



THE
FLYING
TIGER
LINE
INC.

annual report, 1959

THE YEAR IN BRIEF

FOR THE FISCAL YEAR ENDED JUNE 30,

	<u>1959</u>	<u>1958</u>
Operating Revenues.....	\$34,579,936	\$33,860,549
Operating Expenses.....	\$31,773,547	\$32,460,976
Operating Income.....	\$ 2,806,389	\$ 1,399,573
Interest Expense.....	\$ 774,958	\$ 803,672
Net Income After Interest and Income Taxes.....	\$ 1,011,140	\$ 443,778
Special Item.....	\$ 380,226	\$ 864,004
Net Income and Special Item.....	\$ 1,391,366	\$ 1,307,782
Per Common Share Outstanding (Average for year).....	\$ 1.23	\$ 1.28
Investment in Property and Equipment (Gross).....	\$33,823,595	\$31,198,580
Long-Term Debt.....	\$16,138,379	\$11,848,435
Stockholders' Equity at Book Value.....	\$16,105,435	\$12,176,024
Per Common Share.....	\$ 11.22	\$ 11.37
Total Assets.....	\$43,311,205	\$33,936,837
Working Capital.....	\$ 1,849,085	\$ 1,070,536

to our stockholders

September 10, 1959

The 1959 story is one of establishing new records in the attainment of peaks in business as well as substantial increases in operating earnings.

The introduction of the Super H Constellation aircraft into a standardized fleet two years ago has produced for the 1959 year record traffic volumes and revenues and the largest operating earnings in the Company's history.

Most encouraging has been the continuing demonstration of the shippers' confidence in your Company's policy of rendering dependable airfreight services, climaxed by attaining the largest volume of airfreight revenue since inception of the Company. The Company was founded upon and has operated upon the proposition that airfreight can be self-sustaining and does not require government subsidy. It has financed the losses in airfreight development with collateral activities. In 1959 airfreight reached a self-sustaining plateau principally due to the economies of a standardized fleet and increased volume. One of the major factors that has been restraining the more extensive development of a volume airfreight market has been the lack of economic aircraft with low operating costs per ton mile carried. It is significant to note that the increase in volume of air cargo carried by your Company during the last 14 years has been in direct proportion to the introduction of more efficient and economical aircraft.

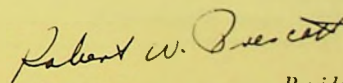
The Company has been studying for some time the economies of turboprop and jet aircraft to the airfreight industry. In May, 1959 the Company entered into a contract with Canadair Limited of Montreal, Canada for the manufacture and delivery of ten turboprop CL-44D airfreighters. These airfreighters will be delivered to the Company in the Spring of 1961 and with the introduction of these aircraft into the airfreight business, the Company will be entering into a second phase of the domestic airfreight operations. This phase will be the beginning of the "airfreight business" and the end of the development and experimentation in the carriage of property by air.

The introduction of the CL-44D airfreighter will permit a reduction in air cargo rates of between 30-40% which in turn will attract greater volume. The Company is now on the threshold of being able to realize the substantial gains that will be forthcoming through the ability to compete with the surface carriers.

Although the Company has enjoyed a substantial volume of military contract business during 1959, the rates applicable to such business have been declining steadily to an unprofitable level, and it is management's opinion that during the forthcoming year the situation will deteriorate further.

We are deeply grateful to our stockholders, customers, and employees for their share in the Company's past and continuing progress.

Sincerely,



President

financial position

The Flying Tiger Line Inc. reached a new high during the fiscal year ending June 30, 1959. The operating profit of \$2,806,389 represents the largest in the company's history, 100% above the \$1,399,573 realized in the fiscal year ended June 30, 1958.

Operating revenues during the fiscal year also rose to a new high of \$34,579,936 as shown in the following comparison with the fiscal year 1958:

	Fiscal Year		Change
	1959	1958	
Received from—			
Common carriage airfreight.....	\$13,315,698	\$ 9,595,074	\$3,720,624
Contracts, charters, etc.....	21,264,238	24,265,475	(3,001,237)
Total.....	<u>\$34,579,936</u>	<u>\$33,860,549</u>	<u>\$ 719,387</u>

Net income after taxes amounted to \$1,011,140 (\$0.88 per share) for the fiscal year 1959 as compared to \$443,778 (\$0.40 per share) for the fiscal year 1958.

Gain after taxes on disposal of aircraft, etc. amounted to \$380,226, or \$0.35 per share for the fiscal year 1959, compared to \$864,004, or \$0.88 per share in the preceding year.

Depreciation expense amounted to \$4,169,119 as compared to \$4,080,432 for the fiscal year 1958. During June 1959 the company exercised its option to purchase two additional 1049H Super II Constellation aircraft which had been under contract during the previous two years. As a result of this acquisition the depreciation expense will substantially increase during the fiscal year 1960.

