

THE FLYING TIGER LINE INC.

Annual Report

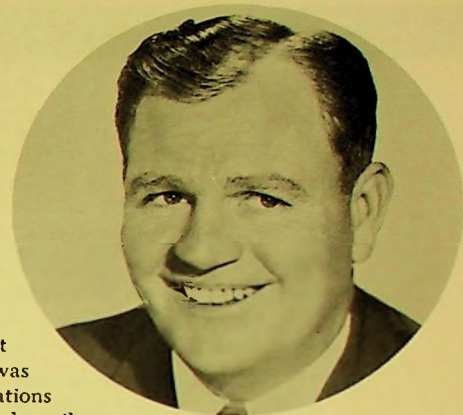
year ended June 30, 1958

THE YEAR IN BRIEF.....

FOR THE FISCAL YEAR ENDING JUNE 30,

	<u>1958</u>	<u>1957</u>
Operating Revenues	\$33,860,549	\$24,651,146
Operating Expenses	\$32,460,976	\$25,668,596
Operating Income or (Loss)	\$ 1,399,573	\$(1,017,450)
Interest Expense	\$(803,672)	\$(383,783)
Net Income (Loss) After Interest and Income Taxes	\$ 443,778	\$(614,336)
Special Item	\$ 864,004	\$ 716,005
Net Income and Special Item	\$ 1,307,782	\$ 101,669
Per Common Share	\$ 1.28	\$.05
Investment in Property and Equipment (Gross)	\$31,198,580	\$30,115,561
Long-Term Debt	\$11,848,435	\$13,167,315
Net Worth of Company	\$12,176,024	\$10,917,798
Net Worth per Common Share	\$ 11.37	\$ 10.09
Total Assets	\$33,936,837	\$36,077,854
Working Capital (Deficit)	\$ 1,070,536	\$(1,234,736)

TO OUR STOCKHOLDERS AND EMPLOYEES



We present herewith our report to you on your Company covering the fiscal year ending June 30, 1958.

This was the first full year of operations with our fleet of new Constellation aircraft, and a comparison of results from operations between this year and last demonstrates the impact of our fleet replacement and modernization program which was started in the Spring of 1957. The transformation of our operations and our fleet from DC-6A and C-46 aircraft was not completed until April 1958. It is our belief that the change over to the new equipment was the first step necessary for the Company to meet the ever increasing competition and we have good reason to believe that we can improve our operating results for the coming year.

At this time the Company gets its revenue from two principal sources, the common carriage airfreight business and military contracts. I will discuss the outlook for these two fields.

The airfreight business has from the outset been beset with difficulties in making a profit. It is the newest field of property transportation, it is the highest priced transportation, it has required a tremendous amount of public education which is yet far from complete, and the competition has been extremely keen. Such factors as these forced, in February of this year, the withdrawal from freight operations of our all-cargo competitor, Slick Airways, Inc. About 90% of the business on our routes was directly competitive with Slick Airways, Inc. As a result of Slick's withdrawal, plus improved service and operating economies of our new fleet of Constellations, we were finally able in May of this year to turn our airfreight business into a profitable operation. This was in spite of the general business slump that has been prevailing. We do believe that we can hold this position and continue to improve it as business picks up.

The Military Air Transport Service (MATS) is the agency of the Air Force through which we contract our military transportation. MATS has grown over the past few years into a huge civilian-type airline system spread all over the world. It is today larger than our two largest civilian airlines combined. The commercial airlines have long contended that the government should curtail its airline type of activities, just as it has curtailed all other governmental activities that compete with private enterprise in this country. There has been much opposition to this by the military on the grounds that they require a large stand-by military airlift in case of emergency, and while they have it they may as well use it. The argument was resolved partly in favor of the commercial carriers on August 7, 1958, when Congress approved the 1959 Military Appropriations Bill which earmarked \$80,000,000 which can only be spent for commercial transportation by MATS. This represents approximately one-fourth of the business under MATS' control. Legislation was enacted several years ago requiring the Military Sea Transportation Service (MSTS), the surface counterpart of MATS, to allocate a minimum of 50% of its business to commercial operators. MATS has become well enough satisfied with the commercial services that presently about 70% of its business is done with commercial operators. It is hoped that this trend can be accomplished with MATS. If so, hundreds of millions of dollars of new business will be opened up. At any rate, this 80 million dollars is a gain of 23 million dollars over last year's commercial business by MATS of 57 million dollars. This increase greatly enhances our chances of full fleet utilization for the year.

REVENUES AND EARNINGS

The fiscal year ending June 30, 1958 showed considerable gains in revenue over the preceding year 1957. An increase of \$9,209,403, or 37% over the 1957 revenues brought the total revenues for 1958 to \$33,860,549. Common carriage airfreight revenues increased from \$8,448,604 in 1957 to \$9,595,074 in 1958, and contract operation revenues increased from \$13,601,184 in 1957 to \$22,885,211 in the fiscal year 1958.

Although total revenues increased 37 per cent during the past year, operating expenses increased only 26 per cent, resulting in an operating income of \$1,399,573 in the 1958 fiscal year. This can be compared to a \$1,017,450 operating loss in the preceding year 1957, or an improvement of \$2,417,023.

The Company's net income for 1958 (after interest expense and Federal income taxes) and special item totalled \$1,307,782 as compared with \$101,669 for the 1957 fiscal year. This amounts to \$1.28 per common share for 1958 as compared to \$.05 per common share for 1957. The highlights of a comparison of the revenues and earnings between 1958 and 1957 are as follows:

	Fiscal Year	
	1958	1957
Total revenues	\$33,860,549	\$24,651,146
Common carriage revenues	\$ 9,595,074	\$ 8,448,604
Common carriage ton miles	56,705,686	53,275,954
Operating income (loss)	\$ 1,399,573	\$(1,017,450)
Net income (loss) after interest and Federal income taxes	\$ 443,778	\$(614,336)
Special item	\$ 864,004	\$ 716,005
Net income and special item	\$ 1,307,782	\$ 101,669

FINANCIAL POSITION

The Company's financial position was strengthened considerably during the 1958 fiscal year, as is evidenced by the figures shown on the next page. At June 30, 1957, the Company had a working capital deficit of \$1,234,736; while at June 30, 1958, this deficit had been eliminated and the Company's financial statement showed a working capital of \$1,070,536.

Net income and special items for the fiscal year 1958 amounted to \$1,307,782, accounting for the substantial increase in net worth during the year. The Company's investment in property and equipment increased \$1,083,019 during the year, principally as the result of the purchase of one 1049H Constellation aircraft in May 1958, thereby increasing its fleet to 13 Constellation aircraft, offset in part by sales of C-46 and C-54 aircraft. Payments on bank loans during the year in connection with equipment financing totalled \$2,951,808, leaving \$11,694,951 due to banks as of June 30, 1958.

