



## Financial Summary

For the year ended December 31,

(Amounts in thousands, except per share data)

	1987	1986
Revenues	\$1,231,896	\$1,110,948
Income (loss) from continuing operations	58,679	(45,063)
Loss from discontinued operations	(9,100)	—
Income (loss) before extraordinary credit	49,579	(45,063)
Extraordinary tax credit	8,200	—
Net Income (Loss)	\$ 57,779	\$ (45,063)
Income (loss) Per Share		
Continuing operations	\$ 1.61	\$ (1.45)
Discontinued operations	(.28)	—
	1.33	(1.45)
Extraordinary tax credit	.22	—
Net Income (Loss) Per Share	\$ 1.55	\$ (1.45)
Assets	\$ 995,812	\$ 883,457
Stockholders' equity	\$ 20,086	\$ (43,160)
Book value per common share	\$ .63	\$ (1.37)

As a result of the record performance of The Flying Tiger Line, 1987 was an outstanding year for Tiger International. Record financial results in 1987 were highlighted by significant revenue growth and strong operating margins. Income from continuing operations was \$58,679,000, an increase of \$103,742,000 from the prior year. Revenues were \$1,231,896,000, an 11 percent increase over 1986. We begin 1988 well positioned to build upon the strong financial and marketing base which we have established over the past year and a half.

### Flying Tigers' Record Results .....

The Flying Tiger Line achieved a record pretax profit of \$106,610,000 in 1987 on record revenues of \$1,191,680,000. Operating income was \$153,219,000 in 1987, a 12.9 percent margin, compared to \$70,240,000 in 1986, a 6.5 percent margin. The airline's higher margins were a result of both increased revenues and our company-wide effort to reduce costs.

Significant volume increases in Flying Tigers' major geographic markets reflected the general resurgence of American manufacturing. Flying Tigers' U.S. export volume grew by more than 14 percent, due primarily to a more competitive dollar, lower U.S. manufacturing costs and the lowering of foreign trade barriers. At the same time, Flying Tigers' eastbound transpacific and northbound Latin American markets enjoyed strong volume growth. Combined with our export growth, this resulted in higher systemwide load factors. Our prospects for generating increased revenues from new and existing customers in 1988 are excellent.

The addition of six DC-8 and one B-747 jetfreighter aircraft in 1987 allowed us to add frequency and capacity to meet growing international customer requirements, and to employ cost effective DC-8 aircraft in the United States and on lower density international routes.

Our Military Airlift Command (MAC) operations, one of the fastest growing segments of Flying Tigers' business, produced increased revenues in 1987. The interiors of our two B-747 passenger aircraft were completely refur-



James A. Cronin, III

bished, significantly upgrading the quality of this MAC service. Flying Tigers is the largest MAC contract air carrier for both freight and passengers.

### Employee Partnership Program .....

The successful introduction of a long-range marketing strategy, the refinancing of Flying Tigers' debt and the Employee Partnership Program all contributed to these record profits and revenues at Flying Tigers.

Our success last year was a direct reflection of the commitment and concerted efforts of our 6,500 employees worldwide. Based on our 1987 financial results we distributed \$16.5 million to employees participating in the Employee Partnership Program.

### Building on the Existing Base .....

We will continue to emphasize the delivery of superior service to our customers. Our marketing plan is based on developing programs that build revenues and increase customer satisfaction through consistently superior freight shipping and handling and the focused expansion of our global network.

These programs include:

- Introducing product and service improvements, both domestically and internationally, to increase revenues from present customers and attract new business;
- Raising service quality and reliability to higher levels;
- Introducing service to new geographic markets to take full advantage of the rapid growth in global trade;
- Developing our Columbus, Ohio, hub as a major international distribution center to further integrate our international and domestic network;
- Continuing to make capital investments in equipment and facilities; and
- Introducing further automation and information systems support for freight handling and control activities.

## Review of Operations

### Air Freight Operating Information

	1987	1986	1985
Scheduled Freight Service Revenue (\$000)			
United States	142,985	155,601	212,929
Pacific	689,407	599,781	544,177
Atlantic	82,010	83,848	105,368
Latin America	50,409	45,409	63,988
Total	964,811	884,639	926,462

### Sources of Operating Revenues (Percent)

Scheduled Freight Operations	81	82	83
Military Airlift Command	13	11	10
Charter	4	4	5
Other	2	3	2

Airfreight service is an expanding business worldwide. Flying Tigers operates the world's most comprehensive all-freight air system. In the past year we added significant new

capacity consisting of six DC-8-73 and one B-747 jet-freighter aircraft, which are now in service in the U.S. and internationally. We operate the largest fleet of Boeing 747 jetfreighter aircraft in the world—19 airplanes—and also employ 11 B-727 freighters in addition to six DC-8-73s.