The policy of accelerated depreciation on flight equipment, which the Federal Government permits in computing depreciation charges for tax deduction purposes, was continued during the year. The company's financial statements reflect depreciation charges normally allowable and show the tax deferral as a deferred income tax credit. At the end of the fiscal year 1959 this deferral totaled \$2,484,000.

Earnings were equivalent to \$1.23 per common share as against \$1.28 in the fiscal year 1958, based upon the following average shares outstanding:

	1959	1958
Net income and special item.....	\$1,391,366	\$1,307,782
Average common shares outstanding.....	1,095,331	983,635
Earnings per share, after preferred dividends.....	<u>\$ 1.23</u>	<u>\$ 1.28</u>

To conserve cash to meet the requirements for the acquisition of new turboprop airfreighters, the company paid a 5% stock dividend on December 15, 1958 to stockholders of record of October 1, 1958.

The Flying Tiger Line Inc.'s financial strength has increased during the fiscal year 1959 as follows:

	1959	1958	Change
Total assets.....	\$43,311,205	\$33,936,837	\$9,374,368
Working capital.....	\$ 1,849,085	\$ 1,070,536	\$ 778,549
Stockholders' equity at book value.....	\$16,105,435	\$12,176,024	\$3,927,371
Per common share.....	<u>\$ 11.22</u>	<u>\$ 11.37</u>	<u>\$ (.15)</u>

Notes payable to banks amounting to \$11,694,951 as of June 30, 1958, were reduced during the fiscal year 1959 by payments of \$4,936,580. The company increased such bank borrowings in June 1959 by \$2,500,000 upon the purchase of two additional 1049H Super H Constellation aircraft, reflecting a total balance of \$9,258,371 outstanding as of June 30, 1959.

In May 1959 the company entered into a commitment to purchase ten CL-44D turboprop airfreighters at a total cost of \$51,000,000, including spares. The aircraft are scheduled for delivery in early 1961. In preparation for the financing of the new turboprop airfreighters, the company, in June 1959, called the 5½% Debentures Due 1967 (Subordinate) issued originally in July 1952. The debenture issue was for \$2,750,000, and all debenture holders except \$51,000 in face value elected to convert to common shares before the call date.

In August, 1959, the company, through private placements, issued \$5,000,000 of 5½% Debentures, Series "B", Due 1974 (Subordinate) convertible into common shares of the company until June 26, 1969 at \$18.00 per common share. The proceeds from the sale of these debentures will be used as advance payments toward the future delivery of the new turboprop flight equipment.

The financing arrangements for the balances due upon the delivery of the new turboprop equipment in 1961 contemplates \$3,500,000 from the proceeds of the disposal of the presently owned flight equipment, and Equipment Trust notes to the manufacturers of the new aircraft. These notes will be secured by an Equipment Trust Agreement which was signed on June 1, 1959.

Source and Disposition of Funds

	1959	1958
Working capital at beginning of period—		
Current assets	\$ 8,265,926	\$ 9,243,316
Less: Current liabilities	7,195,390	10,478,052
	<u>\$ 1,070,536</u>	<u>(\$ 1,234,736)</u>
Additions during period—		
From cash profits	\$ 6,168,617	\$ 5,459,640
From proceeds on disposal of fixed assets	2,993,759	2,017,331
From all other sources (net)	(171,836)	158,895
	<u>\$ 8,990,540</u>	<u>\$ 7,635,866</u>
Used during period—		
To apply on bank loans and equipment purchase contracts	\$ 4,494,427	\$ 2,971,261
To purchase fixed assets	2,419,351	2,309,777
To pay cash dividend on preferred stock	49,556	49,556
To apply as deposit on CL-44D equipment	672,291	—
To apply on charter deposits	576,366	—
	<u>\$ 8,211,991</u>	<u>\$ 5,330,594</u>
Net increase in working capital during period	<u>\$ 778,549</u>	<u>\$ 2,305,272</u>
Working capital at end of period—		
Current assets	\$10,060,787	\$ 8,265,926
Less: Current liabilities	8,211,702	7,195,390
	<u>\$ 1,849,085</u>	<u>\$ 1,070,536</u>



air freight

In the 1959 fiscal year, the Company completed the second full year of operation of the Lockheed Super H Constellation fleet of airfreighters placed in service in 1957. For the Company, the year stands out as the long-sought breakthrough in airfreight. For the first time, consistently profitable operations were reported in the airfreight operation.

The Company had four airfreighters in scheduled service over its domestic route No. 100 at the start of the year. By the end of the year, the Company was operating seven airfreighters over this same route, plus a large number of extra sections to accommodate traffic demands.

During the year, total traffic reached a new record of \$13,315,698, which represented a gain of 39% over the preceding year. This was the largest rate of gain reported by any major airfreight carrier.

Starting with August, 1958, traffic passed the million-dollar mark and continued above that level in each succeeding month. This was the first time in the Company's operations that the Company consistently achieved traffic volume in excess of a million dollars per month.