A comparison of the Company's financial position between 1958 and 1957 is as follows:

	June 30	
	1958	1957
Working capital (deficit)	\$ 1,070,536	\$(1,234,736)
Investment in property and equipment	\$31,198,580	\$30,115,561
Long-term debt	\$11,848,435	\$13,167,315
Net worth	\$12,176,024	\$10,917,798
Net worth per common share	\$ 11.37	\$ 10.09

AIRFREIGHT TRAFFIC

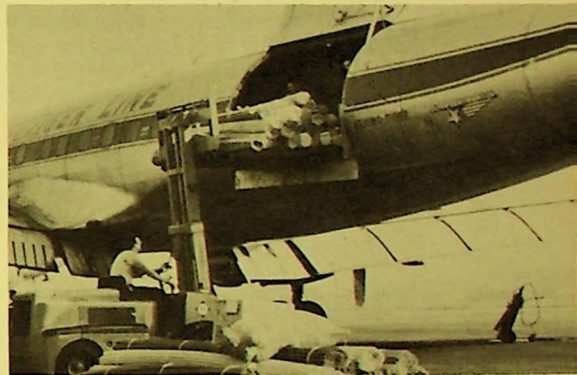
For the first time in the history of the Company gross domestic airfreight revenue exceeded 10 million dollars, reaching an all-time high of \$10,126,781, representing an increase of 8.3% over last year.

While there were a number of important contributing factors to this increase, the most important was our ability to completely equip the domestic airfreight system with the 1049H Super Constellation freight fleet, eliminating the older and more expensive operating DC-6's and C-46's.

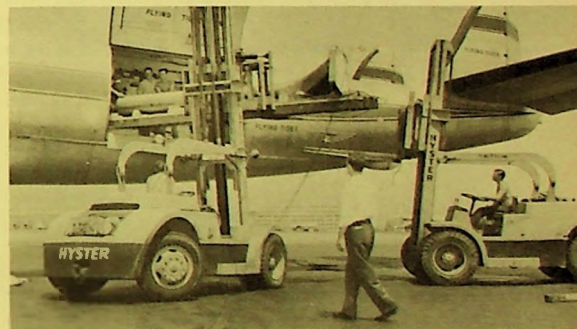
We were able to concentrate our fleet operation where it was the most effective, on long-haul routes feeding freight into and out of major terminals by truck between such points as Philadelphia to New York, Buffalo to Cleveland, and Milwaukee to Chicago. The net result was an improvement in time in transit over previous schedules.

The Company has become the largest airfreight carrier in the world which is concrete evidence of the success of your Company's aggressive sales policy and the acceptance by the shippers of the economic advantages of our fleet of new all-cargo Lockheed Super H Constellations, providing the fastest freight service and the greatest lift capability ever offered the shipping public. Over-night service between the East and West Coasts in both directions has proved a great success and dependability of schedules is remarkable. The speed and lift capacity of the Super H Constellation has enabled us to greatly improve service between all stations on the system.

We are still engaged in the deferred airfreight program which provides for the movement of freight on a "subject



Air freight is everything — even steel rods



Airfreight is anything you can get through the door — here is a 14,000-pound ship's rudder stock



A famous passenger takes to the air with his famous trainer Wee Willie Molter (in hat)

to space" basis at a reduced rate (approximately 50% of the first class rate) after all first class freight has been accommodated. This activity has added approximately \$600,000 to our revenue, an increase of nearly 100% over last year's revenue from this source. A great advantage provided as a result of our ability to offer this service is that it is usually not only faster than any surface transportation, at a rate close to surface rates, but has encouraged many new shippers who after discovering the advantages of airfreight go on to utilize our first class services.

On July 1, 1958, the United States Air Force issued a policy in connection with the movement of materiel to friendly foreign nations under what is known as the "Military Aid Program." This directive ordered all installations concerned to move materiel by commercial aircraft and military aircraft may be used only for security reasons, out-sized cargo, or when commercial airlift is not available or adequate. It is expected this directive will materially increase the amount of U. S. Government freight we have been carrying.

During the year, several new sales techniques were developed. Among these was the "engine buck program." This program was in the preliminary stage and was briefly described in last year's report. Since last year's report the "buck," or cradle, has been completed and successfully tested and is in daily use moving jet engines from the engine manufacturer on the East Coast to the airframe manufacturer on the West Coast for installation in new jet aircraft. Previously these engines moved in a metal can, or container, weighing 3,780 pounds, or 200 pounds less than the weight of the engine itself. The new engine buck weighs only 650 pounds and gives complete protection to the engine enroute. As a result of the weight saving and other attendant savings the movement was converted to air from surface and it has been estimated a savings of more than \$750,000 will accrue to the aircraft companies.

Another new technique has been the concentrated effort on the part of sales personnel to secure the cooperation of American industry to view the use of airfreight as applied to the idea of "Total Cost of Distribution." This means considering all costs of selling and distributing a product after it comes off the production line.

Realizing that more than 50% of the cost of a product is distribution, we are urging business executives to allow us to join with them in analyzing warehouse costs, insurance, capital turn over, loss and damage, extended sales areas and all costs which occur after the product has been produced but before it reaches the hands of the ultimate purchaser, as opposed to considering only the airfreight rate itself as the basis for decision.

The success of the program is growing as evidenced by the experience of a large Eastern manufacturer who has been able to close two West Coast warehouses and expects to effect a total savings of \$250,000 this year by using airfreight as opposed to his former method of distribution using surface carriers.

The advertising, direct mail, and publicity programs have been carried on a continuing basis acquainting the public with our various services, highlighting the superiority of the 1049H Super Constellation fleet. The results have been gratifying.

A number of adjustments to the rate structure were made during the year resulting in the highest return per ton mile that the Company has received to date.



CONTRACT OPERATIONS

Again for this year your Company carried more passengers and cargo on overseas routes, on a contract basis, for both the military and commercial customers than any other contract carrier. The 103,459 passengers and 5,262 tons of cargo carried by the Company across the Atlantic and Pacific Oceans represented an increase of 68% in volume over the fiscal year ending June 30, 1957 and has made your Company the largest contract carrier in the world.

The introduction of our new fleet of Super H Constellation aircraft into the contract business during the past year has allowed the Company to provide cargo service to the Orient and Europe at ton mile rates far below previous years' rates but still profitable to the Company.

The summer tourist charter business to Europe, pioneered by your Company several years ago, has been more successful this year than any other previous year, in spite of increased competition from both domestic and foreign air carriers. The increase in the operating efficiency of the new fleet of Constellation aircraft permitted the Company to offer charter rates to eligible groups traveling to Europe this summer below \$300.00 per round trip seat. This program has enabled the Company to develop a completely new source of traffic and has permitted thousands of American tourists to visit Europe for the first time. It has been gratifying to your Company to be able to report that the excellent service offered by the Company on this program has created a large percentage of repeat business.

