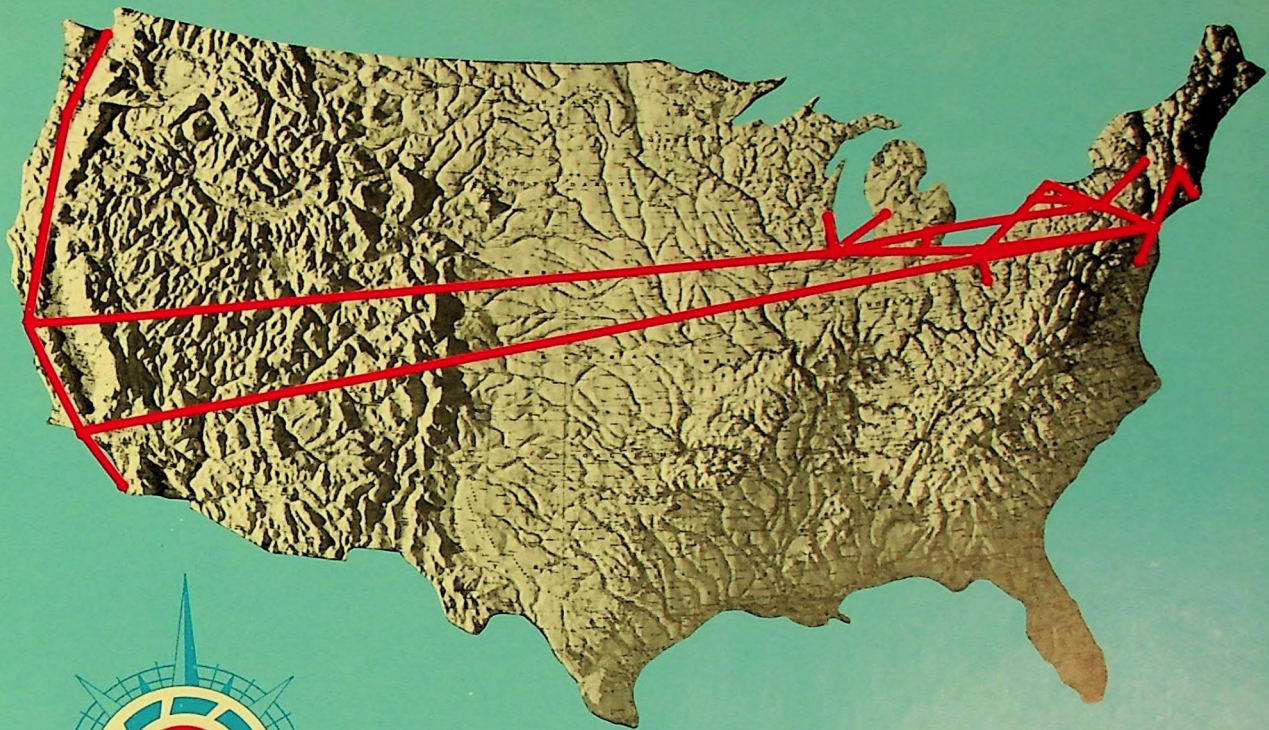
THE NEW ERA OF AIR CARGO

Although the Company's volume of airfreight, as well as the total volume of domestic airfreight, has steadily increased each year since 1946, the airfreight industry's growth has been plagued by the volume versus rates riddle. This cycle requires lower rates in order to secure greater volume, and in order to secure lower rates it is imperative that the air carriers have lower operating costs.

The Company is now on the threshold of solving this problem through the introduction of the new CL-44D turbo-prop aircraft into its domestic airfreight system. By November 1961 the deliveries of the CL-44D aircraft will be completed and the Company will have adequate numbers of CL-44D turbo-prop aircraft to operate its complete domestic airfreight route with the new aircraft.

The CL-44D aircraft manufactured by Canadair Ltd. and powered by Rolls-Royce Tyne turbo-prop engines, is the first aircraft that has been designed and manufactured for the airfreight industry. Its economies of operation and reduction in loading and unloading costs through the swingtail of the aircraft, reduces the operating cost per ton mile in excess of 40% under the present costs of the conventional piston-type aircraft. With this reduction in the operating costs, the Company can break the volume versus rates riddle by reducing the present airfreight rates substantially in order to attract the additional volume.

Two years ago the Company embarked upon an extensive research program and development analysis of the airfreight market in the United States. The purpose of this program was to, (1) determine the source of the new volume of traffic for the CL-44D aircraft, (2) analyze the pricing structure of such potential traffic, and (3) examine the overall shift of surface and air transportation. As a result of this research program, the Company has now completed a new and comprehensive tariff which will become effective as soon as the Company places its new fleet of CL-44D aircraft into its domestic airfreight system, and the Civil Aeronautics Board eliminates the minimum rate floors applicable to airfreight which were established in 1948. The new tariff contains rates for certain commodities that are competitive to surface rates, and it is the Company's belief that the additional volume of airfreight necessary for the CL-44D operation will be diverted from surface transportation.



THE FLYING TIGER LINE INC.

— FLYING TIGER AIRFREIGHT ROUTE # 100

Since its inception, airfreight has been classified and identified primarily with shipments of an emergency nature because of the rate level applicable to airfreight compared with surface rates. With the introduction of the new CL-44D aircraft and the new tariff late this year, the old era of "air express" will be abandoned and a new area of a true "air freight" service with surface rates will be inaugurated. There are many advantages of transporting goods by air besides the speed factor. Elimination of warehousing, reduction in packing cost, faster turnover of inventory and cash are but a few examples of the important advantages of transporting goods by air rather than surface. Consequently, the new airfreight rates do not have to be identical to the present surface rates and still be competitive. Our research has determined that the advantages of air transportation far outweigh a 25-30%

differential in air versus surface rates. For the first time in the history of airfreight it has been possible to substantially reduce rates due to the utilization of a superior airfreight aircraft rather than an increase in volume, and consequently the Company expects a substantial increase in the volume of airfreight carried with the CL-44D aircraft.

Although during the last few months of fiscal year 1961 the airfreight volume reflected the normal increases that the Company has experienced during the past several years, the upturn in volume was not sufficient to offset the drop in airfreight revenue during the earlier months of the fiscal year, such decreases being attributed to a strike of the Company's flight engineers during February 1961, and the general recession of business during the fall of 1960.

CONTRACT AND MILITARY OPERATIONS

Total revenue from military and commercial charter sales for the fiscal year ending June 30, 1961, amounted to \$15,684,987 compared to \$10,424,322 for the fiscal year 1960. The uneconomical rate practices applied to the military contract business during the past year were corrected by action of the Civil Aeronautics Board by the issuance of minimum rates applicable to military contract business. These minimum rates became effective on October 1, 1960, and are compensatory to the air carriers engaged in military contract charters. During the past year, the military contract charters were awarded on a day-by-day basis, which has not been conducive to economic operations and proper planning. As of July 1, 1961, the Military Air Transport Service negotiated annual contracts to be renewed each year for a term of three years, giving preference to air carriers that have ordered or purchased modern turbine-powered convertible cargo aircraft. As a result of the adoption of these policies by the government and since the Company's fleet of ten CL-44D aircraft represents the largest fleet of turbine-powered convertible cargo aircraft in existence today, the Company received a substantial award 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 economics of operation and the ease of loading and unloading through the swingtail of the CL-44D aircraft have opened new fields of potential outside cargo that can now be carried by air for commercial charter customers. Cargo that has been too large and bulky to fit into the conventional cargo doors of the piston type cargo aircraft and had to be moved via surface, is now being carried by the Company in the CL-44D turbo-prop aircraft to various countries throughout the world. The Company expects to secure several million dollars in revenue from commercial charters for the carriage of this type of cargo.

Historically, the Company has been engaged in the low-cost tourist charter business to Europe since 1948. The volume of this business has steadily increased each year. The tariff applicable to such tourist charters permits travel from the United States to Europe for as low as \$240.00 round trip per passenger. The charters must consist of homogenous groups derived from social clubs, industrial companies or educational and religious organizations. During the summer of 1961, the Civil Aeronautics Board issued the Company a blanket exemption to solicit and carry such charter groups. To equalize the imbalance of traffic from the United States to Europe and to stimulate the government's "See America Program," the Company introduced special low-cost tourist charter rates for Europeans travelling to the United States. This program was highly successful during 1961, and the Company contemplates an expansion of this program for the 1962 season.

With the introduction of the new fleet of CL-44D turbo-prop aircraft, the more favorable rate and contract situation applicable to Military Air Transport Service, and the ability to compete in a larger world-wide charter market, the contract charter revenues for the fiscal year 1962 should be substantially higher than the revenues for 1961.





Some of the Tiger-flown visitors who arrived from Europe this year. Tigers' group charter flights to and from the Continent are increasing every year.

Conversion of the new CL-44D turbo-prop jet aircraft from an airfreighter to a passenger plane takes only a short time and provides every comfort normally found on passenger airliners.

First of Tigers' new fleet of CL-44Ds went into MATS service between Travis AFB and the Far East on July 16, 1961.





THE FLYING TIGER LINE INC.

COMPARATIVE BALANCE SHEET DATA

FISCAL YEARS ENDED JUNE 30

	1961	1960	1959	1958	1957
CURRENT ASSETS:					
Cash	\$ 3,790,697	\$ 1,281,947	\$ 3,834,795	\$ 2,181,636	\$ 2,571,993
Marketable securities	—	1,005,315	—	—	—
Receivables	3,686,923	3,114,223	5,145,618	5,169,860	5,704,657
Inventories of materials and supplies	769,614	750,786	794,706	719,133	581,572
Prepaid insurance, rents, etc.	430,349	259,604	285,668	195,297	385,094
Prepaid engine overhaul cost (net)	908,783	656,038	—	—	—
Total current assets	<u>\$ 9,586,366</u>	<u>\$ 7,067,913</u>	<u>\$10,060,787</u>	<u>\$ 8,265,926</u>	<u>\$ 9,243,316</u>
LESS CURRENT LIABILITIES:					
Current installments of debt	\$ 6,855,846	\$ 3,307,633	\$ 3,307,633	\$ 3,266,409	\$ 3,588,889
Accounts payable	2,342,200	1,719,253	3,340,180	2,687,521	5,499,809
Reserve for vacations	435,719	368,094	349,268	328,665	357,658
Other current liabilities	1,451,866	565,485	1,214,621	912,795	1,031,696
Total current liabilities	<u>\$11,085,631</u>	<u>\$ 5,960,465</u>	<u>\$ 8,211,702</u>	<u>\$ 7,195,390</u>	<u>\$10,478,052</u>
Net Current Assets — Working Capital	<u>\$ (1,499,265)</u>	<u>\$ 1,107,448</u>	<u>\$ 1,849,085</u>	<u>\$ 1,070,536</u>	<u>\$ (1,234,736)</u>
ADD:					
Non-current receivables, investments, etc.	1,855,354	494,652	454,117	750,080	832,259
Deferred training costs	568,157	—	—	398,954	582,932
Deposits on new equipment	22,478,661	12,551,888	10,201,231	—	—
Property and equipment (net)	26,335,773	18,411,965	22,595,070	24,521,877	25,419,347
Total assets less current liabilities	<u>\$49,738,680</u>	<u>\$32,565,953</u>	<u>\$35,099,503</u>	<u>\$26,741,447</u>	<u>\$25,599,802</u>
LESS:					
Long-term debt	\$31,926,893	\$15,271,448	\$16,138,379	\$11,848,435	\$13,167,315
Deferred income, etc.	316,687	170,552	371,689	787,010	284,711
Deferred income taxes	2,263,125	2,174,514	2,484,000	1,929,978	1,229,978
Total	<u>\$34,506,705</u>	<u>\$17,616,514</u>	<u>\$18,994,068</u>	<u>\$14,565,423</u>	<u>\$14,682,004</u>
Net Assets	<u>\$15,231,975</u>	<u>\$14,949,439</u>	<u>\$16,105,435</u>	<u>\$12,176,024</u>	<u>\$10,917,798</u>
Book Value Per Common Share	\$ 10.01	\$ 9.87	\$ 11.22	\$ 11.37	\$ 10.09
SHARES OUTSTANDING:					
Preferred shares	99,112	99,112	99,112	99,112	99,112
Common shares	1,422,190	1,414,490	1,347,134	983,635	983,635
SHAREHOLDERS' EQUITY:					
Preferred shares	\$ 991,120	\$ 991,120	\$ 991,120	\$ 991,120	\$ 991,120
Common shares	1,422,190	1,414,490	1,347,134	983,635	983,635
Capital surplus	6,982,921	6,928,251	6,065,421	3,448,855	3,448,855
Earned surplus	5,835,744	5,615,578	7,701,760	6,752,414	5,494,188
Total shareholders' equity	<u>\$15,231,975</u>	<u>\$14,949,439</u>	<u>\$16,105,435</u>	<u>\$12,176,024</u>	<u>\$10,917,798</u>

COMPARATIVE INCOME AND OPERATING SUMMARY

FISCAL YEARS ENDED JUNE 30

	1961	1960	1959	1958	1957
OPERATING REVENUE:					
Scheduled freight operations	\$11,791,088	\$14,656,314	\$13,315,698	\$ 9,595,074	\$ 8,448,604
Charters, service sales, etc.	16,174,403	11,330,700	21,264,238	24,265,475	16,202,542
Total operating revenue	<u>\$27,965,491</u>	<u>\$25,987,014</u>	<u>\$34,579,936</u>	<u>\$33,860,549</u>	<u>\$24,651,146</u>
OPERATING EXPENSES:					
Depreciation and amortization	\$ 3,906,174	\$ 4,162,549	\$ 4,169,119	\$ 4,080,432	\$ 1,828,086
All other	23,007,652	22,612,214	27,604,428	28,380,544	23,840,510
Total operating expenses	<u>\$26,913,826</u>	<u>\$26,774,763</u>	<u>\$31,773,547</u>	<u>\$32,460,976</u>	<u>\$25,668,596</u>
Net income from operations	<u>\$ 1,051,665</u>	<u>\$ (787,749)</u>	<u>\$ 2,806,389</u>	<u>\$ 1,399,573</u>	<u>\$ (1,017,450)</u>
NON-OPERATING INCOME AND EXPENSES (Net):					
Interest expense	\$ (674,858)	\$ (922,362)	\$ (774,958)	\$ (803,672)	\$ (383,783)
All other (net)	(60,595)	143,634	(55,291)	259,877	120,897
Total non-operating income and expenses	<u>\$ (735,453)</u>	<u>\$ (778,728)</u>	<u>\$ (830,249)</u>	<u>\$ (543,795)</u>	<u>\$ (262,886)</u>
Net income (loss) before income taxes ..	<u>\$ 316,212</u>	<u>\$ (1,566,477)</u>	<u>\$ 1,976,140</u>	<u>\$ 855,778</u>	<u>\$ (1,280,336)</u>
PROVISION FOR FEDERAL INCOME TAXES	147,000	(394,000)	965,000	412,000	(665,000)
Net income (loss)	<u>\$ 169,212</u>	<u>\$ (1,172,477)</u>	<u>\$ 1,011,140</u>	<u>\$ 443,778</u>	<u>\$ (614,336)</u>
GAIN ON DISPOSAL OF AIRCRAFT, LESS INCOME TAXES	100,510	173,809	380,226	864,004	716,005
Net income (loss) and special item	<u>\$ 269,722</u>	<u>\$ (998,668)</u>	<u>\$ 1,391,366</u>	<u>\$ 1,307,782</u>	<u>\$ 101,669</u>
NET INCOME AND SPECIAL ITEMS PER COMMON SHARE	<u>\$.15</u>	<u>\$ (.74)</u>	<u>\$ 1.23</u>	<u>\$ 1.28</u>	<u>\$.05</u>
COMPARATIVE OPERATING DATA:					
Miles flown	10,898,769	9,874,336	12,389,335	13,950,735	15,003,588
Hours flown	41,868	38,515	48,341	54,748	72,561
Average daily aircraft utilization (hours)					
C-46	—	5.8	4.8	3.4	3.3
C-54	—	—	—	11.6	9.9
DC-6	—	—	—	8.5	11.2
1049-H	9.4	8.3	9.6	10.2	10.1
Aircraft operating fleet at year-end					
C-46	—	—	1	2	15
C-54	—	—	—	—	6
DC-6	—	—	—	—	2
1049-H	12	14	14	13	12
Ton miles of common carriage and domestic charter freight carried	70,138,467	86,095,933	79,634,602	57,012,013	56,465,191
Revenue per ton mile (cents) for domestic freight	<u>18.78</u>	<u>18.61</u>	<u>18.68</u>	<u>18.29</u>	<u>17.47</u>



THE FLYING TIGER LINE INC.

ASSETS	1961	1960
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash	\$ 3,790,697	\$ 1,281,947
U. S. Treasury notes, at cost	—	1,005,315
Receivables —		
Freight customers	1,167,711	1,351,820
Charters, service sales, etc. —		
United States Government	1,614,955	647,947
Other	1,124,257	1,324,456
Reserve for bad debt losses	(220,000)	(210,000)
Materials and supplies, at average cost	769,614	750,786
Prepaid insurance, rents, etc.	430,349	259,604
Prepaid engine overhaul cost (net)	908,783	656,038
Total current assets	<u>\$ 9,586,366</u>	<u>\$ 7,067,913</u>
PROPERTY AND EQUIPMENT — NOTES 1 AND 2:		
Cost —		
Aircraft, engines, and other flight equipment	\$40,612,445	\$29,577,953
Other equipment	1,316,404	1,180,528
Land and buildings	861,165	845,537
	<u>\$42,790,014</u>	<u>\$31,604,018</u>
Less — Reserves for depreciation	16,454,241	13,192,053
	<u>\$26,335,773</u>	<u>\$18,411,965</u>
Progress payments on aircraft and engines on order	22,478,661	12,551,888
	<u>\$48,814,434</u>	<u>\$30,963,853</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expense	\$ 1,360,229	\$ 14,170
Long-term prepayments and receivables	453,170	379,527
Training and other costs applicable to CL-44D aircraft, to be amortized over a three-year period	568,157	—
Other	41,955	100,955
	<u>\$ 2,423,511</u>	<u>\$ 494,652</u>
	<u>\$60,824,311</u>	<u>\$38,526,418</u>

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

BALANCE SHEETS

JUNE 30, 1961 AND 1960

LIABILITIES	1961	1960
CURRENT LIABILITIES:		
Current portion of bank loans	\$ 3,288,827	\$ 3,307,633
Current installments of equipment purchase obligations	3,567,019	—
Accounts payable and accrued liabilities	2,930,791	2,088,814
Reserve for vacations	435,719	368,094
Advance charter deposits	863,275	195,924
Total current liabilities	<u>\$11,085,631</u>	<u>\$ 5,960,465</u>
LONG-TERM DEBT — NOTES 2, 3 AND 4:		
Bank loans, secured by 1049-H aircraft and engines (5% to 6%), less current portion	\$ 1,184,030	\$ 2,643,106
Debentures (subordinate) —		
Series A 5-½% due 1967	500,000	500,000
Series B 5-½% due 1974	5,000,000	5,000,000
Equipment purchase obligations —		
Equipment trust certificates due 1961-1966 —		
Series A — 5-¾% \$7,327,896, less future interest of \$1,062,935	6,264,961	—
Series B — 6-½%	7,800,466	—
Interim equipment purchase notes (5-½%) due 1961 and interest — to be refunded with equipment trust certificates upon delivery of aircraft	14,282,351	7,001,353
Less — Current installments	(3,567,019)	—
Other	462,104	126,989
	<u>\$31,926,893</u>	<u>\$15,271,448</u>
DEFERRED CREDITS:		
Deferred income taxes	\$ 2,263,125	\$ 2,174,514
Deferred income, etc.	316,687	170,552
	<u>\$ 2,579,812</u>	<u>\$ 2,345,066</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 June 30, 1961, 330,295 shares were reserved for conversion of debentures and 62,300 shares for stock options) — Notes 2, 3 and 5	1,422,190	1,414,490
Outstanding, 1,422,190 shares	6,982,921	6,928,251
Capital surplus	5,835,744	5,615,578
Earned surplus (Note 4)	<u>\$15,231,975</u>	<u>\$14,949,439</u>
	<u>\$60,824,311</u>	<u>\$38,526,418</u>



STATEMENTS OF INCOME

FOR THE YEARS ENDED JUNE 30, 1961 AND 1960

	1961	1960
OPERATING REVENUES:		
Scheduled freight operations	\$11,791,088	\$14,656,314
Charters, service sales, etc.	16,174,403	11,330,700
Total	<u>\$27,965,491</u>	<u>\$25,987,014</u>
OPERATING EXPENSES:		
Flying operations	\$10,303,338	\$ 9,595,824
Ground operations	3,720,089	3,635,737
Maintenance	5,742,828	6,179,402
Sales, advertising and publicity	1,607,884	1,286,980
General and administrative	1,633,513	1,914,271
Depreciation and amortization	3,906,174	4,162,549
Total	<u>\$26,913,826</u>	<u>\$26,774,763</u>
Net income (loss) from operations	\$ 1,051,665	\$ (787,749)
OTHER (INCOME) AND EXPENSE:		
Interest expense	\$ 674,858	\$ 922,362
Miscellaneous (net)	60,595	(143,634)
Total	<u>\$ 735,453</u>	<u>\$ 778,728</u>
Net income (loss) before Federal income taxes	\$ 316,212	\$ (1,566,477)
PROVISION OR (CREDIT) FOR FEDERAL INCOME TAXES— NOTE 7		
Net income (loss)	147,000	(394,000)
	<u>\$ 169,212</u>	<u>\$ (1,172,477)</u>
SPECIAL ITEM:		
Gain on disposals of aircraft, etc., less provision of \$34,000 and \$58,000 for income taxes in respective years	100,510	173,809
Net income (loss) and special item	<u>\$ 269,722</u>	<u>\$ (998,668)</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF SURPLUS

FOR THE YEARS ENDED JUNE 30, 1961 AND 1960

	1961	1960
CAPITAL SURPLUS		
BALANCE AT BEGINNING OF YEAR	\$6,928,251	\$6,065,421
ADD—		
Surplus arising from exercise of options for 7,700 common shares	54,670	—
Excess of fair value of stock dividend over par value	—	862,830
BALANCE AT END OF YEAR	<u>\$6,982,921</u>	<u>\$6,928,251</u>
EARNED SURPLUS		
BALANCE AT BEGINNING OF YEAR	\$5,615,578	\$7,701,760
ADD—		
From accompanying statement—		
Net income (loss)	169,212	(1,172,477)
Special item	100,510	173,809
	<u>\$5,885,300</u>	<u>\$6,703,092</u>
DEDUCT—		
Cash dividends on—		
Preferred shares—fifty cents per share	\$ 49,556	\$ 49,556
Common shares—eight cents per share	—	107,772
Five per cent common share dividend—67,356 shares at fair value of \$13.81 per share	—	930,186
	<u>\$ 49,556</u>	<u>\$1,087,514</u>
BALANCE AT END OF YEAR (Note 4)	<u>\$5,835,744</u>	<u>\$5,615,578</u>

The accompanying notes are an integral part of these statements.

 **THE FLYING TIGER LINE INC.**



OFFICERS —

- ROBERT W. PRESCOTT *President*
- FRED BENNINGER *Executive Vice-President-Treasurer*
- FRANK B. LYNOTT *Executive Vice-President-Operations*
- JOHN L. HIGGINS *Vice-President-Sales*
- WILLIAM E. BARTLING *Vice-President-Research*
- L. S. KIMBALL *Vice-President-Public Relations*
- GEORGE T. CUSSEN *Vice-President-Interline Freight Development*
- GEORGE S. OBERDORF *Vice-President-Assistant to the President*
- O. R. BURGHIARDT *Secretary and Assistant Treasurer*
- NORMAN L. MEYERS *Assistant Secretary*
- RALPH B. STUMP *Assistant Secretary*

DIRECTORS —

- SAMUEL B. MOSHER *Chairman of the Board*
Chairman of the Board of Signal Oil & Gas Company, Los Angeles
- RUTH AXE *Vice-President, E. W. Axe & Co., Inc., New York*
- ALLEN T. CHASE *President, Standardized Aircraft, Inc., Los Angeles*
- JOHN C. COSGROVE *Executive Vice-President,*
Marsh & McLennan-Cosgrove & Co., Los Angeles
- BORIS GRESOV *Economist, New York*
- ARTHUR G. LINKLETTER *Guedel-Linkletter Productions, Los Angeles*
- CHARLES LUCKMAN *Charles Luckman Associates, Los Angeles*
- NORMAN L. MEYERS *Meyers & Batzell, Washington, D.C.*
- ROBERT W. PRESCOTT *President*
- HOUSTON REHRIG *President, Rehrig Pacific Co., Los Angeles*
- JOHN C. TYLER *Co-Chairman of the Board of*
Farmers Insurance Group, Los Angeles

TRANSFER AGENTS —

- THE CHASE MANHATTAN BANK
1 Chase Manhattan Place
New York 15, N. Y.
- BANK OF AMERICA
660 S. Spring St.
Los Angeles 54, Calif.

GENERAL COUNSEL —

- MEYERS & BATZELL
Shorcham Building
Washington 5, D. C.

REGISTRARS —

- THE BANK OF NEW YORK
48 Wall Street
New York 15, N. Y.
- CITIZENS NATIONAL TRUST & SAVINGS BANK
457 S. Spring St.
Los Angeles 54, Calif.

AUDITORS —

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

EXECUTIVE OFFICES —

- LOCKHEED AIR TERMINAL
Burbank, California

SALES OFFICES

AKRON-CANTON, OHIO
184 E. Buchtel
Tyler 6-2353

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.
5833 So. Central Ave.
Portsmouth 7-8200

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

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: 8-1135

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

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

MILWAUKEE, WIS.
210 N. Second Ave.
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 1-1158

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 4-4747

SOUTH BEND, IND.
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Atlantic 8-4441

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Cherry 4-1123



THE FLYING TIGER LINE INC.





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 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.



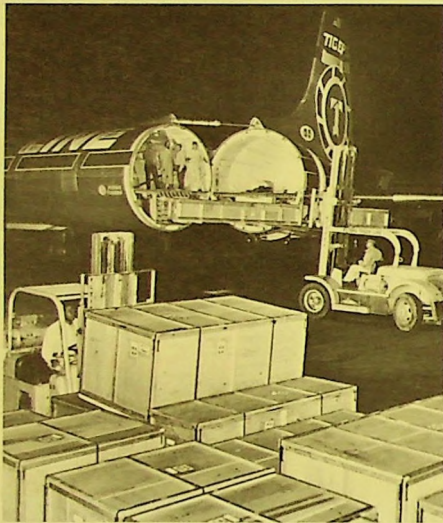
Newark, N. J.—A 35,000-pound turbine generator—single largest piece of airfreight ever flown—is loaded aboard a CL-44D for non-stop flight to Los Angeles for the Southern California Edison Company. Air shipment enabled Edison to get a plant in operation a week ahead of schedule.

AIR CARGO

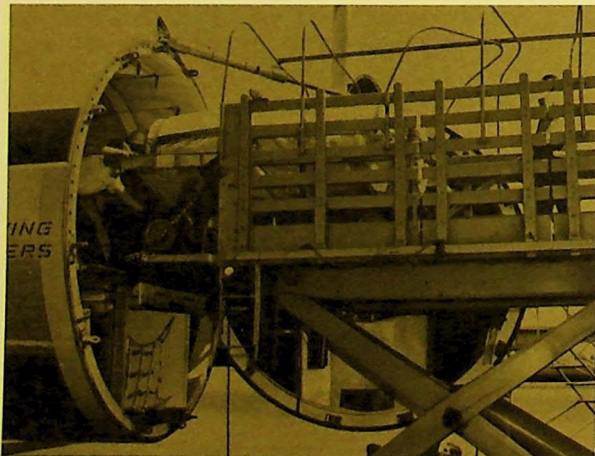
THE YEAR 1962 has again reflected a gain in the Company's volume of freight carried in domestic operations. Ton miles carried in the year ended December 31, 1962 were 74,196,841 as compared to 66,750,019 ton miles carried in the year ended December 31, 1961—an increase of eleven percent. This increase 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.

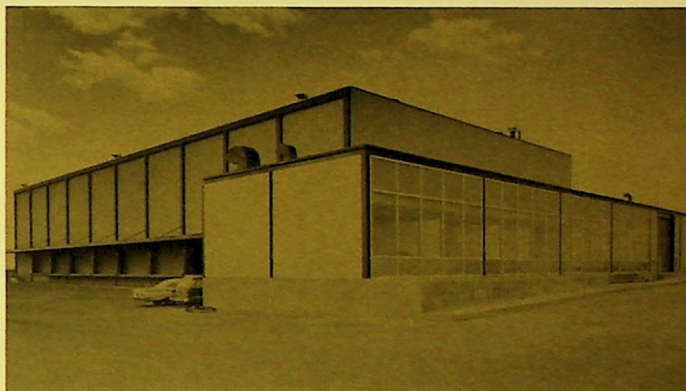
Several months ago we became the first airline to become a member of the Pacific Steamship Conference, wherein we are providing combination steamship-air transportation service from points in the Orient to the major cities in the Midwest and East Coast of the United States.

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.



Legend

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

FLYING TIGER SKYROAD

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

NET
WORTH
PER
SHARE
\$12

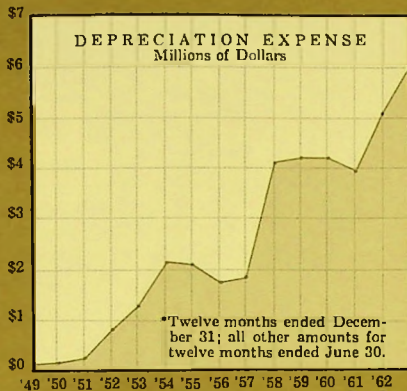
GROWTH IN EQUITY



* 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

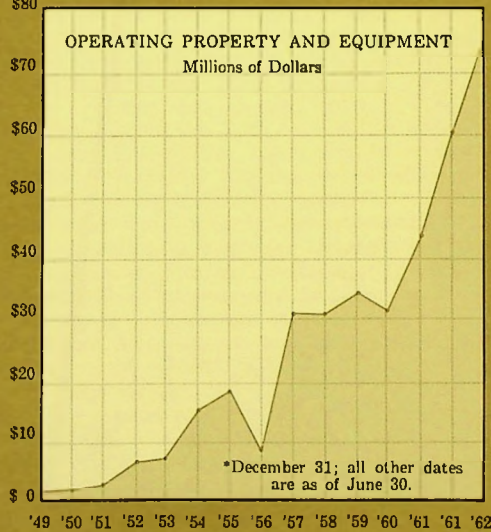
GROSS REVENUES Millions of Dollars



*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

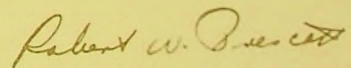
FROM AN EARNING standpoint, the year 1962 has been the best year since the inception of the Company seventeen years ago. At the end of the year, the Company enjoyed a stronger financial position than ever attained in previous years. Although many problems face us in our highly competitive field, I am 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

ANNUAL REPORT FOR 1963



THE FLYING TIGER LINE INC. ANNUAL REPORT

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

OFFICERS OF THE COMPANY

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

BOARD OF DIRECTORS

SAMUEL B. MOSHER	Chairman of the Board Chairman of the Board of Signal Oil & Gas Company, Los Angeles
RUTH AXE	Vice-President, E. W. Axe & Co., Inc., New York
FRED BENNINGER	Executive Vice-President-Treasurer
ALLEN T. CHASE	President, Standardized Aircraft, Inc., Los Angeles
JOHN C. COSGROVE	Executive Vice-President, Marsh & McLennan-Cosgrove & Co., Los Angeles
LAURENCE C. CRAIGIE	Vice-President, American Machine & Foundry Co.
BORIS GRESOV	Chairman, Standard Metals Corp., President, Excelstior Fund, Inc.
ARTHUR G. LINKLETTER	Guedel-Linkletter Productions, Los Angeles
CHARLES LUCKMAN	Charles Luckman Associates, Los Angeles
NORMAN L. MEYERS	Meyers & Batzell, Washington, D.C.
ROBERT W. PRESCOTT	President
HOUSTON REHRIG	President, Rehrig Pacific Co., Los Angeles
JOHN C. TYLER	Co-Chairman of the Board of Farmers Insurance Group, Los Angeles

TRANSFER AGENTS

THE CHASE MANHATTAN BANK
1 Chase Manhattan Plaza
New York 15, N. Y.

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

REGISTRARS

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

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

GENERAL COUNSEL

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

AUDITORS

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

EXECUTIVE OFFICES

LOCKHEED AIR TERMINAL
Burbank, California

TO OUR STOCKHOLDERS:

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



NET INCOME

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

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

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

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

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

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

FINANCIAL POSITION

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

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

the years 1965 through 1969.

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

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

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

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

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

AIR CARGO

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

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

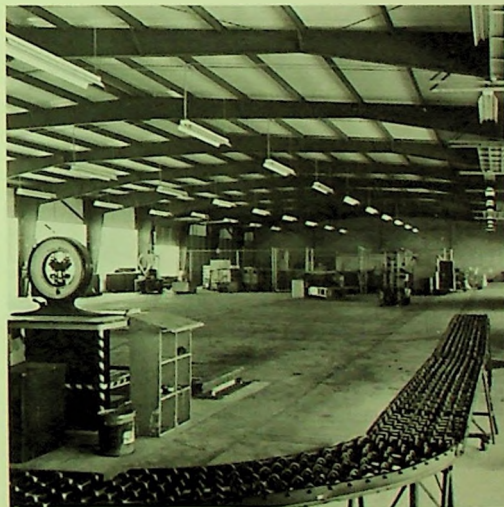
United States not served direct by air. We anticipate that better than 10% of our air cargo revenue will be derived from this source in 1964.