In December, 1958, the Company recorded the largest volume of any single month in its history, \$1,356,125. Following that record, the Company experienced an unusual volume of business. Although January traffic slackened, as was to be expected, volume still held above the million-dollar mark. In March, business reached the second highest point in the Company's history and then, in June, instead of declining, traffic rose still higher and surpassed the March record. This was the first time in the Company's operations that it has experienced such heavy traffic in the middle of the calendar year.

While much of these gains can be attributed to the high level of the nation's economy, there is no question that airfreight is now having a much greater impact on transportation and distribution programs of industry than at any previous time since 1945, when the Company started the nation's first air freight system.

For example, under the jet engine shipping buck program jointly developed by The Boeing Airplane Company and the Company, a total of nearly two million pounds of engines for the Boeing 707 jetliner has been flown from the Pratt & Whitney plant at Hartford, Connecticut, to the Boeing assembly line at Seattle. This was all traffic which formerly moved by surface. Significantly, much of this traffic which originally fell into lower-rated, slower-moving deferred airfreight classification now is moving as first class traffic. As the manufacturer speeded up production of his product, he needed faster service with the result that the carrier, in addition to receiving a large volume of traffic, now obtained that traffic at a higher return due in great measure to the reliability of his service and his ability to move the traffic in large volume.

Such service would not have been possible without the larger, faster Super H Constellation equipment.

Coincident with the new traffic development made possible by the Super H Constellation, including non-stop service between such terminals as: Los Angeles-New York, Los Angeles-Chicago, San Francisco-Chicago and Detroit-Los Angeles, the Company has started intensive preparation for the inauguration of service in 1961 with the newly-purchased Canadair CL-44D equipment.

A fully-staffed research department, assisted by transportation authorities from the Universities of Washington and California, is now analyzing future sources of traffic for the CL-44D aircraft, prospective rate levels and sales procedures which will be needed to provide the large increase in traffic which this new airplane can generate.

The Company believes that the CL-44D aircraft, with a ton-mile productivity nearly three times that of the Super H Constellation, will inaugurate in the next decade an advancement in property transportation which will substantially change the nation's patterns of distribution.

Just as the Company was the first domestic airline to utilize the Super H Constellation in airfreight, so it will be the first airline to fly propjet equipment in domestic freight service.

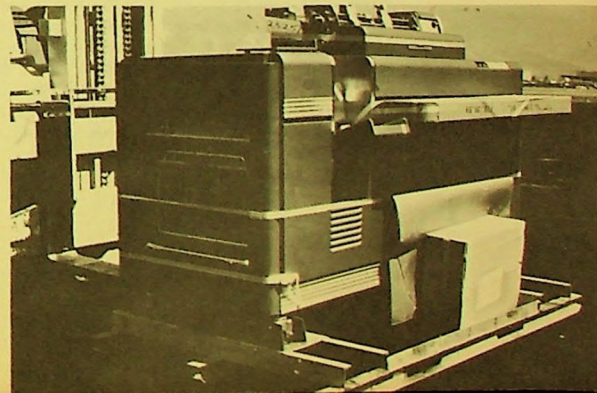
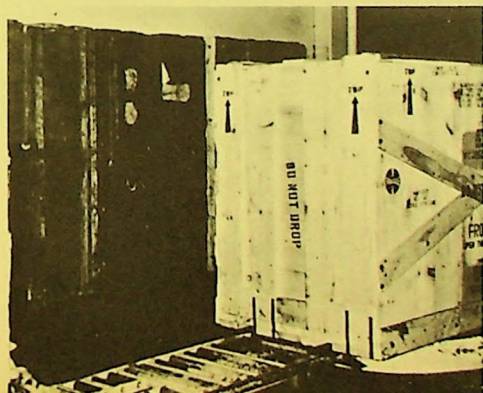
Special crane rigging equipment hoists a 13,000-pound gas turbine rotor aboard a Flying Tiger airfreighter at Philadelphia.



Shipping bucks provide lightweight transportation of jet engines, replacing the conventional steel cans formerly used. The buck permits a weight saving of nearly 3,000 pounds.



Flying Tiger's radio-controlled fleet of pickup-and-delivery trucks assure the fastest ground service for freight shippers.



The smooth ride of air freight greatly reduces the need for costly crating or packaging as these contrasting shipments of business machine equipment demonstrate. On the left is a shipment prepared for surface transportation, heavily crated. On the right is the same machine ready for air shipment, riding only on a skid and minus the crating.

contract operations

The Company continued again this year to serve as the largest contract air carrier in overseas service.

Total business was \$20,988,439, which represented a decline from the previous year when traffic totaled \$23,107,652.

Several factors contributed to the lower volume of contract business. One was the decrease in the Company's overseas group charter flights for tourists and a second was the contraction in business from the Military Air Transport Service (MATS).

Despite this reduction, which resulted from extremely competitive conditions prevailing in both commercial and governmental fields and the unwillingness of the Company to embark on unprofitable operations, the year was not without significant results.

On its major contract, the provision of passenger and cargo airlift for MATS between the United States and the Orient, the Company achieved the most efficient operating record ever reported by a Trans-Pacific carrier. Through June, its record for on-time departures of all flights totaled 92.9 per cent. In the single month of June, this record rose to 100 per cent, the first time an airline had reported an entire month of operation without a departure delay.