The Company was able to secure through competitive bidding a contract for \$3,500,000 from the Military Air Transport Service for the carriage of passengers and cargo between the United States and Japan. This contract was in addition to the monthly business the Company was able to secure from MATS in both the Pacific and Atlantic areas. During this year our business with MATS amounted to 19 million dollars, or 33% of the total MATS commercial business.



U. S. bound passengers on a Flying Tiger-MATS Pacific flight say good-bay at Tokyo



Reunion-bound to Germany — a singing club on a low-cost group travel flight



Freight to the far corners of the world — unloading a Flying Tiger-MATS cargo flight at Tokyo

EQUIPMENT

As of June 30, 1958, the Company was operating thirteen 1049H Super Constellation aircraft and two C-46 airfreighters.

The changes in the Company's equipment during the fiscal year under review may be summarized as follows:

<u>Type of Aircraft</u>	<u>1958</u>	<u>1957</u>
C-46 — Owned	11	15
C-54 — Owned	—	3
C-54 — Leased	—	3
DC-6A — Leased	—	2
1049H — Owned	11	10
1049H — Leased	2	2
TOTAL	<u>24</u>	<u>35</u>

During the past year we disposed of four C-46 aircraft and all of the C-54 aircraft. Two DC-6A aircraft were leased by the Company for a term expiring April 1, 1961, the Company having an option to purchase such aircraft at any time after April 1958. These aircraft were sub-leased by the Company during May 1958 to another airline under the same terms and conditions as the basic lease.

The lease term on the two 1049H Constellation aircraft presently leased will expire in 1962. However, we have an option to purchase the aircraft in June 1959. The nine C-46 aircraft surplus to the needs of the Company's operations are being sold.

The standardization of the aircraft fleet during the year has resulted in many economies and has been a great contributing factor in the improvement of the operating results for the fiscal year.

The 1049H Constellation aircraft is a convertible type aircraft that can be used for both passenger and cargo operation. With this airplane we established a record for transporting the largest number of tons of cargo on any commercial aircraft across the Pacific Ocean. The increased speed and capacity of the aircraft permitted the Company to increase considerably the service on our airfreight routes.

CIVIL AERONAUTICS BOARD PROCEEDINGS

We are involved in two important cases before the Civil Aeronautics Board at the present time.

The first of these is an application to have the restriction against subsidy application removed from our Certificate. Every certificated airline in the United States, including trunk lines, local feeder lines and helicopter services, is eligible to apply for and receive government subsidy to make up its losses, including a profit if under honest, economical and efficient management it is unable to make its operation support itself. Every local service or "feeder" airline and every helicopter service is today receiving that subsidy. There are eighteen such in the country and the average amount paid to each carrier appears to be between \$2,000,000 and \$2,500,000 per year.

The only certificated airlines in the country who are operating without this protection are the all-cargo airlines. This hampers us in many ways, the chief of which is the financing of new equipment. The insurance companies, who are today the principal source of borrowings by the airline industry, are reluctant to finance all-cargo airlines as long as this condition exists. Their position is that if the government withholds this support from us while giving it to the rest of the industry there must be something wrong with us and we might not have a very secure future. Thus, if we get any financing at all it comes from the banks on shorter term loans and at interest rates considerably higher than those enjoyed by our competitors who have the right to receive subsidy. You will note on our income statement that our interest expense for the fiscal year was over \$800,000 and thus realize the burden this item is to us. As will be discussed elsewhere in this report, we, like our competitors, are facing the transformation into the jet age and we feel that we should no longer be forced to carry this handicap in our race for additional funds for financing new equipment. In this connection, I wish to emphasize that there was not one year in our nine years of certificated existence that we would have been in a position because of our losses to apply for and receive subsidy, and we do not anticipate being in any such position in the future. We do feel, however, that if we have to compete against subsidy-eligible carriers, we should have equal rights with such air carriers. A decision on this case is now pending before the Civil Aeronautics Board.

Our second case before the Civil Aeronautics Board is an application for a certificate to carry passengers, mail, express and airfreight on a route from the West Coast to Florida, with intermediate stops at Houston and New Orleans. Since the Civil Aeronautics Board has announced that they will investigate the possibilities of opening this new route, and if another air carrier should be successful in securing such right resulting in your Company facing another competitor in the airfreight business, it was imperative that we protect our interests and enter this case.

EMPLOYEE RELATIONS

During the past year the Company experienced no interruption of service due to labor disputes. Agreements were concluded with labor organizations representing pilots, navigators and flight engineers.

The company has continued to emphasize the importance of training of its employees in the many different phases of the Company's operations. As a result, we have enjoyed a year of operations without injury or loss of life of passenger or crew due to aircraft accidents.

This is the picture of employment as of June 30, 1958:

	Number	Per Cent
Flight	384	31
Maintenance	444	36
Administration	119	10
Sales	76	6
Ground	210	17
TOTAL	<u>1,233</u>	<u>100</u>

As of July 1957, the Company established The Flying Tiger Line Inc. Profit Sharing and Retirement Fund for the benefit of the Company's employees. The Company contributes to the plan 20 per cent of net profits as computed for Federal income tax purposes before reduction for any contributions under the plan, but excluding capital gains and losses, and an amount equal to 6 per cent of the Company's net worth at the end of the preceding fiscal year. The Company contributed \$100,000 to the plan for the fiscal year ending June 30, 1958 to commence the plan. In addition to the Company's contribution, the employees have also contributed over \$50,000 during the first ten months the plan was in effect.

FUTURE GROWTH

This item lies almost completely within the domain of the aircraft and engine manufacturers and their ability to produce a more efficient airplane. As our direct operating costs per ton mile reduce, our tariffs can be reduced and as this is done, we participate in a greater share of the transportation market. As our volume increases our indirect costs per ton mile reduce. So our path to future growth is as simple and as obvious as that.

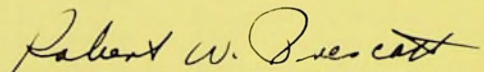
There exists today in the turbine-powered field, engines, which, when mated to the proper airframe, can produce ton miles at approximately one-half of what our costs are today with our Super Constellation fleet. We are making extensive studies of the present and potential configurations of the turbine-powered airplanes and when we determine which one we believe to be the most desirable for our operations we expect to place our commitment. We hope to make that decision in the very near future. Delivery times of these airplanes are in the 1960-61 period.