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

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



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



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

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

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

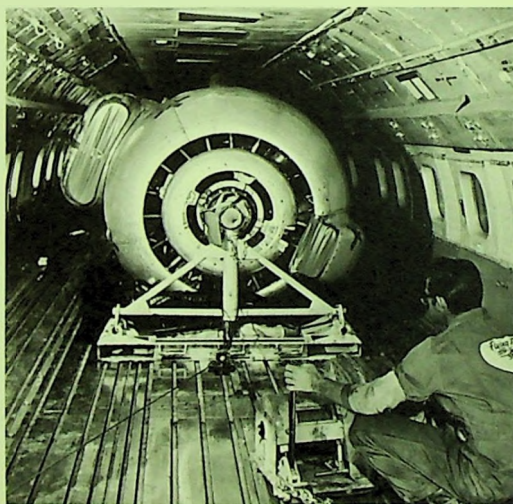
The initial limited pilot program conducted by the Company during the year 1963 was so successful and economical to large U. S. parcel post ship-

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

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



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



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

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

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

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

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

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

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



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



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

MILITARY CONTRACTS

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

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



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



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

PASSENGER CHARTERS

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

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



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

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

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

OUR FLEET

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

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

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

DIVIDENDS

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

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

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

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

LABOR RELATIONS

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

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

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

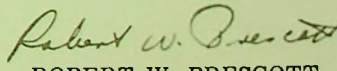
SUMMARY

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

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

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

By Order of the Board of Directors


ROBERT W. PRESCOTT
President

Burbank, California
March 16, 1964

BALANCE SHEETS *December 31, 1963 and 1962*

ASSETS

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

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

BALANCE SHEETS *December 31, 1963 and 1962*

LIABILITIES

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

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

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

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

The accompanying notes are an integral part of these statements.

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

CAPITAL SURPLUS

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

EARNED SURPLUS

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

The accompanying notes are an integral part of these statements.

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

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

NOTES TO FINANCIAL STATEMENTS *December 31, 1963*

(1) *Aircraft—*

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

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

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

The Series A equipment trust certificates are payable in Canadian dollars (\$29,600,831 less future interest \$3,690,421) and at December 31, 1963, were stated in U. S. dollars at the conversion rates in effect on the various delivery dates of the related aircraft adjusted for contracted amounts for Canadian funds required through December 31, 1965. Exchange adjustments applicable to payments on the indebtedness subsequent to December 31, 1962, have been recognized as miscellaneous income.

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

(3) *Capital stock and subordinated debt—*

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

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

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

(4) *Restrictions under debt agreements—*

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

(5) *Federal income taxes—*

Federal income taxes deferred through additional depreciation and other additional deductions for tax purposes have been credited to a reserve, which the Company intends to restore to income as such deferred taxes become payable.

(6) *Pension plans—*

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

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

TO THE STOCKHOLDERS,
THE FLYING TIGER LINE INC.:

We have examined the balance sheets of *THE FLYING TIGER LINE INC.* (a Delaware corporation) as of December 31, 1963 and 1962, and the related statements of income, surplus, and source and application of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm accounts receivable from the United States Government, but we satisfied ourselves as to such accounts by other auditing procedures.

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

ARTHUR ANDERSEN & CO.

Los Angeles, California,
March 3, 1964

SALES OFFICES

FLYING TIGER AIRFREIGHT ROUTE No. 100

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

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

PORTLAND, ORE.
International Airport
Atlantic 1-1158

BOSTON, MASS.
Logan International Airport
Logan 7-6161

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

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

CHICAGO, ILL.
O'Hare Field
686-7100

MILWAUKEE, WIS.
General Mitchell Field
Humboldt 3-5000

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

CLEVELAND, OHIO
Cleveland Hopkins Airport
267-3575

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

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

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

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

PASSENGER AND FREIGHT CHARTERS

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

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

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

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

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

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

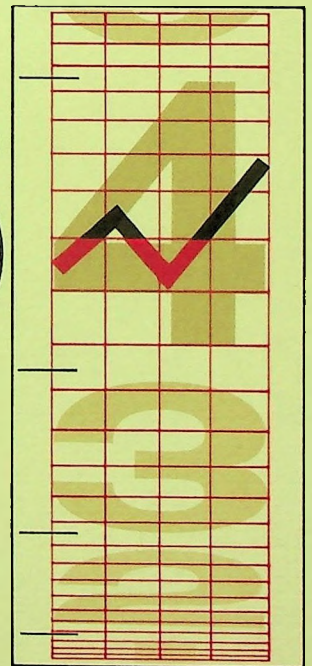
LOS ANGELES, CALIF.
Los Angeles International Airport
776-1732

GENERAL SALES OFFICES

Lockheed Air Terminal
Burbank, California
Triangle 7-3411



6



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 & 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>
JOHN C. COSGROVE	.....	<i>President</i> <i>Marsh & 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 & 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

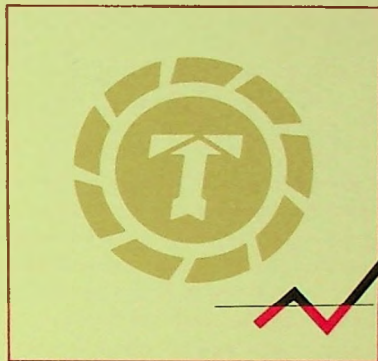
MEYERS & BATZELL, Shoreham Building, Washington 5, D.C.

AUDITORS

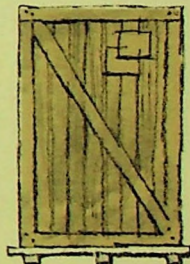
ARTHUR ANDERSEN & CO., 1320 West Third Street, Los Angeles
17, California

EXECUTIVE OFFICES

LOCKHEED AIR TERMINAL, Burbank, California



'64



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.

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

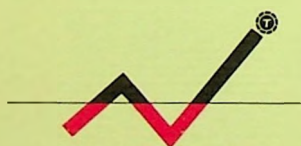
- an increase in
- operating profit of \$2,240,135.

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.

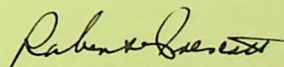
OUTLOOK

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.



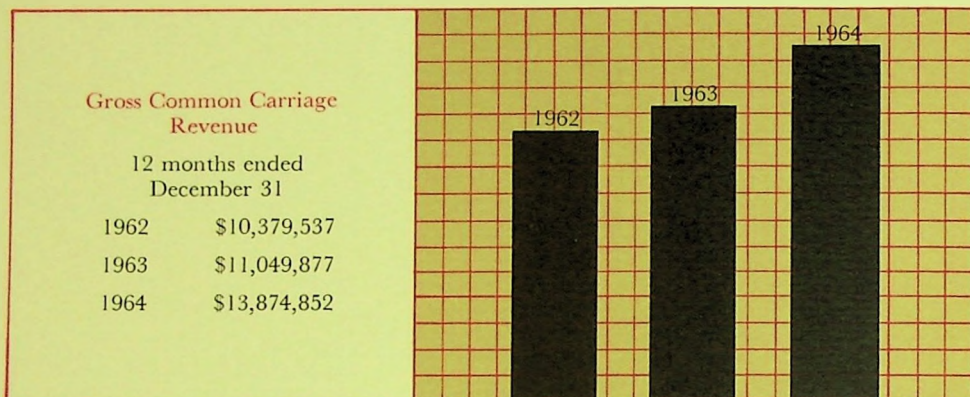
ROBERT W. PRESCOTT
President

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.



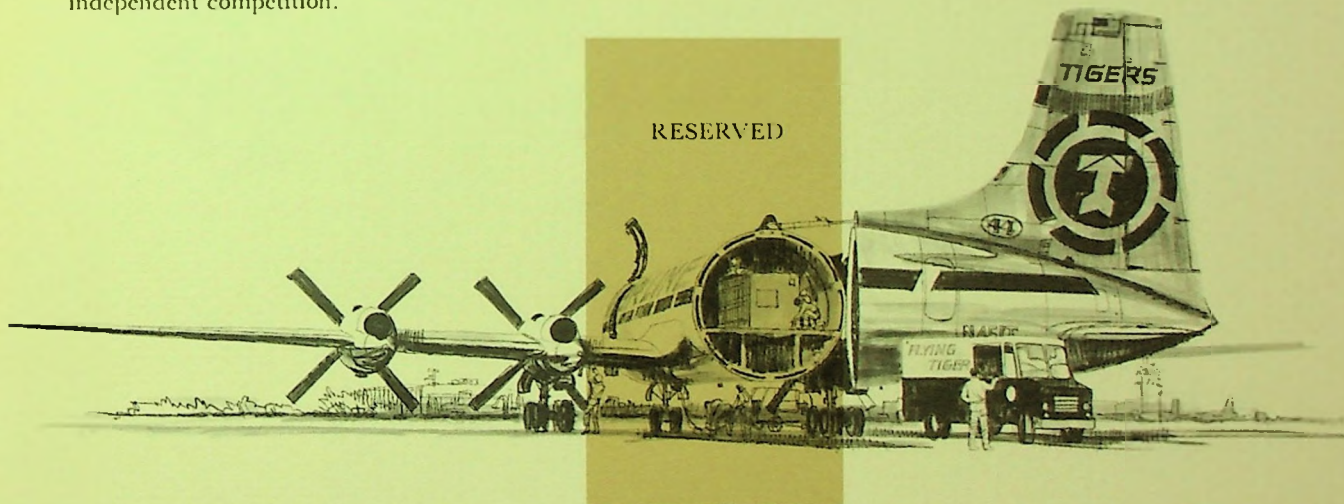
In August 1964, the Civil Aeronautics Board adopted a revision to its rules to provide the all-cargo carriers with exclusive rights to sell "Blocked Space" at wholesale rates to combination passenger and cargo airlines, freight forwarders, and large-volume shippers.

"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.

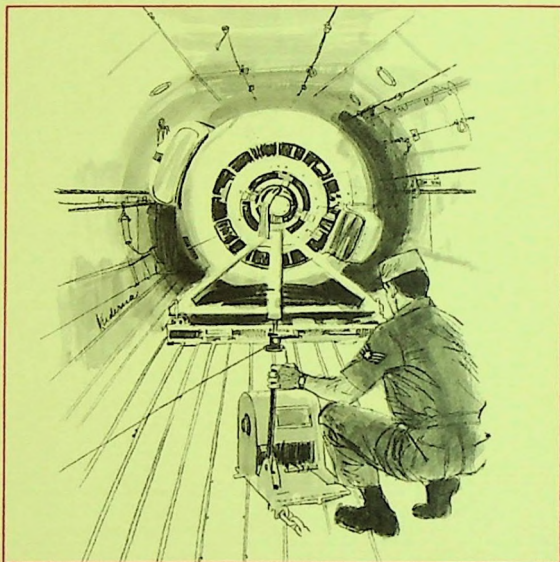


Revenue from business done with the Military Air Transport Service (MATS) amounted to \$23,151,385 in the year ended December 31, 1964. Revenue from this source has declined in the past two years when \$38,394,750 and \$27,465,723 in revenues were reported for the years 1962 and 1963, respectively. The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

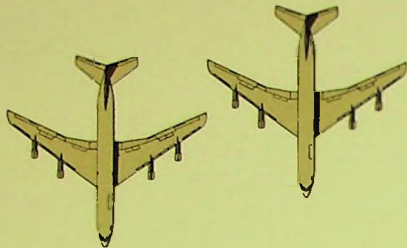
STANISLAUS CHURCH

PHILIPINO STUDENTS

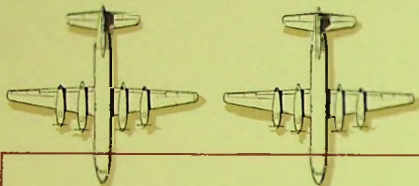
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OUR FLEET

'64



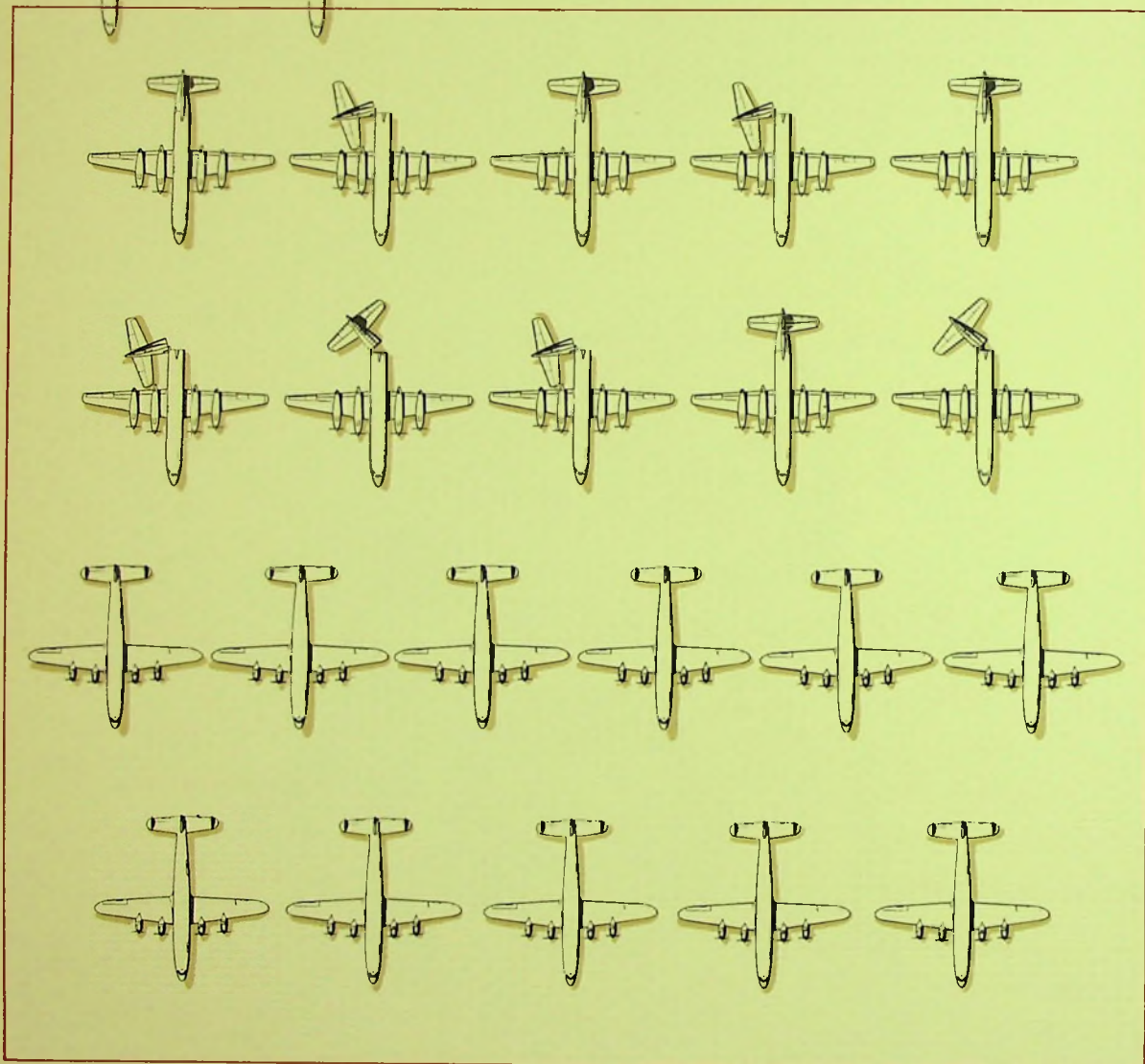
TWO CL-44'S ADDED TO FLEET IN JANUARY, 1965;
TWO BOEING 707-349C'S JETS TO BE ADDED FALL OF 1965.



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.

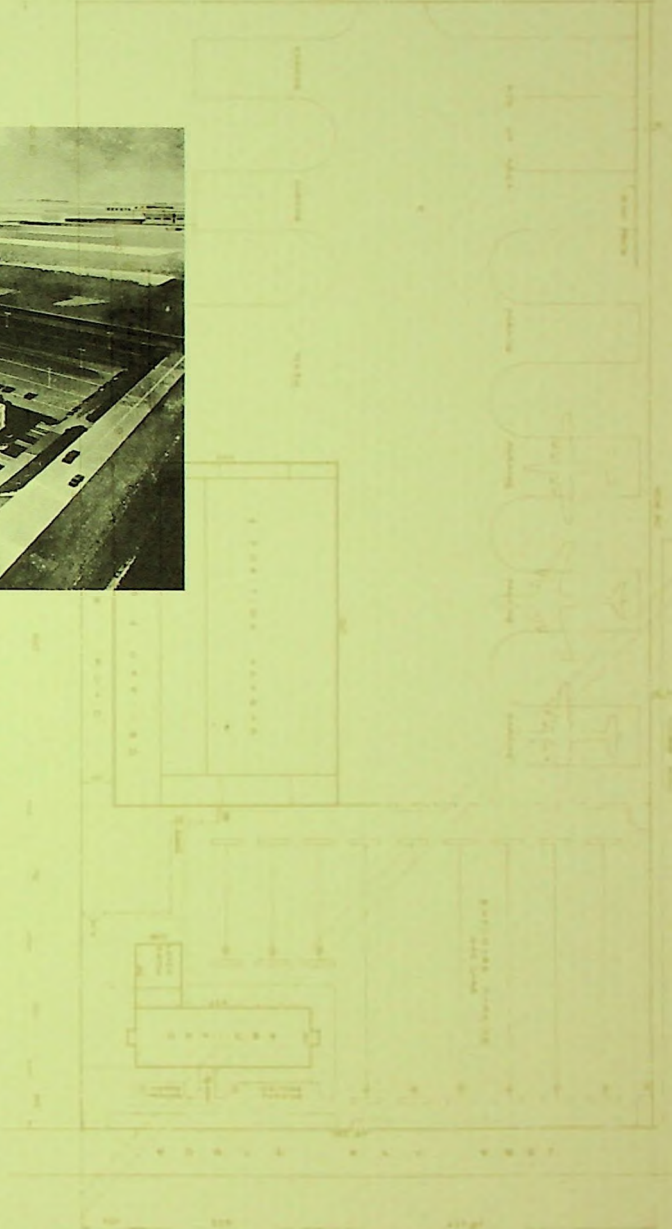
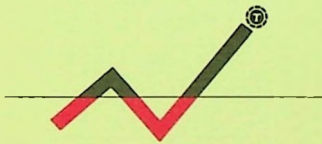
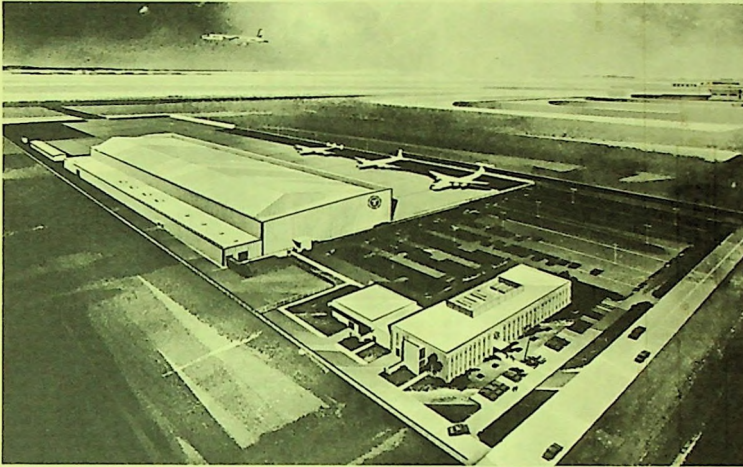
In January 1965, the fleet was increased by the acquisition of two additional Canadair CL-44D aircraft. The acquisition of these two aircraft does not require any increase in current outlay of funds since payments, including interest, on the indebtedness are integrated with the original debt and payment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

Less—Reserves for depreciation.....

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
OPERATING REVENUES:		
Scheduled freight operations	\$13,707,443	\$10,918,796
Military Air Transport Service	23,151,385	27,465,723
Charters, service sales, etc.	<u>8,609,557</u>	<u>3,825,347</u>
	<u>\$45,468,385</u>	<u>\$42,209,866</u>
OPERATING EXPENSES:		
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	<u>5,671,069</u>	<u>6,186,212</u>
	<u>\$41,463,676</u>	<u>\$40,445,292</u>
Net income from operations	<u>\$ 4,004,709</u>	<u>\$ 1,764,574</u>
OTHER EXPENSE:		
Interest expense	\$ 2,120,286	\$ 2,425,034
Miscellaneous (net)	<u>(355,846)</u>	<u>(234,326)</u>
	<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)
PROVISION (CREDIT) FOR FEDERAL INCOME TAXES (Note 5) . . .	<u>939,000</u>	<u>(222,000)</u>
Net income (loss)	<u>\$ 1,301,269</u>	<u>\$ (204,134)</u>
SPECIAL ITEMS:		
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.

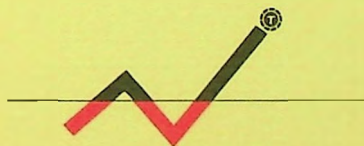
STATEMENTS OF SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 1964 AND 1963

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.....	—	<u>1,006,036</u>
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.....	<u>199,439</u>	<u>317,360</u>
	\$ 5,103,883	\$ 4,730,016
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.....	—	<u>1,077,285</u>
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	\$ 6,035,556	\$ 7,597,944
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	\$ 7,974,369	\$ 6,444,910
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.

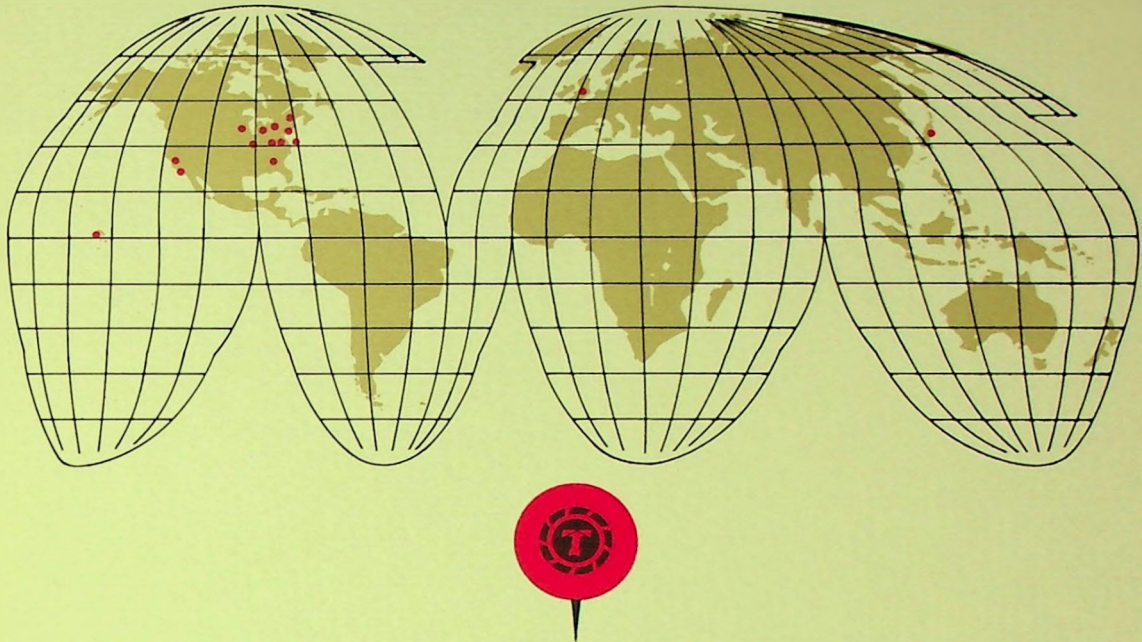
In our opinion, the accompanying balance sheets and statements of income, surplus, and funds present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1964 and 1963, and the results of its operations and the source and application of funds for the years then ended, in conformity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

TOKYO, JAPAN
Bldg. 3865 West
Tachikawa Air Force Base
Tokyo, Japan
22104-22282
Hotel New Japan
Suite 385
Tel: 581-5511 Ext. 8385



THE FLYING TIGER LINESM

1965 ANNUAL REPORT

OFFICERS OF THE COMPANY

Robert W. Prescott	President
Fred Benninger	Executive Vice President-Treasurer
Peter T. Albert	Vice President—Sales
William E. Bartling	Vice President—Research and Planning
George T. Cussen	Vice President—Sales Administration
Joseph J. Healy	Vice President—Ground Operations
L. S. Kimball	Vice President—Public Relations
James McLachlan, Jr.	Vice President—Maintenance
E. A. Plinke	Vice President—Operations
R. T. Smith	Vice President—Industry Affairs
O. R. Burghardt	Secretary and Assistant Treasurer
Norman L. Meyers	Assistant Secretary

BOARD OF DIRECTORS

Samuel B. Mosher	Chairman of the Board Chairman of the Board of Signal Oil & Gas Company, Los Angeles
Ruth Axe	President, E. W. Axe & Co., New York
Fred Benninger	Executive Vice President-Treasurer
John C. Cosgrove	Marsh & McLennan, Inc., Los Angeles
Laurence C. Craigie	Lockheed Aircraft Corporation, Burbank
Arthur G. Linkletter	Guedel-Linkletter Productions, Los Angeles
Charles Luckman	Charles Luckman Associates, Los Angeles
Norman L. Meyers	Meyers & Dryer, Washington, D. C.
Robert W. Prescott	President
Houston Rehrig	Lady's Choice Foods, Los Angeles
John C. Tyler	Co-Chairman of the Board of Farmers Insurance Group, Los Angeles

TRANSFER AGENTS

THE CHASE MANHATTAN BANK

1 Chase Manhattan Plaza
New York, N.Y. 10015

BANK OF AMERICA

660 South Spring Street
Los Angeles, California 90054

REGISTRARS

THE BANK OF NEW YORK

48 Wall Street, New York, N.Y. 10015

UNION BANK

8th and Hill Streets
Los Angeles, California 90054

GENERAL COUNSEL

MEYERS & DRYER
Shoreham Building
Washington, D. C. 20005

AUDITORS

ARTHUR ANDERSEN & CO.
1320 West Third Street
Los Angeles, California 90017

EXECUTIVE OFFICES

7401 World Way West
International Airport
Los Angeles, California 90009

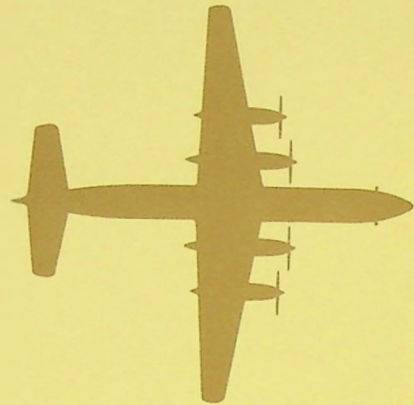
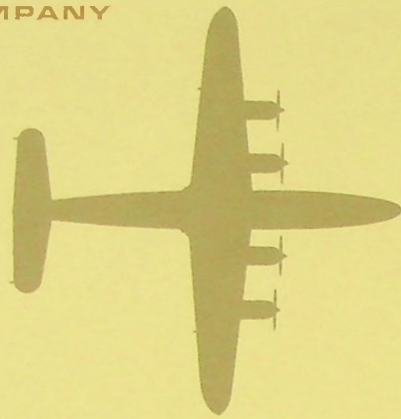
FINANCIAL HIGHLIGHTS OF 1965

	<u>1965</u>	<u>1964</u>
Revenues	\$56,155,859	\$45,468,385
Net income and special item	\$ 3,641,732	\$ 1,500,708
Net income and special item per share of common	\$2.23	\$.90*
Working capital	\$ 9,145,034	\$ 7,706,596
Working capital ratio	1.74 to 1.00	1.60 to 1.00
Property and equipment at cost	\$99,513,972	\$72,240,396
Total assets at end of year	\$89,291,899	\$64,021,388
Net worth	\$19,413,976	\$15,805,609
Book value per share of common	\$11.46	\$9.23*
Shares of common stock outstanding	1,607,995	1,605,895*
Long-term debt	\$48,154,480	\$29,283,388
Depreciation and amortization	\$ 6,674,913	\$ 6,045,182
Interest expense	\$ 2,423,063	\$ 2,120,286
Cash profit	\$13,797,519	\$ 7,974,369

**Adjusted to give retroactive effect to 1965 stock dividend on common shares.*



OFFICERS OF THE COMPANY



Peter T. Albert,
Vice President—Sales



L. S. Kimball,
Vice President—Public Relations



James McLachlan, Jr.,
Vice President—Maintenance



E. A. Pinke,
Vice President—Operations



Robert W. Prescott,
President



Fred Benninger,
Executive Vice President-Treasurer



William E. Bartling,
Vice President—Research and Planning



George T. Cussen,
Vice President—Sales Administration



Joseph J. Healy,
Vice President—Ground Operations



R. T. Smith,
Vice President—Industry Affairs



O. R. Burghardt,
Secretary and Assistant Treasurer



Norman L. Meyers,
Assistant Secretary

TO OUR STOCKHOLDERS:

Your Company celebrated its twentieth anniversary in June 1965 and it is most gratifying to report to you that 1965 was a record year for the Company. All-time highs were reached in both operating revenue and net income. The present fleet of modern, efficient aircraft gives us the largest airlift capacity in the history of our Company, and, with additional jet aircraft on order for delivery in 1966, our twenty-first year promises to be another record year.

NET INCOME

The operating results for the year ended December 31, 1965 compared to the previous year were as follows:

	Year Ending Dec. 31	
	1965	1964
Net Income	\$ 3,641,732	\$ 1,500,708
Earnings per share	\$2.23	\$.90*
Operating Revenues —		
Domestic Scheduled		
Airfreight	\$17,086,910	\$13,707,443
Military Airlift		
Command	30,237,475	23,151,385
Commercial charters, etc.	8,831,474	8,609,557
Total	\$56,155,859	\$45,468,385
Operating Profit	\$ 8,819,926	\$ 4,004,709
Depreciation & Amortization	\$ 6,674,913	\$ 6,045,182
Cash Flow	\$13,416,645	\$ 8,668,890
Per Share of Common Stock	\$8.34	\$5.67

*After adjustment for 5% stock dividend paid in 1965.

The improvements in the operating results for the year of 1965 were principally due to increased volume in both commercial as well as Military Airlift

Command business, and a continued improvement in operating efficiencies.

For the greatest part of the year, the Company suffered from the lack of sufficient aircraft capacity to service both commercial as well as military demands. The additional equipment the Company has acquired was not available until the end of the year so that the full impact of the new equipment upon the Company's operating results is not reflected in the 1965 figures.

Although the Company provided Federal income tax provision for the year of 1965 in the amount of \$3,100,000, such amount was credited to the Reserve for Deferred Federal Income Taxes since the Company is not obligated to pay Federal income taxes currently due to its policy of applying accelerated depreciation on its aircraft. In computing such reserve, the Company has not considered the future benefits which it may realize from the substantial Investment Tax Credits available at such time as the Company has to pay the Federal income taxes.

FINANCIAL POSITION

The Company's financial position as of December 31, 1965 has been considerably strengthened, as follows:

	December 31	
	1965	1964
Working capital	\$9,145,034	\$7,706,596
Net current ratio	1.74 to 1.00	1.60 to 1.00
Book value per common share	\$11.46	\$9.23

Although the Company made heavy investments in new aircraft and ground facilities during 1965, the financial position of the Company has improved in 1965. The two CL-44D aircraft acquired by the Company in January 1965 were financed through Equip-



Flying Tiger's two top executives, President Robert W. Prescott (left) and Executive Vice-President Fred Benninger in Mr. Prescott's office.

ment Trust Certificates requiring amortization in late 1968 when the Equipment Trust Certificates on the first ten CL-44D aircraft have been liquidated.

Two Boeing 707 aircraft purchased by the Company in October 1965, were financed by down payments from current working funds, and Equipment Trust Certificates payable over a ten year period beginning in 1967.

The Company also leased two DC-8F aircraft for a period of four years with options to renew and purchase such equipment. Two additional Boeing 707 aircraft contracted for delivery to the Company in June and December 1966, were also acquired through lease arrangements with options to renew such leases and purchase the aircraft.

The Company commenced construction of a new headquarters office building and maintenance and overhaul facilities. The total estimated expenditure is \$4.5 million, and the Company has a construction loan for \$3.5 million pending completion of the facilities and permanent long term financing. The new facilities were completed in February 1966.

The 5½% Promissory Note (Subordinated) due 1976 was converted on December 1, 1965 to Series C 5½% Debentures (Subordinate) due 1976.

As of January 31, 1966, Series B and Series C Debentures (Subordinate) in the principal amounts of \$111,000 and \$2,085,000, respectively, were converted into 127,798 common shares of the Company.

Gross Common Carriage Revenue		1965			
		12 months ended December 31		1964	
		1962	1963		
1962	\$10,379,537				
1963	\$11,049,877				
1964	\$13,874,852				
1965	\$17,347,022				

	<u>Preferred Shares</u>	<u>Common Shares</u>	<u>Capital Surplus</u>	<u>Earned Surplus</u>	<u>Total Stockholders' Equity</u>
Balances, January 1, 1965	\$991,120	\$1,529,324	\$8,230,838	\$5,054,327	\$15,805,609
Net income for year				3,641,732	3,641,732
Cash dividend on preferred shares— \$.50 per share				(49,556)	(49,556)
5% stock dividend		76,571	1,263,422	(1,339,993)	
Issuance of 2,100 common shares under stock options		2,100	14,091		16,191
Balances, December 31, 1965	<u>\$991,120</u>	<u>\$1,607,995</u>	<u>\$9,508,351</u>	<u>\$7,306,510</u>	<u>\$19,413,976</u>



This over-all aerial view shows the cantilevered hangar, largest of its type in the west, which forms part of the main base of the Flying Tiger Line at Los Angeles International Airport. Three Boeing jets, such as the one shown in the foreground, can be hungared at one time in this huge 78,200 square foot structure, which is 460 feet long, and 170 feet wide. To the left of the parking area is the general office building, while in the background are the Santa Monica mountains which rim the northern area of Los Angeles. The Pacific Ocean can also be seen in the background.

DOMESTIC AIRFREIGHT

The Company's twentieth anniversary year in airfreight was marked by record performances in revenues and ton miles.

To illustrate the growth of our domestic all-cargo business since our first year of operation, which also represents the birth of the all-cargo industry in the United States, we are presenting the following statistics for representative years throughout our twenty years.

	<u>Revenues</u>	<u>Ton Miles</u>
1965	\$17,254,426	128,123,804
1964	13,978,846	99,991,965
1959	13,993,414	79,634,602
1955	6,028,516	36,890,469
1950	4,118,252	15,672,689
1946	358,428	2,757,141

Total domestic air cargo revenue, including mail and express traffic, was \$17,254,426, a gain of 23

per cent over the preceding year. Comparatively, air cargo revenues alone, not including revenues from overseas contract and charter operations, were approximately 35 times as much as total revenues received by the Company in its first year of operation twenty years ago. Such is the growth that has occurred in domestic air cargo since the founding of the airline as the nation's first all-cargo carrier in 1945.

Total domestic air cargo in 1965 reached a record figure of 128,123,804 ton miles. This was a gain of 28 per cent over the preceding year.