The Company flew a total of 390 round trips on the Pacific during the year covering a total of 5,433,168 miles. In these operations, it transported 35,085 passengers and hauled more than 10,280,188 pounds of cargo.

On the Atlantic, the Company flew a military supply contract between the United States, England, Germany and the Azores. In this operation, it transported 4,489,285 pounds of cargo.

The military contract operations were supplemented with a considerable number of commercial flights, involving the transportation of both passengers and cargo.

In the passenger category, the airline flew 340 Korean orphans from Seoul, Korea, to the United States. On one of these flights, the airline carried the largest number of persons ever transported on an airliner—144. Of these, 121 were children, 71 being less than a year of age. Aboard were 12 attendants, including doctors and nurses, and a flight crew of 11. The flight was accomplished with complete safety to all passengers.

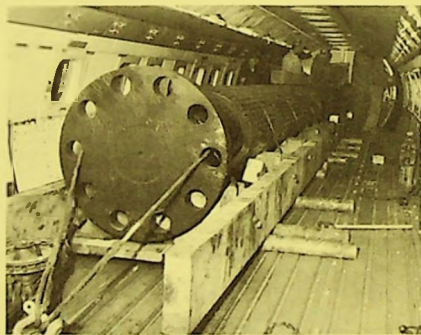
In the cargo category, the airline flew the largest single piece of airfreight ever carried, a 34,000-pound ship shaft from Newark, New Jersey to Palermo, Italy, for a disabled ship. It is significant that only the Super H Constellation equipment operated by the Company was able to handle a piece of freight of this size.

The Company also operated a number of flights from the United States to Greenland, carrying construction personnel and equipment for military base construction programs in the Arctic.

In still another large-scale cargo movement overseas, the Company's Super H Constellation aircraft flew 39,000 pounds of industrial gas-turbine rotors from Philadelphia to Venezuela for use in the Lake Maracaibo oil field.

Although such shipments are unusual, they produce a high level of revenue for the Company and the potential with the larger CL-44D equipment now on order is believed to be important. Because of the swing-tail loading design of the CL-44D and a much greater ease of loading, the Company feels that a substantial amount of new overseas charter business in large size freight can be developed for this aircraft.

Homeward bound soldiers board a Flying Tiger passenger ship at Tokyo, enroute to the United States. The airline flew more than 35,000 military personnel on its contract flights for the Military Air Transport Service last year.



Here is the largest single piece of airfreight ever flown—a 17-ton ship shaft transported from Newark to Palermo, Italy. The heavy skidding shown in the foreground was necessary to distribute the weight of the shaft along the floor of the airplane.

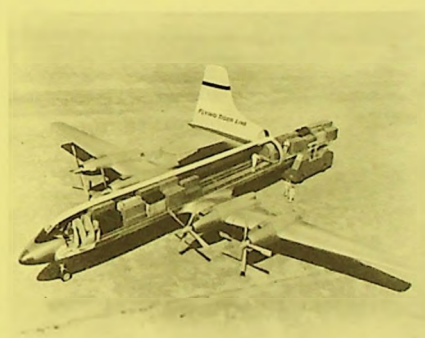
turboprop equipment

Scale model of Flying Tiger's new airfreighter now on order for 1961 delivery—the Canadair CL-44D. With a gross weight of 205,000 pounds, it is almost 50 per cent larger than the airline's present Super H Constellation, is 136½ feet long, has a cubic capacity of 7,375 feet, will carry a payload of 66,000 pounds and will cruise non-stop coast-to-coast at 386 miles an hour.



The new CL-44D airfreighters will be delivered to the Company in the Spring of 1961. The aircraft is powered by four Rolls-Royce Tyne engines of 5,730 horsepower each. This engine represents the most advanced turbine propeller design in existence today and its future development ensures future growth of the airfreighter.

The CL-44D airfreighter has been designed to American standards, employing American systems, materials and equipment and will be certified under United States Federal Aviation Agency regulations for both passengers and cargo. One of the most outstanding features of the aircraft is its hinged tail which is hydraulically operated and permits straight-in loading of cargo and facilitates the loading and unloading of the aircraft, through the use of a mechanized loading system, in the time taken to refuel.



A principal feature of the CL-44D is the swing tail loading design, permitting straight-in loading. The tail is hinged to the fuselage and swings aside for loading, thus greatly speeding up ground service and reducing costs. There is also a large forward cargo door just aft of the nose.

In May 1959 the Company placed orders with Canadair Limited and Rolls-Royce Ltd. for ten CL-44D turboprop airfreighters and related spare parts and engines, totaling \$51,000,000.