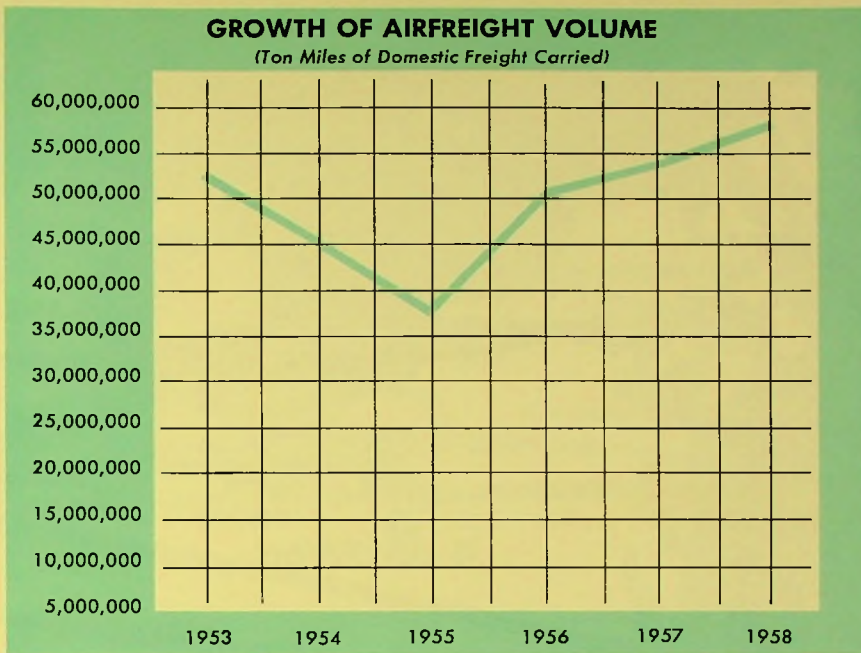
CONCLUSION

A high standard of service in an airline is the end product of all personnel concerned — their teamwork, enthusiasm, technical skill and ingenuity.

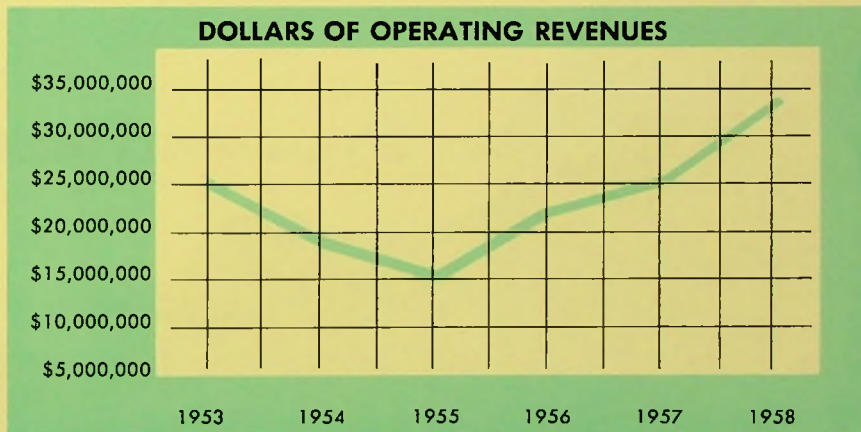
Therefore, on behalf of our Directors and Management, I would like to thank all employees and stockholders for their loyalty and helpful cooperation during the past year.

By order of the Board of Directors

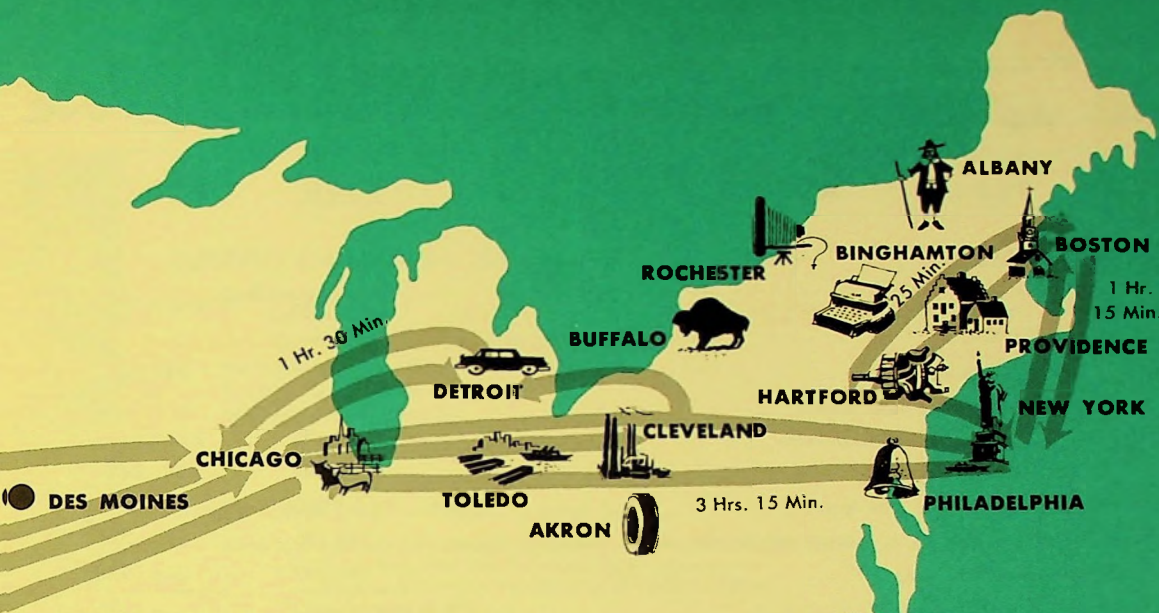

ROBERT W. PRESCOTT
President



The growth of Flying Tiger's Domestic Air Freight traffic in the past few years is reflected in this six-year graph. From a high point of 51,324,134 ton miles in 1953, the last year of the Korean War period, traffic declined to a low of 36,890,469 ton miles in 1955. Since then, it has risen steadily, reaching a new all-time Company record of 57,012,013 at the close of the 1958 fiscal year.



This graph shows the steady increase that has been recorded in over-all Company Operating Revenues since 1955. From the low point of \$15,363,289 in 1955, end of the post-Korean War period, revenues have more than doubled and set an all-time Company record of \$33,860,549 in 1958.



AIR FREIGHT ROUTE NO. 100



THE FLYING TIGER LINE INC.

ASSETS	<u>1958</u>	<u>1957</u>
CURRENT ASSETS:		
Cash	\$ 2,181,636	\$ 2,571,993
Receivables—		
Freight customers	1,488,679	791,965
Charters, service sales, etc.—		
United States Government	2,439,732	2,368,847
Other	1,306,449	2,581,845
Reserve for bad debt losses	(65,000)	(38,000)
Materials and supplies, at average cost or less	719,133	581,572
Prepaid insurance, rents, etc.	195,297	385,094
Total current assets	<u>\$ 8,265,926</u>	<u>\$ 9,243,316</u>
PROPERTY AND EQUIPMENT—Note 1:		
Cost—		
Aircraft, engines and other flight equipment	\$26,952,795	\$28,143,236
Other equipment	1,266,414	1,331,842
Land and buildings	849,823	640,483
	<u>\$29,069,032</u>	<u>\$30,115,561</u>
Less—Reserves for depreciation	5,570,635	4,696,214
	<u>\$23,498,397</u>	<u>\$25,419,347</u>
Equipment held for sale, net	1,023,480	—
	<u>\$24,521,877</u>	<u>\$25,419,347</u>
DEFERRED CHARGES:		
Long-term prepayments	\$ 631,786	\$ 656,032
Training and other costs applicable to new aircraft (being amortized to June 30, 1959)	398,954	582,932
Debt discount and expense, being amortized	114,574	132,197
Other	3,720	44,030
	<u>\$ 1,149,034</u>	<u>\$ 1,415,191</u>
	<u>\$33,936,837</u>	<u>\$36,077,854</u>