## Competition in the Airfreight Industry

Competition in the worldwide airfreight marketplace is intense and will undoubtedly bring about a changing "mix" of players over the next few years. We have defined a market niche which we can both defend and expand, enabling us to maintain a market share leadership position overall and to increase our share in selected market segments.

Our goal is to provide consistently reliable and cost-effective freight handling services to shippers worldwide—regardless of their capacity, timing and destination requirements.

The underlying strength of worldwide airfreight transportation is that it represents an essential and uniquely positioned economic element in the increasingly global marketplace. We forecast a positive outlook for the industry over the next five years, largely because of the inherent demand for rapid freight shipping and delivery services, and the technological and management improvements which have been introduced by carriers in the past decade.

## International Distribution Center

With the recent inauguration of direct service from Europe to our hub facility, we are establishing an international distribution center in Columbus, Ohio. The Columbus center offers a full range of services at one location to international shippers, including brokerage services, Department of Agriculture inspection and U.S. Customs clearance. The airport in Columbus is also designated as a "foreign trade zone," which is expected to significantly expand the facility's import-export business in coming years.

This direct service is a true innovation in that, for the first time, we are integrating a global distribution system with a domestic network, using an "inland port" as an international distribution center. We believe that a commercial center with an airport exclusively dedicated to airfreight, such as Columbus, Ohio, is more efficient than the traditional gateway cities.

**Commitment to  
Quality**

Flying Tigers' 6,500 employees are committed to meeting our customers' global shipping requirements. Our goal is to provide consistent, superior service by maintaining standards of performance which give us a distinct competitive edge in the marketplace.



**Transpacific  
Capabilities**

Circle T-marked Flying Tigers' jet-freighters serve the Far East at Tokyo's bustling Narita Airport (shown). As the airline's major western Pacific base, the facility serviced 2,449 flight operations and handled 311,083,200 pounds of airfreight in 1987.

## Customer Support

Major customers employ on-site Flying Tigers' custom Key Information Air Cargo (KIAC) computerized shipment tracking system. The KIAC system (in background) provides up-to-the-minute information on schedules, freight location, U.S. Customs and other vital data, covering the most extensive airfreight route system in the world.



## Reliability

Columbus, Ohio, our principal U.S. hub, which handled 10,000 flight operations and more than 300 million pounds of freight in its second year of operation, integrates Flying Tigers' international and domestic system.

The Columbus facility is increasing the efficiency of our airfreight operations and enhancing the services available to our international and domestic customers, while reducing costs and transit times.

## Strong Marketing Thrust

The development of the Columbus center, combined with new products and improvements in existing services, will have far-reaching implications for our global network and our expanding domestic system.

International service enhancements in the 1987-88 period include the deployment of a newly acquired B-747-200 in October 1987—the 19th 747 freighter in our fleet; increased flights eastbound from Asia to the United States; new Bangkok, Thailand service; new Asia-to-Europe service; a joint venture for Asia-Canada service; the commencement of DC-8 weekend service to Europe and Asia; the inauguration of mid-week service eastbound from Europe to Asia, a segment of our fourth around-the-world service in these markets and direct service from Frankfurt, West Germany via Prestwick, Scotland into our Columbus hub and on to the Far East.

Our domestic system now reaches more than 50,000 locations with first-day delivery. Domestic service improvements in the past year include several new domestic schedules: 727 service to San Diego, California and Phoenix, Arizona; direct air service to Nashville, Tennessee and Richmond, Virginia; and, new DC-8 service in the United States.

In the first quarter of 1988, we have added new service from Europe and the United States to Auckland, New Zealand, increased frequencies from the United States to Australia, Asia-to-the United States and Europe. New service to Sri Lanka will begin later this year. Domestically, new service was commenced to Portland, Oregon and Peoria, Illinois.