While it is true that air cargo revenues in 1965 were materially increased by the crisis in Viet Nam, the year saw encouraging results from traffic development programs which the Company has been pioneering over the last several years. Results would have been even more significant had it been possible to secure additional equipment. The balancing of the need for aircraft on domestic routes with the demands made upon the Company for overseas military airlift in connection with the Viet Nam crisis made it necessary for the Company to forego some of its goals in further development of domestic traffic.

However, with the addition of new equipment in the latter part of the year—two Boeing 707 airplanes and four Canadair CL-44D swingtail freighters—it will be possible to achieve a further expansion of domestic service in 1966. This should add importantly to our domestic cargo results. It is the intention of the Company to materially expand the domestic air cargo capacity in 1966, to improve and increase the service to our customers.

Programs which the Company has been developing in recent years to create new fields of airfreight traffic include Sea-Air, Skyroad, and airfreight shipping associations by various industries.

In 1965, we experienced an increase of 84 per cent in Sea-Air traffic. In this type of movement, freight from the Orient to domestic markets is moved by steamship to West Coast terminals and then transported by airfreight to domestic destinations. This greatly speeds up final delivery at an over-all cost which the shipper can afford. To this end we have been strengthening our field offices in the Orient and we look forward confidently to an even greater traffic growth in this field in the years ahead.

Our Skyroad program, which unites the surface trucker with the airfreighter, enables an increasingly large number of companies located within 100 to 200 miles of major air terminals to utilize effectively the combination of surface truck traffic from their cities to major air terminals, with the airfreighter delivering the long haul portion of the shipment. In 1965, our traffic showed a gain of 31 per cent in this field.

The aerospace industry is now effectively utilizing joint shipping agreements which permit related companies to pool traffic at major terminals from common suppliers and to ship jointly to major destinations, thus speeding up delivery and achieving a lower overall shipping cost. These agreements take considerable time to work out but we expect to see the format grow importantly in the years ahead.

Major forwarders also are utilizing joint loading of freight and it is significant that this program, pioneered by us, has made our Company the major carrier of forwarder traffic. In 1965, traffic of this type showed a gain of 31 per cent.

With the expansion which we expect to undertake early in 1966 through our recent acquisition of additional equipment, we hope to obtain a gain of about 25 per cent in domestic traffic in 1966.

The Company's "blocked space" program was challenged in the courts by the combination air carriers and for a long time was under court consideration. During this time, the Company did not stress the development of this program. On March 2, 1966, the full U. S. Court of Appeals rendered a decision in favor of the "blocked space" program and the Company plans to actively pursue this method of shipment.

CONTRACT OPERATIONS

Revenues derived from contract operations in 1965 amounted to \$38,249,773 compared to \$31,602,868 for the preceding year. Of the foregoing amounts, \$30,237,475 and \$23,151,385, for the respective years, were applicable to flights performed for the Military Airlift Command. The substantial increase in military business was due primarily to the crisis in Viet Nam. Demands upon the Company for military airlift over the Pacific Ocean were extremely heavy, accounting for the 30 per cent increase in revenue from this source.

The acquisition of two Boeing 707 jet aircraft and three Canadair CL-44D airfreighters late in 1965 made it possible for the Company to help meet these demands without seriously affecting its requirements for aircraft on domestic cargo operations.

During the year we operated commercial charter flights to many parts of the world, delivering equipment in support of both military and space programs for the United States and its affiliated NATO nations. We also performed commercial charter flights to Caribbean, European and South American areas for various charter groups.

Two major contracts were inaugurated during 1965. The Company was successful in acquiring the Navy Quicktrans supply contract, which provides



An aerial view of a Boeing 707 Intercontinental Jet and a small passenger Lear Jet are pictured here at the main Tiger base. Flying Tiger leases and sells Lear Jet aircraft.

daily service across the nation to major Navy bases, carrying Navy materiel. The contract covers the twelve months ending June 30, 1966 and revenues for the first six months approximated \$1,400,000.

During the late fall and winter months, the Company operated over the North Atlantic under a contract for British Overseas Airways Corporation. Using Canadair CL-44D equipment, the Company provided British Overseas Airways Corporation with commercial all-cargo service, pending delivery of that airline's Boeing freighter equipment in the spring of 1966.

The Company inaugurated three years ago the development of world-wide charter programs for the transportation of commercial passengers and cargo charters. This program resulted in increasing the Company's revenues from these sources from an annual volume of \$500,000 to \$8 million. The 1965 volume of commercial charter business could have continued to reflect its dynamic growth in 1965 if the Company had had the necessary aircraft. With the introduction of additional equipment in 1966, the Company expects to continue the spectacular growth of this business for 1966.



Big freight, as well as small, goes easily through the swingtail of a Flying Tiger CL-44D prop-jet, mainstay of the Tiger freight fleet.



A close-up aerial view of the new World Headquarters of the Flying Tiger Line at Los Angeles International Airport. Here are housed the executive, flight and ground operations, sales, treasury and industrial relations offices of the company.

AIRCRAFT

For the greatest part of the year, the Company was operating twelve CL-44D aircraft and ten 1049H aircraft.

In October 1965 the Company purchased and received delivery of two Boeing 707 convertible cargo-passenger aircraft. The Company has also contracted with The Boeing Company, through lease, for the delivery of two additional Boeing 707 convertible aircraft, one of which is to be delivered in June 1966 and the other in December 1966.

In September 1965, the Company also acquired two Douglas DC-8F convertible passenger aircraft through lease arrangements with options to renew the lease and purchase the aircraft. The use of the two DC-8 aircraft was interchanged with another airline in exchange for the use of four CL-44D aircraft by the Company at no additional consideration. The last of the four CL-44D aircraft under the interchange agreement was delivered to the Company on January 4, 1966.

The Company sold one 1049H aircraft, and one 1049H aircraft was destroyed in December 1965.

Therefore, the Company's fleet of aircraft for 1966 will be as follows:

As of January 1, 1966

	CL-44D	707	1049H
Owned	12	2	6
Leased	4	—	2
<i>To be Delivered</i>			
<i>in 1966</i>	—	2	—
Total	<u>16</u>	<u>4</u>	<u>8</u>

By the end of 1966, the Company will have doubled its aircraft airlift capacity over 1965.

GROUND FACILITIES

In our 1964 annual report we commented upon the expiration of the Company's lease at Lockheed Air Terminal in Burbank, California and that, for this reason as well as to effect certain cost savings, the Company was relocating its headquarters and maintenance facilities to Los Angeles International Airport. We are pleased to report that construction of the facilities is now completed and we are operating at the new location. Cost of construction is within our original estimate of \$4,500,000, of which \$3,500,000 is financed by a construction loan which will be refinanced upon completion of construction.

The new airfreight terminal at Cleveland, Ohio is now under construction and occupancy is anticipated by April, 1966. The cost of this facility was financed primarily by an airline industry-owned firm of which



Flying Tiger's newest freighter, the Boeing 707 Intercontinental Jet, in flight

our Company is a stockholder.

During 1965, the Company moved its facilities into the main airfreight terminal at Philadelphia, Pennsylvania, in order to avail itself of additional space and better location.

Various changes and improvements of facilities at other locations are presently under consideration.

DIVIDENDS

As previously commented upon in this report, a 5% common stock dividend was paid December 15, 1965 to common shareholders of record on October 29, 1965. The net book value of the Company's common stock at December 31, 1965 was \$11.46 on the 1,607,995 shares outstanding.

In 1965, as in past years, the Company paid semi-annual dividends, totaling \$.50 per share, on the preferred shares outstanding.

During the Company's twenty years of operations, five stock dividends of 5 per cent each have been paid on common shares, in addition to payment of 99,112 shares of \$10 par value preferred stock and an eight cent cash dividend, for a total of \$5,245,850 charged to earned surplus for dividends on common shares.

OUTLOOK

It is very gratifying to report to you the results of our

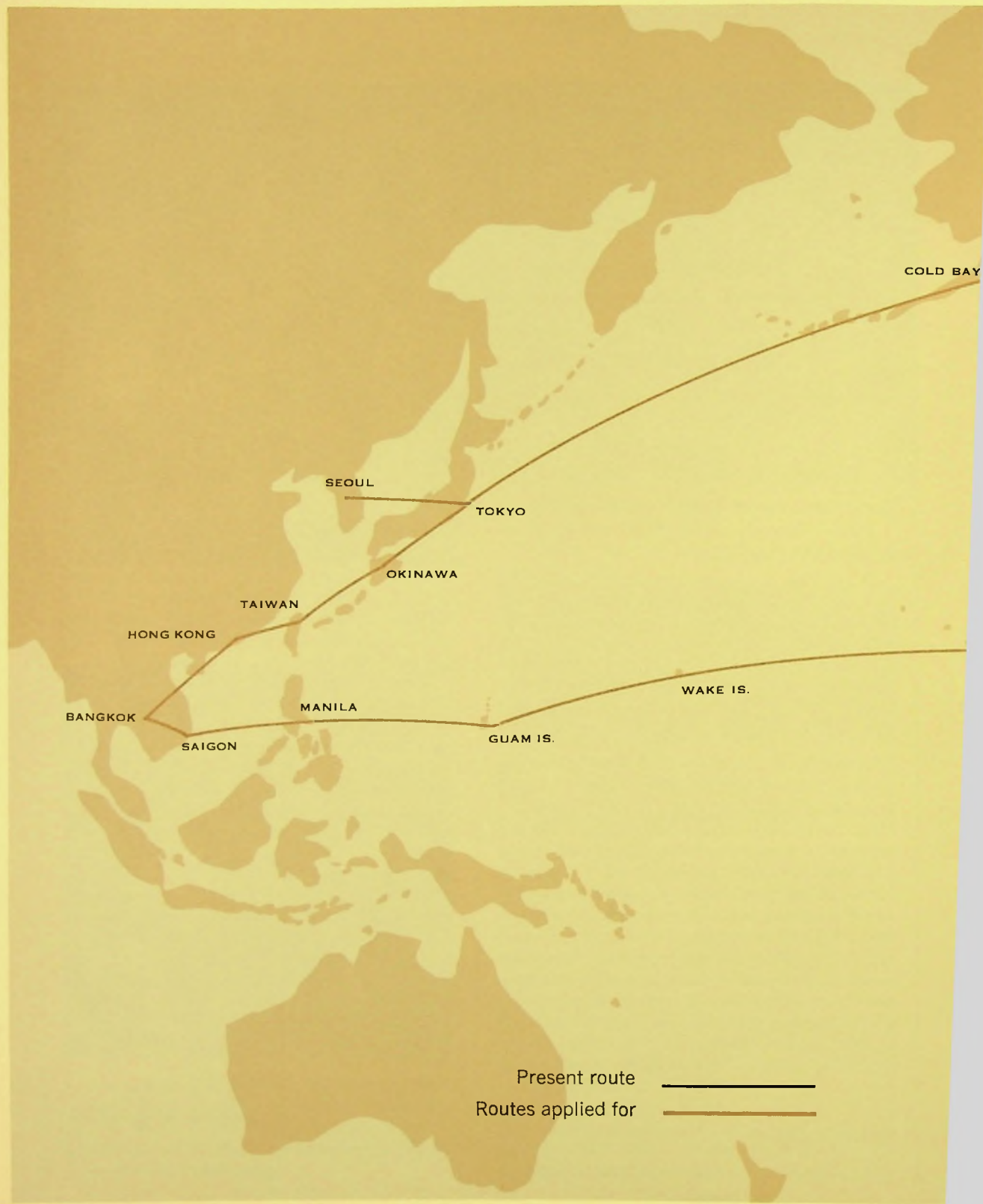
operations for the year 1965—the most successful year in the Company's history. We start our second twenty years with a fleet of the most efficient aircraft available in the airfreight and charter business and, with our expanding fleet and "Can Do" personnel, we look forward to 1966 with even greater optimism.

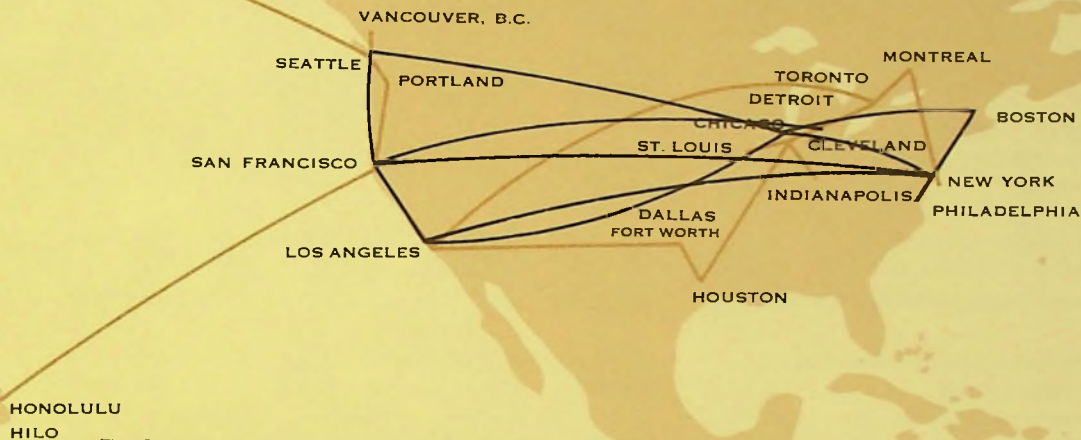
As mentioned previously in this report, two Boeing 707 aircraft and three Canadair CL-44D aircraft were acquired late in 1965. Part of the time these aircraft were used for crew training; only a limited amount of use was made for revenue-producing flights in 1965. With curtailment of training flights and with the introduction of two additional Boeing 707 aircraft and the additional Canadair CL-44D aircraft in 1966, the Company's airlift capacity will be considerably greater than it was for the year 1965.

As the new aircraft will be delivered to us, we will expand our commercial business and increase our contribution to the demand for military airlift occasioned by the Viet Nam emergency.

On behalf of the Directors, I express our deep appreciation to the employees, our customers and stockholders, who helped produce 1965's record of achievement.

ROBERT W. PRESCOTT
President





The Company presently serves cities throughout the United States on its Airfreight Route 100, and operates on charter and contract bases throughout the free world. At present, the Company has applied for additional certificated points, both domestically and internationally.

On August 10, 1965, the Company filed with the Civil Aeronautics Board to amend its Route 100 to serve the major metropolitan cities of St. Louis, Missouri; Indianapolis, Indiana; Dallas-Fort Worth and Houston, Texas.

Early in February of 1965, the Company made application for a Transpacific Route requesting the rights to serve the following intermediate Pacific area points from all of its West Coast cities and the gateway points of Chicago and Detroit:

- Cold Bay, Alaska; Okinawa and intermediate points in Japan;
- Honolulu, Hawaii; Taiwan; Hong Kong; the Philippines; Wake Island, Guam; Viet Nam, and a terminal point in Thailand.

Additionally, in the international picture, following the President's White House Message announcing a new Air Transport Agreement between the governments of Canada and the United States, the Company responded by filing its application to acquire certain Canadian points within its certificate.

On February 7, 1966, the Company filed two applications — one to serve Toronto and Montreal and the other to serve Vancouver, B. C.

A procedural hearing date has been set by the Civil Aeronautics Board for the international application and the Company is awaiting action from the Civil Aeronautics Board with regard to its application concerning the domestic cities of St. Louis, Indianapolis, Dallas-Fort Worth and Houston.

COMPARATIVE BALANCE SHEET DATA

(Dollars expressed in thousands except per share figures)

	<i>December 31</i>				
	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>
CURRENT ASSETS:					
Cash and marketable securities	\$ 5,334	\$ 9,362	\$ 8,829	\$10,442	\$ 5,339
Receivables	9,802	7,049	4,311	4,891	6,173
Inventories of materials and supplies	3,633	2,327	1,812	1,568	1,064
Prepaid insurance, rents, etc.	1,017	456	464	726	442
Prepaid engine overhaul cost	1,770	1,312	1,301	964	817
Total current assets	<u>\$21,556</u>	<u>\$20,506</u>	<u>\$16,717</u>	<u>\$18,591</u>	<u>\$13,839</u>
LESS CURRENT LIABILITIES:					
Current installments of debt	\$ 6,418	\$ 6,153	\$ 5,904	\$ 5,713	\$ 7,176
Accounts payable	4,171	4,885	3,182	4,030	3,843
Reserve for vacations	797	638	573	578	468
Other current liabilities	1,025	1,123	1,022	672	947
Total current liabilities	<u>\$12,411</u>	<u>\$12,799</u>	<u>\$10,681</u>	<u>\$10,993</u>	<u>\$12,433</u>
Net Current Assets—Working Capital	\$ 9,145	\$ 7,707	\$ 6,036	\$ 7,598	\$ 1,404
ADD:					
Noncurrent receivables, investments, etc.	1,063	753	1,020	1,309	1,808
Deferred training costs	2,902	2,121	2,447	2,773	2,272
Deposits on new equipment	—	—	—	—	12,060
Property and equipment (net)	63,771	40,641	45,906	49,988	38,803
Total assets less current liabilities	<u>\$76,881</u>	<u>\$51,222</u>	<u>\$55,409</u>	<u>\$61,668</u>	<u>\$56,344</u>
LESS:					
Long-term debt	\$48,154	\$29,283	\$36,018	\$42,785	\$43,380
Deferred income, etc.	252	172	202	132	42
Deferred income taxes	9,061	5,961	4,838	4,715	1,670
Total	<u>\$57,467</u>	<u>\$35,416</u>	<u>\$41,058</u>	<u>\$47,632</u>	<u>\$45,092</u>
Net Assets	<u>\$19,414</u>	<u>\$15,806</u>	<u>\$14,351</u>	<u>\$14,036</u>	<u>\$11,252</u>
BOOK VALUE PER COMMON SHARE	\$11.46	\$9.69	\$8.74	\$9.15	\$7.21
SHARES OUTSTANDING:					
Preferred shares	99,112	99,112	99,112	99,112	99,112
Common shares	<u>1,607,995</u>	<u>1,529,324</u>	<u>1,528,924</u>	<u>1,424,990</u>	<u>1,422,190</u>
SHAREHOLDERS EQUITY:					
Preferred shares	\$ 991	\$ 991	\$ 991	\$ 991	\$ 991
Common shares	1,608	1,529	1,529	1,425	1,422
Capital surplus	9,508	8,231	8,228	7,003	6,983
Earned surplus	7,307	5,055	3,603	4,617	1,856
Total shareholders' equity	<u>\$19,414</u>	<u>\$15,806</u>	<u>\$14,351</u>	<u>\$14,036</u>	<u>\$11,252</u>

June 30

1961	1960	1959	1958	1957	1956	1955	1950	1946
\$ 3,791	\$ 2,287	\$ 3,835	\$ 2,182	\$ 2,572	\$ 3,086	\$ 944	\$ 326	\$1,413
3,687	3,114	5,146	5,170	5,705	4,458	4,040	898	93
769	751	795	719	581	549	531	194	29
430	260	285	195	385	376	244	58	106
909	656	—	—	—	—	—	—	—
<u>\$ 9,586</u>	<u>\$ 7,068</u>	<u>\$10,061</u>	<u>\$ 8,266</u>	<u>\$ 9,243</u>	<u>\$ 8,469</u>	<u>\$ 5,759</u>	<u>\$1,476</u>	<u>\$1,641</u>
\$ 6,856	\$ 3,308	\$ 3,308	\$ 3,266	\$ 3,589	\$ —	\$ 1,481	\$ 232	\$ 61
2,342	1,719	3,340	2,688	5,500	1,896	1,521	304	167
435	368	349	328	357	233	199	—	—
1,452	566	1,215	913	1,032	815	541	239	58
<u>\$11,085</u>	<u>\$ 5,961</u>	<u>\$ 8,212</u>	<u>\$ 7,195</u>	<u>\$10,478</u>	<u>\$ 2,944</u>	<u>\$ 3,742</u>	<u>\$ 775</u>	<u>\$ 286</u>
\$ (1,499)	\$ 1,107	\$ 1,849	\$ 1,071	\$ (1,235)	\$ 5,525	\$ 2,017	\$ 701	\$1,355
1,855	495	454	750	832	199	307	64	—
568	—	—	399	583	—	—	—	—
22,479	12,552	10,201	—	—	5,506	—	—	—
26,336	18,412	22,595	24,521	25,420	3,527	11,316	1,065	811
<u>\$49,739</u>	<u>\$32,566</u>	<u>\$35,099</u>	<u>\$26,741</u>	<u>\$25,600</u>	<u>\$14,757</u>	<u>\$13,640</u>	<u>\$1,830</u>	<u>\$2,166</u>
\$31,927	\$15,271	\$16,138	\$11,848	\$13,167	\$ 2,724	\$ 6,991	\$ —	\$ —
317	171	372	787	285	568	218	134	—
2,263	2,175	2,484	1,930	1,230	1,097	—	—	—
<u>\$34,507</u>	<u>\$17,617</u>	<u>\$18,994</u>	<u>\$14,565</u>	<u>\$14,682</u>	<u>\$ 4,389</u>	<u>\$ 7,209</u>	<u>\$ 134</u>	<u>\$ —</u>
<u>\$15,232</u>	<u>\$14,949</u>	<u>\$16,105</u>	<u>\$12,176</u>	<u>\$10,918</u>	<u>\$10,368</u>	<u>\$ 6,431</u>	<u>\$1,696</u>	<u>\$2,166</u>
\$10.01	\$9.87	\$11.22	\$11.37	\$10.09	\$10.57	\$6.93	\$2.23	\$2.98
99,112	99,112	99,112	99,112	99,112	99,112	99,112	—	—
<u>1,422,190</u>	<u>1,414,490</u>	<u>1,347,134</u>	<u>983,635</u>	<u>983,635</u>	<u>886,796</u>	<u>784,452</u>	<u>761,227</u>	<u>726,000</u>
\$ 991	\$ 991	\$ 991	\$ 991	\$ 991	\$ 991	\$ 991	\$ —	\$ —
1,422	1,414	1,347	984	984	887	785	761	726
6,983	6,928	6,065	3,449	3,449	2,641	1,732	1,638	1,639
5,836	5,616	7,702	6,752	5,494	5,849	2,923	(703)	(199)
<u>\$15,232</u>	<u>\$14,949</u>	<u>\$16,105</u>	<u>\$12,176</u>	<u>\$10,918</u>	<u>\$10,368</u>	<u>\$ 6,431</u>	<u>\$1,696</u>	<u>\$2,166</u>

COMPARATIVE INCOME AND OPERATING SUMMARY

(Dollars expressed in thousands except per share figures)

	Year Ended December 31			
	1965	1964	1963	1962
OPERATING REVENUES:				
Scheduled freight operations	\$17,087	\$13,707	\$10,919	\$10,259
Military Air Transport Service and Pacific Airlift	30,237	23,151	27,466	38,395
Charters, service sales, etc.	8,832	8,610	3,825	3,609
Total operating revenues	<u>\$56,156</u>	<u>\$45,468</u>	<u>\$42,210</u>	<u>\$52,263</u>
OPERATING EXPENSES:				
Depreciation and amortization	\$ 6,226	\$ 5,671	\$ 6,186	\$ 5,962
All other	41,110	35,792	34,259	38,564
Total operating expenses	<u>\$47,336</u>	<u>\$41,463</u>	<u>\$40,445</u>	<u>\$44,526</u>
Net income from operations	<u>\$ 8,820</u>	<u>\$ 4,005</u>	<u>\$ 1,765</u>	<u>\$ 7,737</u>
NONOPERATING INCOME AND EXPENSES (Net):				
Interest expense	\$ (2,423)	\$ (2,120)	\$ (2,425)	\$ (2,792)
All other (net)	345	355	234	(85)
Total nonoperating income and expenses	<u>\$ (2,078)</u>	<u>\$ (1,765)</u>	<u>\$ (2,191)</u>	<u>\$ (2,877)</u>
Net income (loss) before income taxes	<u>\$ 6,742</u>	<u>\$ 2,240</u>	<u>\$ (426)</u>	<u>\$ 4,860</u>
PROVISION FOR FEDERAL INCOME TAXES	3,100	939	(222)	2,527
Net income (loss)	<u>\$ 3,642</u>	<u>\$ 1,301</u>	<u>\$ (204)</u>	<u>\$ 2,333</u>
SPECIAL ITEMS, LESS INCOME TAXES	—	200	317	478
Net income (loss) and special items	<u>\$ 3,642</u>	<u>\$ 1,501</u>	<u>\$ 113</u>	<u>\$ 2,811</u>
NET INCOME AND SPECIAL ITEMS PER COMMON SHARE	<u>\$2.23</u>	<u>\$0.95</u>	<u>\$0.04</u>	<u>\$1.85</u>
COMPARATIVE OPERATING DATA:				
Miles flown (000)	19,452	15,542	14,507	18,770
Hours flown	59,828	50,533	46,036	63,554
Average daily aircraft utilization (hours)—				
C-46	—	—	—	—
C-47	—	—	—	—
C-54	—	—	—	—
DC-6	—	—	—	—
1049H	3.6	4.3	4.8	9.7
CL-44D	9.8	8.7	8.3	8.5
B-707	11.4	—	—	—
Aircraft operating fleet at year-end—				
C-46	—	—	—	—
C-47	—	—	—	—
C-54	—	—	—	—
DC-6	—	—	—	—
1049H	9	11	11	8
CL-44D	15	10	10	10
B-707	2	—	—	—
Ton miles of common carriage and domestic charter freight carried (000)				
	128,124	99,992	78,982	74,197
Revenue per ton mile (cents) for domestic freight				
	14.77	15.39	15.46	15.68
Airlift ton mile capacity at year-end				
	<u>930,120</u>	<u>607,680</u>	<u>607,680</u>	<u>545,040</u>

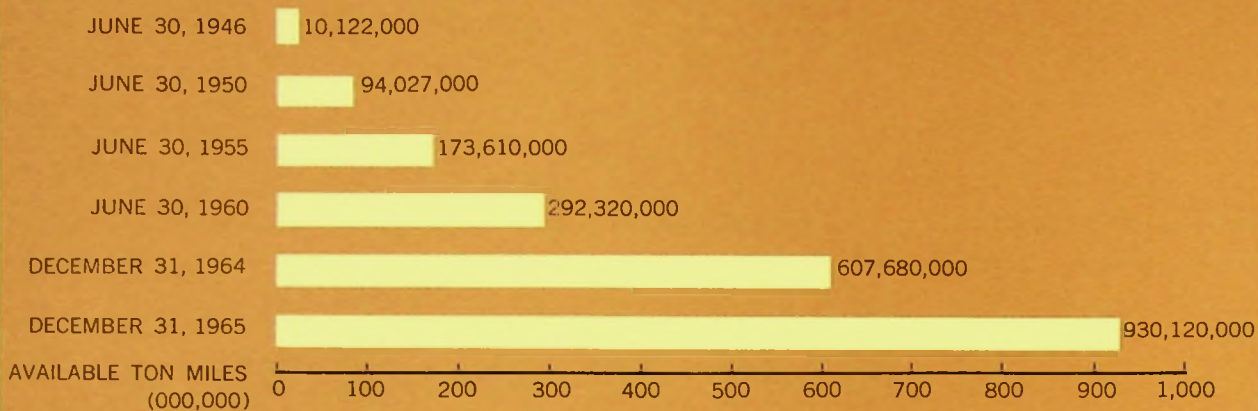
() Denotes negative figure.
* Figures not available.

Six Months
Ended
Dec. 31
1961

Year Ended June 30

	1961	1960	1959	1958	1957	1956	1955	1950	1946
5,268	\$11,791	\$14,656	\$13,316	\$ 9,595	\$ 8,448	\$ 7,817	\$ 5,105	\$2,169	\$358
11,121	13,435	8,116	15,779	18,833	6,045	—	1,044	—	—
2,184	2,739	3,215	5,485	5,433	10,158	14,114	9,214	2,795	123
<u>18,573</u>	<u>\$27,965</u>	<u>\$25,987</u>	<u>\$34,580</u>	<u>\$33,861</u>	<u>\$24,651</u>	<u>\$21,931</u>	<u>\$15,363</u>	<u>\$4,964</u>	<u>\$481</u>
3,111	\$ 3,906	\$ 4,163	\$ 4,169	\$ 4,080	\$ 1,828	\$ 1,713	\$ 2,061	\$ 176	\$ 92
14,781	23,007	22,612	27,605	28,381	23,840	20,136	12,701	4,397	677
<u>17,892</u>	<u>\$26,913</u>	<u>\$26,775</u>	<u>\$31,774</u>	<u>\$32,461</u>	<u>\$25,668</u>	<u>\$21,849</u>	<u>\$14,762</u>	<u>\$4,573</u>	<u>\$769</u>
681	\$ 1,052	\$ (788)	\$ 2,806	\$ 1,400	\$ (1,017)	\$ 82	\$ 601	\$ 391	(\$288)
(991)	\$ (675)	\$ (922)	\$ (775)	\$ (804)	\$ (384)	\$ (315)	\$ (412)	\$ (10)	\$ (7)
(128)	(61)	144	(55)	260	121	36	72	26	—
<u>(1,119)</u>	<u>\$ (736)</u>	<u>\$ (778)</u>	<u>\$ (830)</u>	<u>\$ (544)</u>	<u>\$ (263)</u>	<u>\$ (279)</u>	<u>\$ (340)</u>	<u>\$ 16</u>	<u>\$ (7)</u>
(438)	\$ 316	\$ (1,566)	\$ 1,976	\$ 856	\$ (1,280)	\$ (197)	\$ 261	\$ 407	(\$295)
(110)	147	(394)	965	412	(666)	(102)	136	166	—
(328)	\$ 169	\$ (1,172)	\$ 1,011	\$ 444	\$ (614)	\$ (95)	\$ 125	\$ 241	(\$295)
(3,627)	101	173	380	864	716	3,071	275	259	95
<u>(3,955)</u>	<u>\$ 270</u>	<u>\$ (999)</u>	<u>\$ 1,391</u>	<u>\$ 1,308</u>	<u>\$ 102</u>	<u>\$ 2,976</u>	<u>\$ 400</u>	<u>\$ 500</u>	<u>(\$200)</u>
\$(2.67)	\$0.15	\$(0.71)	\$0.90	\$1.28	\$0.05	\$3.30	\$0.45	\$0.66	(\$0.27)
7,818	10,899	9,874	12,389	13,551	15,004	14,393	10,202	5,238	1,044
8,366	41,868	38,515	48,341	54,748	72,561	74,260	54,163	29,040	6,706
—	—	5.8	4.8	3.4	3.3	4.6	3.2	6.4	—
—	—	—	—	—	—	—	—	3.4	*
—	—	—	—	11.6	9.9	10.1	7.4	7.0	*
—	—	—	—	8.5	11.2	11.4	10.0	—	—
10.8	9.4	8.3	9.6	10.2	10.1	—	—	—	—
7.1	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
—	—	—	1	2	15	19	23	6	—
—	—	—	—	—	—	—	—	1	*
—	—	—	—	—	6	8	7	11	*
—	—	—	—	—	2	4	3	—	—
12	12	14	14	13	12	—	—	—	—
6	—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	—
246	70,138	86,096	79,635	57,012	56,465	49,649	36,890	15,673	2,757
7.18	18.78	18.61	18.68	18.29	17.47	17.22	18.84	15.23	13.01
<u>1,360</u>	<u>250,560</u>	<u>292,320</u>	<u>295,830</u>	<u>278,460</u>	<u>373,770</u>	<u>181,890</u>	<u>173,610</u>	<u>94,027</u>	<u>10,122</u>

FLEET AVAILABLE ANNUAL LIFT CAPACITY



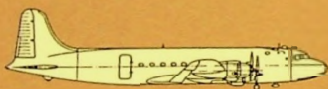
Budd RB-1 150 MPH 7,500 LBS



Douglas C-47 150 MPH 7,500 LBS



Curtiss C-46 180 MPH 13,000 LBS



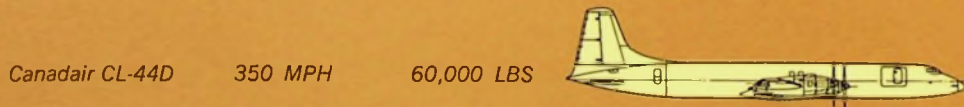
Douglas C-54 180 MPH 20,000 LBS



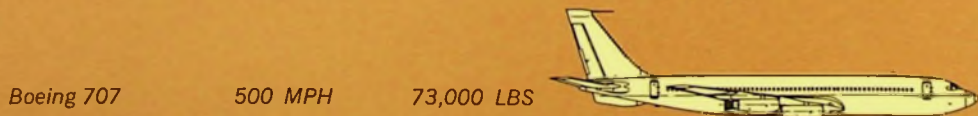
Douglas DC-6 275 MPH 32,000 LBS



Lockheed 1049-H 290 MPH 40,000 LBS



Canadair CL-44D 350 MPH 60,000 LBS



Boeing 707 500 MPH 73,000 LBS

**FINANCIAL REVIEW
OF THE YEAR**

1965



BALANCE SHEETS

December 31, 1965 and 1964

ASSETS

	<u>1965</u>	<u>1964</u>
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash, including \$4,000,000 certificates of deposit at December 31, 1965	\$ 5,334,138	\$ 9,361,857
Receivables, less reserves—		
Freight customers	3,078,317	2,214,938
Charters, service sales, etc.—		
United States Government	4,474,633	3,114,305
Other	2,249,421	1,719,971
Materials and supplies, at average cost	2,487,665	2,326,450
Aircraft acquired for sale	1,145,620	—
Prepaid insurance, rents, etc.	1,016,864	456,142
Prepaid engine overhaul cost	<u>1,769,690</u>	<u>1,312,394</u>
Total current assets	<u>\$21,556,348</u>	<u>\$20,506,057</u>
PROPERTY AND EQUIPMENT , at cost (Notes 1 and 2):		
Aircraft, engines and other flight equipment	\$92,246,785	\$68,837,189
Other equipment	2,225,452	1,876,395
Land and buildings	<u>5,041,735</u>	<u>1,526,812</u>
	\$99,513,972	\$72,240,396
Less—Reserves for depreciation	<u>35,742,912</u>	<u>31,599,608</u>
	<u>\$63,771,060</u>	<u>\$40,640,788</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expense	\$ 294,583	\$ 486,207
Long-term prepayments, etc.	768,046	267,347
Training and other costs applicable to aircraft, being amortized	<u>2,901,862</u>	<u>2,120,989</u>
	<u>\$ 3,964,491</u>	<u>\$ 2,874,543</u>
	<u>\$89,291,899</u>	<u>\$64,021,388</u>

BALANCE SHEETS

December 31, 1965 and 1964

LIABILITIES

CURRENT LIABILITIES:

	1965	1964
Current installments of equipment purchase obligations	\$ 6,417,879	\$ 6,153,115
Accounts payable and accrued liabilities	4,976,486	5,569,008
Reserve for vacations	796,888	637,934
Advance charter deposits, etc.	220,061	439,403
Total current liabilities	\$12,411,314	\$12,799,460

LONG-TERM DEBT (See Summary) (Note 3)	\$48,154,480	\$29,283,388
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DEFERRED CREDITS:

Deferred Federal income taxes (Note 5)	\$ 9,061,436	\$ 5,961,436
Deferred income, etc.	250,693	171,495
	\$ 9,312,129	\$ 6,132,931

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, 1,607,995 shares (1965) and 1,529,324 shares (1964)	1,607,995	1,529,324
Capital surplus	9,508,351	8,230,838
Earned surplus (Note 4)	7,306,510	5,054,327
	\$19,413,976	\$15,805,609
	\$89,291,899	\$64,021,388

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

STATEMENTS OF INCOME

For the Years Ended December 31, 1965 and 1964

	<u>1965</u>	<u>1964</u>
OPERATING REVENUES:		
Scheduled freight operations	\$17,086,910	\$13,707,443
Military Airlift Command	30,237,475	23,151,385
Charters, service sales, etc.	<u>8,831,474</u>	<u>8,609,557</u>
	<u>\$56,155,859</u>	<u>\$45,468,385</u>
OPERATING EXPENSES:		
Flying operations	\$16,014,963	\$15,310,677
Ground operations	7,775,265	6,630,090
Maintenance	12,665,366	9,631,842
Sales, advertising and publicity	2,330,534	2,220,986
General and administrative	2,323,867	1,999,012
Depreciation and amortization	<u>6,225,938</u>	<u>5,671,069</u>
	<u>\$47,335,933</u>	<u>\$41,463,676</u>
Net income from operations	<u>\$ 8,819,926</u>	<u>\$ 4,004,709</u>
OTHER EXPENSE:		
Interest expense	\$ 2,423,063	\$ 2,120,286
Miscellaneous (net)	<u>(344,869)</u>	<u>(355,846)</u>
	<u>\$ 2,078,194</u>	<u>\$ 1,764,440</u>
Net income before provision for Federal income taxes	\$ 6,741,732	\$ 2,240,269
PROVISION FOR FEDERAL INCOME TAXES (Note 5)	<u>3,100,000</u>	<u>939,000</u>
Net income	<u>\$ 3,641,732</u>	<u>\$ 1,301,269</u>
SPECIAL ITEM:		
Gain on foreign exchange contracts (\$383,439) less applicable provision of \$184,000 for deferred Federal income taxes	<u>—</u>	<u>199,439</u>
Net income and special item	<u>\$ 3,641,732</u>	<u>\$ 1,500,708</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF SURPLUS

For the Years Ended December 31, 1965 and 1964

	1965	1964
CAPITAL SURPLUS		
BALANCE AT BEGINNING OF YEAR	\$ 8,230,838	\$ 8,228,154
ADD—		
Excess of proceeds over par value of 2,100 and 400 common shares, in respective years, issued under stock options	14,091	2,684
Excess of fair market value of stock dividend over par value	1,263,422	—
BALANCE AT END OF YEAR	\$ 9,508,351	\$ 8,230,838
EARNED SURPLUS		
BALANCE AT BEGINNING OF YEAR	\$ 5,054,327	\$ 3,603,175
ADD—		
Net income	3,641,732	1,301,269
Special item	—	199,439
	\$ 8,696,059	\$ 5,103,883
DEDUCT—		
Cash dividends on preferred shares—\$.50 per share	49,556	49,556
Five per cent common stock dividend, 76,571 shares at fair value of \$17.50 per share	1,339,993	—
BALANCE AT END OF YEAR (Note 4)	\$ 7,306,510	\$ 5,054,327

The accompanying notes are an integral part of these statements.