Your Company's decision to by-pass the pure jet in favor of a turboprop aircraft as the future airfreighter was based upon careful study. The ability of the CL-44D turboprop airfreighter to operate in and out of the present airports, the low operating cost per ton mile, the favorable ratio of cubic capacity versus payload, the ability to use the aircraft for both long range as well as medium range operations, were only a few advantages that outweighed the greater speed of the pure jet aircraft. Speed is not as important in airfreight operations as in passenger operations. Nevertheless, the new CL-44D turboprop airfreighter is 100 miles an hour faster than any piston type airfreighter in existence today, and is capable of overnight delivery coast to coast in any direction with ample time to spare.

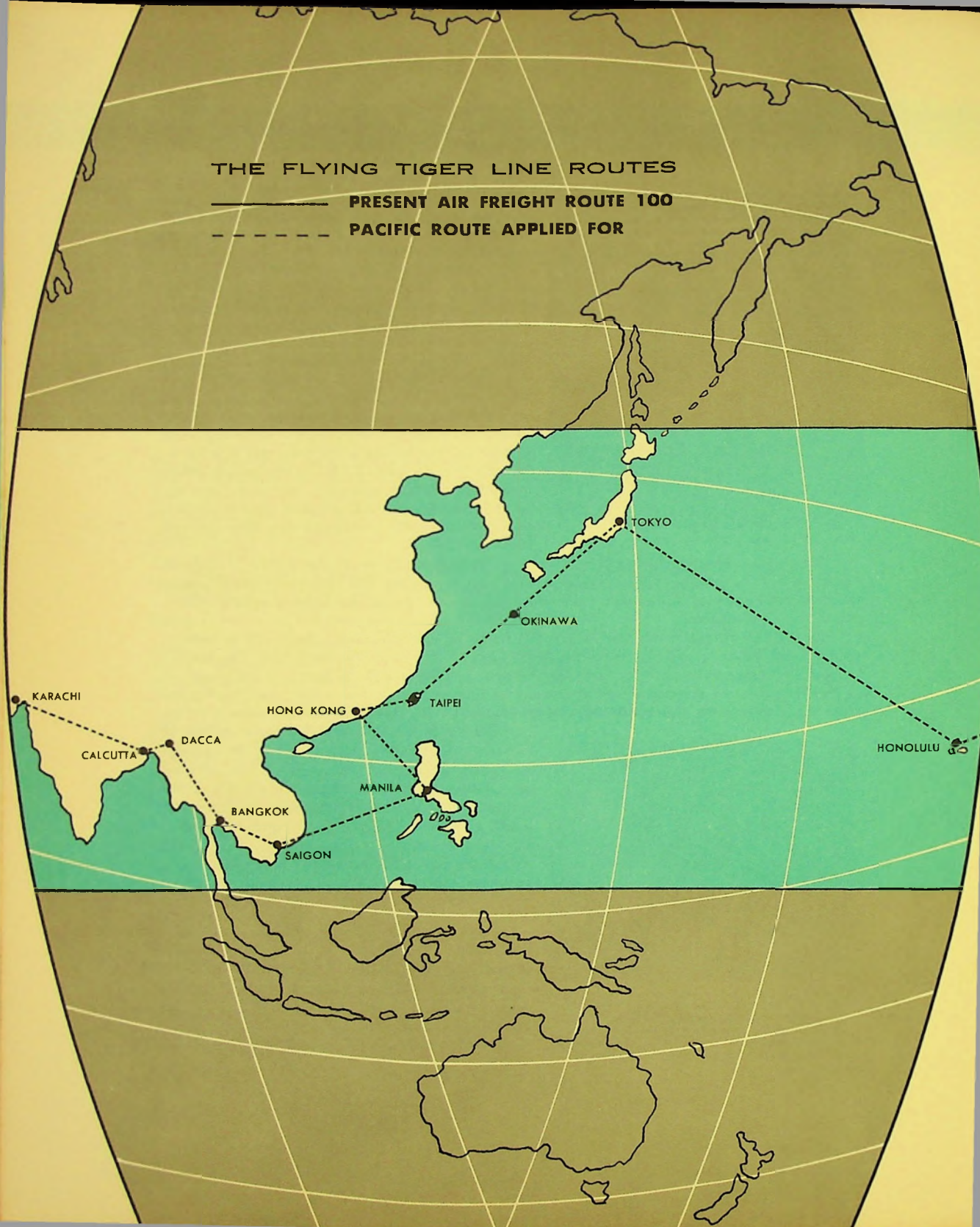
The direct operating cost per ton mile will be reduced approximately 35-40% from the present equipment operated by the Company. The economy of operation of the CL-44D airfreighter and the savings in the handling of the freight through mechanized systems, will permit the Company to compete with rates charged by surface carriers. The CL-44D aircraft compares with the 1049H Super Constellation as follows:

	1049H	CL-44D
Gross Take-off Weight—lbs.	142,000	205,000
Maximum payload—lbs.	40,000	66,000
Cubic capacity—cu. ft.	5,234	7,375
Average cruise speed—m.p.h.	289	386
Maximum range with maximum load—lbs.	2,130	2,840

THE FLYING TIGER LINE ROUTES

————— PRESENT AIR FREIGHT ROUTE 100

- - - - - PACIFIC ROUTE APPLIED FOR





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 specifically 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 scheduled for September 1959, the Company seeks 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. In its application for a permanent Certificate of Public Convenience and Necessity, the Company does not contend that a right to subsidy is required by all cargo carriers in order to finance their development and growth. At the present time the Company is facing strenuous competition from trunkline passenger carriers none of whom are currently receiving subsidy from the Civil Aeronautics Board. The Company is content to meet all the competition these carriers can offer as long as they do not compete with government funds from subsidy.