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

JUNE 30, 1958 AND 1957

LIABILITIES	<u>1958</u>	<u>1957</u>
CURRENT LIABILITIES—Note 6:		
Bank loans—		
Note payable	\$ —	\$ 700,000
Current installments of long-term debt	3,266,409	2,888,889
Accounts payable and accrued liabilities	3,333,213	6,317,182
Reserve for vacations	328,665	357,658
Advance charter deposits	267,103	214,323
Total current liabilities	<u>\$ 7,195,390</u>	<u>\$10,478,052</u>
LONG-TERM DEBT—Notes 2 and 3:		
Bank loans, secured by pledge of aircraft, engines, and other flight equipment, less current installments shown above—		
Payable in monthly installments of \$240,741 plus interest at 5%	\$ 6,981,482	\$ 9,870,370
Payable in monthly installments of \$31,460 plus interest at 6%	1,447,060	—
5½% debentures due 1967 (subordinate)	2,724,000	2,724,000
Series A 5½% debentures due 1967 (subordinate)	500,000	500,000
Equipment purchase contract, secured by related assets	195,893	72,945
	<u>\$11,848,435</u>	<u>\$13,167,315</u>
DEFERRED CREDITS AND NONCURRENT LIABILITIES:		
Deferred income taxes	\$ 1,929,978	\$ 1,229,978
Deferred charter revenue, etc.	576,368	284,711
Maintenance liability—leased airframes and engines	210,642	—
	<u>\$ 2,716,988</u>	<u>\$ 1,514,689</u>
CAPITAL STOCK AND SURPLUS:		
Preferred stock—		
Authorized, 500,000 shares of \$10 par value		
Outstanding, 99,112 shares Series A, five per cent cumulative	\$ 991,120	\$ 991,120
Common stock—		
Authorized, 1,500,000 shares of \$1 par value (at June 30, 1958, 340,028 shares were reserved for conversion of debentures and 70,000 shares for stock options)—Notes 3 and 4		
Outstanding, 983,635 shares	983,635	983,635
Capital surplus	3,448,855	3,448,855
Earned surplus (see Note 2)	6,752,414	5,494,188
	<u>\$12,176,024</u>	<u>\$10,917,798</u>
	<u>\$33,936,837</u>	<u>\$36,077,854</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF INCOME AND SURPLUS

FOR THE YEARS ENDED JUNE 30, 1958 AND 1957

STATEMENTS OF INCOME

	<u>1958</u>	<u>1957</u>
OPERATING REVENUES:		
Scheduled freight operations	\$ 9,595,074	\$ 8,448,604
Charters and service sales	23,554,116	15,641,198
Rentals of property and equipment (net) Note 1	711,359	561,344
Total	<u>\$33,860,549</u>	<u>\$24,651,146</u>
OPERATING EXPENSES:		
Flying operations	\$14,255,568	\$12,587,836
Ground operations	3,553,051	3,332,179
Maintenance	7,569,449	5,227,865
Traffic, sales, advertising and publicity	1,518,105	1,395,333
General and administrative	1,484,371	1,297,297
Depreciation and amortization	<u>4,080,432</u>	<u>1,828,086</u>
Total	<u>\$32,460,976</u>	<u>\$25,668,596</u>
Net income (loss) from operations	<u>\$ 1,399,573</u>	<u>\$ (1,017,450)</u>
OTHER INCOME AND (EXPENSE):		
Interest expense	\$(803,672)	\$(383,783)
Amortization of debt discount and expense	(17,623)	(16,742)
Miscellaneous (net)	277,500	137,639
Total	<u>\$(543,795)</u>	<u>\$(262,886)</u>
Net income (loss) before Federal income taxes	<u>\$ 855,778</u>	<u>\$ (1,280,336)</u>
PROVISION OR (CREDIT) FOR FEDERAL INCOME TAXES—Note 6		
Net income (loss)	412,000	(666,000)
	<u>\$ 443,778</u>	<u>\$(614,336)</u>
SPECIAL ITEM:		
Gain on disposals of aircraft, less provision of \$288,000 and \$775,000 for income taxes in respective years	864,004	716,005
Net income (loss) and special item	<u>\$ 1,307,782</u>	<u>\$ 101,669</u>
CAPITAL SURPLUS		
BALANCE AT BEGINNING OF YEAR	\$ 3,448,855	\$ 2,640,663
ADD—		
Excess of proceeds from sale of 50,000 shares of common stock over par value	—	448,000
Excess of fair value of stock dividend of 46,839 shares over par value	—	360,192
BALANCE AT END OF YEAR	<u>\$ 3,448,855</u>	<u>\$ 3,448,855</u>
EARNED SURPLUS		
BALANCE AT BEGINNING OF YEAR	\$ 5,494,188	\$ 5,849,106
ADD—		
From accompanying statement—		
Net income (loss)	443,778	(614,336)
Special item	864,004	716,005
	<u>\$ 6,801,970</u>	<u>\$ 5,950,775</u>
DEDUCT—		
Cash dividends on preferred stock—fifty cents per share	\$ 49,556	\$ 49,556
Five per cent common stock dividend—46,839 shares at fair value of \$8.69 per share	—	407,031
	<u>\$ 49,556</u>	<u>\$ 456,587</u>
BALANCE AT END OF YEAR (See Note 2)	<u>\$ 6,752,414</u>	<u>\$ 5,494,188</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS - JUNE 30, 1958

(1) Aircraft:

At June 30, 1958, the company's fleet consisted of the following:

Type	Owned	Leased	Total
1049-H	11	2	13
C-46—			
Operated	2	—	2
Held for sale	9	—	9
TOTAL	<u>22</u>	<u>2</u>	<u>24</u>

Two of the 1049H aircraft are held under a five-year lease expiring in June, 1962, with options to purchase upon expiration of the first two years of the lease. One of the 1049H aircraft owned was destroyed in September, 1958; the loss was covered by insurance.

Of the C-46 aircraft, three have been disposed of under lease-purchase agreements since June 30, 1958.

The company also leases two DC-6A aircraft under a seven-year lease expiring April 30, 1963, with certain renewal and purchase options. These DC-6A's have been subleased to another airline at monthly rentals which in future years are anticipated to approximate the amounts paid by the company for periods ending in September, 1961. The sublease also grants purchase options to the sublessee.