STATEMENTS OF FUNDS

For the Years Ended December 31, 1965 and 1964

	<u>1965</u>	<u>1964</u>
WORKING CAPITAL AT BEGINNING OF YEAR	\$ 7,706,596	\$ 6,035,556
SOURCE OF FUNDS:		
Net income	\$ 3,641,732	\$ 1,301,269
Special item	—	199,439
Add (Deduct) —		
Depreciation and amortization provisions	6,674,913	6,045,182
Deferred tax provision	3,100,000	1,123,000
Gain on retirement of property and equipment	(159,098)	(113,419)
Gain on exchange applicable to long-term debt	—	(581,102)
Accrued interest due after one year	539,972	—
Total funds from operations	<u>\$13,797,519</u>	<u>\$ 7,974,369</u>
Proceeds from common stock issued upon exercise of restricted stock options	16,191	3,084
Proceeds from sale of property and equipment	350,253	315,566
	<u>\$14,163,963</u>	<u>\$ 8,293,019</u>
FUNDS APPLIED:		
Payments on equipment trust certificates	\$ 6,153,115	\$ 5,904,298
Deferred training costs applicable to aircraft	1,121,091	—
Purchase of property and equipment, net of \$24,750,000 long-term debt issued in connection with purchases in 1965	4,516,845	556,622
Lease deposits	615,884	—
Cash dividends on preferred shares	49,556	49,556
All other	269,034	111,503
	<u>\$12,725,525</u>	<u>\$ 6,621,979</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 9,145,034</u>	<u>\$ 7,706,596</u>

The accompanying notes are an integral part of these statements.

SUMMARY OF LONG-TERM DEBT

December 31, 1965 and 1964

	<u>1965</u>	<u>1964</u>
Debentures (subordinate)—		
Series A—5½% due 1967	\$ 500,000	\$ 500,000
Series B—5½% due 1974	5,000,000	5,000,000
Series C—5½% due 1976	5,000,000	—
1959 Equipment Trust Certificates, less current installments—		
Series A—5½% due 1966–1971	15,364,679	14,939,355
Series B—5½% due 1966–1969	2,385,148	3,844,033
1964 Equipment Trust Certificates (Series A—6%) due 1966–1971, less current installments	2,921,153	—
6% Promissory Note, due 1968–1971	1,627,500	—
1965 Equipment Trust Certificates—		
Series A—5¼%, due 1967–1971	6,340,000	—
Series B—5¾%, due 1971–1975	6,340,000	—
5½% Construction Loan (subordinated) due 1968–1969	2,676,000	—
5½% Promissory Note (subordinated) due 1976	—	5,000,000
Total (Note 3)	<u>\$48,154,480</u>	<u>\$29,283,388</u>

NOTES TO FINANCIAL STATEMENTS

(1) Aircraft—

At December 31, 1965, the Company's fleet consisted of the following:

	<u>Owned</u>	<u>Leased</u>	<u>Total</u>
Boeing 707	2	—	2
Canadair CL-44D	12	3	15
Lockheed 1049H Super Constel- lation	7	2	9
Total	<u>21</u>	<u>5</u>	<u>26</u>

(2) Commitments—

At December 31, 1965, the Company had long-term leases on real property, aircraft and engines for which annual rentals will be approximately \$2,550,000 in 1966 and total rentals will aggregate approximately \$22,640,000 for the minimum lease periods. The minimum lease periods range from four years on the aircraft to 34 years on the real property, and there are renewal and purchase options on the aircraft and engines.

Subsequent to December 31, 1965, the Company

agreed to lease two Boeing 707 jet aircraft for delivery in June and December 1966, for annual rentals of approximately \$1,100,000 per aircraft for a minimum period of four years, with renewal and purchase options. Under an agreement with another airline, the Company has leased a Boeing 707 jet aircraft for a minimum of nine months for a total minimum rental of \$1,360,000.

(3) Capital stock and long-term debt—

At December 31, 1965, 653,654 common shares were reserved for conversion of debentures and 24,315 shares for stock options.

The 1959 and 1964 Series A equipment trust certificates and 6% promissory note are payable in Canadian dollars 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.

The Series A, Series B and Series C debentures (subordinate) are redeemable at a premium of 10 per cent, and currently are convertible into common shares at \$11.75 a share until June 27, 1967 for the Series A debentures, at \$15.54 a share until June 27, 1969 for the Series B debentures, and at \$17.28 a share until December 1, 1971 for the Series C debentures which were issued in exchange for the 5½ per cent promissory note (subordinated).

Since December 31, 1965, Series B and Series C debentures in the principal amounts of \$111,000 and \$2,085,000, respectively, have been converted into 127,798 common shares.

The 5½ per cent Construction Loan is secured by certain equipment in addition to the facilities under construction, and the 6 per cent Promissory Note is secured by a chattel mortgage on aircraft.

At December 31, 1965, there were outstanding

options to three officers for purchase of 676 shares of common stock at \$7.34 a share granted in 1958 (exercisable in 1966), and for 6,835 shares at \$7.81 a share granted November 21, 1960 and exercisable 1966–1968.

(4) Restrictions under debt agreements—

The equipment trust agreements and other debt agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowing, capital expenditures, etc. Under these provisions, earned surplus at December 31, 1965 available for the payment of cash dividends on common shares is approximately \$1,115,000.

(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, 1965, the unfunded liability for past service benefits under the pension plan for pilots was approximately \$898,000 which is to be provided for over an eighteen-year period.

During 1965, the Company finalized negotiations with the flight engineers to provide past service benefits under their retirement plan. The Company also modified the pension plans for mechanics, ramp servicemen, clerical, administrative and executive employees effective January 1, 1966, to include past service benefits. The amounts of past service liability for these plans has not been determined at this date.

The total cost of the pension plans for 1965 was approximately \$613,000, including \$58,000 for past service benefits.

ARTHUR ANDERSEN & Co.

1020 WEST THIRD STREET
LOS ANGELES, CALIFORNIA 90017

TO THE STOCKHOLDERS,
THE FLYING TIGER LINE INC.:

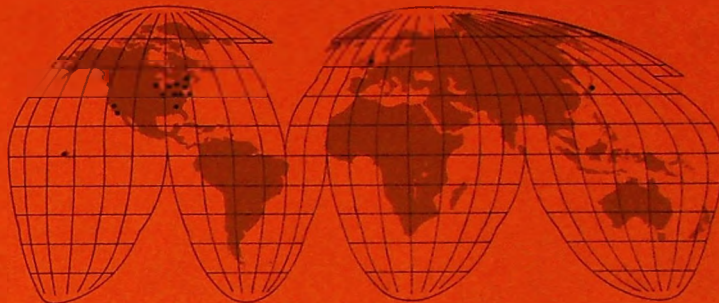
We have examined the balance sheets of THE FLYING TIGER LINE INC. (a Delaware corporation) as of December 31, 1965 and 1964, and the related statements of income, surplus, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income, surplus, and funds present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1965 and 1964, and the results of its operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Los Angeles, California,
February 8, 1966

SALES OFFICES



GENERAL SALES OFFICES, 7401 WORLD WAY WEST, INTERNATIONAL AIRPORT
LOS ANGELES, CALIFORNIA, 646-6161

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

BUFFALO, N.Y.
81 Batford St.
876-5055

CHICAGO, ILL.
O'Hare Field
686-7100

CLEVELAND, OHIO
Cleveland Hopkins Airport
267-3575

DETROIT, MICH.
Detroit-Metropolitan Airport
562-9700

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

LOS ANGELES, CALIF.
Los Angeles
International Airport
646-6161

MILWAUKEE, WIS.
5300 S. Howell
Mitchell Field
485-5000

NEWARK, N. J.
Newark Airport
624-3700

NEW YORK, N.Y.
John F. Kennedy Airport
656-5285

PHILADELPHIA, PA.
International Airport
726-7100

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

PASSENGER AND FREIGHT CHARTERS

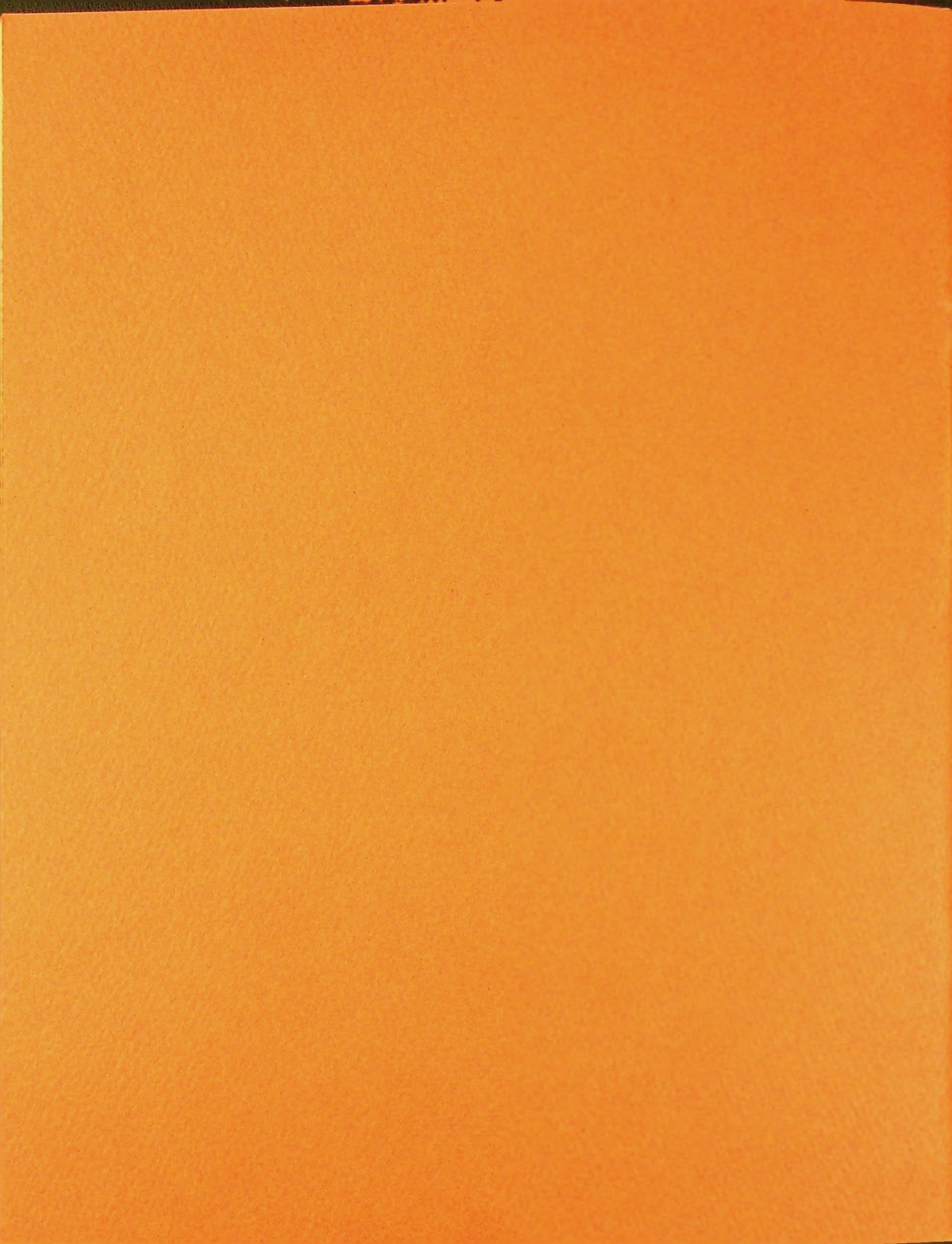
HONOLULU, HAWAII
Honolulu International Airport
Honolulu, Hawaii
816-828

LONDON, ENGLAND
10 Golden Square
London W. 1
Girard 3627

LOS ANGELES, CALIF.
Los Angeles International Airport
646-4070

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

TOKYO, JAPAN
Bldg. 3665 West
Tachikawa Air Force Base
Tokyo, Japan
22104-22282
Hotel New Japan
Suite 475
581-651
Ext. 9475





THE FLYING TIGER LINE INC.

ANNUAL REPORT 1966



THE FUTURE OF AIR CARGO

Page 12

1966 IN BRIEF

FINANCIAL

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

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

EVENTS

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

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

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

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

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

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

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

TO THE STOCKHOLDERS OF THE FLYING TIGER LINE INC.



Robert W. Prescott, President

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

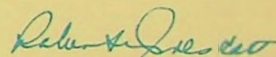
Total revenues for the year were increased by 53% — establishing a new high of over \$86,000,000. Net income after taxes passed the \$12,000,000 mark, a dramatic rise over the \$3,600,000 of the previous year. An increase in overall service capabilities, including full-year utilization of jet aircraft,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

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

Your Board of Directors on February 9, 1967

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

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


ROBERT W. PRESCOTT,
President

FINANCIAL REVIEW



Fred Benninger.
Executive Vice President-Treasurer

A NEW HIGH IN REVENUES AND EARNINGS

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

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

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

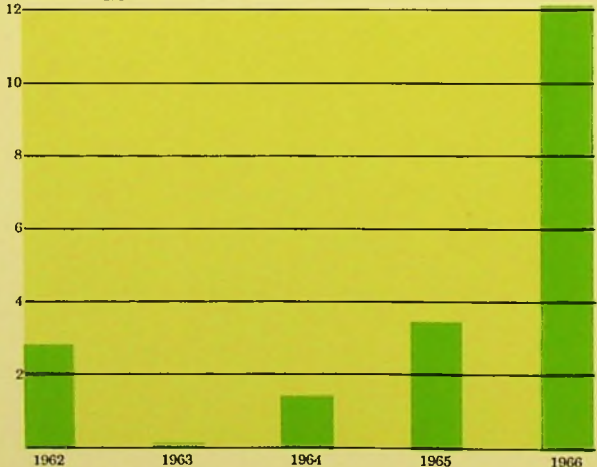
Due to full utilization of its tax net operating loss carry-over, the Company became obligated to pay Federal income taxes on a current basis. Therefore, 1966 marked the first year in which Flying Tiger Line was in a position to utilize a portion of the Investment Tax Credit which had accumulated since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

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

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

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

EARNINGS in millions of dollars



FINANCIAL POSITION

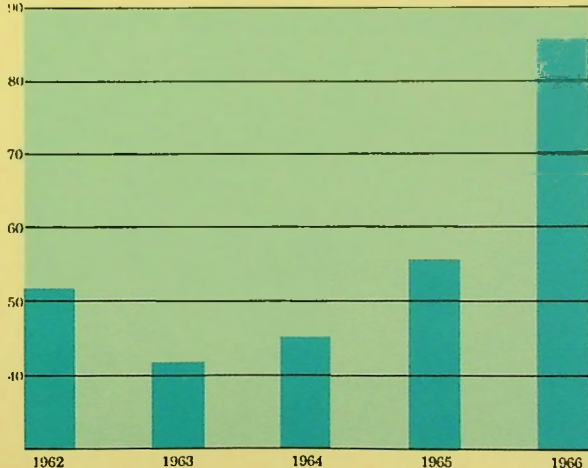


The Company's financial position continued to improve during 1966:

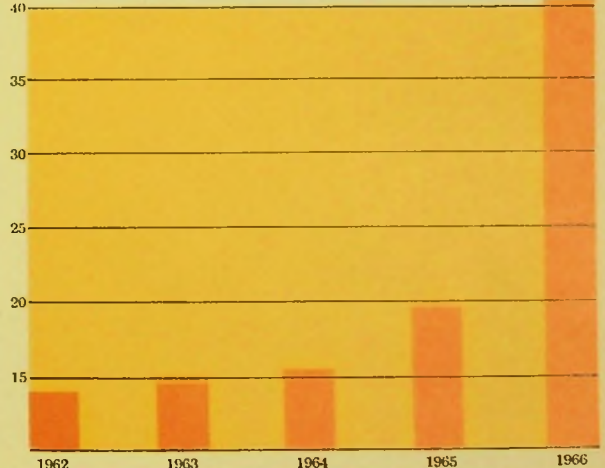
	December 31	
	1966	1965
Cash	\$15,416,088	\$ 5,334,138
Working capital	\$15,458,874	\$ 9,145,034
Net current ratio	1.68 to 1.00	1.74 to 1.00
Debt due after one year	\$34,866,830	\$48,154,480
Book value per common share	\$9.12	\$6.40

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

REVENUE in millions of dollars



NET WORTH in millions of dollars





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

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

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

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

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

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

INCREASED DOMESTIC CARGO VOLUME

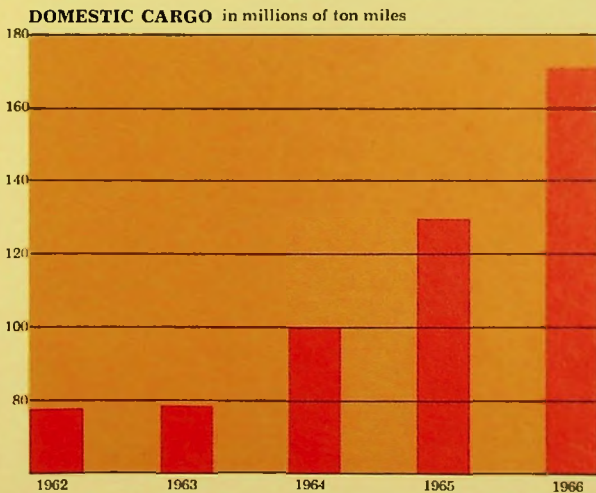
The addition of new equipment in the latter part of 1965 substantially strengthened the Company's position in the domestic common carriage airfreight field. The addition of two Canadair CL-44D aircraft to the seven CL-44D and two Lockheed 1049H aircraft already serving the Company's domestic route created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

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

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

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

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



Peter T. Albert, Vice President — Marketing



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

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

Cargo loads at Flying Tiger terminal at Los Angeles International Airport




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

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

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





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

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

Military cargo loads aboard Flying Tiger 707 for shipment to Vietnam



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

AIRLIFT FOR DEFENSE

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

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

COMMERCIAL CHARTERS

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

EQUIPMENT



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

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

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

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

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

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

E. A. Pinke,
Vice President - Operations



ROUTE EXPANSION

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

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

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

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



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

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

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

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



SEOUL

SOUTH KOREA

TOKYO

JAPAN

TAIWAN
TAIPEI

OKINAWA

RYUKYU ISLANDS

CLARK AFB

MANILA

PHILIPPINES

GUAM

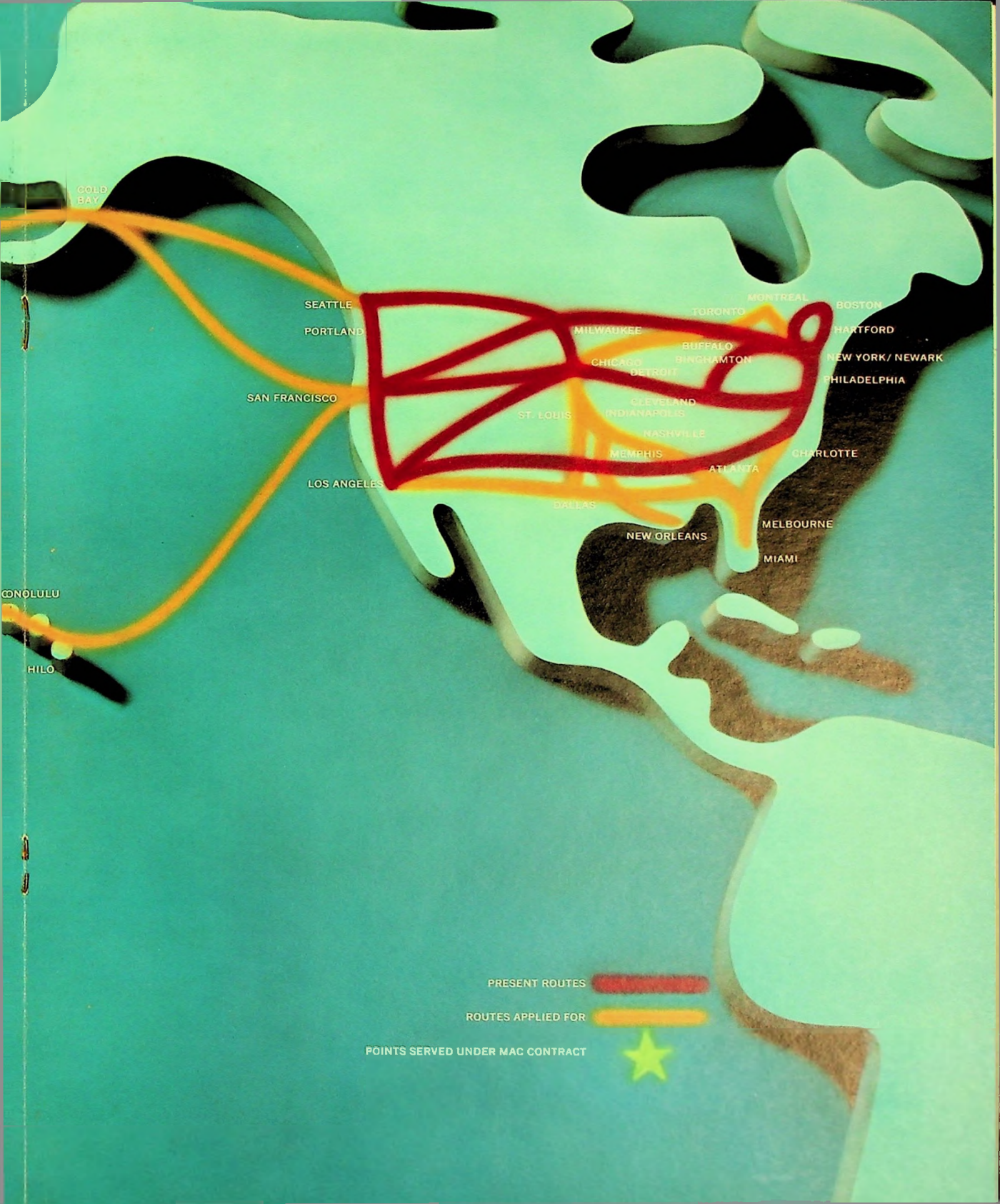
SOUTH VIETNAM

SAIGON

THAILAND

BANGKOK

HONG KONG



THE FUTURE OF AIR CARGO

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

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

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

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

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

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



PROGRESS IN TEN YEARS

ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY

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

REVENUES, EXPENSES AND INCOME

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

OPERATING STATISTICS

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

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

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

BALANCE SHEETS DECEMBER 31, 1966 AND 1965



ASSETS

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

LIABILITIES

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

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

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

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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of these statements.

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



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

The accompanying notes are an integral part of these statements.

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

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

The accompanying notes are an integral part of this summary.

NOTES TO FINANCIAL STATEMENTS

(1) LEASE AND PURCHASE COMMITMENTS—

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

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

(2) CAPITAL STOCK AND LONG-TERM DEBT—

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

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

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

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

The 5½ per cent Construction Loan is secured by certain equipment in addition to the general offices and maintenance facilities, and the 5½ per cent Promissory Note is secured by a chattel mortgage on aircraft.

(3) RESTRICTIONS UNDER DEBT AGREEMENTS—

The equipment trust agreements and other debt agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowing, capital expenditures, etc. Under these provisions, earned surplus at December 31, 1966 available for the

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

(4) FEDERAL INCOME TAXES—

Federal income taxes deferred through additional depreciation and other additional deductions for tax purposes have been credited to a reserve, which the Company intends to restore to income as such deferred taxes become payable. The 1966 provision includes \$5,377,000 currently payable, which has been reduced by \$1,817,000 investment tax credit.

(5) PENSION PLANS—

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

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

ARTHUR ANDERSEN & Co.

1320 WEST THIRD STREET
LOS ANGELES, CALIFORNIA 90017

TO THE STOCKHOLDERS,
THE FLYING TIGER LINE INC.:

We have examined the balance sheets of THE FLYING TIGER LINE INC. (a Delaware corporation) as of December 31, 1966 and 1965, and the related statements of income, surplus, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheets and statements of income, surplus, and funds present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1966 and 1965, and the results of its operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & Co.

Los Angeles, California,
February 15, 1967

BOARD OF DIRECTORS

Samuel B. Mosher Chairman of the Board
Chairman of the Board of Signal Oil & Gas Company,
Los Angeles

Ruth Axe President, E. W. Axe & Co., New York

Fred Benninger Executive Vice President—Treasurer

Laurence C. Craigie Lockheed Aircraft Corporation,
Burbank

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

Charles Luckman Charles Luckman Associates,
Los Angeles

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

Robert W. Prescott President

Houston Rehrig President, Lady's Choice Foods
Los Angeles

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

John C. Tyler Co-Chairman of the Board of
Farmers Insurance Group, Los Angeles

TRANSFER AGENTS

The Chase Manhattan Bank
1 Chase Manhattan Plaza, New York, N. Y. 10015

Bank of America
660 South Spring Street, Los Angeles, California 90054

REGISTRARS

The Bank of New York
48 Wall Street, New York, N. Y. 10015

Union Bank
8th and Hill Streets, Los Angeles, California 90054

OFFICERS OF THE COMPANY

Robert W. Prescott *President*

Fred Benninger *Executive Vice President—Treasurer*

Peter T. Albert *Vice President—Marketing*

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

George T. Cussen *Vice President—Public Affairs*

Joseph J. Healy *Vice President—Ground Operations*

Howard M. Jones *Vice President—Industrial Relations*

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

James McLachlan, Jr. *Vice President—Maintenance*

E. A. Pinke *Vice President—Operations*

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

O. R. Burghardt *Secretary and Assistant Treasurer*

Dwight D. Christy, Jr. *Assistant Secretary*

Myer Feldman *Assistant Secretary*

Norman L. Meyers *Assistant Secretary*

GENERAL COUNSEL

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

AUDITORS

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

EXECUTIVE OFFICES

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

DOMESTIC SALES OFFICES

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

BINGHAMTON, NEW YORK
Broome County Airport
729-1591

BOSTON, MASSACHUSETTS
Logan International Airport
567-6161

BUFFALO, NEW YORK
81 Botsford St.
876-5055

CHICAGO, ILLINOIS
O'Hare International Airport
686-7100

CLEVELAND, OHIO
Cleveland Hopkins Airport
267-3575

DETROIT, MICHIGAN
Metropolitan Airport
562-9700

HARTFORD, CONNECTICUT
International Airport
Windsor Locks, Connecticut
522-3145

LOS ANGELES, CALIFORNIA
International Airport
646-6161

MILWAUKEE, WISCONSIN
5300 S. Howell
483-5000

NEWARK, NEW JERSEY
Newark Airport
624-3700

NEW YORK, NEW YORK
John F. Kennedy International Airport
656-5285

PHILADELPHIA, PENNSYLVANIA
International Airport
726-7100

PORTLAND, OREGON
International Airport
281-1158

SAN FRANCISCO, CALIFORNIA
International Airport
761-1100

SEATTLE, WASHINGTON
Seattle-Tacoma
International Airport
244-4747

WASHINGTON, D. C.
1700 Pennsylvania Ave., N. W.
223-3015

INTERNATIONAL SALES OFFICES

CHICAGO, ILLINOIS
O'Hare International Airport
686-7100

HONG KONG
No. 16, Cargo Terminal
Kai Tak Airport
820211, Ext. 7241

LONDON, ENGLAND
10 Golden Square
Gerrard 3627

LOS ANGELES, CALIFORNIA
International Airport
646-6161

NEW YORK, NEW YORK
60 East 42nd Street
697-8850

TAIPEI, TAIWAN
219 Nanking East Road
51460

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



THE FLYING TIGER LINE INC.



ANNUAL REPORT 1967

Flying Tiger's new DC8-Super 63F



LETTER TO THE STOCKHOLDERS



Robert W. Prescott
President



Wayne M. Hoffman
Chairman of the Board

By most standards 1967 was a satisfactory year for the Flying Tiger Line. We achieved the highest revenues and the second highest earnings in our history.

The annual report which follows contains a comprehensive review of the past year. We would, therefore, like to take this opportunity to discuss the less tangible, but perhaps more important matters that will determine our future.

Success in any private enterprise requires growth. The Flying Tiger Line, in its determination to carve out a place for itself in the transportation industry, has been bold and, we believe, successful in managing its growth. We have been so successful, in fact, that we have set the stage for the largest expansion in the history of the airfreight industry. The management of growth requires intelligent and dedicated people. These are the kind of people we have. Furthermore, it requires modern management methods. In our determination to develop a management second-to-none in the air industry we have taken a number of steps.

In the financial area we have expanded our responsibility accounting, capital and expense budget controls, authority for expenditure procedures, and return on investment analyses, using computer studies and other appropriate financial management techniques. This will naturally assist us in making decisions in all phases of our business.

In the commercial side of our business, we are developing marketing and sales programs using both empirical and analytic techniques to assure expanding revenues and adequate profits.

On the operating side, we are putting into service computerized flight training, flight planning and crew control systems, and facilities employing the most advanced equipment available today. In maintenance, we are expanding our already excellent facilities and service to enable us to maintain the ever more complex equipment and to improve further our cost effectiveness.

Lastly, in planning, we have perhaps our greatest challenge. Our rapid growth and the environment in which we operate presents some very difficult management problems. By employing specialized planning techniques, we are able to make decisions and judgments in a more rational atmosphere than would otherwise be possible. Thus, for example, in planning for our trans-Pacific operations, should our present route application be successful, we are employing critical path planning methods to enable us to make decisions in connection with future service, terminals, pricing and sales in the proper and necessary sequence so as to be ready at the earliest possible moment to implement our program when the authority is granted. Similarly, we have employed advanced planning techniques to assure the orderly and efficient introduction of the new fleet of DC8-63F's into service.

In summary, while our annual report talks of numbers and machines and finite results, the fact is that the intelligence, skill and dedication of the men and women of the Flying Tiger Line are the most important assets we have.

A handwritten signature in green ink that reads "Robert W. Prescott".

Robert W. Prescott
President

A handwritten signature in green ink that reads "Wayne M. Hoffman".

Wayne M. Hoffman
Chairman of the Board

REVENUES AND EARNINGS

Flying Tiger Line attained operating revenues of \$87,031,494 in 1967—the highest ever reported since the Company began operations in 1945. This figure exceeded the 1966 record of \$86,018,911. Net income, before an \$801,350 write-down of Constellation aircraft, amounted to \$7,586,378. This was the second highest net income in the Company's history and exceeded only by 1966's net income of \$11,453,301 before gain on retirement of aircraft was reported. Earnings per common share before these extraordinary items were \$1.67 and \$2.54 for 1967 and 1966 respectively.