## Hiring and Upgrading Opportunities

The airline has undertaken extensive pilot hiring, training and upgrading over the past year, as the result of adding six DC-8 and one B-747 jumbo freighter aircraft to the fleet. More than 200 new pilots have joined the company during this period, bringing to 850 the total number of pilots in the group. Approximately 550 newly hired, recalled and upgraded pilots have undergone training since the DC-8s entered service in January 1987. Addition of the DC-8 air-

craft has also expanded job opportunities for employees in the fields of maintenance, engineering and operations throughout Flying Tigers' worldwide system.

The DC-8 aircraft provides a medium load capability on both domestic and international routes to augment our long haul 747 aircraft and the shorter range 727 aircraft fleet. This flexibility improves customer service, increases scheduling flexibility and reliability and provides a better match-up of market demand and capacity.

## Additional Asian Base Under Development

Flying Tigers has signed a letter of intent concerning the development of an international airfreight facility at the New Chitose Airport in Hokkaido, Japan. When operational in 1990, the facility will accommodate additional Flying Tigers' operations and provide greater flexibility for the airline's operations at Tokyo's Narita Airport.

## Information Systems Support

A high priority area in 1987 was the expansion of information systems support of the airline's marketing, customer service, telecommunications and operations functions. Among major programs underway are:

- The installation of KIAC (Key Information Air Cargo) terminals at major customer locations, giving customers direct access to Flying Tigers' unique information system. KIAC provides immediate shipment, location, scheduling, customs and a variety of other current information relating to customers' shipping requirements.
- A new planning and control information system for management called MICA (Management Information of Core Activities) has been developed and was implemented in February 1988. MICA will support selected core activities in the strategic decision-making, planning, control and operations areas of our business.
- Electronic Data Interchange (EDI), which moves documents electronically, has been extended to major customers.

## Leadership in International Regulatory Positions

Flying Tigers has been a leader over the years in international regulatory matters.

A new joint study by U.S. Departments of Transportation and State recently concluded that: (1) Future air-freight policy-making must be separated from passenger-dominated air transportation issues; and (2) Such policies must be based on thorough economic evaluations of future exchanges of freight rights between the United States and foreign countries, and not on the trading of airfreight rights to secure passenger opportunities.

Based on its own initiatives and experience and the conclusions of the new joint study, Flying Tigers supports a fairer and more comprehensive international regulatory policy for the airfreight industry.

## IATA Ranks Flying Tigers Number One Again

Over the past year and one half we have aggressively implemented programs to build revenues, reduce costs and strengthen our financial structure. Our company began a significant revitalization effort in the fourth quarter of 1986. We are confident that this ongoing effort will substantially strengthen our company's leading position in the global air-freight marketplace, and are encouraged by IATA's recent ranking of Flying Tigers as the largest international air-freight company, in terms of "freight ton miles," for the seventh year in a row.

## Warren Transport

Warren Transport, our specialized trucking subsidiary, is a leading hauler of agricultural machinery in the United States. Warren continues to be profitable and successful in the turbulent over-the-road shipping marketplace. Warren Transport's revenues in 1987 were \$40,216,000, compared with \$36,612,000 in 1986. Pretax profits for the full year 1987 were \$2,528,000 compared to \$2,124,000 in 1986, an increase of 19 percent. To remain competitive, Warren has expanded its handling of construction materials and other commodities and has continued to strengthen its relationships with independent owner-operators, who are a vital part of Warren's service.

## Major Past Issues Resolved

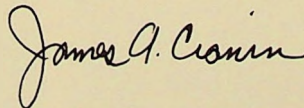
Based upon developments in current settlement negotiations, we can now reasonably estimate 1987 charges for the resolution of two litigation matters involving discontinued operations: one regarding transactions between the company and North American Car Corporation and a second involving Hall's Motor Transit Company and its multi-employer pension plans. Documentation of these settlements is expected to occur in the first quarter of 1988. Conclusion of the settlements will require certain court approvals and the satisfaction of other customary conditions.

In January 1988, we obtained the right to prepay the holders of certain indebtedness which originated with North American Car, at a significant discount. In March 1988, the net proceeds of a \$100 million financing and internally generated funds were used to prepay this obligation and to reduce Tiger International's outstanding debt by approximately \$35,000,000.

In connection with these developments, Tiger International recorded a provision of \$9.1 million (after tax), or \$.28 per share, as a charge to discontinued operations.

The company's financial position and outlook have been strengthened with the settlement of these matters, enabling us to focus entirely on the growth of our major subsidiaries, The Flying Tiger Line and Warren Transport.