(2) Bank loans:

Under the credit agreement relating to the long-term bank loans, all of the earned surplus balance at June 30, 1958, is restricted against cash dividends on capital stock, other than \$50,000 annually for dividends on preferred stock.

The credit agreement also sets forth minimum amounts of working capital and net worth, as defined, which the company has agreed to maintain, and places restrictions on additional borrowings, capital expenditures, acquisitions of capital stock, and leasing of mortgaged property.

At June 30, 1958, the company's working capital was approximately \$925,000 less than the minimum amount as defined in the credit agreement; capital expenditures for the year ended June 30, 1958, exceeded the specified limitation by approximately \$965,000.

(3) Debentures:

The 5½ per cent debentures due 1967 (subordinate) are redeemable at varying premiums to July 1, 1966, and if not so redeemed, a minimum of \$275,000 principal amount is redeemable at par annually on July 1 from 1960 to 1966 through the operation of a sinking fund; these debentures are presently convertible into common stock (until July 1, 1962) at a price of \$8.93 principal amount of debentures for each share of common stock.

The Series A 5½ per cent debentures due 1967 (subordinate) are redeemable at a premium of 10 per cent and are presently convertible into common stock (until June 27, 1967) at a price of \$14.29 principal amount of debentures for each share of common stock.

Surplus restrictions under the debenture indentures are less restrictive than under the terms of the credit agreement referred to in Note 2.

(4) Capital stock:

During the year ended June 30, 1957, the stockholders approved the granting of options to certain key employees to purchase 70,000 shares of the company's common stock at a price of \$9.375 per share; these options are subject to adjustment for subdivision of shares, and are exercisable during the period from August 20, 1960 to February 20, 1961.

A 5 per cent dividend payable in common shares (49,181 shares) was declared July 29, 1958, payable in December 1958 to common shareholders.

(5) Profit-sharing plan:

A profit-sharing and retirement plan in effect requires annual company contributions to the plan of 20 per cent of net profits (as computed for Federal income tax purposes before reduction for any contribution under the plan, but excluding capital gains and losses and an amount equal to 6 per cent of the company's net worth at the end of the preceding fiscal year) but not less than \$100,000 for the year ending June 30, 1958, and such additional amounts as the board of directors may determine, but not in excess of 15 per cent of the total compensation otherwise paid or accrued to the participants of the plan in any fiscal year. \$100,000 has been contributed for the current year.

(6) Federal income taxes:

The 1958 provision for income taxes, amounting to \$412,000, is deferred through the deduction of accelerated depreciation for tax purposes. Federal income tax returns for the fiscal years 1952 through 1954 are presently being examined by the Internal Revenue Service, and issues involving possible additional taxes are under discussion. Although the amount of deficiency, if any, has not been determined, company management and its counsel believe that the company's position on these issues is sound and that any additional taxes which may ultimately be payable will not be material.

ARTHUR ANDERSEN & CO.
ACCOUNTANTS AND AUDITORS

612 SOUTH FLOWER 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, 1958, 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, 1958, but we satisfied ourselves by other auditing procedures with respect thereto. We had made a similar examination for the year ended June 30, 1957.

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, 1958, 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,
September 12, 1958.



THE FLYING TIGER LINE INC.

directors

SAMUEL B. MOSHER, *Chairman of the Board*

RUTH AXE ALLEN T. CHASE JOHN C. COSGROVE BORIS GRESOV ARTHUR G. LINKLETTER
CHARLES LUCKMAN NORMAN L. MEYERS ROBERT W. PRESCOTT HOUSTON REHRIG JOHN C. TYLER

officers

President ROBERT W. PRESCOTT
Executive Vice-President and Treasurer FRED BENNINGER
Vice-President WILLIAM E. BARTLING
Vice-President GEORGE T. CUSSENS
Vice-President L. S. KIMBALL
Vice-President FRANK B. LYNOTT
Vice-President NEIL BERBOTH
Assistant Vice-President JOHN L. HIGGINS
Secretary and Assistant Treasurer O. R. BURGHARDT
Assistant Secretary NORMAN L. MEYERS
Assistant Secretary RALPH B. STUMP

executive offices

Lockheed Air Terminal, Burbank, California

transfer agents

THE CHASE MANHATTAN BANK New York
THE BANK OF AMERICA Los Angeles

registrars

BANKERS TRUST COMPANY New York
CITIZENS NATIONAL TRUST & SAVINGS BANK Los Angeles

general counsel

MEYERS & BATZELL Washington

auditors

ARTHUR ANDERSEN & Co. Los Angeles

SALES OFFICES

GENERAL OFFICES

Lockheed Air Terminal, Burbank, California

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

ALBANY, N. Y.
60-74 Broadway
Albany 4-8223

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

BOSTON, MASS.
Logan International Airport
Logan 7-6161

BUFFALO, N. Y.
Municipal Airport
Plaza 3071

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

CLEVELAND, OHIO
Cleveland Hopkins Airport
Winton 1-5777

DAYTON, OHIO
222 McDonough Street
Baldwin 4-5331

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

LOS ANGELES, CALIF.
Lockheed Air Terminal, Burbank
Stanley 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

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.
Lindbergh Field
Cypress 6-6273

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

TACOMA, WASH.
1821 So. Dock Street
Market 7-2167

TOLEDO, OHIO
145 So. St. Clair Street
Cherry 4-4276

EUROPEAN SALES OFFICES

NEW YORK, N. Y.
60 East 42nd Street
New York 17, N. Y.
Oxford 7-8850

LONDON, ENGLAND
London Central Airport
Queen's Bldg. Room 1036
Hounslow, Middlesex, England
Tel: Skyport 4321—Ext. 310

PARIS, FRANCE
American Lloyd, 7 Rue Auber
Tel: Richelieu 63-69

Please send in your proxy.

It is urgently requested that you date and sign this Proxy and return it promptly in the enclosed envelope in order to insure the presence of a quorum at the meeting. This will save your Company the expense and extra work of additional solicitation and avoid the necessity of adjourning the meeting.

The Flying Tiger Line Inc.

55

Proxy
This Proxy is solicited on behalf
of the present management of
The Flying Tiger Line Inc.

No. of shares voted in
this Proxy -----

KNOW ALL MEN BY THESE PRESENTS that the undersigned hereby constitutes Samuel B. Mosher, Houston Rehrig and Robert W. Prescott, and each of them, attorneys and agents with power of substitution in each of them, in the name, place and stead of the undersigned to vote as proxy at the Annual Meeting of the Stockholders of The Flying Tiger Line Inc., to be held on Friday, October 31, 1958, at 2 o'clock P.M., Pacific Standard Time, and at any adjournment or adjournments thereof, according to the number of votes that the undersigned would be entitled to vote if personally present. Copies of the Notice of Meeting dated September 20, 1958, and of the Proxy Statement, dated September 20, 1958, have been received by the undersigned.

The undersigned hereby directs this Proxy to be voted as follows:

- FOR
 - AGAINST
- } Amendment of Article Fourth of the Corporation's Certificate of Incorporation, described in the Notice of Meeting and related Proxy Statement.