Several factors were responsible for the decrease in net income. Higher operating costs were experienced by the entire airline industry due to increases in salaries and wages, rising fuel costs and higher costs of parts and supplies. Additionally, there was a reduction in contract rates for services performed for the Military Airlift Command (MAC).

However, the introduction of new Douglas DC8-Super 63F aircraft into Flying Tigers' fleet in the latter part of 1968 is expected to offset these higher cost trends by making greater operating efficiencies possible.

A summary of the Company's earnings for the five years ended December 31, 1967 is shown below:

HIGHLIGHTS

FOR THE FIVE YEARS ENDED DECEMBER 31, 1967

(Expressed in thousands except per share figures)

FINANCIAL STATISTICS

	1967	1966	1965	1964	1963
Operating revenues	\$87,031	\$86,019	\$56,156	\$45,468	\$42,210
Operating income	\$12,280	\$20,460	\$ 8,820	\$ 4,005	\$ 1,765
Net income (loss) before income taxes	\$11,401	\$18,402	\$ 6,742	\$ 2,240	\$ (426)
Net income (loss) before extraordinary items	\$ 7,586	\$11,453	\$ 3,642	\$ 1,301	\$ (204)
Extraordinary items (less applicable income taxes)	\$ (801)	\$ 652	\$ —	\$ 200	\$ 317
Net income	\$ 6,785	\$12,105	\$ 3,642	\$ 1,501	\$ 113
Per share of common stock, reflecting conversion of debentures—					
Income before extraordinary items	\$1.67	\$2.54	\$.86	\$.35	\$.01
Extraordinary items	(.17)	.15	—	.05	.07
Net income	\$1.50	\$2.69	\$.86	\$.40	\$.08

OPERATING STATISTICS

Miles flown	29,649	27,730	19,452	15,542	14,507
Domestic cargo ton miles	163,250	170,530	128,124	99,992	78,982
Total ton miles	486,280	483,571	335,853	237,264	207,568



FINANCIAL POSITION

The Company's financial condition at December 31, 1967 showed continued strength:

	December 31	
	1967	1966
Cash	\$12,683,091	\$15,416,088
Working Capital	\$19,679,067	\$19,570,874
Net Current Ratio	2.12 to 1.00	2.05 to 1.00
Stockholders' Equity	\$47,366,959	\$40,482,363
Amount per Share	\$10.44	\$8.95

In 1967 and early 1968, the Company exercised its option to purchase seven additional Douglas DC8-Super 63F Jumbo Jet aircraft. This increased the total order to seventeen. Delivery is scheduled at the rate of approximately one per month beginning in June, 1968.

In connection with the financing of the first ten Jumbo Jets and related spare engines and spare parts, the Company completed a \$51.0 million public offering of equipment trust certificates. \$46.6 million were issued at December 31, 1967, the balance is issuable under delayed delivery contracts. Negotiations were also completed for the private placement of approximately \$38.0 million of equipment trust certificates. Financing of the last seven Douglas DC8-Super 63F aircraft has not been completed at this date.

Pre-delivery deposits made in 1967 on the Jumbo Jets

and related equipment amounted to \$11,866,679, of which \$5,541,967 represented cash outlay, and the balance represented equipment purchase notes.

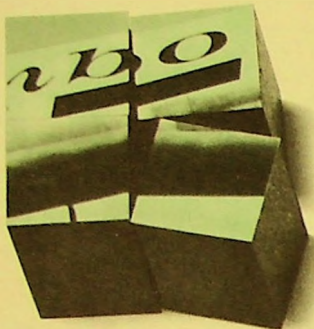
Negotiations were completed in 1967 for the financing of a newly constructed flight training center and the re-financing of the construction loan on the Los Angeles headquarters facilities. Under the terms of the agreement, debt was increased from \$3.5 to \$4.0 million, and repayment was extended over twenty years.

In 1967, \$500,000 principal amount of Series A debentures were converted into 42,552 shares of common stock. Additionally, long-term debt was reduced by \$7,737,212 through normal debt payments. At December 31, 1967, long-term debt outstanding, including maturities due within one year, amounted to \$87.0 million. Of these funds, \$46.6 million was temporarily invested in securities and will be applied to purchase of aircraft.

In accordance with action taken by your Board of Directors in approving a two-for-one stock split, 2,269,069 shares of common stock were distributed to shareholders of record as of February 28, 1967. A cash dividend of ten cents per share was paid to common shareholders of record as of the same date in accordance with a policy established by the Board. This was the first cash dividend declared by the Company since 1959. A summary of changes in stockholders' equity accounts is shown in the financial section of this report.



COMMON CARRIAGE FREIGHT OPERATIONS



Revenues from domestic common carriage airfreight traffic in 1967 totaled \$21,689,211. This was a decrease of eight per cent from the record high of \$23,483,188 established in 1966 — but a gain of twenty-seven per cent over 1965 when revenues totaled \$17,086,910.

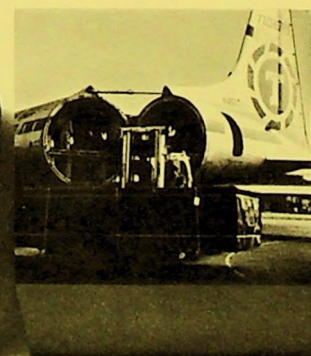
Strikes were major factors strongly affecting results for both 1967 and 1966. In 1966, the Company's common carriage freight operations were inflated as a result of a strike against various major air carriers. The 1967 strike within the automobile industry, an important source of traffic for Flying Tiger Line, adversely affected the Company's revenue.

Various steps were taken in 1967 to improve service and to meet the substantial expansion in pure jet freighter service scheduled by competitive combination carriers. During the year, two additional Canadair CL-44 airfreighters were added to common carriage operations. The Boeing pure jet freighters were retained on international operations to fulfill military contract requirements. Also, direct service was inaugurated between the Pacific Northwest and Chicago, thereby eliminating the longer routing via San Francisco.

BLOCKED SPACE

At the end of 1967, the Company had eighteen Blocked Space contracts in operation, calling for a monthly movement of 1,548,000 pounds of freight. The Civil Aeronautics Board has indicated that it believes Blocked Space authority, now reserved exclusively for all-cargo carriers, should be extended to the combination carriers. The Company does not oppose this premise provided:

1. That a sounder and more economical pricing structure is developed for the airfreight industry. This pricing structure should offer levels of rates and services that would substantially increase the use of airfreight and return a better margin of profit to the carrier.
2. That the all-cargo carrier be given substantially expanded opportunities to engage in charter operations, particularly in the passenger area. With the introduction of Douglas DC8-Super 63F aircraft into its fleet, this expansion in operating rights would be of great importance to the Company.
3. That Flying Tiger Line be granted authority to continue Blocked Space service until the end of 1968. This authority would permit an orderly transition of contracts for shippers using the service, as well as for the Company.



INTERNATIONAL OPERATIONS

In 1967, the Company's lease of additional Boeing 707 aircraft substantially increased its operation of pure jet flights for the Military Airlift Command. The increase in revenue, however, was partially offset by a reduction in MAC rates. Had there been no reduction in rates, operating revenues and income would have been \$3,200,000 greater than reported.

The Government imposed a sharp cutback in military cargo requirements in the latter part of 1967. Inasmuch as the cutback was not in the military passenger field, the Company converted a portion of its Boeing fleet to engage in military passenger service.

International commercial charter traffic in 1967 produced revenues of \$7,773,038, compared to \$8,597,396 in 1966. The Company was able to obtain a liberalization of the Civil Aeronautics Board policy restricting charter operations in the Pacific area. As a result, Flying Tiger Line can now commercially charter military flights which might otherwise return empty to the United States. Substantial amounts of traffic, such as clothing, electronics and toys, have been generated out of such terminals as Manila, Hong Kong and Taipei.



PREPARATION FOR THE FUTURE

DC8-SUPER 63F

1967 was a year of preparation both in equipment and marketing for the advent of the Company's newest fleet of aircraft, seventeen DC8-Super 63F Jumbo Jets. Delivery of these aircraft is scheduled to start in June, 1968. Completion of the order is set for the latter part of 1969.

The Super 63F Jumbo Jet will be the largest and most economical airfreighter ever put in the air. Its payload capacity of 110,000 pounds is more than 40% greater than the effective payload of the Boeing 707-320C and almost 85% greater than that of the CL-44. In terms of pallets or containers, the Super 63F Jumbo Jet will handle

eighteen units compared to the thirteen-unit capacity of the 707 and the ten-unit capacity of the CL-44.

Even with this greatly increased payload, the DC8-Super 63F is expected to operate at a cost only 13% higher than that of the 707. The Company expects this efficiency factor will prove highly beneficial in overall operating results.

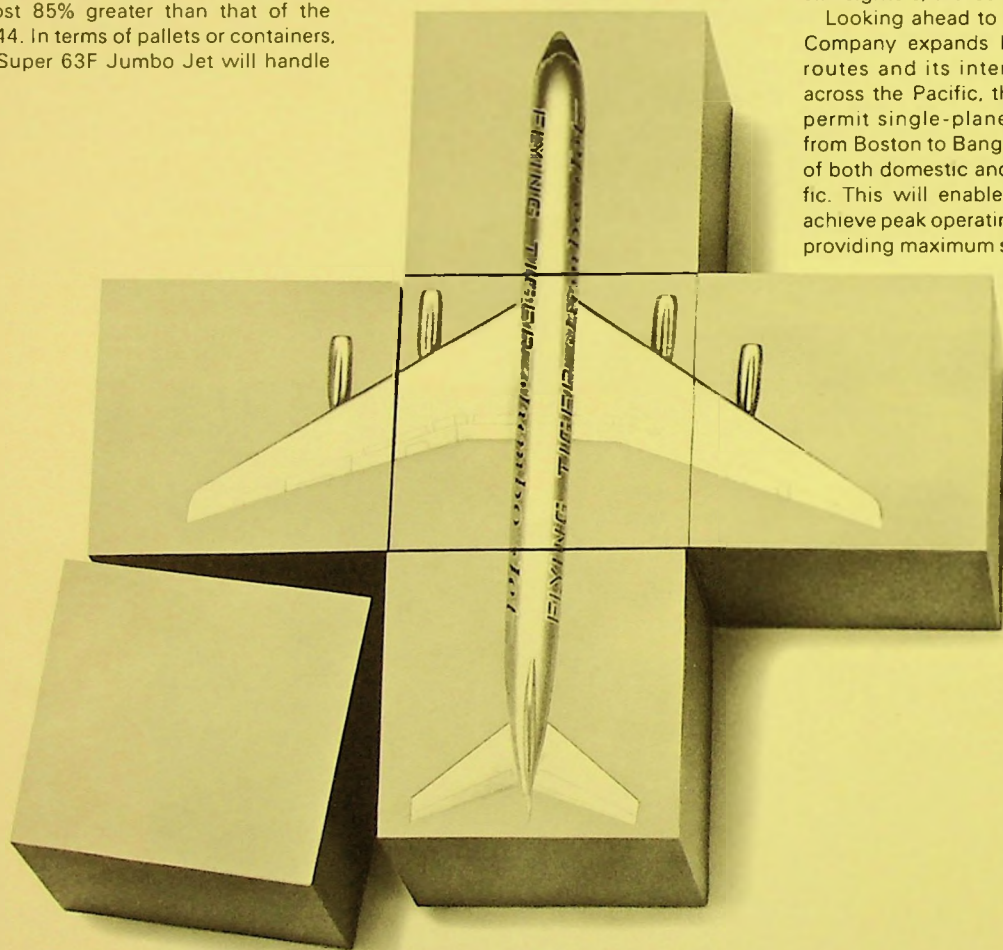
The Super 63F's ability to carry long-range, large payloads at a cruising speed well in excess of 500 miles per hour will be of significant benefit on both domestic and overseas routes. It will enable the Company to fly its military contracts at a per-ton-mile cost less than that of any other equipment

being utilized today. Thus the Company will be in a prime position to meet military contract requirements.

Domestically, the Super 63F can be scheduled for three trans-continent flights daily. This high utilization of the aircraft allows the Company to obtain the lowest operating cost and produce the highest profitability.

The addition of the DC8-Super 63F will mark the third consecutive time that the Company has pioneered in big fleet operation of the newest type of airfreighter. In 1957, the Company introduced a fleet of Lockheed Super H Constellation aircraft. In 1961, the Company was first with turbine-powered airfreighters, the Canadair CL-44.

Looking ahead to the day when the Company expands both its domestic routes and its international service across the Pacific, the Super 63F will permit single-plane through-flight from Boston to Bangkok, with a mixture of both domestic and international traffic. This will enable the Company to achieve peak operating efficiency while providing maximum service to shippers.



GROUND EQUIPMENT AND TERMINAL FACILITIES

Several ground equipment programs were completed in 1967 and new programs tying in with the DC8-Super 63F aircraft were instituted.

The Company's San Francisco base now occupies new quarters four times larger than the previous facility. This terminal's new hangar facilities resulted in greatly improved servicing of both domestic and trans-Pacific aircraft.

The Company's plans for 1968 include modernization and expansion of eight domestic stations. This is the first phase of an improvement program which represents a long term investment of approximately \$25,000,000. In addition to these expanded terminal facilities, the program includes investment in automatic loading facilities with the capacity to load/unload a Super 63F's eighteen pallets or containers in one hour.

The Company's first fully automated terminal, specifically designed to service the Super 63F, was completed in Los Angeles early in 1968. Twice the size of the original facility, it will serve as a training center for DC8-Super 63F Ground Operations personnel.



TRAINING PROGRAMS

Of foremost importance in training of personnel for the Super 63F was the completion early in 1968 of a \$2,250,000 flight training center at the Company's general headquarters in Los Angeles. This facility, equipped with a Super 63F flight simulator and training classrooms, will permit the Company to train all of its flight crews as well as sell time in this operation to other carriers not so equipped.

By providing the equipment for this highly important task, the Company will greatly expedite its own crew training and effectively reduce costs in this area.

Training of maintenance personnel for the servicing of the new Jumbo Jets was largely completed in 1967 and this program will be finished well in advance of the delivery of the first aircraft.



MARKETING PROGRAMS

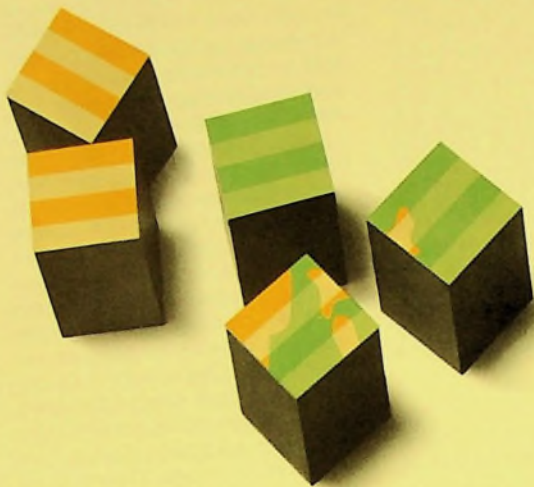
Among the most challenging preparatory tasks facing the Company with the introduction of the DC8-Super 63F fleet are innovations in pricing and marketing strategies to secure new volume at profitable levels.

In 1967, an examination was begun by the Company's pricing experts on ways and means to price airfreight so that shippers will receive more economical, more useful service while the Company itself will receive an improved profit structure. In this regard, the Company is working toward the elimination of complex levels of service and toward the implementation of a simplified rate program based on shippers' service requirements. Into this rate program, the Company plans to build incentives for volume shippers to utilize pre-packed pallets and containers to a far greater degree, thus improving terminal efficiency.

Another major field for development lies in market development programs that will show shippers how to expand and improve their use of airfreight by an overhaul of distribution systems. Since the problems of two companies, even within an industry, are seldom alike, this requires an expertise individually tailored to the needs of a single company. In 1967, the Company completed a realignment of its Marketing Division aimed at effective selling of such specialized programs.



ROUTE EXPANSIONS

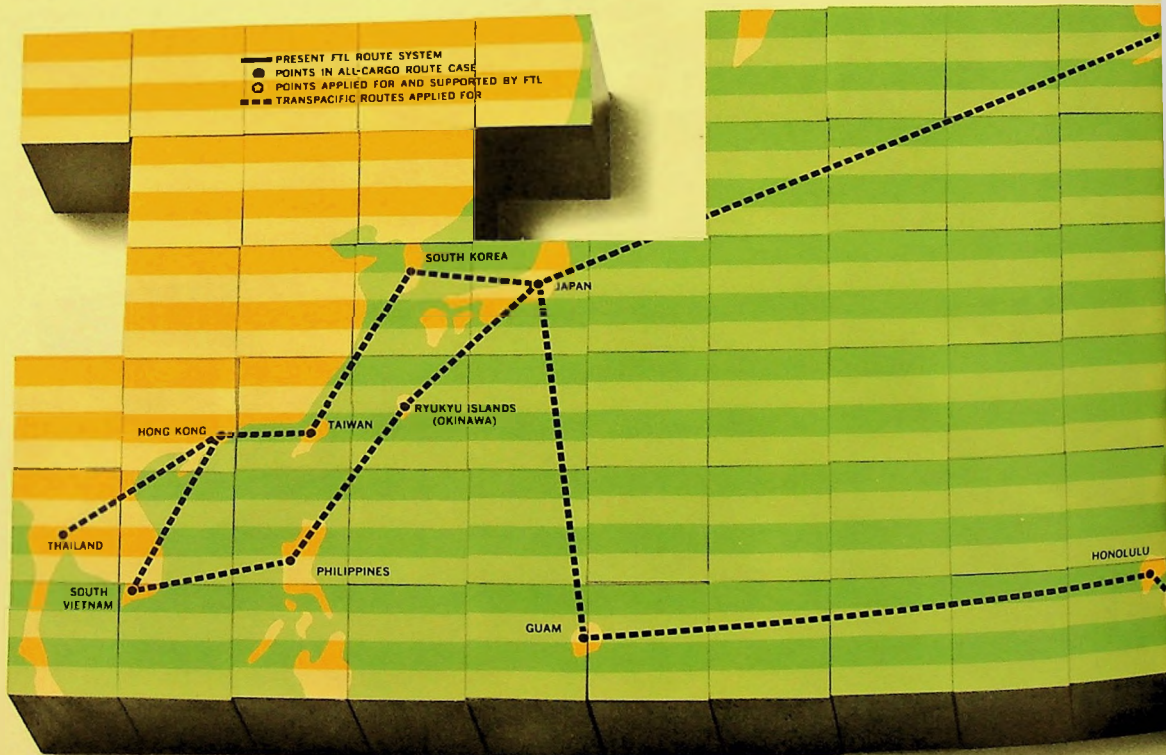


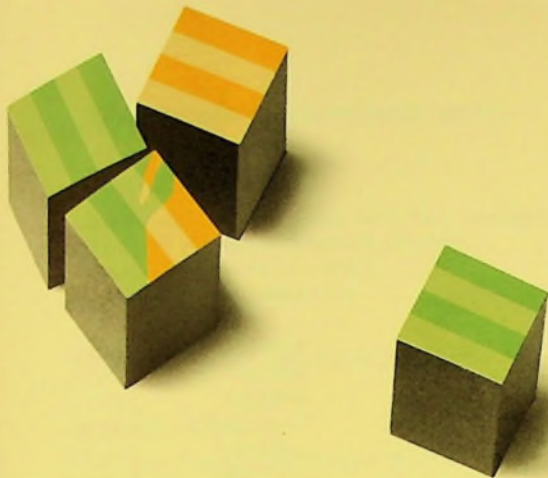
TRANS-PACIFIC ROUTE

During 1967, the Company completed the presentation of its case before the Civil Aeronautics Board for extension of its domestic route across the Pacific Ocean to ten major nations of the Orient. The application is presently under

study by the Board. Whether any decision, which must ultimately be approved by the President, will be forthcoming in 1968 is unknown. However, the Company's prospects for receiving this extension are favorable for several basic reasons:

1. The Pacific area represents the largest, most undeveloped air-trade area in the world, an area with vast traffic potential.
2. No all-cargo service is presently provided by an all-cargo carrier, although such service is now offered across the North Atlantic and to South America.
3. With more than twenty years of trans-Pacific flying in military contract and commercial charter operations, the company has the broadest experience in this area of any cargo operator.
4. The Bureau of Operating Rights (BOR), a body within the CAB established to examine the fitness of applicants and the need for services, in an official "statement of position" strongly recommended approval of the Company's application for an all-cargo route, stating, "Flying Tigers is the best qualified and the most logical choice... and presented by far the best case."
5. The Company will be the first carrier in a position to offer big fleet service with the DC8-Super 63F. These Jumbo Jets are better suited for long-range over-ocean route operations than any other type of equipment now being flown by any airline.





DOMESTIC ROUTE

With the advent of the DC8-Super 63F fleet, the Company is in a position to offer a scope of service much greater than that embraced in its present system. As such, applications were completed in 1967 before the Civil Aeronautics Board for a major expansion of the Company's domestic airfreight system, Route No. 100.

In conjunction with the Company's application, the

CAB, in one of the most significant steps ever taken affecting the air cargo industry, established a separate hearing to consider issues for all-cargo service for twenty-seven major domestic terminals.

In an order issued February 23, 1968, the Board stated, "...we believe it preferable to resolve issues concerning all-cargo service in a proceeding limited to examination of such issues rather than in a case containing extensive issues involving passenger as well as cargo operations. Such handling should facilitate concentration on the problems peculiar to all-cargo operations."

Significantly, the Board denied petitions for reconsideration and modification by three passenger carriers which argued that matters of all-cargo service in many of the markets were already under consideration in pending passenger cases.

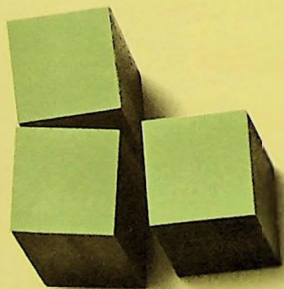
Although the date for this separate hearing has not yet been set, its development is highly encouraging to the Company as an all-cargo carrier heretofore involved in proceedings weighed down with complex passenger traffic considerations irrelevant to its own operation.

Of the twenty-seven major terminals made a part of this hearing, the Company has applied for and supported sixteen, primarily in the Eastern, Southern and Midwestern sections of the country. If approved, this route expansion will enable the Company to provide direct airfreight service to virtually every major market in the United States.



BALANCE SHEETS
DECEMBER 31, 1967 AND 1966

ASSETS	<u>1967</u>	<u>1966</u>
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash, including \$11,500,000 and \$10,800,000 of certificates of deposit at December 31, 1967 and 1966, respectively	\$ 12,683,091	\$ 15,416,088
Receivables, less reserves—		
Freight customers	4,433,736	5,102,779
Charters, service sales, etc.—		
United States Government	6,535,955	6,245,501
Other	4,071,079	2,920,173
Materials and supplies, at average cost	4,668,237	3,317,007
Aircraft acquired for sale	—	1,102,984
Prepaid insurance, rents, etc.	2,574,796	1,951,117
Prepaid engine overhaul cost	<u>2,237,855</u>	<u>2,195,233</u>
Total current assets	\$ 37,204,749	\$ 38,250,882
TEMPORARY CASH INVESTMENTS, RESTRICTED TO DISBURSEMENT FOR EQUIPMENT ACQUISITION		
	<u>\$ 46,630,000</u>	\$ —
PROPERTY AND EQUIPMENT, at cost (Notes 1 and 2):		
Aircraft, engines and other flight equipment	\$ 89,501,268	\$ 88,995,273
Other equipment	3,316,144	2,670,599
Land and buildings	6,387,706	6,146,697
	\$ 99,205,118	\$ 97,812,569
Less—Reserves for depreciation	<u>47,042,091</u>	<u>40,272,054</u>
	\$ 52,163,027	\$ 57,540,515
Deposits on aircraft, engines, etc.	<u>22,401,821</u>	<u>10,035,142</u>
	\$ 74,564,848	\$ 67,575,657
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expense	\$ 1,166,961	\$ 110,852
Long-term lease deposits, receivables, etc.	1,218,026	1,028,797
Training costs applicable to aircraft, being amortized	<u>3,003,475</u>	<u>3,423,759</u>
	\$ 5,388,462	\$ 4,563,408
	<u>\$163,788,059</u>	<u>\$110,389,947</u>



LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1967</u>	<u>1966</u>
CURRENT LIABILITIES:		
Current installments of long-term debt	\$ 7,053,521	\$ 6,934,537
Accounts payable and accrued liabilities	9,923,161	10,734,871
Accrued Federal income taxes	549,000	1,010,600
Total current liabilities	<u>\$ 17,525,682</u>	<u>\$ 18,680,008</u>
 LONG-TERM DEBT (See Summaries) (Note 2)	 <u>\$ 79,966,506</u>	 <u>\$ 34,866,830</u>
 DEFERRED CREDITS:		
Deferred Federal income taxes (Note 4)	\$ 16,806,236	\$ 15,346,437
Overhaul liability-leased aircraft and engines	2,122,676	1,014,309
	<u>\$ 18,928,912</u>	<u>\$ 16,360,746</u>
 STOCKHOLDERS' EQUITY (Note 2):		
Common shares—\$1 par value—		
Authorized, 10,000,000 shares		
Outstanding, 4,538,138 shares (1967) and 2,219,682 shares (1966)	\$ 4,538,138	\$ 2,219,682
Additional paid-in capital	17,136,441	18,901,515
Retained earnings (Note 3)	25,692,380	19,361,166
	<u>\$ 47,366,959</u>	<u>\$ 40,482,363</u>
	<u>\$163,788,059</u>	<u>\$110,389,947</u>

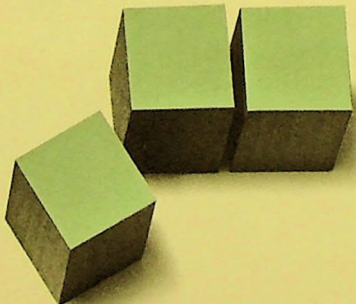
The accompanying notes and summaries of long-term debt are an integral part of these balance sheets.



STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
OPERATING REVENUES:		
Scheduled freight operations	\$21,689,211	\$23,483,188
Military Airlift Command	53,413,028	48,074,385
Charters, service sales, etc.	11,929,255	14,461,338
	<u>\$87,031,494</u>	<u>\$86,018,911</u>
OPERATING EXPENSES:		
Flying operations	\$31,173,364	\$26,640,082
Ground operations	10,549,561	10,027,491
Maintenance	19,021,222	15,809,280
Sales, advertising and publicity	2,861,996	2,574,898
General and administrative	4,027,215	3,554,170
Depreciation and amortization	7,118,426	6,952,826
	<u>\$74,751,784</u>	<u>\$65,558,747</u>
Operating income	<u>\$12,279,710</u>	<u>\$20,460,164</u>
OTHER (INCOME) EXPENSE:		
Interest expense	\$ 1,775,305	\$ 2,302,390
Miscellaneous (net)	(896,973)	(244,527)
	<u>\$ 878,332</u>	<u>\$ 2,057,863</u>
Net income before provisions for Federal income taxes and extraordinary items	<u>\$11,401,378</u>	<u>\$18,402,301</u>
PROVISIONS FOR FEDERAL INCOME TAXES (Note 4):		
Current	\$ 2,061,000	\$ 1,265,000
Deferred	1,754,000	5,684,000
	<u>\$ 3,815,000</u>	<u>\$ 6,949,000</u>
NET INCOME BEFORE EXTRAORDINARY ITEMS	<u>\$ 7,586,378</u>	<u>\$11,453,301</u>
EXTRAORDINARY ITEMS, less applicable income taxes:		
Write-down of retired Constellation aircraft	(801,350)	—
Gain on retirement of aircraft (Note 6)	—	651,902
NET INCOME	<u>\$ 6,785,028</u>	<u>\$12,105,203</u>

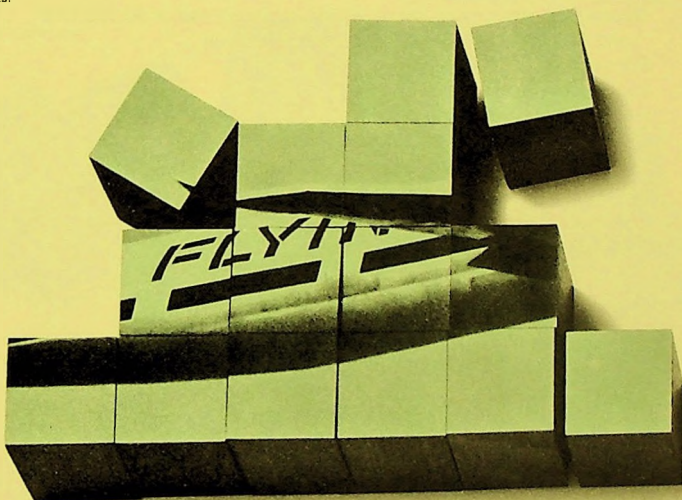
The accompanying notes are an integral part of these statements.



STATEMENTS OF STOCKHOLDERS' EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967			1966	
	\$1 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Total	Total
Balance, Beginning of year	\$2,219,682	\$18,901,515	\$19,361,166	\$40,482,363	\$19,413,976
Add—					
Net income for year	—	—	6,785,028	6,785,028	12,105,203
Conversion of debentures	42,552	457,448	—	500,000	10,000,000
Issuance of shares under stock options	6,835	46,547	—	53,382	4,851
	\$2,269,069	\$19,405,510	\$26,146,194	\$47,820,773	\$41,524,030
Deduct—					
Cash dividends on common stock—\$.10 a share	—	—	453,814	453,814	—
Cash dividends on preferred stock prior to redemption	—	—	—	—	50,547
Redemption of preferred stock	—	—	—	—	991,120
	\$2,269,069	\$19,405,510	\$25,692,380	\$47,366,959	\$40,482,363
Transfer to stated capital in connection with two-for-one stock split effected as a stock dividend	2,269,069	(2,269,069)	—	—	—
Balance, End of year (Note 3)	<u>\$4,538,138</u>	<u>\$17,136,441</u>	<u>\$25,692,380</u>	<u>\$47,366,959</u>	<u>\$40,482,363</u>

The accompanying notes are an integral part of these statements.



STATEMENTS OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1967 AND 1966

	1967	1966
WORKING CAPITAL AT BEGINNING OF YEAR	<u>\$19,570,874</u>	<u>\$ 9,145,034</u>
 SOURCE OF FUNDS:		
Net income	\$ 6,785,028	\$12,105,203
Add (Deduct)—		
Depreciation and amortization provisions	7,752,526	7,936,428
Deferred tax provision	1,754,000	5,684,000
Gain on retirement of property and equipment	(170,244)	(235,761)
Extraordinary items	<u>801,350</u>	<u>(651,902)</u>
Total funds from operations	\$16,922,660	\$24,837,968
Proceeds (\$46,630,000) from issue of 1967 Equipment Trust Certificates, less full temporary investment restricted to disbursement for equipment acquisition	—	—
Proceeds from common stock issued upon exercise of restricted stock options	53,382	4,851
Proceeds from retirement of property and equipment	323,339	4,635,661
All other (net)	<u>491,603</u>	<u>134,223</u>
	<u>\$17,790,984</u>	<u>\$29,612,703</u>
 APPLICATION OF FUNDS:		
Payments on equipment trust certificates	\$ 7,737,212	\$ 9,337,918
Deferred training costs applicable to aircraft	121,395	1,037,114
Deferred debt expense	1,174,298	—
Deposits on equipment, net of related indebtedness of \$6,325,872 and \$5,742,926 in 1967 and 1966, respectively	5,541,967	4,292,216
Purchase of property and equipment	2,654,105	3,283,442
Lease deposits	—	194,506
Retirement of preferred shares	—	991,120
Cash dividends on common and preferred shares in 1967 and 1966, respectively	<u>453,814</u>	<u>50,547</u>
	<u>\$17,682,791</u>	<u>\$19,186,863</u>
WORKING CAPITAL AT END OF YEAR	<u>\$19,679,067</u>	<u>\$19,570,874</u>

The accompanying notes are an integral part of these statements.



SUMMARIES OF LONG-TERM DEBT
DECEMBER 31, 1967 AND 1966

	<u>1967</u>	<u>1966</u>
Debentures (subordinate)—Series A—5½%	\$ —	\$ 500,000
1959 Equipment Trust Certificates, less current installments— Series A—5½% due 1968-1971	4,497,254	8,589,257
Series B—5½% due 1968-1969	—	791,864
1964 Equipment Trust Certificates—Series A—5½%, due 1968-1971, less current installments	2,451,932	2,921,098
5½% Promissory Note, due 1968-1971 (Note 2)	986,797	1,106,685
1965 Equipment Trust Certificates, less current installments— Series A—5¼%, due 1968-1971	3,750,000	5,375,000
Series B—5¼%, due 1971-1975	6,340,000	6,340,000
1967 Equipment Trust Certificates—Series A—6.6%, due 1969-1980*	46,630,000	—
7% Promissory Note, due 1968-1988 (Note 2)	3,919,400	—
5½% Construction Loan, due 1968-1969	—	3,500,000
Equipment Purchase Notes, including accrued interest at prime rate plus ½ per cent, due upon delivery of equipment	<u>12,068,798</u>	<u>5,742,926</u>
	\$80,644,181	\$34,866,830
Less: Cost of \$690,000 principal amount of 1967 Equipment Trust Certificates held in Treasury	<u>677,675</u>	<u>—</u>
Total	<u>\$79,966,506</u>	<u>\$34,866,830</u>

*Exclusive of \$4,370,000 issuable in 1968 under delayed delivery contracts.

The accompanying notes are an integral part of these summaries.



NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1967

(1) LEASE AND PURCHASE COMMITMENTS—

At December 31, 1967, the Company had long-term leases on real property, aircraft and engines for which annual rentals will be approximately \$7,381,000 in 1968, and total rentals will aggregate approximately \$26,700,000 for the minimum lease periods. The minimum lease periods range from one year on aircraft to 31 years on real property. There are renewal and purchase options on the aircraft and engines.

The Company has entered into purchase agreements to acquire 17 DC8-63F aircraft, engines, etc., with deliveries commencing in 1968 for an aggregate cost of approximately \$185,000,000 net of applicable deposits.

(2) CAPITAL STOCK AND LONG-TERM DEBT—

At December 31, 1967, there were 243,600 shares of common stock reserved for issuance under the Qualified Stock Option Plan, of which options to officers for purchase of 169,000 shares of common stock were granted at prices ranging from \$20.06 to \$39.00 per share (exercisable in 1968-1972). Subsequent to December 31, 1967, the Company granted options for 13,000 shares of common stock at \$24.125 and \$27.25 per share (exercisable in 1970-1973).