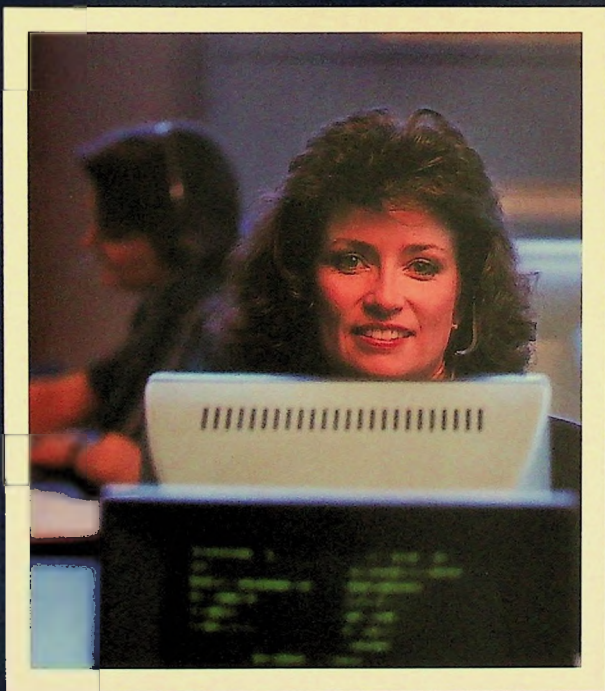
We thank our shareholders, customers and employees for their support in 1987. With Flying Tigers' improved market position, expanding geographic coverage and more competitive cost structure, we are enthusiastic about our ability to continue the progress we made in 1987.



James A. Cronin, III  
President

## Full Service

Flying Tigers' U.S. system, anchored by major facilities in Anchorage, Boston, Chicago, Los Angeles, Miami, New York and San Francisco, supports shipment of freight into and out of the world's largest single market — the United States. Our network serves 4,000 worldwide shipping points and 50,000 domestic U.S. locations on either next-day or deferred service basis.



## Responsiveness

Superior customer service demands fast action and accurate responses to customers' requests. Flying Tigers' reputation for service depends on rapid employee response to complex customer shipping requirements. Information systems are designed to provide critical support to customer service, marketing, telecommunications, ground support and flight operations.

## Officers

### Tiger International

**James A. Cronin, III**  
President

**Robert J. Harter, Jr.**  
Senior Vice President, General Counsel and Secretary

**Larry G. Morris**  
Senior Vice President and Chief Financial Officer

**Joseph K. McDonnell**  
Vice President, Contoller and Treasurer

### Flying Tigers

**James A. Cronin III**  
President and Chief Operating Officer

**Ronald D. Marasco**  
Senior Vice President—Operations

**Larry G. Morris**  
Senior Vice President and Chief Financial Officer

**Lawrence M. Nagin**  
Senior Vice President—Administration,  
General Counsel and Secretary

**Paul A. Stokes**  
Senior Vice President—Pacific Division

**Ned H. Wallace**  
Senior Vice President—International Sales and Service

**Thomas H. Barron**  
Vice President—Finance

**Michael P. Coffman**  
Vice President—Terminal Services

**Frank L. Forster**  
Vice President—Maintenance and Engineering

**Vance Fort**  
Vice President—International and Governmental Affairs

**Jack T. Kane**  
Vice President—Sales

**Roy A. King**  
Vice President—Atlantic Division

**Cyril D. Murphy**  
Vice President—Market Planning

**Donald E. Pritchett**  
Vice President—Flight Operations

**Richard L. Smith**  
Vice President—Information Systems

**Charles W. Thomson**  
Vice President—Human Resources

### Warren Transport

**Robert J. Molinaro**  
President and Chief Executive Officer

**Harold C. Andrews**  
Senior Executive Vice President—Secretary and Treasurer

**Kenneth R. Nelson**  
Executive Vice President—Director of Marketing

**Howard E. Peterson**  
Executive Vice President—Controller

**Richard L. Donnelly**  
Vice President—Director of Operations

## Directors

### Tiger International and Flying Tigers

**James A. Cronin, III**  
President—Tiger International, Inc.  
President and Chief Operating Officer—  
The Flying Tiger Line Inc.