In the absence of specification this Proxy will be voted for adoption of said Amendment.

The undersigned agrees that said attorneys and agents and each of them, in person or by substitution, may vote in favor of the proposed directors named in said Proxy Statement, or in the event that such persons are not available by reason of an unforeseen emergency, then in their discretion in favor of the election as Directors of any other persons, and may vote in accordance with their discretion on any other matters or proposals not known at the time of solicitation of this Proxy that may lawfully come before the meeting or any adjournment or adjournments thereof.

A majority of such attorneys and agents as may be present may act at said meeting, or any adjournment or adjournments thereof, in person or by substitution, or, if only one shall be present and act, then that one may exercise all of the powers of said attorneys and agents hereunder.

The undersigned hereby revokes any proxy heretofore given and reserves the right to revoke this Proxy prior to its use.

IN WITNESS WHEREOF, the undersigned has hereunto set his hand and seal this -----

day of -----, 1958.

----- (L. S.)
Please sign exactly as name appears on stock certificate. If corporation, please affix corporate seal.

The Flying Tiger Line Inc.

LOCKHEED AIR TERMINAL
BURBANK, CALIFORNIA

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD OCTOBER 31, 1958

Notice is hereby given that the Annual Meeting of Stockholders of The Flying Tiger Line Inc., a Delaware corporation, will be held at the principal office of the Corporation, Lockheed Air Terminal, Burbank, California, on Friday, October 31, 1958, at 2:00 o'clock P.M., Pacific Standard Time, for the following purposes:

1. To elect a Board of Directors for the ensuing year;
2. To consider and vote upon the proposal to increase the number of authorized Common Shares of the Corporation from 1,500,000 to 2,000,000 shares; and
3. To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

In accordance with the By-Laws and action of the Board of Directors of the Corporation, only stockholders of record at the close of business on September 19, 1958, will be entitled to notice of and to vote at the meeting or any adjournment thereof.

O. R. BURGHARDT, *Secretary*

Dated: Burbank, California,
September 20, 1958.

IMPORTANT

Whether or not you expect to be present in person, it is urged that you sign and send in the enclosed Proxy at your earliest convenience. This will insure the presence of a quorum at the meeting and will save the Corporation the expense and extra work of additional solicitation. An addressed envelope for which no postage is required if mailed in the United States is enclosed for that purpose. Sending in your Proxy will not prevent your voting your stock at the meeting if you are able to be there in person—and it is hoped that you will attend if it is at all possible—since your Proxy is revocable at your option.

See Proxy Statement on following pages.

The Flying Tiger Line Inc.

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies to be used at the Annual Meeting of Stockholders of the Corporation to be held on Friday, October 31, 1958.

Proxies in the form enclosed herewith are solicited by the Management at the direction of the Board of Directors of the Corporation and the cost of solicitation is to be borne by the Corporation. In addition to the solicitation of proxies by the use of mails, officers and regular employees of the Corporation may solicit proxies personally from stockholders and brokers.

Any stockholder giving a proxy in such form has the power to revoke it at any time prior to the voting thereof. Unless so revoked, the shares represented by the proxy will be voted at the Annual Meeting, if the proxy is returned properly executed and is received in time for voting, and, where the stockholder specifies, as provided in the form of Proxy, a choice with respect to the matter to be acted upon, the shares will be voted in accordance with the specifications so made.

The Corporation has outstanding 983,635 Common Shares, par value \$1.00 per share, and 99,112 Preferred Shares, Cumulative \$10.00 par value, Series A. Shareholders are entitled to one vote in respect to each share of Common Shares held. Under the Corporation's charter, holders of the Preferred Shares do not have any voting rights at this time (holders of Preferred Shares as a class are entitled to elect the smallest number of directors which shall constitute a majority of the authorized number of directors if at any time eight or more quarter year dividends are in default, in whole or in part). Only stockholders of record at the close of business September 19, 1958, the record date for the meeting, will be entitled to vote at said meeting or any adjournment, or adjournments thereof.

ANNUAL REPORT

The Corporation's Annual Report for the fiscal year ended June 30, 1958, is transmitted herewith. None of the statements or information in said Annual Report is intended or shall be construed to be a part of the proxy-soliciting material of the Corporation.

NOMINEES FOR BOARD OF DIRECTORS

The Board of Directors to be elected will, in conformity with the amendment to the By-Laws adopted on November 20, 1957, consist of eleven (11) members, who will be elected to hold office during the ensuing year and until their successors are elected and qualified. The shares represented by proxies in the enclosed form will be voted in such election and it is the intention of the proxy holders to vote all such proxies in favor of the election as Directors for the ensuing year of Mrs. Ruth Axe and Mr. Boris Gresov, in place of Morris Townsend, resigned, and as the additional Director provided for by the aforesaid amendment to the By-Laws, and of the following persons who have served as Directors of the Corporation since the year stated opposite their respective names, and who, the Corporation is informed, owned beneficially as of September 1, 1958, the securities of the Corporation listed in other columns opposite their respective names.

Name	Address	Year First Became Director	Number of Shares and Debentures Beneficially Owned		
			Preferred	Common	5½% Debentures Due 1967 (Subordinate)
SAMUEL B. MOSHER ----	Chairman of the Board and President of Signal Oil & Gas Company, Los Angeles, California -----	1945*	818	27,762	None
ROBERT W. PRESCOTT ---	President, The Flying Tiger Line Inc., Burbank, California -----	1945	3	4,229	\$180,000
ALLEN T. CHASE -----	President, Standardized Aircraft, Inc., Machine Parts, Los Angeles, California -----	1945*	None	1,000	\$25,000
HOUSTON REHRIG -----	President, Rehrig Pacific Co., Manufacturer Dairy Containers, Los Angeles, California -----	1948	None	100	None
NORMAN L. MEYERS ---	Attorney-at-Law, Meyers & Batzell, Washington, D. C. -----	1952	8	3,181	\$85,000
JOHN C. COSGROVE -----	Cosgrove & Co. Inc., of Los Angeles, Insurance, Los Angeles, California -----	1955	None	525	\$25,000
ARTHUR GORDON LINKLETTER -----	Guedel-Linkletter Productions, Los Angeles, California -----	1957	None	2,000	\$10,000
CHARLES LUCKMAN ----	Pereira & Luckman, Architects and Engineers, Los Angeles, California -----	1957	None	1,000	None
JOHN C. TYLER -----	Chairman of the Board, Farmers Insurance Group, Los Angeles, California -----	1957	None	100	\$5,000
RUTH AXE -----	Vice President and Treasurer of E. W. Axe & Co., Inc., New York, New York -----	1957*	None	1,000	None
BORIS GRESOV -----	Economic Consultant to Axe Science and Electronics Corporation, New York, New York -----	1957*	None	500	None

* Mr. Mosher, Director, June 25, 1945 to February 12, 1946; May 21, 1946 to date. Mr. Chase, Director, June 25, 1945 to February 12, 1946; May 21, 1946 to June 23, 1947; May 27, 1948 to date.