The 5½ per cent Promissory Note is secured by the Company's equity of redemption in certain aircraft, and the 7 per cent Promissory Note is secured by general office and maintenance facilities and assignment of ground lease.

Subsequent to December 31, 1967, the Company entered into an unsecured bank loan agreement to borrow \$30 million, the proceeds of which will be applied as interest-bearing deposits on purchase of DC8-63F aircraft and will be repaid from Temporary Cash Investments upon delivery of aircraft.

(3) RESTRICTIONS UNDER DEBT AGREEMENTS—

The equipment trust agreements and other debt agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowing, capital expenditures, etc. Under the most restrictive provisions, cash dividends are limited to \$500,000 a year until the equipment to be financed by the 1967 Series A Equipment Trust Certificates has been delivered to the Trustee. Cash dividends of \$453,814 have been paid for 1967. Except for

the restriction set forth above, retained earnings at December 31, 1967, available for the payment of cash dividends on common shares, would be \$2,938,700.

(4) FEDERAL INCOME TAXES—

Federal income taxes deferred through additional depreciation and other additional deductions for tax purposes have been credited to a reserve, which the Company intends to restore to income as such deferred taxes become payable. The provisions have been reduced by \$1,734,000 and \$1,817,000 investment tax credit in 1967 and 1966, respectively.

The portion deferred for 1966 has been increased and the current portion reduced accordingly from that previously reported to reflect the taxes actually payable on the tax return subsequently filed for the year.

(5) PENSION PLANS—

The Company maintains pension plans for substantially all employees. The total pension plan expense for the year ended December 31, 1967, was \$998,396, of which \$148,963 was applicable to the unfunded liability for past service benefits which is being amortized over 20 years. Pension costs are funded as accrued. At December 31, 1967, the actuarially computed vested benefits exceeded pension funds by approximately \$311,520.

(6) RECLASSIFICATION—

The Statement of Income for the year ended December 31, 1966, has been restated to reclassify as an extraordinary item the gain on retirement of aircraft previously reported as Miscellaneous Income.

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, 1967 and 1966, and the related statements of income, stockholders' equity, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1967 and 1966, 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 during the periods.

ARTHUR ANDERSEN & Co.

Los Angeles, California
February 9, 1968

DOMESTIC SALES OFFICES

ATLANTA, GEORGIA

1001 Virginia Avenue
Hapeville, Georgia
766-2704

BINGHAMTON, NEW YORK

Broome County Airport
729-1591

BOSTON, MASSACHUSETTS

Logan International Airport
567-6161

BUFFALO, NEW YORK

81 Botsford Street
876-5055

CHICAGO, ILLINOIS

O'Hare International Airport
686-7100

CLEVELAND, OHIO

Cleveland Hopkins Airport
267-3575

DETROIT, MICHIGAN

Metropolitan Airport
562-9700

HARTFORD, CONNECTICUT

International Airport
Windsor Locks, Connecticut
522-3145

LOS ANGELES, CALIFORNIA

International Airport
646-6161

MILWAUKEE, WISCONSIN

5300 S. Howell
483-5000

NEWARK, NEW JERSEY

Newark Airport
624-3700

NEW YORK, NEW YORK

John F. Kennedy Int'l Airport
656-5285

PHILADELPHIA, PENNSYLVANIA

International Airport
726-7100

PORTLAND, OREGON

International Airport
281-1158

SAN FRANCISCO, CALIFORNIA

International Airport
761-1100

SEATTLE, WASHINGTON

Seattle-Tacoma
International Airport
244-4747

WASHINGTON, D.C.

1700 Pennsylvania Ave. N.W.
223-3015

INTERNATIONAL SALES OFFICES

CHICAGO, ILLINOIS

O'Hare International Airport
686-7100

HONG KONG

International Airport
Kowloon
820211, Ext. 239

LONDON, ENGLAND

10 Golden Square
Gerrard 3627

LOS ANGELES, CALIFORNIA

International Airport
646-6161

NEW YORK, NEW YORK

60 East 42nd Street
697-8850

TAIPEI, TAIWAN

219 Nanking East Road
51460

TOKYO, JAPAN

Sanno Grand Bldg.
Nagata-cho, Chiyoda-Ku
Tokyo, Japan
581-6841



TIGERS



DC-8-63F

FLYING

TIGERS

The Flying Tiger Line Inc. Annual Report 1968





Highlights

	1968	1967
Operating revenues (\$000)	\$ 76,699	\$ 87,031
Operating income (\$000)	\$ 2,694	\$ 12,280
Net income before extraordinary items (\$000)	\$ 94	\$ 7,586
Per share	\$.02	\$ 1.67
Net income (loss) after extraordinary items (\$000)	\$ (5,270)	\$ 6,785
Per share	\$ (1.16)	\$ 1.50
Domestic cargo statistics —		
Available ton miles (000)	263,224	246,415
Revenue ton miles (000)	166,041	163,250
Load factor	63.1%	66.2%
Revenue per ton mile	12.91¢	13.29¢
Aircraft miles flown for Military Airlift Command (000)	14,249	18,121

Results for the year 1968 show a nominal profit before a substantial writedown of equipment values established an overall loss for the period. The adverse operating conditions experienced were reported to shareholders periodically during the year and are reviewed briefly here.

A six-month delay in delivery of our new DC8-63F aircraft affected almost every phase of the company's activities throughout the year. The following major factors, along with their many side effects, were direct results of the delay:

—A serious gap in our domestic jet fleet, forcing us to rely primarily upon turbo-prop equipment in this vital market. Competing against all-jet carriers we were not able to keep pace with overall industry gains in air cargo. This is reflected directly in revenue and profit figures. The latter was particularly affected, since our turbo-prop equipment flew every mile at an operating loss.

—A drop of almost 20 per cent in Military Airlift Command revenue, based on MAC's decision to give priority to all-jet equipment in both cargo and passenger operations.

—The inability to commit all-jet equipment early in the year to the profitable May-September charter business.

—The prior commitment to lease two Boeing jets to other lines, further depleting our jet fleet when the DC8-63F aircraft were not delivered on schedule.

The net effect of these factors was held to a minimum only by the dedication and professional competence of Flying Tiger men and women. Air crews, ground crews, and administrative personnel made every effort to operate our older equipment profitably while at the same time phasing in the new fleet in an orderly manner.

An explanation of extraordinary items is found in the section immediately following.

The transitional effects of the past year were indeed costly yet they were most significant to our future and have placed us in a sound position for efficient and profitable operations in the years ahead.

When you receive this report we will have completed our changeover to an all DC8-63F fleet, marking the first time in Flying Tiger

history that we have been in the enviable position of flying, maintaining, and training crews for only one type aircraft. The economies of this have already been felt in operating costs.

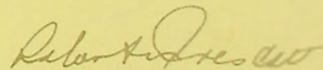
The DC8-63F, in either cargo or passenger configuration, offers greater profit potential than any aircraft we have ever flown. The new fleet will give us 60 per cent more available ton mile capacity at only a 30 per cent increase in costs.

New air freight tariffs, which became effective late in the past year, are already having a marked effect on profits.

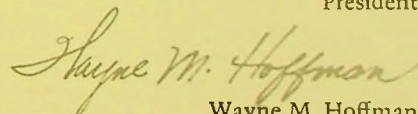
The establishment of each Flying Tiger terminal as an independent unit, responsible for its own sales and profits, is now completed. This profit center concept, along with the modernization of our terminals for more efficient freight handling, should affect revenues and profits favorably throughout 1969.

One other major factor should contribute to a successful current year and toward continued growth for Flying Tiger in the future. Late in 1968 President Johnson awarded our company a Trans-Pacific route of major importance. Flying Tiger was the only cargo carrier recommended for this route by the CAB. President Nixon subsequently cancelled all awards pending a complete review by his administration. We are confident that this review will result in favorable action on our behalf.

To summarize, the past year was one of the most significant in the company's history. The preparations made during 1968 for this year and the years ahead were costly. We are confident that these preparations were vital to both the competitive position and profit potential of Flying Tiger Line as it enters a new era of tremendous growth for air cargo.



Robert W. Prescott
President



Wayne M. Hoffman
Chairman of the Board



Earnings —

The Company's 1968 net income before extraordinary charges was \$94,168. In connection with the Company's plan for an all DC8-63F fleet, the carrying value of various aircraft to be disposed of and related costs were written down to reflect the estimated realizable value. This write-down resulted in an extraordinary charge against earnings of \$5,364,212, net of tax effect, consisting of the following items:

- a. Write-off of all deferred training expenses on B707 and CL44 aircraft amounting to \$1,311,133;
- b. Reduction in carrying values of CL44 aircraft and spares and B707 spares of \$3,261,652 and \$188,744, respectively;
- c. Write-down of carrying value of Constellation aircraft and spares of \$602,684 to reflect the value due upon disposition of this equipment.

Despite the Company's net loss of \$5,270,044 after the extraordinary charges referred to above, the cash flow for the year 1968 was \$9,571,800.

Revenues —

Revenues reported in 1968 amounted to \$76,698,672 compared to \$87,031,494 reported in 1967. This decrease resulted from a drop in business performed for the Military Airlift Command in 1968.

Expenses —

Consistent with industry experience, operating expenses continued to increase. The overall aircraft miles flown in 1968 were reduced, but increased costs offset any appreciable reduction in overall operating expenses which should have resulted from less miles flown. Also contributing to higher expenses was the fleet transition during the year. It is anticipated that with an all DC8-63F fleet, substantial economies will be achieved.

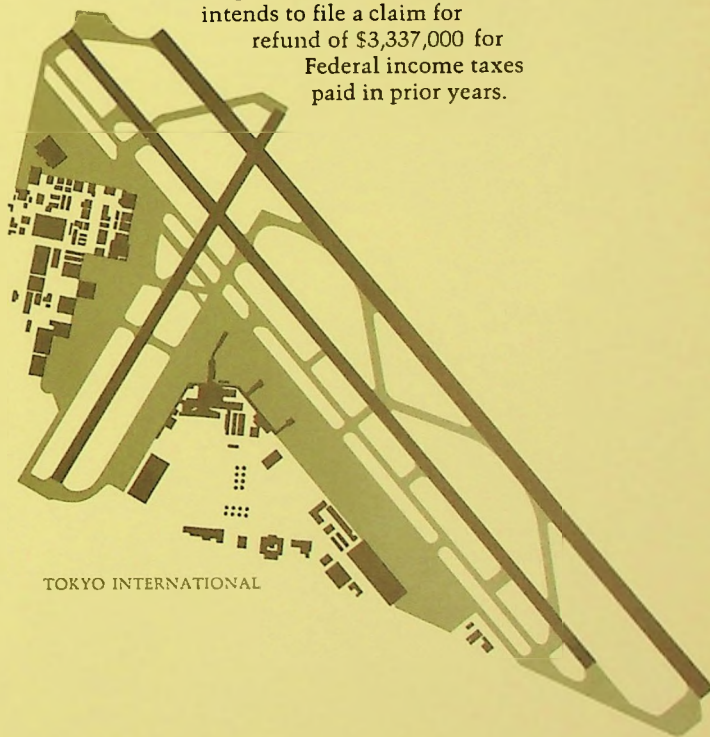
Financing —

At December 31, 1968, the Company's fleet included nine DC8-63F aircraft, one of which was leased from another airline under a short-term lease and eight were financed by the issuance of equipment trust certificates. In January 1969, two additional aircraft were acquired and financed with proceeds from equipment trust certificates. With respect to the remaining seven DC8-63F aircraft ordered, the Company has found it advantageous to finance these aircraft under lease contracts. Details of the contracts were finalized at favorable lease rates.

Subsequent to year-end, the Company sold privately \$25,000,000 of 5¾% Subordinated Convertible Notes, due 1979-1989, to a group of banks and institutional investors. The proceeds of the sale will be used to improve working capital as well as to provide for future expansion and growth.

Refund of Federal Income Taxes —

As a result of deductions arising from additional depreciation and other additional deductions for tax purposes, the Company intends to file a claim for refund of \$3,337,000 for Federal income taxes paid in prior years.



Speed and range of the versatile DC8-63F, shown over Mt. Fuji, brings bases throughout the world within hours of Flying Tiger cargo terminals across the United States.

In the last quarter of 1968 major changes occurred in the company's operations as the new DC8-63F fleet reached full scheduled service on domestic routes. A cost-oriented jet-age tariff proposed by the airline was, with one exception, approved by the Civil Aeronautics Board. A Flying Tiger containerization program was accepted within the automotive industry, largest single user of airfreight, and a Flying Tiger subsidiary was chosen to initiate the concept.

Early in the year, a significant policy change was made by the Civil Aeronautics Board in another major case affecting the airline. For the first time, ruling in a case involving domestic all-cargo route applications, the Board stated that it would now consider such applications in hearings separate from cases involving passenger rights. This should both simplify and expedite route matters in cargo cases. The new ruling had long been sought by Flying Tiger and indeed was a major element in many of its regulatory issue applications.

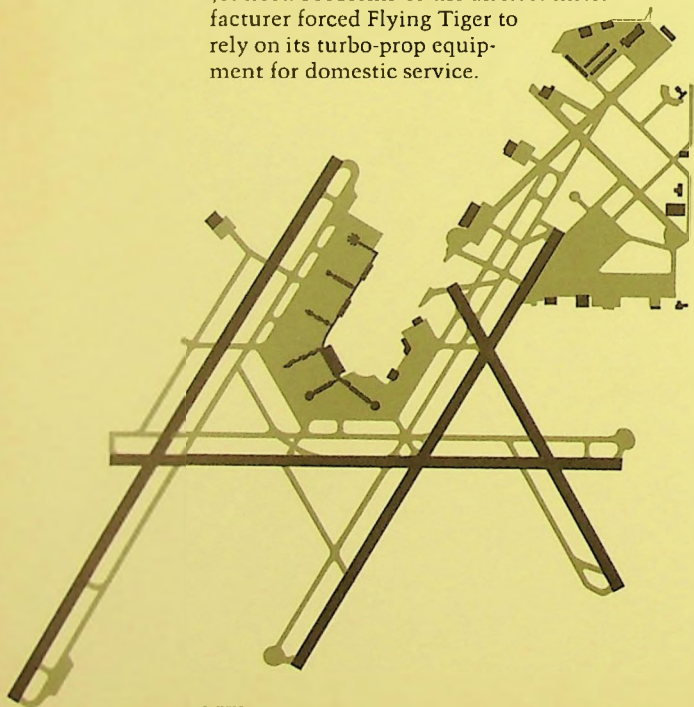
The airline's domestic system operated under a serious competitive disadvantage for nine months of the year, due primarily to a six-month delay in first deliveries of its new jet fleet. Problems of the aircraft manufacturer forced Flying Tiger to rely on its turbo-prop equipment for domestic service.

These aircraft, which fly 200 miles an hour slower than pure jet equipment, were not able to match the jet schedules of our major competitors.

The DC8-63F fleet reached full scheduled operation on domestic routes in October and first results were gratifying. Flying this new, highly competitive equipment, the airline was able to show a 25 per cent traffic gain in October over the same month last year. Throughout the balance of the year, payloads frequently exceeded 90 per cent of the airplane's total freight capacity. By contrast, earlier equipment, whether jet or turbo-prop, seldom has been able to exceed 70 per cent of theoretical payload capacity due to space limitations. The DC8-63F effectively overcomes this historic handicap.

For the first time in airfreight history, the CAB accepted almost in its entirety an airline's new concept for a rate structure specifically designed to meet the needs of shipper and carrier with new jet aircraft. A Flying Tiger proposal led to the first tariff based on actual cost studies and reflects realistically the revenue needs of the carrier to attain a profit. It is also beneficial to the volume shipper. New pricing structures emphasize containerized traffic and provide considerable economic incentives to shippers over prior tariffs. Only the Flying Tiger proposal for a new minimum rate level was held up pending further Board investigation.

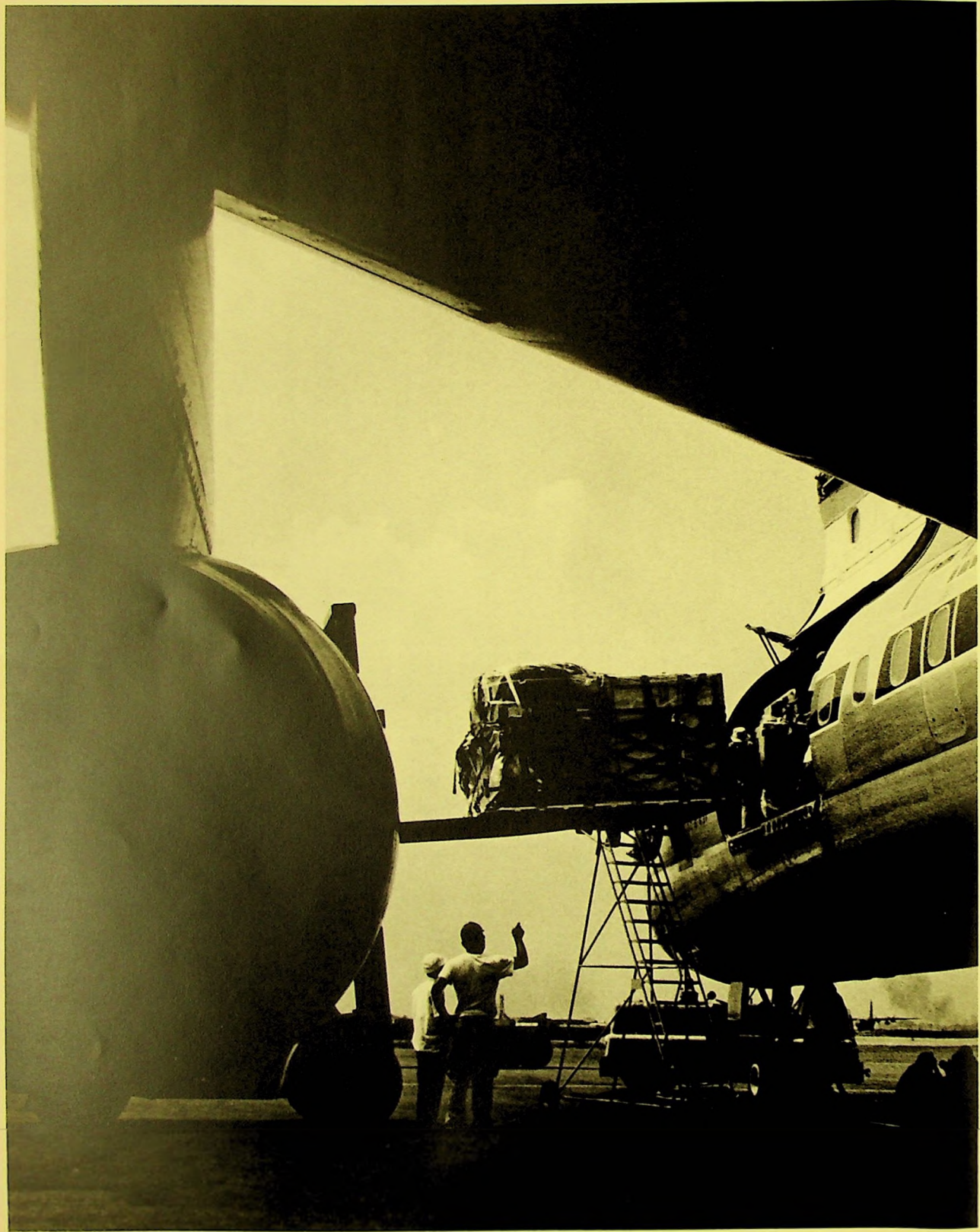
Containerization of airfreight was given major impetus when the Ford Motor Company, one of the nation's largest users of airfreight, signed a contract with Flying Tiger Air Services, a wholly owned subsidiary of the airline, for containerization of all Ford's airfreight out of the Detroit area. This again,



DETROIT

Maximum cargo capacity of 112,500 pounds may be placed aboard the DC8-63F in 45 minutes using Flying Tiger's fully automated cargo loading systems now in operation.





was a landmark accomplishment, representing the first time that a major shipper had committed to such a program. It should lead eventually to much greater containerization of airfreight by many volume shippers. Under the contract, Flying Tiger Air Services containerizes all Ford airfreight at Detroit, handles all shipping problems, and delivers the freight to Ford-designated air carriers. The benefits to Ford are reliance upon a single agency for airfreight handling, faster service to its production plants, and reduced transportation costs based on the volume and density rate advantages it gains.

Our new DC8-63F aircraft hold a considerable advantage over other jets in both weight and density capacities. Boeing 707s carry 13 pallets or a total weight of 95,000 pounds, compared to our aircraft's 18 pallets or 112,500 pounds.

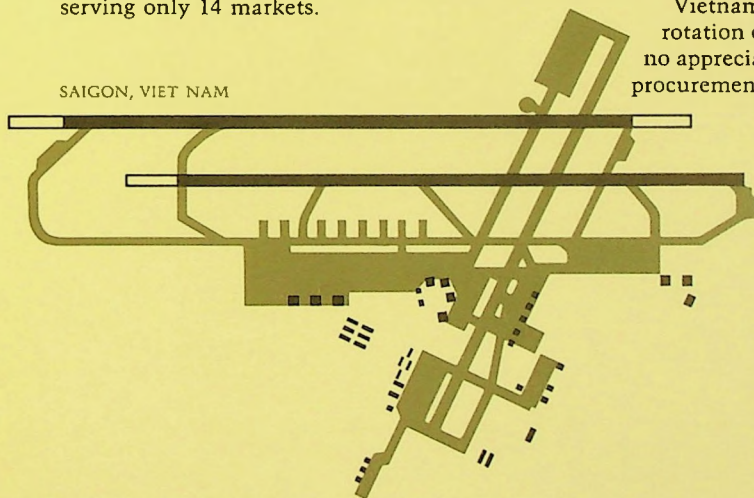
The policy declaration of CAB on hearing all-cargo route cases separately came in a board proceeding prior to a Flying Tiger application to expand its domestic service by adding approximately 20 additional terminals. It will be heard by the Board in 1969. If granted, this route expansion to 34 terminals would bring Flying Tiger into almost every major domestic market, greatly expanding its now-limited domestic route structure serving only 14 markets.

The decrease in Military Airlift Command (MAC) revenues in 1968 was the result of several significant factors. There was further reduction in MAC rates from the previous year, along with a reduction in the total awards made to commercial airlines. The most significant factor, however, was that CL-44 aircraft were priced out of military business. The unit cost (ton-mile) of operating the CL-44 is much greater than that of pure jets, and the CAB has accordingly placed a higher rate on this aircraft for military use.

A standard procedure of MAC is to award business to commercial carriers in direct relation to each carrier's participation in the Civil Reserve Air Fleet Program (CRAF). Flying Tiger ranks second of 20 airlines participating in CRAF. However, overriding this procedure is cost consideration. Although there was a heavy demand for airlift during the summer months of 1968, a significant amount would have been awarded to Flying Tiger, if our new, more economical jet aircraft had been available.

The new fleet makes Flying Tiger a much larger factor in the mobilization base index of CRAF, and the attractive unit cost of operating the DC8-63F presents an added incentive for MAC to contract with airlines flying it. Any withdrawal of forces in

Vietnam does not affect the normal rotation of men that must remain, and no appreciable reduction in total procurement is anticipated.



SAIGON, VIET NAM

Flying Tiger's all DC8-63F fleet represents a 60 per cent increase in available ton mile capacity at only a 30 per cent increase in costs, with significant effects upon future profit potential.

8

Two major changes in our cargo terminal concept were introduced into the domestic system in 1968. One involved the actual facility for ground handling of airfreight and the other was a basic reorganization of terminal administration.

New, automated facilities specifically designed to our needs were completed at San Francisco, Los Angeles, Chicago and Newark. Constructed to specifications developed by Flying Tiger as a result of studies conducted over the past several years, these facilities represent the most advanced systems required to service efficiently our new fleet of DC8-63F aircraft. They provide for complete palletization of the aircraft, or for unusual freight load requirements. The system permits loading or unloading of a maximum 112,500-pound payload in 45 minutes.

Pallets are built up with freight within an airport terminal or turned over to shippers for loading at their own plants. Within the airport terminal, special racks may be used either to store freight for a future flight, or the pallets may be moved directly through the rack area onto track fingers leading out to the aircraft loading ramp. There the pallets move onto a mobile freight loading vehicle, which places it directly aboard the aircraft. All equipment is automated and requires only a controller for operation.

Terminal areas may include one or more stations, each under the supervision of a general terminal manager responsible for producing a profit. All sales and ground operation activities are now under his

control and he is charged specifically with sales productivity, efficiency in the pickup and delivery of freight, rapid loading and unloading of aircraft, and customer service.

Timely certification of our new DC8-63F simulator, along with the leasing of two of the new aircraft from another airline, allowed Flying Tiger to prevent effects of the six-month delay in delivery from becoming even more protracted.

The training function was particularly critical during the year as pilots, crews, maintenance and administrative personnel operated schedules with older equipment and trained for the new jets at the same time. The transition was made under less than ideal conditions, yet the loss of productive flying time was held to a minimum by the skill and hard work of men and women throughout the airline.

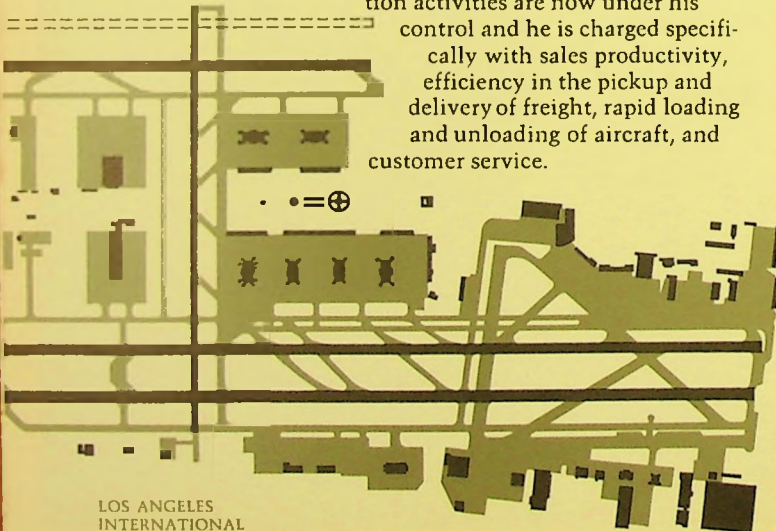
Passenger evacuation tests and proving flights for the new planes were performed very quickly as the aircraft were received. The results were expressed in our placing the first five new DC8-63Fs in operations within a five week period.

Our new operations control computer was installed by mid-year and the entire Crew Control Management function is now programmed in and completely operational. The computer is also performing flight planning functions for the new fleet of aircraft. Computer control of both these functions will effect much greater efficiency and economy throughout the system.

Other logistics management problems are being phased into computer operations and in time a major part of maintenance, training, and personnel administration will be carried out in this manner.

Effects of an all DC8-63F fleet will be felt in every phase of our training and maintenance programs. The complexity of training procedures in the past for pilots, crews, maintenance, and loading personnel operating various aircraft types has been frequently both time consuming and costly. Flying Tiger Line's new fleet of DC8-63F aircraft will eliminate these inefficiencies and allow a greater emphasis on productive flying operations in the years ahead.

Transition to an all DC8-63F fleet will result in economies throughout Flying Tiger operations, including appreciable savings in training air and ground crews.



A vintage, sepia-toned photograph of a model airplane. The aircraft is primarily white with black accents, including a large black stripe running along the fuselage and a black section on the upper wing. The words "FLYING TIGERS" are printed in bold, black, sans-serif capital letters on the white fuselage. The model is positioned on a dark surface, possibly a table or a display case, with a light-colored wall and a dark horizontal line visible in the background.

**FLYING
TIGERS**

Balance Sheets

December 31, 1968 and 1967

ASSETS	1968	1967
CURRENT ASSETS (including prepaid engine overhaul cost):		
Cash	\$ 2,572,366	\$ 12,683,091
Receivables, less reserves—		
Freight customers	3,974,559	4,433,736
Charters, service sales and other	10,690,553	10,607,034
Federal income tax refund (Note 5)	3,337,000	—
Materials and supplies, at average cost	4,744,405	4,668,237
Equipment under sales contract (Note 2)	6,725,000	—
Prepaid insurance, rents, etc.	2,702,207	2,574,796
Prepaid engine overhaul cost	7,335,469	2,237,855
Total current assets	\$ 42,081,559	\$ 37,204,749
TEMPORARY CASH INVESTMENTS, restricted to disbursement for equipment acquisition	\$ —	\$ 46,630,000
PROPERTY AND EQUIPMENT, at cost (Notes 1 and 3):		
Aircraft, engines and other flight equipment	\$ 96,964,938	\$ 76,715,211
Other equipment	4,056,879	3,316,144
Buildings and leasehold improvements	7,660,365	6,387,706
	\$108,682,182	\$ 86,419,061
Less— Reserves for depreciation and amortization	11,105,256	35,383,874
	\$ 97,576,926	\$ 51,035,187
Aircraft in nontransport use, net of reserves (Note 2)	18,803,431	1,127,840
Deposits on aircraft, engines, etc.	10,939,848	22,401,821
	\$127,320,205	\$ 74,564,848
OTHER ASSETS AND DEFERRED CHARGES:		
Unamortized debt expenses	\$ 1,467,806	\$ 1,166,961
Long-term lease receivables, less unearned income of \$3,341,712 (Note 2)	8,955,673	—
Long-term deposits, etc.	2,994,032	1,218,026
Training costs applicable to aircraft, being amortized	5,152,366	3,003,475
	\$ 18,569,877	\$ 5,388,462
	\$187,971,641	\$163,788,059

LIABILITIES AND STOCKHOLDERS' EQUITY

	1968	1967
CURRENT LIABILITIES :		
Notes payable to banks	\$ 4,000,000	\$ —
Current installments of long-term debt	11,131,444	7,053,521
Accounts payable and accrued liabilities	12,081,510	9,923,161
Accrued Federal income taxes	—	549,000
Total current liabilities	\$ 27,212,954	\$ 17,525,682
LONG-TERM DEBT (See Summaries) (Note 3)	\$102,536,685	\$ 79,966,506
DEFERRED CREDITS :		
Deferred Federal income taxes (Note 5)	\$ 15,075,748	\$ 16,806,236
Overhaul liability—leased aircraft and engines	1,453,003	2,122,676
	\$ 16,528,751	\$ 18,928,912
STOCKHOLDERS' EQUITY (Note 3) :		
Common shares—\$1 par value—		
Authorized, 10,000,000 shares		
Outstanding, 4,540,638 shares (1968) and		
4,538,138 shares (1967)	\$ 4,540,638	\$ 4,538,138
Additional paid-in capital	17,184,091	17,136,441
Retained earnings (Note 4)	19,968,522	25,692,380
	\$ 41,693,251	\$ 47,366,959
	\$187,971,641	\$163,788,059

The accompanying notes and summaries of long-term debt are an integral part of these balance sheets.

Statements of Income

For the Years Ended December 31, 1968 and 1967

	1968	1967
OPERATING REVENUES:		
Scheduled freight operations	\$21,430,134	\$21,689,211
Military Airlift Command	43,255,211	53,413,028
Charters, service sales, etc.	12,013,327	11,929,255
	\$76,698,672	\$87,031,494
OPERATING EXPENSES:		
Flying operations	\$32,681,344	\$31,173,364
Ground operations	11,066,509	10,549,561
Maintenance	16,670,663	19,021,222
Sales, advertising and publicity	2,959,112	2,861,996
General and administrative	3,904,519	4,027,215
Depreciation and amortization (straight line)	6,722,385	7,118,426
	\$74,004,532	\$74,751,784
Operating income	\$ 2,694,140	\$12,279,710
OTHER (INCOME) EXPENSE:		
Interest expense	\$ 3,086,519	\$ 1,775,305
Miscellaneous (net)	(499,547)	(896,973)
	\$ 2,586,972	\$ 878,332
Net income before provision for Federal income taxes and extraordinary item	\$ 107,168	\$11,401,378
PROVISION FOR FEDERAL INCOME TAXES (Note 5)	13,000	3,815,000
NET INCOME BEFORE EXTRAORDINARY ITEM	\$ 94,168	\$ 7,586,378
EXTRAORDINARY ITEM:		
Provision for losses on fleet disposition, less applicable deferred income tax effect of \$5,069,446 in 1968 and \$294,000 in 1967 (Note 2)	(5,364,212)	(801,350)
NET INCOME (LOSS)	\$ (5,270,044)	\$ 6,785,028
PER SHARE OF COMMON STOCK, reflecting conversion of debentures in 1967:		
Net income before extraordinary item	\$.02	\$ 1.67
Extraordinary item	(1.18)	(.17)
NET INCOME (LOSS)	\$ (1.16)	\$ 1.50
<i>The accompanying notes are an integral part of these statements.</i>		

Statements of Stockholders' Equity
 For the Years Ended December 31, 1968 and 1967

	1968				1967
	\$1 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Total	Total
BALANCE, Beginning of Year	\$4,538,138	\$17,136,441	\$25,692,380	\$47,366,959	\$40,482,363
ADD—					
Net income (loss) for year	—	—	(5,270,044)	(5,270,044)	6,785,028
Conversion of debentures	—	—	—	—	500,000
Issuance of shares under stock options	2,500	47,650	—	50,150	53,382
	\$4,540,638	\$17,184,091	\$20,422,336	\$42,147,065	\$47,820,773
DEDUCT—					
Cash dividends on common stock— \$.10 a share	—	—	453,814	453,814	453,814
BALANCE, End of Year (Note 4)	\$4,540,638	\$17,184,091	\$19,968,522	\$41,693,251	\$47,366,959

The accompanying notes are an integral part of these statements.