The Company has filed an application for a Certificate of Public Convenience and Necessity for a Trans-Pacific route which will effect an end-on-end junction with the Company's domestic trans-continental route. With a Trans-Pacific route the Company will supplement its large volume of military traffic over the route with commercial traffic.

The integration of the new turboprop CL-44D airfreighter into the Pacific area will permit a 60-70% reduction in present Trans-Pacific airfreight rates, thereby opening up large new markets, thus achieving economics and increasing volume for the domestic route.

the outlook

Even though air cargo is the fastest growing transportation industry today, air freight profits have been marginal in relation to the investment and effort invested in the business. The principal reasons for this lack of remuneration in relation to the industry's growth are the lack of economic aircraft with low operating costs per ton mile and the lack of large volume. The introduction of the Super H Constellation airfreighter into the Company's air cargo business in 1957 was an improvement over previous equipment used. Nevertheless, the economics of this type of aircraft still did not permit the air cargo industry to break into the large volume of cargo now moving via surface carriers.

The introduction of the turboprop CL-44D airfreighter in 1961 will reduce the cost per ton mile approximately 40% and is the first step towards the "break-through" period in the air cargo industry. In introducing this aircraft into the Company's air cargo operation, the Company will be faced with solving problems that were never faced with past and present equipment. The Company will have to devise and introduce new and novel methods of operating and handling air cargo. To supply the answers to these problems, the Company has created an "Airfreight Research Division" to prepare the most detailed and comprehensive study of the problems that will be encountered in the transition from the present equipment and method of operation to the "jet age" in the air cargo industry. It is the goal of the Company to effect savings in the cost of handling air cargo equal to the savings that will be enjoyed in direct operating costs via the turboprop CL-44D airfreighter.

Although both the Federal Aviation Agency and the Subcommittee on Military operations of the House Committee on Government Operations have taken a favorable stand towards the creation and operation of a National Air Cargo Fleet which would be instantly and wholly responsive to the Military needs on a timely basis, the methods presently employed by the Military to contract out its supplemental airlift requirements are destroying the essential means of establishing such a National Air Cargo Fleet. The Company, being the operator of the major portion of the National Air Cargo Fleet and having obligated itself to provide the largest and most efficient turboprop air cargo fleet to the Military needs in both peace and war, has a vital interest in securing Military traffic at rates returning the Company a reasonable profit.

It is the intention of the Company to seek the cooperation of the Military and the Civil Aeronautics Board in controlling such rates to foster the development of a National Air Cargo Fleet.

On July 16, 1959, the Postmaster General submitted to Congress a proposed bill requesting Congress for authority to move any class of mail by air whenever it is determined to be in the public interest. The Company is supporting the Postmaster General's application on the basis that it is the first step towards a tremendous and far reaching improvement in the mail service in the United States and will greatly enhance the sound development of the air cargo industry.



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, 1959, 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, 1959, but we satisfied ourselves by other auditing procedures with respect thereto. We had made a similar examination for the year ended June 30, 1958.

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, 1959, 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 4, 1959

THE FLYING TIGER LINE INC.

ASSETS	<u>1959</u>	<u>1958</u>
CURRENT ASSETS:		
Cash.....	\$ 3,834,795	\$ 2,181,636
Receivables—		
Freight customers.....	1,894,213	1,488,679
Charters, service sales, etc.—		
United States Government.....	2,166,898	2,439,732
Other.....	1,184,507	1,306,449
Reserve for bad debt losses.....	(100,000)	(65,000)
Materials and supplies, at average cost.....	794,706	719,133
Prepaid insurance, rents, etc.....	285,668	195,297
Total current assets.....	<u>\$10,060,787</u>	<u>\$ 8,265,926</u>
PROPERTY AND EQUIPMENT—Notes 1 and 2:		
Cost—		
Aircraft, engines and other flight equipment.....	\$30,972,921	\$26,952,795
Other equipment.....	1,266,281	1,266,414
Land and buildings.....	792,890	849,823
	<u>\$33,032,092</u>	<u>\$29,069,032</u>
Less—Reserves for depreciation.....	10,728,347	5,570,635
	<u>\$22,303,745</u>	<u>\$23,498,397</u>
Deposits on aircraft and engines on order.....	10,201,231	—
Equipment held for sale, net.....	291,325	1,023,480
	<u>\$32,796,301</u>	<u>\$24,521,877</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Long-term prepayments and receivables.....	\$ 406,292	\$ 631,786
Training and other costs applicable to new aircraft.....	—	398,954
Other.....	47,825	118,294
	<u>\$ 454,117</u>	<u>\$ 1,149,034</u>
	<u>\$43,311,205</u>	<u>\$33,936,837</u>