Mrs. Ruth Axe and Mr. Boris Gresov have not heretofore been elected by the stockholders. They have held office as Directors of the Corporation since November 20, 1957, having been appointed by the Board of Directors.

During the past five years Mrs. Axe has been Vice President, Director and Treasurer of E. W. Axe & Co., Inc., 730 Fifth Avenue, New York, New York; President, Axe Securities Corporation; Vice Chairman and Director of Axe-Templeton Growth Fund of Canada; Vice President and Director of Axe-Templeton Management, Ltd.; Vice President and Director of Axe-Houghton Fund A, Inc., Axe-Houghton Fund B, Inc. and Axe-Houghton Stock Fund, Inc.; President and Director of Axe Science and Electronics Corporation. The latter four Funds are, respectively, the beneficial owners of the following amounts of Common Shares of the Corporation: 40,900 shares, 78,750 shares, 18,000 shares and 10,000 shares. The Common Shares of the Corporation owned beneficially by Mrs. Axe, together with the Common Shares of the Corporation owned beneficially by these four funds, represent 15.1% of the outstanding Common Shares of the Corporation. Axe

Science and Electronics Corporation and Axe-Houghton Fund A, Inc. are, respectively, the beneficial owners of \$200,000.00 and \$300,000.00 of the Corporation's Series A 5½% Debentures Due 1967 (Subordinate), the total amount of this issue.

During the past five years Mr. Gresov has been an economic consultant. Since April, 1958, he has been economic consultant to Axe Science and Electronics Corporation, 730 Fifth Avenue, New York, New York; prior to that time he was consulting economist to G. H. Walker & Co. He is Chairman of the Board of Shattuck-Denn Mining Co. and is a Director of Western Development Co. of Delaware and of the Axe-Templeton Growth Fund of Canada.

In the event any one or more nominees for Directors should become unavailable for any reason not presently known, the enclosed proxy will be voted according to the judgment of the proxy holders.

PROPOSAL TO INCREASE NUMBER OF AUTHORIZED COMMON SHARES

The Board of Directors, noting that the total number of Common Shares issued and outstanding and required to be reserved for the conversion of the Corporation's outstanding Debentures was so close to the total of presently authorized Common Shares as to require an increase in the number of authorized Common Shares to provide properly for future growth of the Corporation, adopted on July 29, 1958, a resolution declaring the advisability of amending Article Fourth of the Certificate of Incorporation of the Corporation to increase the number of authorized Common Shares from 1,500,000 shares to 2,000,000 shares, and directed that this proposal be referred to this stockholders' meeting for consideration and approval. The vote needed for this approval is the affirmative vote of a simple majority of the outstanding Common Shares. There are no pre-emptive rights with respect to any of the additional shares proposed to be authorized. If the proposed amendment is adopted the total number of Common Shares which will not be allocated will be 506,640 shares. These unallocated shares may be issued by the Management for such purposes as it may consider desirable without further approval by the stockholders. At the present time, there are no contemplated use or uses of the additional shares, nor are there any understandings, plans or discussions in which Officers or Directors of the Corporation, or their affiliates, have been engaged, relating to the issuance of any of the additional shares including any possible acquisitions of other businesses. No financial statement is included herein inasmuch as the same is not material for the exercise of prudent judgment in regard to the proposal to increase the number of authorized Common Shares.

REMUNERATION AND OTHER TRANSACTIONS WITH DIRECTORS, NOMINEES, OFFICERS AND OTHERS

The following tabulation shows the aggregate remuneration paid by the Corporation during the fiscal year ended June 30, 1958, to, or for the benefit of, each of the following persons whose aggregate remuneration exceeded \$30,000.00 and who was a Director at any time during the year, or was one of the three highest paid officers of the Corporation; and to, or for the benefit of, all persons as a group, who were Directors or officers of the Corporation at any time during the fiscal year:

<i>Name of Individual or Identity of Group</i>	<i>Capacities in Which Remuneration Was Received</i>	<i>Salaries and Fees Paid by Corporation During Fiscal Year</i>
ROBERT W. PRESCOTT ----- No other Director of the Corporation received remuneration exceeding \$30,000.00.	President and Director -----	\$ 48,666.00
ALL OFFICERS AND DIRECTORS AS A GROUP -----	Officers and Directors -----	\$231,631.00

The following tabulation shows the aggregate contribution made by the Corporation during the fiscal year ended June 30, 1958, to the Corporation's Profit Sharing and Retirement Plan:

Name of Individual or Identity of Group	Amount Set Aside or Accrued During Issuer's Last Fiscal Year	Estimated Annual Benefits Upon Retirement
ALL EMPLOYEES (INCLUDING OFFICERS) AS A GROUP	\$100,000.00*	*

* The Corporation's Profit Sharing and Retirement Plan provides for annual Company contributions to the Plan of 20% of net profits (as computed for Federal Income Tax purposes before reduction on account of Federal or foreign income and excess profits taxes or any contribution under the Plan, but excluding capital gains and losses and an amount equal to 6% of the Company's net worth at the end of the preceding fiscal year) but not less than \$100,000 for the year ending June 30, 1958, and such additional amount as the Board of Directors may determine, but not in excess of 15% of the total compensation otherwise paid or accrued to the participants of the Plan in any fiscal year. All employees under age 64, including officers, who have completed one year's service are eligible to participate under the Plan. The Corporation's contribution is credited to accounts of participating employees in the same ratio that the compensation paid each participant bears to the total compensation paid all participants.

Note 1. Norman L. Meyers, Esq., a Director and Assistant Secretary, is a member of the firm of Meyers & Batzell, General Counsel to the Corporation, which received fees aggregating \$60,000 during the fiscal year ended June 30, 1958.

Note 2. No person owns of record, or is known to the Corporation to own beneficially, more than 10% of the outstanding voting securities of the Corporation except King & Co., 1 Wall Street, New York 5, N. Y., which owns of record 119,650 shares of the Common Shares of the Corporation, or 12.1% of the outstanding Common Shares of the Corporation, all of which are held for beneficial owners none of whom are the beneficial owners of more than 10% of such securities.

No director, officer, or nominee was indebted to the Corporation at any time during the fiscal year other than from transactions in the ordinary course of business.

OTHER MATTERS

While there is no business other than the election of Directors and action upon the proposal to increase the number of authorized Common Shares, as set forth in the Notice of Meeting, so far as now known, to be presented for action at the Annual Meeting, it is intended that the proxies solicited herewith will be exercised on any other matters and proposals that may legally come before the meeting, or any adjournment or adjournments thereof, in accordance with the discretion and judgment of those acting under the proxies.

O. R. BURGHARDT, *Secretary*

Burbank, California,
September 20, 1958.