**Lt. General (Ret.) Kelly H. Burke**  
Chairman of the Board—Stafford, Burke and Hecker  
(Aerospace Consulting Firm)

**The Honorable Gerald R. Ford**  
Former President of the United States of America

**Lowell C. Freiberg**  
Senior Vice President, Treasurer and Chief Financial  
Officer—Reliance Group Holdings, Inc. (Holding  
Company)

**Charles T. Manatt**  
Founder and Senior Partner—Manatt, Phelps, Rothenberg  
& Phillips (Law Firm)

**William E. McKenna**  
General Partner—McKenna Equities (Private Investment  
Company)

**Stephen M. Peck**  
Senior Vice President and Chief Investment Officer—  
Reliance Group Holdings, Inc. (Holding Company)

**William E. Schmied**  
Chairman of the Board and Chief Executive Officer—  
The Singer Company (Diversified Manufacturing  
Company)

**Saul P. Steinberg**  
Chairman of the Board and Chief Executive Officer—  
Reliance Group Holdings, Inc. and Reliance Group,  
Incorporated (Holding Companies)

**Ralph Strangis**  
Senior Partner—Strangis, Kaplan and Strangis (Law Firm)

# Form 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended December 31, 1987 Commission file number 1-6457

## Tiger International, Inc.

*(Exact name of registrant as specified in its charter)*

Delaware 95-2623176  
*(State or other jurisdiction of incorporation (I.R.S. Employer Identification No.)  
or organization)*

7401 World Way West, (213) 417-1081  
Los Angeles, California 90009 *(Registrant's telephone number, including area code)*  
*(Address of principal executive offices)*

Securities registered pursuant to Section 12(b) of the Act:

<i>Title of each class</i>	<i>Name of each exchange on which registered</i>
Common Stock, \$1 Par Value	New York, Midwest and Pacific Stock Exchanges
11½% Sinking Fund Debentures Due October 1, 1995	New York Stock Exchange
8½% Convertible Subordinated Debentures Due July 1, 2005	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. YES  NO

On March 25, 1988, 26,310,649 shares of registrant's Common Stock, \$1 par value, were held by non-affiliates. It is estimated that as of March 25, 1988, the aggregate market value of such stock was \$371,637,917 based upon the average high and low sale prices on such date.

On March 25, 1988, 32,445,037 shares of Common Stock, \$1 par value, were outstanding.

Information called for by Part III is incorporated by reference from registrant's definitive proxy statement for registrant's 1988 annual meeting of stockholders, which meeting will involve the election of directors. The proxy statement will be filed with the Securities and Exchange Commission prior to April 30, 1988, pursuant to Regulation 14A.

Tiger International, Inc.

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**ANNUAL REPORT ON FORM 10-K**

*Tiger International, Inc.*  
*December 31, 1987*

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\*\* Incorporated by Reference from Registrant's Definitive Proxy Statement for Registrant's 1988 Annual Meeting of Stockholders.

## Part I

### Item 1. BUSINESS.

Tiger International, Inc. (separately, "Tiger International" and, with its subsidiaries on a consolidated basis, "Tiger"), a Delaware corporation organized in 1969, is a holding company which engages through its subsidiaries in the air freight transportation and trucking businesses. Tiger International's principal executive offices are located at 7401 World Way West, Los Angeles, California 90009, and its telephone number is (213) 417-1081.

Tiger International's operating subsidiaries are The Flying Tiger Line Inc. ("Flying Tigers") and Warren Transport, Inc. ("Warren").

Information regarding Tiger's revenues, operating results and identifiable assets by business segment, together with geographic segment information, is included in "Note 3 — Business Segment and Geographic Data" of the "Notes to Consolidated Financial Statements."

### AIR FREIGHT OPERATIONS — FLYING TIGERS

Flying Tigers is a certificated air carrier primarily engaged in the common carriage of freight and mail over a worldwide route system integrating cities in the United States with Asia, Europe, the South Pacific, Latin America and the Middle East. Flying Tigers is the largest air freight carrier in the world as measured by freight revenue ton miles (one ton of revenue freight flown one mile) carried in 1986, based on statistics maintained by the International Air Transport Association ("IATA"), operates the largest fleet of B-747 freighter aircraft in the world and serves the largest scheduled worldwide route system of any all-freight air carrier.

Flying Tigers presently offers regularly scheduled service within the United States and throughout the world, as well as worldwide commercial charter service. Additionally, Flying Tigers provides both passenger and freight service to the Military Airlift Command ("MAC") and freight service to the United States Postal Service. Since 1975, MAC has granted Flying Tigers the largest annual contract of any air carrier to provide freight and passenger service to MAC. See "Item 1. Business — Air Freight Operations — Flying Tigers — Customers."