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

JUNE 30, 1959 AND 1958

LIABILITIES	<u>1959</u>	<u>1958</u>
CURRENT LIABILITIES:		
Current installments of debt.....	\$ 3,307,633	\$ 3,266,409
Accounts payable and accrued liabilities.....	3,983,111	3,333,213
Federal income taxes.....	321,000	—
Reserve for vacations.....	349,268	328,665
Advance charter deposits.....	250,690	267,103
Total current liabilities.....	<u>\$ 8,211,702</u>	<u>\$ 7,195,390</u>
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.....	\$ 5,950,738	\$ 8,428,542
5½% debentures due 1967 (subordinate).....	—	2,724,000
Series A 5½% debentures due 1967 (subordinate).....	500,000	500,000
5½% note, exchanged in August, 1959 for Series B 5½% debentures due 1974 (subordinate).....	3,000,000	—
Equipment purchase obligations— 5½% notes due 1961 (to be refunded with equipment trust certificates). Other.....	6,531,200 156,441	— 195,893
	<u>\$16,138,379</u>	<u>\$11,848,435</u>
DEFERRED CREDITS AND NONCURRENT LIABILITIES:		
Deferred income taxes.....	\$ 2,484,000	\$ 1,929,978
Deferred income, etc.....	150,067	576,368
Maintenance liability—leased airframes and engines.....	221,622	210,642
	<u>\$ 2,855,689</u>	<u>\$ 2,716,988</u>
CAPITAL STOCK AND SURPLUS:		
Preferred shares— Authorized, 500,000 shares of \$10 par value Outstanding, 99,112 shares Series A, five per cent cumulative.....	\$ 991,120	\$ 991,120
Common shares— Authorized, 2,000,000 shares of \$1 par value (at June 30, 1959, 314,515 shares were reserved for conversion of debentures and 70,000 shares for stock options)—Notes 3 and 5 Outstanding, 1,347,134 shares.....	1,347,134	983,635
Capital surplus.....	6,065,421	3,448,855
Earned surplus (Note 4).....	7,701,760	6,752,414
	<u>\$16,105,435</u>	<u>\$12,176,024</u>
	<u>\$43,311,205</u>	<u>\$33,936,837</u>

The accompanying notes are an integral part of these statements.

STATEMENTS OF INCOME AND SURPLUS

FOR THE YEARS ENDED JUNE 30, 1959 AND 1958

STATEMENTS OF INCOME

	<u>1959</u>	<u>1958</u>
OPERATING REVENUES:		
Scheduled freight operations.....	\$13,315,698	\$ 9,595,074
Charters, service sales, etc.....	21,264,238	24,265,475
Total.....	<u>\$34,579,936</u>	<u>\$33,860,549</u>
OPERATING EXPENSES:		
Flying operations.....	\$12,581,150	\$14,255,568
Ground operations.....	3,424,136	3,553,051
Maintenance.....	8,455,587	7,569,449
Sales, advertising and publicity.....	1,245,137	1,518,105
General and administrative.....	1,898,418	1,484,371
Depreciation and amortization.....	4,169,119	4,080,432
Total.....	<u>\$31,773,547</u>	<u>\$32,460,976</u>
Net income from operations.....	<u>\$ 2,806,389</u>	<u>\$ 1,399,573</u>
OTHER (INCOME) AND EXPENSE:		
Interest expense.....	\$ 774,958	\$ 803,672
Amortization of debt discount and expense.....	16,558	17,623
Miscellaneous (net).....	38,733	(277,500)
Total.....	<u>\$ 830,249</u>	<u>\$ 543,795</u>
Net income before Federal income taxes.....	<u>\$ 1,976,140</u>	<u>\$ 855,778</u>
PROVISION FOR FEDERAL INCOME TAXES—Note 7.....	965,000	412,000
Net income.....	<u>\$ 1,011,140</u>	<u>\$ 443,778</u>
SPECIAL ITEM:		
Gain on disposals of aircraft, less provision of \$52,000 and \$288,000 for income taxes in respective years, etc.....	380,226	864,004
Net income and special item.....	<u>\$ 1,391,366</u>	<u>\$ 1,307,782</u>
CAPITAL SURPLUS		
BALANCE AT BEGINNING OF YEAR.....	\$ 3,448,855	\$ 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 dividend of 49,181 shares over par value...	343,283	—
BALANCE AT END OF YEAR.....	<u>\$ 6,065,421</u>	<u>\$ 3,448,855</u>
EARNED SURPLUS		
BALANCE AT BEGINNING OF YEAR.....	\$ 6,752,414	\$ 5,494,188
ADD—		
From accompanying statement—		
Net income.....	1,011,140	443,778
Special item.....	380,226	864,004
Total.....	<u>\$ 8,143,780</u>	<u>\$ 6,801,970</u>
DEDUCT—		
Cash dividends on preferred stock—fifty cents per share.....	\$ 49,556	\$ 49,556
Five per cent common stock dividend—49,181 shares at fair value of \$7.98 per share.....	392,464	—
Total.....	<u>\$ 442,020</u>	<u>\$ 49,556</u>
BALANCE AT END OF YEAR (Note 4).....	<u>\$ 7,701,760</u>	<u>\$ 6,752,414</u>