Statements of Funds

For the Years Ended December 31, 1968 and 1967

	1968	1967
WORKING CAPITAL AT BEGINNING OF YEAR	\$ 19,679,067	\$19,570,874
SOURCE OF FUNDS:		
Net income before extraordinary item	\$ 94,168	\$ 7,586,378
Add (Deduct)—		
Depreciation and amortization provisions	6,718,090	7,752,526
Deferred tax provision (Note 5)	3,350,000	1,754,000
Gain on retirement of property and equipment	(116,503)	(170,244)
Extraordinary item (portion reducing funds)	(473,955)	—
Total funds from operations	\$ 9,571,800	\$16,922,660
Proceeds from issue of 1967 Equipment Trust Certificates	51,000,000	—
Proceeds from issue of 1968 Equipment Trust Certificates	19,000,000	—
Proceeds from Equipment Purchase Notes	13,379,646	—
Proceeds from common stock issued upon exercise of restricted stock options	50,150	53,382
Proceeds from retirement of property and equipment	1,235,839	323,339
Deposits on equipment refunded or refundable in one year	2,974,416	—
All other (net)	314,830	610,587
	\$ 97,526,681	\$17,909,968
APPLICATION OF FUNDS:		
Payment on long-term debt	\$ 7,985,576	\$ 7,737,212
Increase in current portion of long-term debt	4,077,923	118,984
Deferred debt expense	341,889	1,174,298
Deferred training costs applicable to aircraft	4,812,815	121,395
Cash deposits on equipment	166,228	5,541,967
Purchase of property and equipment, net of cash deposits applied	84,498,898	2,654,105
Cash dividends on common shares	453,814	453,814
	\$102,337,143	\$17,801,775
WORKING CAPITAL AT END OF YEAR	\$ 14,868,605	\$19,679,067

The accompanying notes are an integral part of these statements.

Summaries of Long-Term Debt

December 31, 1968 and 1967

	1968	1967
1959 Equipment Trust Certificates—		
Series A—5½%, due 1969-1970	\$ 3,600,711	\$ 8,589,257
Series B—5½%, due 1969	—	791,864
1964 Equipment Trust Certificates—		
Series A—5½%, due 1969-1970	2,568,633	2,921,098
5½% Promissory Note, due 1969-1970 (Note 3)	986,797	1,106,685
1965 Equipment Trust Certificates (variable interest rate, currently 8%)—		
Series A—due 1969-1971	3,875,000	5,250,000
Series B—due 1971-1974	6,340,000	6,340,000
1967 Equipment Trust Certificates—		
Series A—6.6%, due 1969-1980	51,000,000	46,630,000
6¾% Subordinated Equipment Purchase Notes, due 1974-1979	6,611,658	—
1968 Equipment Trust Certificates—		
Series A—6%, due 1969-1975	8,000,000	—
Series B—7%, due 1975-1979	8,000,000	—
Series C—6¾%, due 1979-1981	3,000,000	—
7% Promissory Note, due 1969-1988 (Note 3)	3,931,859	4,000,000
Aircraft Purchase Notes, at prime interest rate plus ½ per cent, due 1970	6,478,316	—
Equipment Purchase Notes, including accrued interest at prime rate plus ½ per cent, due upon delivery of equipment	9,952,830	12,068,798
	\$114,345,804	\$87,697,702
Less: Cost of \$690,000 principal amount of 1967 Equipment Trust Certificates held in Treasury	677,675	677,675
	\$113,668,129	\$87,020,027
Less: Current maturities	11,131,444	7,053,521
	\$102,536,685	\$79,966,506

The accompanying notes are an integral part of these summaries.

(1) LEASE AND PURCHASE COMMITMENTS —

At December 31, 1968, the Company had long-term leases on real property, aircraft, engines, and equipment for which annual rentals will be approximately \$3,921,000 in 1969, and total rentals will aggregate approximately \$16,300,000 for the minimum lease periods. The minimum lease periods range from one year on aircraft to 30 years on real property. There are renewal and purchase options on the aircraft and engines.

The Company has entered into purchase agreements to acquire nine additional DC8-63F aircraft, engines, etc., with deliveries scheduled in 1969 for an aggregate cost of approximately \$99,000,000, net of applicable deposits. Of this cost, approximately \$19,000,000 will be paid from the balance of the proceeds of the 1968 Equipment Trust Certificates issuable in 1969. It is anticipated that seven of the aircraft will be obtained under long-term leases.

(2) FLEET DISPOSITION —

Aircraft in nontransport use includes aircraft being retired from the operating fleet for which reserves have been provided to reduce them to estimated salvage value. In addition, training and preoperating costs applicable to these aircraft types have been written off. Two of the aircraft were under long-term lease at December 31, 1968. Another aircraft, previously held under long-term lease, was acquired for resale under a contract calling for delivery in 1969.

(3) CAPITAL STOCK AND LONG-TERM DEBT —

At December 31, 1968, there were 241,100 shares of common stock reserved for issuance under the Qualified Stock Option Plan, of which options to officers and key employees for purchase of 212,000 shares of common stock were granted at prices ranging from \$20.06 to \$39.00 per share (exercisable in 1969-1973). Subsequent to December 31, 1968, the Company issued stock purchase warrants for 25,000 shares of common stock, exercisable from 1969 to 1979, initially at \$28.75 per share increasing to \$31.33 per share in 1975.

The 5½ per cent Promissory Note is secured by

the Company's equity of redemption in certain aircraft, and the 7 per cent Promissory Note is secured by general office and maintenance facilities and assignment of ground lease.

Subsequent to December 31, 1968, the Company entered into loan agreements providing for the issuance of \$25 million principal amount of 5¾ per cent subordinated notes, due 1979-1989. The notes are convertible into common stock at \$32.50 per share through 1989. The net proceeds will be added to the Company's working capital.

(4) RESTRICTIONS UNDER DEBT AGREEMENTS —

The equipment trust agreements and other debt agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowing, capital expenditures, etc. Under the most restrictive provisions, cash dividends are limited to \$500,000 for 1969.

The loan agreements related to the 5¾ per cent subordinated notes limit the payment of cash dividends for years subsequent to December 31, 1968 to an aggregate of \$1,000,000 plus net income.

(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. Such additional deductions in 1968 will result in a claim for refund for prior years' taxes paid in the amount of \$3,337,000, including the \$2,061,000 current provision in 1967. The provisions have been reduced by \$37,000 and \$1,734,000 investment tax credit in 1968 and 1967, respectively.

(6) PENSION PLANS —

The Company maintains pension plans for substantially all employees. The total pension plan expense for the year ended December 31, 1968 was \$1,096,921, of which \$206,069 was applicable to the unfunded liability for past service benefits which is being amortized over 20 years. Pension costs are funded as accrued. At December 31, 1968, the actuarially computed vested benefits exceeded pension funds by approximately \$1,297,700.

Arthur Andersen & Co.
Los Angeles, California

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, 1968 and 1967, and the related statements of income, stockholders' equity, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of The Flying Tiger Line Inc. as of December 31, 1968 and 1967, 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 during the periods.

Los Angeles, California
March 19, 1969

Arthur Andersen & Co.

BOARD OF DIRECTORS

Wayne M. Hoffman.....Chairman of the Board
Laurence C. Craigie.....Lockheed Aircraft Corporation, Burbank
J. Howard Edgerton.....Chairman of the Board of
California Federal Savings & Loan Assoc., Los Angeles
Myer Feldman.....Ginsburg & Feldman, Washington, D.C.
Charles Luckman.....Charles Luckman Associates, Los Angeles
Norman L. Meyers.....Meyers & Dryer, Washington, D.C.
Robert W. Prescott.....President
Houston Rehrig.....President, Rehrig-Pacific Co., Los Angeles
John C. Tyler.....Co-Chairman of the Board of
Farmers Insurance Group, Los Angeles

TRANSFER AGENTS

The Chase Manhattan Bank
1 Chase Manhattan Plaza,
New York, N.Y. 10015

Bank of America, Corporate Agency Division
111 West Seventh Street,
Los Angeles, California 90014

REGISTRARS

The Bank of New York
48 Wall Street, New York, N.Y. 10015

Union Bank
8th and Hill Streets,
Los Angeles, California 90054

AUDITORS

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

OFFICERS OF THE COMPANY

Wayne M. Hoffman.....Chairman of the Board
Robert W. Prescott.....President
E. A. Pinke.....Sr. Vice President—Operations
Anna Chennault.....Vice President Int'l Affairs
Donald Chickering.....Vice President—Marketing
William Gelfand.....Vice President—Contract Administration
Thomas F. Grojean.....Vice President—Finance
Joseph J. Healy.....Vice President—General Manager—Terminals
Howard M. Jones.....Vice President—Industrial Relations
L. S. Kimball.....Vice President—Public Relations
John M. McDonald.....Vice President—

Maintenance & Engineering
R. T. Smith.....Vice President—Far East
O. R. Burghardt.....Secretary-Treasurer
Dwight D. Christy, Jr.....Asst. Secretary-Treasurer
R. J. Valenta.....Asst. Treasurer
Myer Feldman.....Asst. Secretary
J. W. Rosenthal.....Asst. Secretary

GENERAL COUNSEL

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

EXECUTIVE OFFICES

7401 World Way West
International Airport
Los Angeles, California 90009

DOMESTIC SALES OFFICES, U. S. A.

Atlanta, Georgia
1001 Virginia Avenue
Hapeville, Georgia
766-2704

Binghamton, New York
Broome County Airport
729-1591

Boston, Massachusetts
Logan International Airport
567-6161

Buffalo, New York
81 Boisford Street
876-5055

Chicago, Illinois
O'Hare International Airport
686-7100

Cleveland, Ohio
Cleveland Hopkins Airport
267-3575

Detroit, Michigan
Metropolitan Airport
562-9700

Hartford, Connecticut
International Airport
Windsor Locks, Connecticut
522-3145

Los Angeles, California
International Airport
646-6161

Milwaukee, Wisconsin
5300 S. Howell
483-5000

Newark, New Jersey
Newark Airport
624-3700

New York, New York
60 East 42nd Street
697-8850

New York, New York
John F. Kennedy Int'l Airport
656-5285

Philadelphia, Pennsylvania
International Airport
726-7100

Portland, Oregon
International Airport
281-1158

San Francisco, California
International Airport
761-1100

Seattle, Washington
Seattle-Tacoma
International Airport
244-4747

INTERNATIONAL
SALES OFFICES

Hong Kong
International Airport
Kowloon
820211, Ext. 2711

London, England
10 Golden Square
Cerrard 3627

Taipei, Taiwan
Suite 2A
406 Tun-Hua South Road
770171-3

Tokyo, Japan
Sanno Grand Bldg.
Nagata-cho, Chiyoda-Ku
Tokyo, Japan
581-6841







FLYING TIGER LINE

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

THE FLYING TIGER LINE INC.

ANNUAL REPORT 1969

The New World of Flying Tigers





THE **FLYING TIGER LINE** INC.

7401 WORLD WAY WEST
LOS ANGELES INTERNATIONAL AIRPORT
LOS ANGELES, CALIFORNIA 90009
(213) 646-6161

April 1, 1970

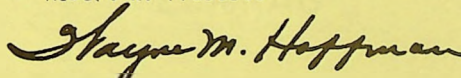
Dear Fellow Tiger:

It is a pleasure to provide you with this copy of our just-published 1969 Flying Tiger annual report which is now being mailed to our shareholders. As you'll read, the year just ended was a record year for us; our accomplishments have been the greatest in our 25-year history.

It has been a year of unusual challenge to Tigers. The opening of our new route across the Pacific, the phasing in of our new fleet of aircraft, and the development of new market areas -- these challenges could not have been met without the individual and collective skill, dedication and enthusiasm of Tiger employees.

We hope next year will be even more impressive as we consolidate our gains and get to know our New World a little better.


Robert W. Prescott


Wayne M. Hoffman

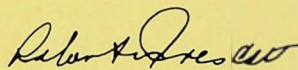
Letter to the Stockholders

1969 was a year of success and significance for The Flying Tiger Line. In a sense it marked a New World for the company, the culmination of a decade of intense planning and organizing for the opportunities of the seventies. That such broad and complex preparations were completed at the time that record revenues were also set is a tribute to the skill and dedication of the entire Tiger team. Profit—a direct result of customer satisfaction and operational efficiency—showed a sharp improvement during the year, rising to \$.95 a share from a restated 1968 loss of \$1.47.

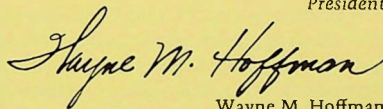
In 1969, the President of the United States awarded Flying Tigers a certificate to fly cargo across the Pacific to the Orient as a regularly scheduled carrier, and negotiations were completed with many of the governments in the Far East for operating rights within these nations. Resultant operations represented the greatest step-up of activities in the airline's history. What formerly had been a route system of 3,906 miles spanning one nation, mushroomed to a 17,537-mile network, covering more than half the globe and linking nine prosperous nations and territories in a vast new air cargo chain where none had existed before. By late 1969, shortly after trans-Pacific operations began, monthly traffic gains leaped as much as 170 per cent over comparable months in the previous year.

At the same time, and as part of the same process of profitable growth, the airline retired its old turbo-prop CL-44s, and phased in the balance of its fleet of DC-8 Super 63F cargo jets. So rapid and successful was this transition that by the fourth quarter we were the only major airline flying a single type of aircraft. The range, speed, economy and carrying capacity of this \$200 million superfreighter fleet has convincingly proved its high profitability, one which should last and improve—through the next decade.

To become the modern, far-flying airline it now is, the Tigers rely on sound management techniques and skilled people at every level of every activity. The leap into the New World of the Flying Tigers had to be taken in one step; it could not have been done in stages. That step was taken in 1969 by the outstanding men and women of The Flying Tiger Line.



Robert W. Prescott
President



Wayne M. Hoffman
Chairman of the Board





lents are sufficient to amortize debt for the next 2½ years. The current portion of our long term debt also reflects \$1,844,000 of debt on the B-707 aircraft which are on full payout leases with two foreign airlines and include purchase options. The debt is secured by assignment of these long term leases to the lender. During 1969, the company entered into loan agreements providing for the issuance of \$25 million principal amount of 5¾% subordinated notes, due 1979-1989. The notes are convertible into common stock at \$32.50 per share through 1989. The net proceeds have been added to the company's working capital.

Due to accelerated depreciation for tax purposes and other tax deductions, the company was not required to pay Federal income taxes on its profits in 1969. However, a provision was made for taxes which may be payable in the future. The Tax Reform Act of 1969 allows only 20% of the investment tax credit carry-forward to be applied in any one year up to a maximum of 50% of the taxes payable. We have approximately \$2 million per year to be applied against taxes on future earnings to a maximum of approximately \$10 million.

On October 2, 1969 a proposal for the formation of a holding company to be called The Flying Tiger Corporation (Corporation) was

submitted to and approved by Flying Tiger stockholders. Under the terms of the Plan of Reorganization and Agreement of Merger dated August 1, 1969, Flying Tiger will merge into FTL Air Freight Corporation, which is a wholly-owned subsidiary of Corporation. Corporation was organized by and is a wholly-owned subsidiary of Flying Tiger. Upon consummation of the merger, the corporate existence of Flying Tiger will cease and the business of Flying Tiger will thereafter be conducted by the surviving air carrier under the name of The Flying Tiger Line Inc. Under this plan, on the effective date of the reorganization, your present stock certificates for Flying Tiger shares will automatically represent Corporation shares. The effective date will be the last day of the month in which the Plan of Reorganization shall be filed with the Secretary of State of Delaware.

As indicated previously, we have substantial tax assets in the form of excess tax depreciation and investment tax credit carry-forward. It is hoped that diversification will enhance our opportunity to use these sizeable tax assets and to stabilize and increase earnings.

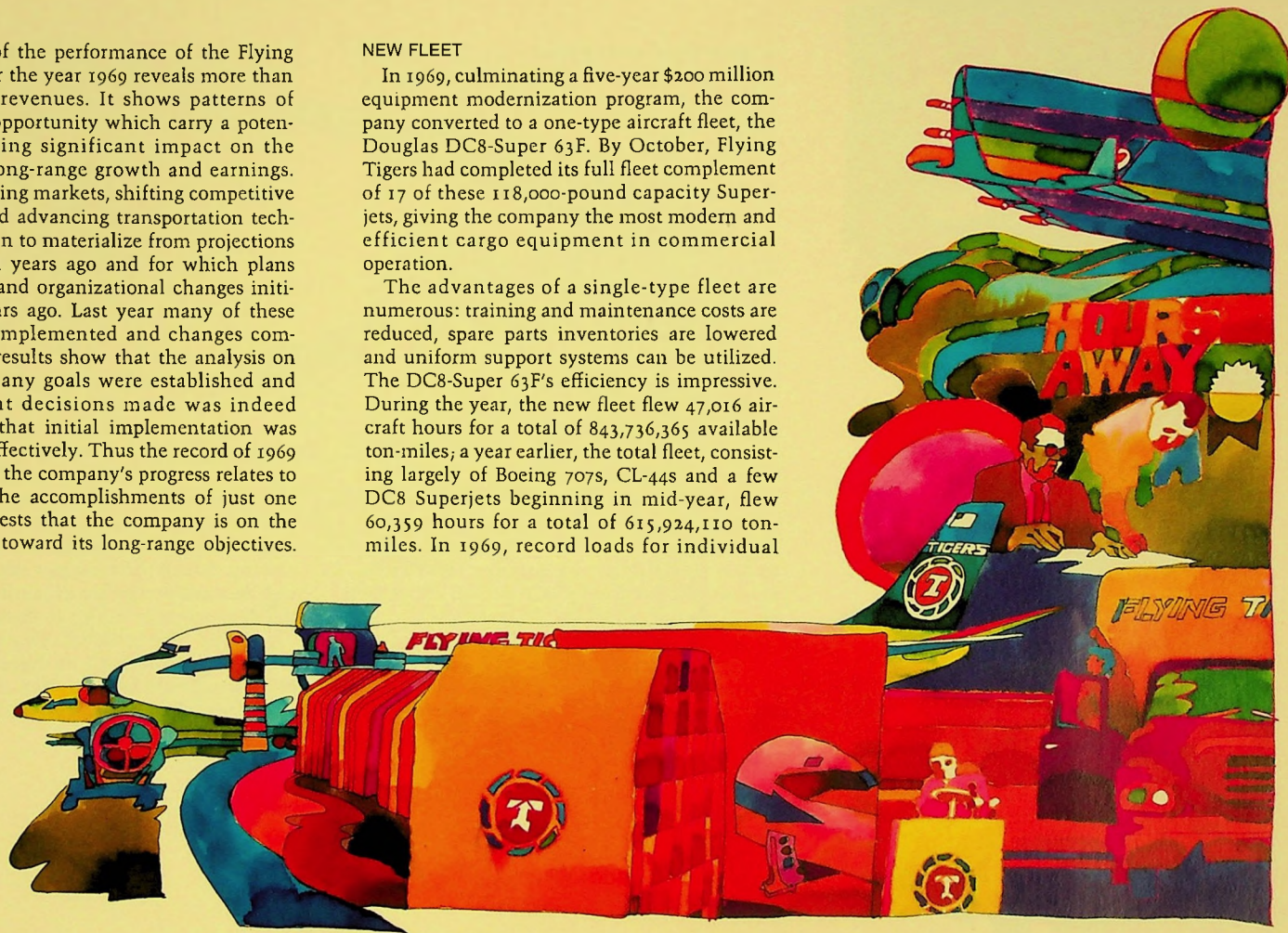
We have a favorable tax ruling indicating that the proposed plan will be tax free, and final approval of the CAB is awaited.

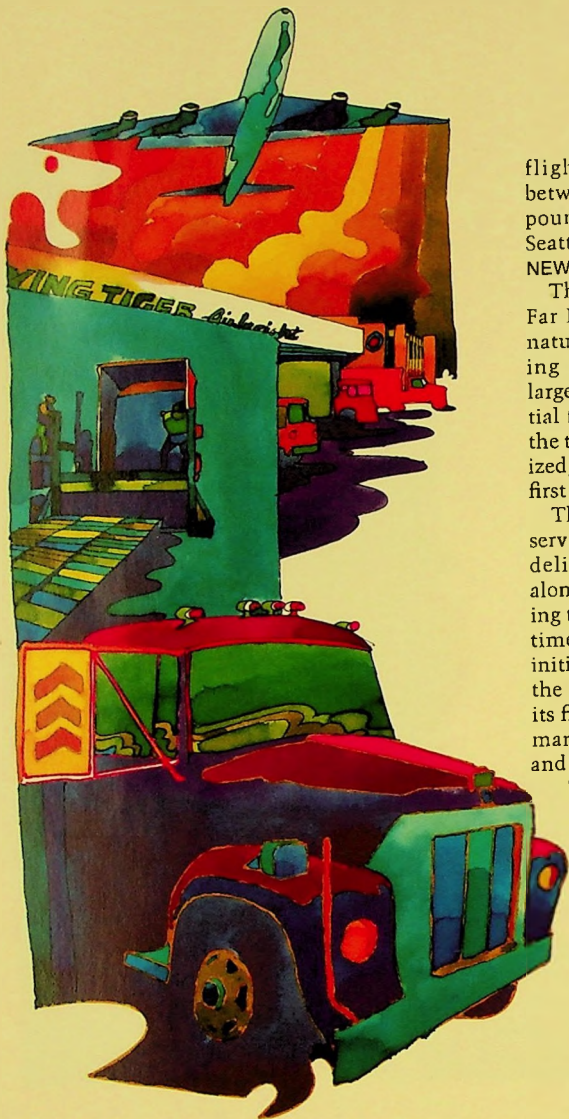
A review of the performance of the Flying Tiger Line for the year 1969 reveals more than record high revenues. It shows patterns of change and opportunity which carry a potential for making significant impact on the company's long-range growth and earnings. Newly emerging markets, shifting competitive situations and advancing transportation technologies began to materialize from projections made several years ago and for which plans were drawn and organizational changes initiated two years ago. Last year many of these plans were implemented and changes completed. The results show that the analysis on which company goals were established and management decisions made was indeed sound, and that initial implementation was carried out effectively. Thus the record of 1969 suggests that the company's progress relates to more than the accomplishments of just one year; it suggests that the company is on the right course toward its long-range objectives.

NEW FLEET

In 1969, culminating a five-year \$200 million equipment modernization program, the company converted to a one-type aircraft fleet, the Douglas DC8-Super 63F. By October, Flying Tigers had completed its full fleet complement of 17 of these 118,000-pound capacity Superjets, giving the company the most modern and efficient cargo equipment in commercial operation.

The advantages of a single-type fleet are numerous: training and maintenance costs are reduced, spare parts inventories are lowered and uniform support systems can be utilized. The DC8-Super 63F's efficiency is impressive. During the year, the new fleet flew 47,016 aircraft hours for a total of 843,736,365 available ton-miles; a year earlier, the total fleet, consisting largely of Boeing 707s, CL-44s and a few DC8 Superjets beginning in mid-year, flew 60,359 hours for a total of 615,924,110 ton-miles. In 1969, record loads for individual





flights were established: 117,111 pounds between Seattle and San Francisco, and 99,124 pounds on the international route between Seattle and Saigon.

NEW ROUTE

The expansion of routes to and within the Far East in 1969 dramatically enhanced the nature and scope of Tigers' business, reaffirming the company's position as the world's largest all-cargo carrier. The synergistic potential for using the domestic route as a feeder to the trans-Pacific flow of goods was quickly realized, increasing revenues dramatically in the first few months of operations.

The company established an international service standard of no longer than second-day delivery to any consignee at points served along its 17,537 miles of route structure. Selling to this standard, which was met 95% of the time, Tiger sales increased rapidly. In the initial four months of operation on this route, the company was well on its way to realizing its first year objective of capturing 20% of this market, estimated to be \$200 million annually and growing at an extremely rapid rate.

The Tigers had moved quickly to capitalize on the need for airlift to handle heavy mail loads even before the company was prepared to fly its full Far East

route. And in August 1969 it began mail flights which, in 4½ months, produced \$9.29 million in revenue from the 16½ million pounds carried. Total trans-Pacific revenue, during these months in 1969, amounted to \$13.1 million. Additionally, the assignment of aircraft to international operations has enabled the company to compete more effectively in the profitable commercial charter market to the U.S. This resulted in a 50% gain in charter revenue over prior years when charter capability in the Pacific was limited to Military Airlift Command (MAC) backhaul flights.

MILITARY REVENUE

Trans-Pacific military revenue of \$49.4 million during 1969 was the second highest in the company's history and 14% higher than 1968. This was due in part to the greater carrying capacity of the DC8-Super 63F over the CL-44 turboprop which preceded it in service. Of the total military revenue, nearly 51%, \$25.2 million, was passenger traffic to Vietnam. The closing months of 1969 saw early results of U.S. de-escalation policy in Southeast Asia and military revenue began to decrease for the Tigers and other carriers. This trend should continue in 1970, but it is expected that this reduction should be more than offset by gains in international common carriage.



Consolidated Statements of Income (expressed in thousands)

For the Years Ended December 31, 1969 and 1968

	1969	1968 (Note 2)
OPERATING REVENUES:		
Scheduled cargo operations—		
Domestic	\$22,467	\$21,430
International	13,102	—
Military Airlift Command	49,386	43,255
Charters, service sales, etc.	11,938	12,014
	<u>\$96,893</u>	<u>\$76,699</u>
OPERATING EXPENSES:		
Flying operations	\$35,546	\$32,681
Maintenance	15,377	16,671
Ground operations	14,602	11,067
Sales, advertising and publicity	3,106	2,959
General and administrative	4,742	3,905
Depreciation and amortization (straight-line)	10,715	11,487
	<u>\$84,088</u>	<u>\$78,770</u>
Operating income (loss)	\$12,805	\$ (2,071)
OTHER (INCOME) EXPENSE:		
Interest expense	\$ 8,676	\$ 3,087
Miscellaneous (net)	(1,783)	(530)
	<u>\$ 6,893</u>	<u>\$ 2,557</u>
Income (loss) before Federal income tax provision (credit), and extraordinary item	\$ 5,912	\$ (4,628)
Federal Income Tax Provision (Credit) (Note 8)	1,601	(2,226)
Income (Loss) Before Extraordinary Item	\$ 4,311	\$ (2,402)
Extraordinary Item—		
Provision for losses on fleet disposition, less applicable deferred income tax credit of \$4,078	—	(4,249)
NET INCOME (LOSS)	<u>\$ 4,311</u>	<u>\$ (6,651)</u>
PER SHARE OF COMMON STOCK (Note 7):		
Income (loss) before extraordinary item	\$.95	\$ (.53)
Extraordinary item	—	(.94)
NET INCOME (LOSS)	<u>\$.95</u>	<u>\$ (1.47)</u>

The accompanying notes are an integral part of these statements.

The Flying Tiger Line Inc. and Subsidiaries

Consolidated Statements of Source and Application of Funds (expressed in thousands)

For the Years Ended December 31, 1969 and 1968

	1969	1968 (Note 2)
WORKING CAPITAL AT BEGINNING OF YEAR		
SOURCE OF FUNDS:	\$14,702	\$19,907
Operations—		
Net income (loss)	\$ 4,311	\$ (6,651)
Add (deduct)—		
Depreciation and amortization provisions	11,312	6,345
Deferred tax provision (credit) (Note 8)	1,601	(2,967)
Gain on retirement of property and equipment	(514)	(116)
Extraordinary item (portion not reducing funds)	—	7,686
	\$16,710	\$ 4,297
Financing—		
Proceeds from issue of 5¾% convertible subordinated notes	\$25,000	\$ —
Proceeds from issue of 1968 Equipment Trust Certificates	19,000	19,000
Proceeds from issue of 1967 Equipment Trust Certificates	—	51,000
Proceeds from Equipment Purchase Notes	—	13,380
Proceeds from common stock issued upon exercise of stock options	80	50
Deferred debt expense	(208)	(342)
	\$43,872	\$83,088
Other—		
Collection on long-term receivables	\$ 1,222	\$ —
Proceeds from retirement of property and equipment	5,015	1,240
All other—net	—	380
	\$ 6,237	\$ 1,620
Funds provided	\$66,819	\$89,005
APPLICATION OF FUNDS:		
Long-term debt—		
Payments on long-term debt	\$13,126	\$ 7,985
Increase (decrease) in current portion of long-term debt	(1,089)	4,078
	\$12,037	\$12,063
Equipment acquisition—		
Purchase and lease of property and equipment, net of cash deposits applied	\$31,052	\$81,245
Deferred interest on leased aircraft	426	—
Deposits on equipment	—	448
	\$31,478	\$81,693
Other—		
Reclassification of prepaid engine overhaul costs (Note 2)	\$ 5,632	\$ —
Cash dividends on common stock	454	454
All other—net	135	—
	\$ 6,221	\$ 454
Funds applied	\$49,736	\$94,210
WORKING CAPITAL AT END OF YEAR	\$31,785	\$14,702

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets (expressed in thousands)

December 31, 1969 and 1968

	1969	1968 (Note 2)
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,490	\$ 2,587
Marketable securities, at cost approximating market, and short-term commercial paper	19,730	—
Receivables, less reserves—		
Cargo customers	6,718	3,975
Charters, service sales and other	15,220	10,355
Federal income tax refund	—	3,337
Materials and supplies, at average cost	4,794	4,745
Equipment under sales contract	—	6,725
Prepaid insurance, rents, etc.	3,526	2,702
Prepaid engine overhaul cost	—	7,335
Total current assets	\$ 53,478	\$ 41,761
Aircraft, engines and other flight equipment	\$116,852	\$ 96,965
Other equipment	4,832	4,057
Buildings and leasehold improvements	8,098	7,660
	\$129,782	\$108,682
Less — Reserves for depreciation and amortization	15,946	11,105
	\$113,836	\$ 97,577
Aircraft in nontransport use, net of reserves (Note 3)	17,144	18,803
Deposits on aircraft, engines, etc.	—	10,940
	\$130,980	\$127,320
Unamortized debt expenses	\$ 1,526	\$ 1,468
Long-term lease receivables, less unearned income of \$2,076 in 1969 and \$3,342 in 1968	7,734	8,955
Long-term deposits, etc.	4,025	2,894
	\$ 13,285	\$ 13,317
	\$197,743	\$182,398

The Flying Tiger Line Inc. and Subsidiaries

LIABILITIES AND STOCKHOLDERS' EQUITY	1969	1968 (Note 2)
CURRENT LIABILITIES:		
Notes payable to bank	\$ —	\$ 4,000
Current installments of long-term debt	10,042	11,131
Accounts payable and accrued liabilities	11,651	11,928
Total current liabilities	\$ 21,693	\$ 27,059
LONG-TERM DEBT, less current installments (Notes 5 and 6):		
Equipment Trust Certificates, etc.	\$ 93,133	\$102,536
Convertible Subordinated Notes	25,000	—
	\$118,133	\$102,536
DEFERRED CREDITS:		
Deferred Federal income taxes (Note 8)	\$ 13,986	\$ 12,384
Overhaul liability—leased aircraft and engines	1,028	1,453
	\$ 15,014	\$ 13,837
COMMITMENTS (Note 4)		
STOCKHOLDERS' EQUITY (Note 7):		
Common shares—\$1 par value—		
Authorized 10,000,000 shares		
Outstanding 4,544,638 shares (1969) and 4,540,638 shares (1968)	\$ 4,545	\$ 4,541
Additional paid-in capital	17,260	17,184
Retained earnings (Note 6)	21,098	17,241
	\$ 42,903	\$ 38,966
	\$197,743	\$182,398

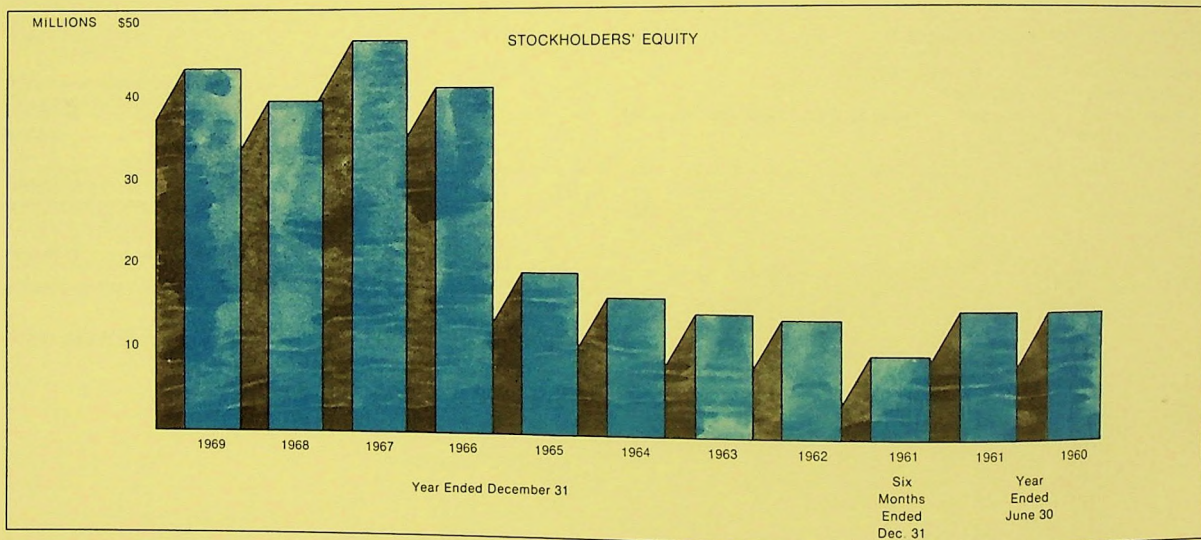
The accompanying notes are an integral part of these statements.

Consolidated Statements of Stockholders' Equity (expressed in thousands)
 For the Years Ended December 31, 1969 and 1968

	1969				1968 (Note 2)
	\$1 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Total	Total
BALANCE, Beginning of year, as restated (Note 2)	\$4,541	\$17,184	\$17,241	\$38,966	\$46,021
ADD —					
Net income (loss) for year	—	—	4,311	4,311	(6,651)
Issuance of shares under stock options	4	76	—	80	50
	\$4,545	\$17,260	\$21,552	\$43,357	\$39,420
DEDUCT —					
Cash dividends on common stock—\$.10 per share	—	—	454	454	454
BALANCE, End of year (Notes 2 and 6)	\$4,545	\$17,260	\$21,098	\$42,903	\$38,966

The accompanying notes are an integral part of these statements.

The Flying Tiger Line Inc. and Subsidiaries



Notes to Financial Statements

December 31, 1969

(1) CONSOLIDATION

The Financial Statements include the accounts of The Flying Tiger Line Inc. and its wholly-owned subsidiaries for the year 1969 and restated year 1968. All significant intercompany transactions have been eliminated in consolidation.

(2) ACCOUNTING CHANGES

The Financial Statements presented herein reflect a change in accounting treatment for initial training and preoperating costs relative to aircraft fleet acquisitions to charge off such costs when incurred. Previously, initial training and preoperating costs had been deferred and amortized over a five year period. Years prior to 1969 have been retroactively restated to reflect this change in accounting method. The net effect of this change was to reduce net income \$1,374,000 for 1969, \$1,205,000 for 1968, and \$1,345,000 for years prior to 1968. Initial training and preoperating costs included in depreciation and amortization for 1969 and 1968 were \$2,905,000 and \$5,139,000, respectively, after restatement.

Prepaid engine overhaul costs have been reclassified from current assets to the equipment category since the experience with the new equipment has indicated that the overhaul period should be extended over a period substantially greater than one year.

(3) AIRCRAFT IN NONTRANSPORT USE

Aircraft in nontransport use and related spares include Boeing 707 and CL-44 aircraft, which have been retired from the Company's operating fleet,

and are carried at estimated net realizable value.

The Boeing 707 aircraft and certain of the CL-44 aircraft are on leases with options to purchase. The remaining CL-44 aircraft are available for lease or sale.

(4) LEASE COMMITMENTS

At December 31, 1969, the Company had long-term leases on aircraft, engines, facilities and equipment, with minimum lease periods ranging from one year to 30 years. There are renewal and purchase options on the aircraft and engines.

The schedule below summarizes annual and aggregate rentals for the minimum lease periods:

	Annual Rental for 1970	Aggregate Rental	Lease Period (Years)
Aircraft and engines	\$8,472,000	\$128,924,000	15
Facilities and equipment	1,503,000	19,117,000	1 to 30
	\$9,975,000	\$148,041,000	

Leases with respect to three aircraft with annual rentals of \$2,981,000 and aggregate rentals of \$57,374,000 are subject to revision on or before September 1, 1970, depending upon long-term financing to be obtained by the lessor.

(5) LONG-TERM DEBT

The outstanding balance of Equipment Trust Certificates and other debt obligations at December 31, 1969, consisted of the following:

Equipment trust certificates—			
1959 and 1964	5½%, due 1970	\$	1,619,000
1965	½% over prime rate, maximum 8%, due 1970-1974		8,436,000
1967	6.6%, due 1970-1980		46,454,000
1968	6 to 7%, due 1970-1981		35,937,000
Subordinated equipment purchase notes—			
	6¾%, due 1974-1979		6,612,000
Other notes secured by facilities and equipment—			
	5½%-7%, due 1971-1988		4,117,000
			\$103,175,000
Less—Current portion			10,042,000
			\$ 93,133,000

The 5¾% convertible subordinated notes are due from 1979 to 1989 and are convertible into common stock at \$32.50 per share through 1989.

(6) RESTRICTIONS UNDER DEBT AGREEMENTS

The equipment trust agreements and other debt agreements include restrictive provisions as to cash dividends on common shares, working capital, borrowing, capital expenditures, etc. Under the most restrictive provisions, cash dividends were limited to \$500,000 for 1969.

The loan agreements related to the 5¾% convertible subordinated notes limit the payment of cash dividends for years subsequent to December 31, 1969, to an aggregate of \$1,000,000, plus net income.

(7) CAPITAL STOCK

At December 31, 1969, there were 237,100 shares of common stock reserved for issuance under the Qualified Stock Option Plan, of which options for purchase of 228,100 shares of common stock were outstanding, granted to officers and key employees at prices ranging from \$17.88 to \$39.00 per share (exercisable 1970-1974). At December 31, 1969, stock purchase warrants were outstanding for 25,000 shares of common stock, exercisable from 1970-1979, presently at \$28.75 per share, increasing to \$31.33 per share in 1975.

Also, at December 31, 1969, 769,231 common shares were reserved for the conversion of the 5¾% convertible subordinated notes at \$32.50 per share

through 1989.

The shares reserved above had no significant dilutive effect on the earnings per share which are computed on a weighted average method for the years ended December 31, 1969 and 1968.

(8) FEDERAL INCOME TAXES

Provisions for income taxes have been deferred through deduction of accelerated depreciation and other allowable deductions for tax purposes. The provision for 1969 has been reduced by approximately \$1,573,000 of investment tax credit. Under recently enacted legislation, the investment tax credit has been terminated with respect to future property additions. However, the Company has approximately \$10,000,000 of investment tax

credit carry-forward which may be utilized through 1976, of which \$5,144,000 has been applied as a reduction of deferred tax provisions. The maximum amount available in any one year is limited to approximately \$2,000,000.

(9) PENSION PLANS

The Company maintains pension plans for substantially all employees. The total pension plan expense for the year ended December 31, 1969, was \$1,480,000, of which \$79,000 was applicable to the unfunded liability for past service benefits which is being amortized over 20 years. Pension costs are funded as accrued. At December 31, 1969, the actuarially computed vested benefits exceeded pension funds by approximately \$1,290,000.

Arthur Andersen & Co.
Los Angeles, California

To the Stockholders,
The Flying Tiger Line Inc.:

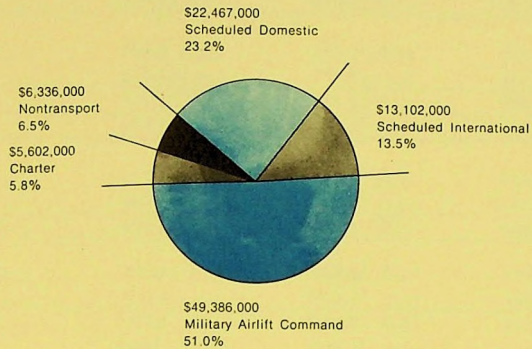
We have examined the consolidated balance sheets of THE FLYING TIGER LINE INC. (a Delaware corporation) and subsidiaries as of December 31, 1969 and 1968, and the related consolidated statements of income, stockholders' equity, and source and application of funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Flying Tiger Line Inc. and subsidiaries as of December 31, 1969 and 1968, and the results of their 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 during the periods after giving retroactive effect to the change in accounting for initial training and preoperating costs as described in Note 2.

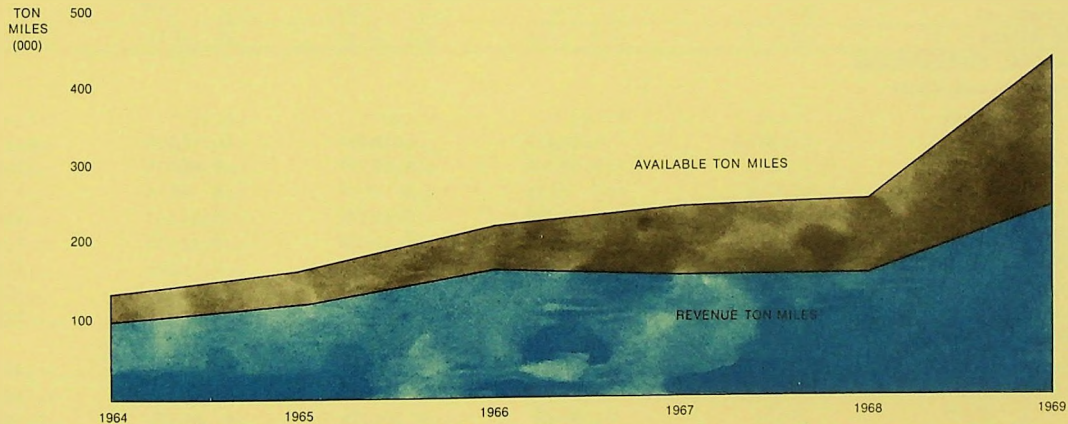
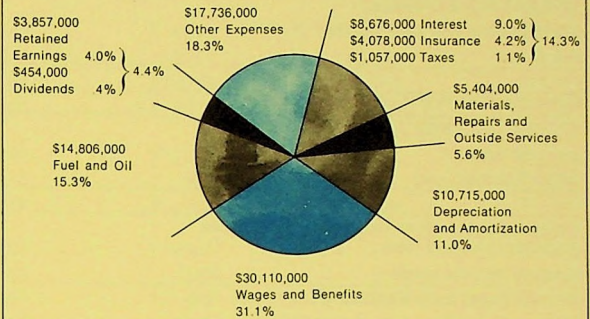
Los Angeles, California
February 27, 1970

Arthur Andersen & Co.

SOURCES OF REVENUES



DISTRIBUTION OF REVENUES



Comparative Consolidated Income Statements and Other Financial Information

(expressed in thousands) (Note 2)

	Year Ended			
	1969	1968	1967	1966
INCOME STATEMENTS				
OPERATING REVENUES:				
Scheduled cargo operations	\$ 35,569	\$ 21,430	\$ 21,689	\$23,483
Military Airlift Command	49,386	43,255	53,413	48,074
Charters, service sales, etc.	11,938	12,014	11,929	14,462
	\$ 96,893	\$ 76,699	\$ 87,031	\$86,019
OPERATING EXPENSES:				
Depreciation and amortization (Note 2)	\$ 10,715	\$ 11,487	\$ 6,698	\$ 7,517
All other	73,373	67,283	67,633	58,606
	\$ 84,088	\$ 78,770	\$ 74,331	\$66,123
Operating income (loss)	\$ 12,805	\$ (2,071)	\$ 12,700	\$19,896
OTHER (INCOME) AND EXPENSES:				
Interest expense	\$ 8,676	\$ 3,087	\$ 1,775	\$ 2,302
Miscellaneous (net)	(1,783)	(530)	(903)	(1,727)
	\$ 6,893	\$ 2,557	\$ 872	\$ 575
Income (loss) before Federal income taxes and extraordinary item	\$ 5,912	\$ (4,628)	\$ 11,828	\$19,321
Federal income taxes	1,601	(2,226)	3,958	7,439
Income (loss) before extraordinary item	\$ 4,311	\$ (2,402)	\$ 7,870	\$11,882
Extraordinary item, less income taxes	—	(4,249)	(801)	—
NET INCOME (LOSS)	\$ 4,311	\$ (6,651)	\$ 7,069	\$11,882
EARNINGS PER SHARE OF COMMON STOCK:				
Income (loss) before extraordinary item	\$.95	\$ (.53)	\$ 1.73	\$ 2.68
Extraordinary item	—	(.94)	(.18)	—
NET INCOME (LOSS)	\$.95	\$ (1.47)	\$ 1.55	\$ 2.68
OTHER FINANCIAL INFORMATION				
Shares outstanding at end of year:				
Preferred	—	—	—	—
Common*	4,544,638	4,540,638	4,538,138	4,439,364
Stockholders' equity	\$ 42,903	\$ 38,966	\$ 46,021	\$40,259
Book value per common share	\$ 9.44	\$ 8.58	\$ 10.14	\$ 9.07
Current assets	\$ 53,478	\$ 41,761	\$ 37,497	\$39,688
Current liabilities	\$ 21,693	\$ 27,059	\$ 17,590	\$19,892
Working capital (deficit)	\$ 31,785	\$ 14,702	\$ 19,907	\$19,796
Flight equipment at cost	\$116,461	\$ 96,965	\$ 89,501	\$88,995
Long-term debt	\$118,133	\$102,536	\$ 79,967	\$34,867
SCHEDULED CARGO STATISTICS				
Available ton miles (000)	448,501	263,223	246,415	226,700
Revenue ton miles (000)	252,983	166,041	163,250	169,811
Load factor	56.4%	63.1%	66.2%	74.9%
Revenue per ton mile	14.06¢	12.9¢	13.29¢	13.83¢
NUMBER OF AIRLINE EMPLOYEES	2,241	2,475	2,096	2,089

*Common shares adjusted for 2 for 1 stock split in 1967 and 5% stock dividends in 1965, 1963, and 1960.

December 31

Six Months
EndedYear Ended
June 30

1965	1964	1963	1962	December 31 1961	1961	1960
\$17,087	\$13,707	\$10,919	\$10,259	\$ 5,268	\$11,791	\$14,656
30,237	23,151	27,466	38,395	11,121	13,435	8,116
8,832	8,610	3,825	3,609	2,184	2,739	3,215
\$56,156	\$45,468	\$42,210	\$52,263	\$18,573	\$27,965	\$25,987
\$ 7,007	\$ 5,345	\$ 5,860	\$ 6,464	\$ 4,815	\$ 4,376	\$ 4,163
41,110	35,792	34,259	38,564	14,781	23,007	22,612
\$48,117	\$41,137	\$40,119	\$45,028	\$19,596	\$27,383	\$26,775
\$ 8,039	\$ 4,331	\$ 2,091	\$ 7,235	\$ (1,023)	\$ 582	\$ (788)
\$ 2,423	\$ 2,120	\$ 2,425	\$ 2,792	\$ 991	\$ 675	\$ 922
(345)	(355)	(234)	85	128	61	(144)
\$ 2,078	\$ 1,765	\$ 2,191	\$ 2,877	\$ 1,119	\$ 736	\$ 778
\$ 5,961	\$ 2,566	\$ (100)	\$ 4,358	\$ (2,142)	\$ (154)	\$ (1,566)
2,740	1,075	(52)	2,266	(538)	(72)	(394)
\$ 3,221	\$ 1,491	\$ (48)	\$ 2,092	\$ (1,604)	\$ (82)	\$ (1,172)
—	200	317	478	(3,627)	101	173
\$ 3,221	\$ 1,691	\$ 269	\$ 2,570	\$ (5,231)	\$ 19	\$ (999)
\$ 1.00	\$.46	\$ (.02)	\$.67	\$ (.51)	\$ (.03)	\$ (.38)
—	.06	.10	.15	(1.16)	.03	.06
\$ 1.00	\$.52	\$.08	\$.82	\$ (1.67)	\$ —	\$ (.32)
99,112	99,112	99,112	99,112	99,112	99,112	99,112
3,215,990	3,211,580	3,210,740	3,134,978	3,128,818	3,128,818	3,111,878
\$18,993	\$15,996	\$14,507	\$13,795	\$ 9,976	\$14,981	\$14,949
\$ 5.91	\$ 4.98	\$ 4.52	\$ 4.40	\$ 3.19	\$ 4.79	\$ 4.80
\$21,556	\$20,506	\$16,717	\$18,591	\$13,835	\$ 9,586	\$ 7,068
\$12,411	\$12,799	\$10,681	\$10,993	\$12,431	\$11,085	\$ 5,961
\$ 9,145	\$ 7,707	\$ 6,036	\$ 7,598	\$ 1,404	\$ (1,499)	\$ 1,107
\$92,247	\$68,837	\$70,825	\$71,354	\$57,082	\$40,612	\$29,578
\$48,154	\$29,283	\$36,018	\$42,785	\$43,380	\$31,927	\$15,271
172,570	135,642	117,354	103,245	46,371	97,373	112,313
127,611	99,489	77,832	74,197	34,246	69,667	85,314
73.9%	73.3%	66.3%	71.9%	73.9%	71.5%	76.0%
13.39%	13.78%	14.03%	13.83%	15.38%	16.92%	17.18%
1,666	1,359	1,234	1,430	1,175	1,076	967

CHIEF FINANCIAL OFFICER

Thomas F. Grojean
Vice President—Finance
7401 World Way West
International Airport
Los Angeles, California 90009

TRANSFER AGENTS

The Chase Manhattan Bank
1 Chase Manhattan Plaza, New York, N. Y. 10015
Bank of America, Corporate Agency Division
111 West Seventh Street, Los Angeles, California 90014

REGISTRARS

The Bank of New York
48 Wall Street, New York, N. Y. 10015
Union Bank
8th and Hill Streets, Los Angeles, California 90054

AUDITORS

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

CAPITAL STOCK

Listed on New York Stock Exchange
and Pacific Coast Stock Exchange

ANNUAL STOCKHOLDERS MEETING

Date: May 15, 1970
Time: 2:00 P.M.
Place: 7401 World Way West
International Airport
Los Angeles, California

DOMESTIC REVENUE

Domestic revenue in 1969 totaled \$22 million, up slightly over 1968. Tigers, along with other trunk carriers operating all-cargo equipment, lost money on domestic operations. The industry at large, with an investment of more than one billion dollars, lost more than \$23.5 million on domestic freight in 1969 reflecting the inequities of rate structures for this traffic. During 1968 and 1969, Tigers, along with others in the industry, have been seeking pricing adjustments to set rates more realistically. Some progress was made during 1969, and a further revision of general commodity rates is being sought in 1970. Through these and other developments, it is expected that Tigers' losses on domestic carriage will be markedly reduced next year. One key to accomplishing this lies in realizing the potential of the new international route. Experience in 1969 showed that approximately 65% of freight carried to the Far East originated east of the Mississippi, suggesting

that the domestic route by serving as a feeder to the international will generate longer haul and higher yield revenue.

NEW MARKETING AND SALES APPROACH

The new fleet of Tiger aircraft, coupled with the expansion of service to broader areas, suggested to Tiger management the need for a new approach to marketing analysis and sales of the company's services. Planning for this was begun in 1967 and by 1969 implementation in the form of a new marketing organization and new selling strategies were nearly completed. Basically, the new system centers around a Terminal Profit Center organization. Under this plan of decentralization, each general manager of the 14 domestic and 4 international terminals has been given broad authority and responsibility for the sales, service and profit in his area. Applying performance standards and control systems established by the terminals division headquarters at Los Angeles, each general manager operates his





business as a profit center. To successfully manage his profit center, the terminal manager must work closely in harmony with other terminal managers. He shares, on a 50-50 basis, credit for all inbound as well as outbound loads. Hence his profitability is tied directly to that of the linking terminal and both are interdependent on efficient handling of loads on both ends as well as general system-wide performance. His performance is measured against profit objectives and he is given a great amount of managerial discretion in developing the customer-oriented services that will help him increase his sales.

Most important, each terminal manager can draw on the resources of Tiger headquarters where highly-skilled marketing specialists, including distribution planning experts, and analysts knowledgeable in specialized industries, help him prepare customer-by-customer, commodity-by-commodity and industry-by-industry total shipping packages for customers and prospective customers in his area. Appointed to key positions on the marketing team are a Manager of Perishables Market Planning, a Director of Distribution Planning, a Director of International Market Planning, and a Manager of Electronics Industry Plan-

ning, among others. Studying the logistic patterns of production and distribution within a specific industry, they can tailor programs to the unique needs of that industry. For example, comprehensive market planning has resulted in an appreciable increase in Tigers' share of the perishables commodities air cargo business. It is an industry which represents 8% of the total airfreight market, and Tigers carry 20% of the perishables flown along its Transcontinental Domestic Route 100.

It is too early to fully evaluate the results of the new marketing approach and the Terminal Profit Center organization. But the year's experience shows that a strong team of field managers has been built and that marketing analysis and research will produce new sources of revenue for the company through increased customer use of air transportation.

FACILITIES EXPANSION

During 1969, schedules were met for the completion of a major portion of the company's extensive facilities expansion program. This was in response to the pressing need for handling the larger aircraft and the increased traffic resulting from the new international operations. Terminal space at Los Angeles and San Francisco was doubled. A \$2.25 million

facility was constructed at Detroit. In New York, a \$1.2 million freight distribution and processing center was designed and built off-airport to alleviate Tigers' problem of operating in JFK's congested facilities. Space was trebled in Boston and substantially increased at Newark. In the Far East, new or improved facilities were acquired for the start-up of scheduled international operations.

NEW TECHNIQUES

Flying Tigers, the airline which pioneered the airfreight industry, continued to introduce cost-saving innovations in all aspects of its operations in 1969. One of its most significant contributions has been the development of more efficient and more economical systems of handling freight on the ground. Pre-palletization of freight and automated loading systems permit the 18-pallet, 118,000-pound capacity DC8-Super 63F cargo-jets to be loaded or off-loaded in less than 30 minutes. Thus ground service to the Tiger customer is greatly im-

proved and in-flight schedules are maximized.

A substantial tariff discount is offered shippers who containerize their own shipments to make possible direct loading aboard the aircraft, completely by-passing the terminal. As a result, more than 35% of Tiger freight is containerized by the customer, twice the percentage of other carriers.

Advanced palleting techniques are generating new and specialized business. One example is the Tiger-developed electronic pallet which reduces packaging costs for manufacturers and has resulted in a significant increase in the volume of computer traffic handled by the Tigers last year. Studies were carried out in 1969 on temperature-controlled containers for shipment of fresh fruit and meat from the U.S. to Japan. These containers would then be used to return to the U.S. such Japanese products as seafood, locally grown fruits and vegetables and electronic goods requiring special environmental handling.





ADVANCED TECHNOLOGIES

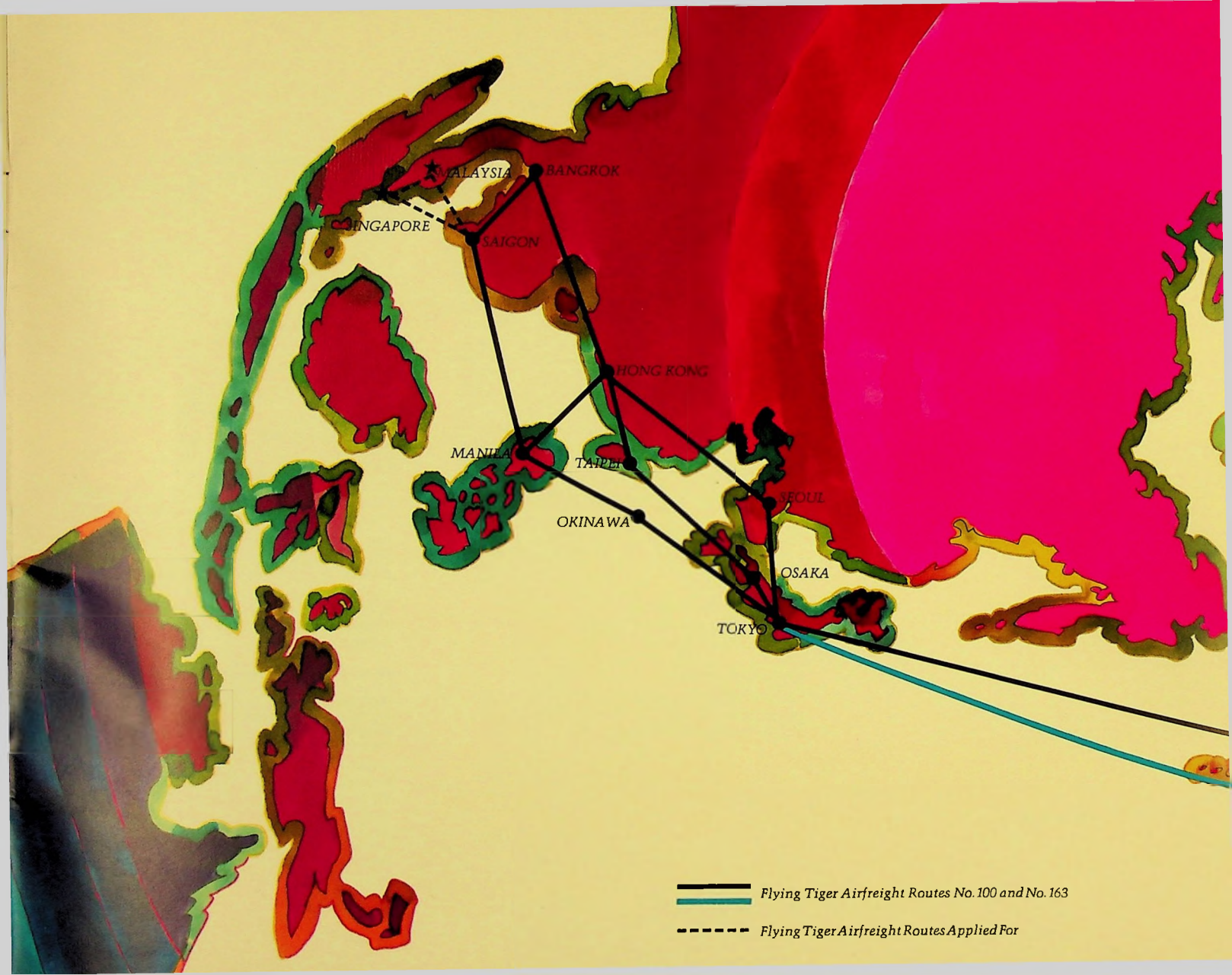
To assure continued leadership in the air cargo industry, Tiger management has maintained a high level of commitment to advanced technology in all aspects of operations. Its data processing equipment features third-generation solid state computers, and 1969 saw the first full year's use of the company's IBM 1130 computer system for flight operations. This user-oriented system features crew control programming for the storage of real-time records and the retrieval of vital crew data. Information from Tigers' systemwide teletype network is produced on tape for direct input to the computer, providing quick and accurate computations of complex crew pay schedules while assuring that flight scheduling conforms with FAA regulations and union work rules. In 1970 this system will provide dispatchers with vital information for flight planning and selection of optimum routing choices based on weather conditions, fuel loads, payloads and other criteria.

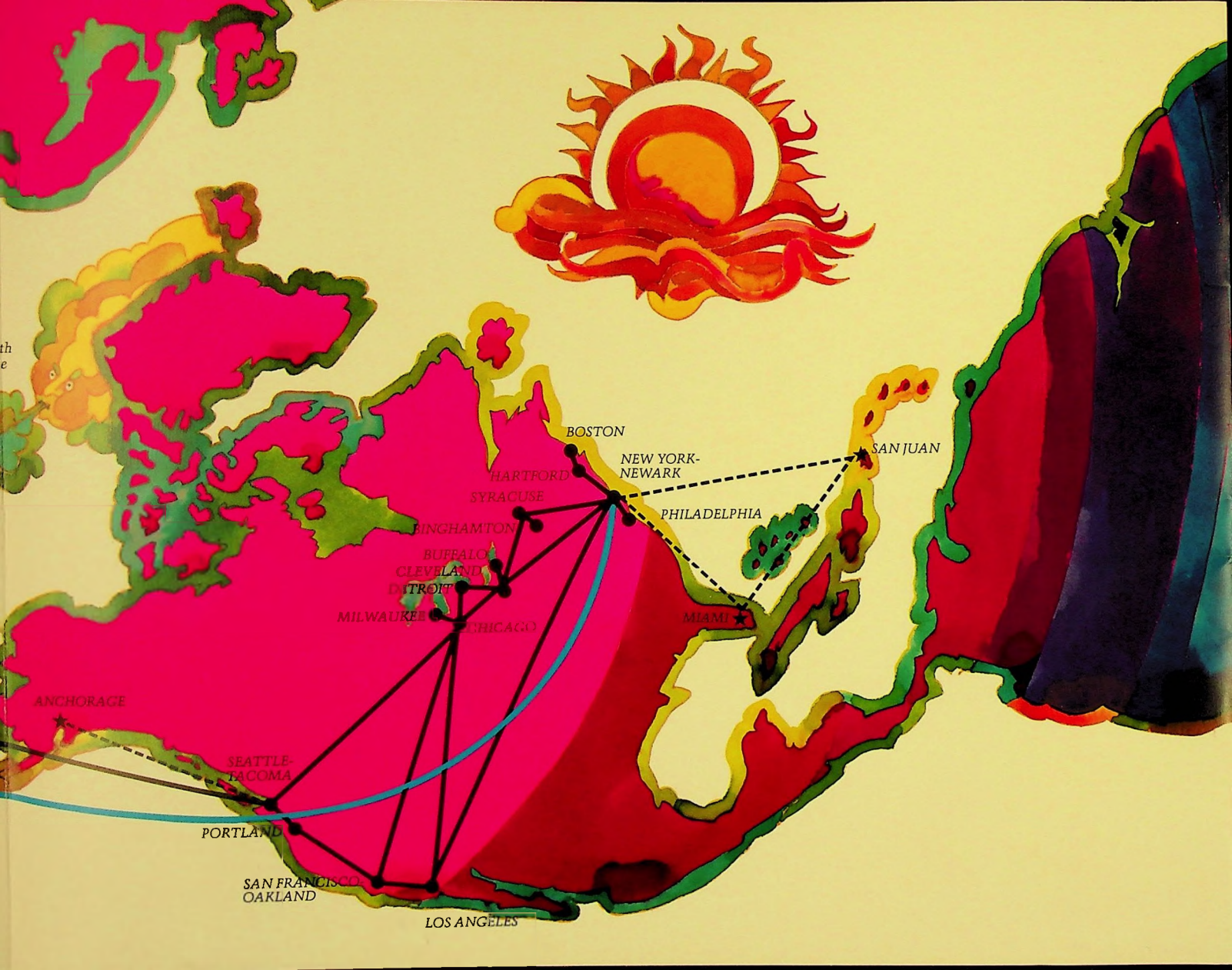
FLIGHT TRAINING CENTER

The \$1.5 million DC8-63F flight simulator which the company acquired in 1968 saved the Tigers approximately \$2.5 million during 1969. This would have been the cost of flight time for the equivalent training of crews in actual DC8-Super 63F aircraft. The only one of its kind certified by the Federal Aviation Administration, the Tiger flight simulator had a remarkable availability record of 99.32 percent out of a total of 5,000 hours of operation during the year.

YEAR OF CHANGE

To summarize, 1969 has been a big year for the Flying Tiger Line. It might have been a time of awkward and costly transition in adjusting to profound change; instead, it was a year of accomplishment and fruition. The benefits of change—growth and profit—were realized. With its new fleet, its new routes, new business approach and its continuing zeal, the Tigers anticipate another good year in 1970 and a decade even better than the one ended.





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TACOMA

PORTLAND

SAN FRANCISCO
OAKLAND

LOS ANGELES

Routes—Present and Future

Flying Tigers' International Airfreight Route No. 163, over which scheduled service began September 14, 1969, launched the company into one of the world's fastest growing areas of commerce. This highly prized route award authorized Tigers to provide cargo-only service between the major markets of the United States and the Orient. It added 13,585 miles to Flying Tigers' 3,952-mile U.S. Airfreight Route No. 100, for a total route system of 17,537 miles extending from Boston to Bangkok.

In the U.S., the company provides daily scheduled airfreight service between these points: Los Angeles, San Francisco, Portland, Seattle, Milwaukee, Chicago, Detroit, Cleveland, Buffalo, Syracuse, Binghamton, Hartford, Boston, New York and Philadelphia.

The company's international network, operating over the Great Circle Route, connects the domestic system with the following points throughout Asia: Tokyo, Japan; Seoul, Korea; Hong Kong; Taipei, Taiwan; Naha, Okinawa; and Saigon, Cam Rahn Bay and Da Nang in South Vietnam.

Employing its new fleet of DC8-Super 63F cargojets, the company operated a flight frequency at the close of 1969 of 23 times weekly between the U.S. and the Far East, providing

more than 2.5 million pounds of lift capacity.

Flying Tigers plans to begin service soon to Osaka, Japan and, later on, to Manila in the Philippines and Bangkok, Thailand. It also has applied for permission to add Singapore, Malaysia and Anchorage, Alaska to International Route No. 163, and to add Miami and Puerto Rico to Domestic Route No. 100.

Shippers, however, are not limited to the above points when they call upon Tigers for transportation services. In 1969 the company expanded its Skyroad, Sea-Air and interline shipping programs to provide service to and from virtually anywhere in the world. In the U.S., Tigers' Skyroad provides combination air-truck service, with through rates and single carrier responsibility, to areas distant from airport terminal cities. Sea-Air, under a special tariff approved by the U.S. Civil Aeronautics Board, combines low-cost ocean with high-speed air service, giving international shippers an alternate means of transport between the Far East and the United States, Europe and Africa. And Flying Tigers' interline agreements with some 90 airlines throughout the world provide shippers with a cooperative network of air routes for the rapid shipment of air cargo to all parts of the globe.



BOARD OF DIRECTORS

Wayne M. Hoffman Chairman of the Board
 Laurence C. Craigie Lockheed Aircraft Corporation, Burbank
 J. Howard Edgerton ... California Federal Savings & Loan Association, Los Angeles
 Myer Feldman Ginsburg, Feldman & Bress, Washington, D. C.
 Charles Luckman Charles Luckman Associates, Los Angeles
 William E. McKenna Management Consultant, Beverly Hills
 Norman L. Meyers Meyers & Dryer, Washington, D. C.
 Robert W. Prescott President
 Houston Rehrig Rehrig-Pacific Company, Los Angeles

TRANSFER AGENTS

The Chase Manhattan Bank
 1 Chase Manhattan Plaza
 New York, N. Y. 10015
 Bank of America, Corporate Agency Division
 111 West Seventh Street
 Los Angeles, California 90014

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 48 Wall Street
 New York, N. Y. 10015
 Union Bank
 8th and Hill Streets
 Los Angeles, California 90054

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

OFFICERS OF THE COMPANY

Wayne M. Hoffman Chairman of the Board
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 E. A. Pinke Sr. Vice President, Operations
 Anna Chennault Vice President International Affairs
 Donald Chickering Vice President, Marketing
 William Gelfand Vice President Contract Administration
 Thomas F. Grojean Vice President, Finance
 Joseph J. Healy Vice President, General Manager, Terminals
 Howard M. Jones Vice President Industrial Relations
 L. S. Kimball Vice President, Public Relations
 John F. McDonald Vice President, Maintenance & Engineering
 George A. Zettler Vice President, Far East
 David J. Barish Secretary-Treasurer
 A. Larry Lindsey Assistant Secretary-Treasurer
 R. J. Valenta Controller
 Myer Feldman Assistant Secretary
 J. W. Rosenthal Assistant Secretary

GENERAL COUNSEL

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

EXECUTIVE OFFICES

7401 World Way West
 International Airport
 Los Angeles, California 90009

DOMESTIC SERVICE OFFICES, U.S.A.

Atlanta, Georgia 1001 Virginia Ave. Hapeville 766-2704	Los Angeles, California International Airport 776-6960
Binghamton, New York Broome County Airport 729-1591	Milwaukee, Wisconsin Mitchell Field 483-5000
Boston, Massachusetts Logan International Airport 569-5400	New York, New Jersey JFK International Airport 656-5285
Buffalo, New York 81 Botsford Place 876-5055	Newark, New Jersey Newark Airport 624-3700
Chicago, Illinois O'Hare International Airport 686-7100	Philadelphia, Pennsylvania International Airport 726-7100
Cleveland, Ohio Cleveland Hopkins Airport 267-3575	Portland, Oregon International Airport 281-1158
Detroit, Michigan Metropolitan Airport 562-9700	San Francisco, California International Airport 761-1100
Hartford, Connecticut Bradley International Airport 522-3145	Seattle, Washington Seattle-Tacoma International Airport 244-4747
	Syracuse, New York Hancock Field 455-5618

INTERNATIONAL SERVICE OFFICES

Hong Kong 283 Passenger Terminal Hong Kong Airport 829-7241	Seoul, Korea Kimpo Airport 62-5945
London, England 10 Golden Square 437-3627	Taipei, Taiwan 406 Tun Hua South Rd. Suite 2A 770-171
Osaka, Japan 10-12, Awajimachi 4-chome Higashi-ku 71-4408	Tokyo, Japan Sanno Grand Bldg. No. 14-2, 2-chome, Nagata-cho Chiyoda-ku 581-6841



FLYING TIGER LINE

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