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS—JUNE 30, 1959

(1) Aircraft:

At June 30, 1959, the company's fleet consisted of the following:

Type	Owned	Under Contracts	Total
1049-H.....	12	2	14
C-46—			
Operated.....	1	—	1
Leased to others.....	2	—	2
Held for sale.....	5	—	5
	<u>20</u>	<u>2</u>	<u>22</u>

Under the contracts covering the use of two 1049-H 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, 1959 would have aggregated \$3,566,374 for the two aircraft.

Four C-46 aircraft have been sold since June 30, 1959.

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:

Prior to June 30, 1959, the Company entered into purchase agreements for ten Canadair turboprop aircraft, with spare parts and engines, for delivery early in 1961, at a total cost of approximately \$51,000,000, to be financed principally by equipment trust certificates due 1961-1966, under equipment trust agreement dated June 1, 1959. The Company has also entered into a commitment for long-term lease of airport terminal facilities requiring payments of approximately \$80,000 annually, commencing in 1962.

(3) Debentures:

The Company issued \$5,000,000 principal amount of Series B 5½% debentures due 1974 (subordinate) in August, 1959, including \$3,000,000 exchanged for a 5½% note. The Series A and Series B debentures are redeemable at a premium of 10%, and are convertible into common stock until June 27, 1967 currently at a price of \$13.61 per share for the Series A debentures, and until June 27, 1969 at an initial price of \$18.00 for the Series B debentures.

(4) Restrictions under debt agreements:

The bank credit agreement, the debenture indentures, and the equipment trust agreement include restrictive provisions as to cash dividends on common stock, working capital, borrowings, capital expenditures, etc. Under the most restrictive of these provisions, the earned surplus at June 30, 1959 was restricted as to cash dividends on common stock.

(5) Capital stock options:

Options have been granted to certain key employees to purchase 68,200 shares of the Company's common stock, at a price of approximately \$8.523 per share, exercisable during the period from August 20, 1960 to February 20, 1961.

(6) Profit-sharing plan:

Provisions made under the Company's profit-sharing and retirement plan amounted to \$204,428 and \$100,000 for the respective years 1959 and 1958.

(7) Federal income taxes:

Provision for Federal income taxes for the respective years 1959 and 1958 includes \$687,000 and \$412,000 deferred through the deduction of accelerated depreciation for tax purposes. Federal income tax returns for the years 1952 through 1958 are presently being examined by the Internal Revenue Service, but the Company's management and its counsel believe that no material income tax deficiencies will be payable for these years.

THE FLYING TIGER LINE INC.

officers—

ROBERT W. PRESCOTT	President
FRED BENNINGER	Executive Vice-President - Treasurer
WILLIAM E. BARTLING	Vice-President—Research
FRANK B. LYNOTT	Vice-President—Operations
JOHN L. HIGGINS	Vice-President—Sales
GEORGE T. CUSSEN	Vice-President—Western Region Sales
NEIL B. BERROTH	Vice-President—Maintenance
L. S. KIMBALL	Vice-President—Public Relations
GEORGE S. OBERDORF	Vice-President—Assistant to the President
VLADIMIR ZIMMERMAN	Vice-President—European Sales
O. R. BURCHARDT	Secretary and Assistant Treasurer
NORMAN L. MEYERS	Assistant Secretary
RALPH B. STUMP	Assistant Secretary

directors—

SAMUEL B. MOSHER	Chairman of the Board
<i>Chairman of the Board of Signal Oil & Gas Company, Los Angeles</i>	
RUTH AXE	President, Axe Securities Corporation, New York
ALLEN T. CHASE,	President, Standardized Aircraft, Inc., Los Angeles
JOHN C. COSGROVE	Executive Vice-President,
<i>Marsh & McLennan-Cosgrove & Co., Los Angeles</i>	
BORIS GRESOV	Axe Science & Electronics Corp., 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	Farmers Insurance Group, Los Angeles

transfer agents—

THE CHASE MANHATTAN BANK
40 Wall Street
New York 15, N. Y.
BANK OF AMERICA
660 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.
Los Angeles, Calif.

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.

60-74 Broadway
Albany 4-8223

BINGHAMTON, N. Y.

Broome County Airport
Raymond 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

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

LONDON, ENGLAND

7 Jermyn Street
Trafalgar 1822

LOS ANGELES, CALIF.

Lockheed Air Terminal, Burbank
Triangle 7-3411

MIAMI, FLA.

141 N. E. Third Ave.
Franklin 1-3293

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.

2165 Kurtz St.
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

TOLEDO, OHIO

1831 E. Manhattan Blvd.
Cherry 4-4276



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