Flying Tigers is a 99%-owned subsidiary of Tiger International. See "Item 1. Business — Recent Developments — Flying Tigers." The predecessor corporation to Flying Tigers was incorporated under Delaware law in 1945 and in 1980 was merged with Seaboard World Airlines, Inc. ("Seaboard"), with the surviving corporation being renamed The Flying Tiger Line Inc.

Flying Tigers' principal executive offices are located at 7401 World Way West, Los Angeles, California 90009, and its telephone number is (213) 646-6161.

### General

Flying Tigers transports freight primarily through its aircraft and trucking operations. Air freight service is provided by 19 B-747 aircraft, 6 DC-8-73 aircraft and 11 B-727 aircraft that are owned or leased and operated by Flying Tigers. In addition, Flying Tigers ships freight by other airlines pursuant to interline arrangements whereby Flying Tigers utilizes the belly and main cargo deck capacity of other scheduled airlines. Trucking services are provided by nonaffiliated trucking companies under contracts with Flying Tigers. Passenger service is provided to MAC primarily by two B-747 passenger aircraft leased and operated by Flying Tigers.

Airport-to-airport shipments by freight forwarders and brokers constitute the principal component of Flying Tigers' international operations. Flying Tigers' domestic operations are comprised of both door-to-door and airport-to-airport service. See "Item 1. Business — Air Freight Operations — Flying Tigers — Scheduled Operations." The principal door-to-door customers are direct shippers, and the principal airport-to-airport customers are freight forwarders and brokers. See "Item 1. Business — Air Freight Operations — Flying Tigers — Customers."

The business of Flying Tigers is seasonal in nature, with the highest revenues of the year normally being recorded in the third and fourth quarters. See "Financial Statements and Supplementary Data — Selected Quarterly Financial Data (Unaudited)."

### **Scheduled Operations**

As of March 25, 1988, Flying Tigers provided international scheduled air service for both freight and mail between cities in the United States and Asia, Europe, Latin America, the South Pacific and the Middle East.

Flying Tigers' route structure includes scheduled international service to and from cities in Japan, the Republic of Korea, Hong Kong, Taiwan, the Philippines, Malaysia, Singapore, Thailand, Australia, New Zealand, Belgium, the Federal Republic of Germany, Italy, Switzerland, the United Kingdom, the Republic of Ireland, the United Arab Emirates, Canada, Brazil and Argentina. Flying Tigers serves France and the Netherlands through a trucking network comprised exclusively of services provided under contracts with nonaffiliated trucking companies.

As of March 25, 1988, Flying Tigers provided domestic scheduled air service for both freight and mail directly to airports in 36 United States cities and to San Juan, Puerto Rico.

Flying Tigers considers service to and from cities in the United States to be critical to its international operations. In an effort to enhance the integration of its domestic and international operations and to increase domestic revenues in 1987, Flying Tigers adjusted its flight schedules into and out of its central hub. Flying Tigers continually adjusts its operating and marketing emphasis on its international routes to improve the balance between inbound and outbound flights and to realign capacity to serve markets where the greatest demand for service exists. Flying Tigers intends to continue to utilize, to an increasing extent, trucking operators and interline arrangements to use the aircraft belly and main cargo deck capacity of other airlines in transporting freight both internationally and in the United States. However, Flying Tigers has decreased its usage of contract flying provided by other independent air carriers.

Flying Tigers is currently the largest United States air freight carrier serving the Asian market as measured by freight revenue ton miles. In recent years, the transpacific market has become increasingly significant to Flying Tigers' results of operations. The transpacific market accounted for \$544,177,000, \$599,781,000 and \$689,407,000 of Flying Tigers' revenues in 1985, 1986 and 1987, respectively. See "Item 1. Business — Air Freight Operations — Flying Tigers — Operating Information." In 1987, transpacific revenues increased 15%, reflecting an increase in revenue ton miles as demand increased both to and from that market. Transpacific revenues for the year ended December 31, 1986 increased by 10% from the transpacific revenues for 1985. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Flying Tigers expects that the transpacific market will continue to constitute its most significant business segment for the foreseeable future; however, there can be no assurance as to the level of future transpacific revenues, competition or results of operations. Flying Tigers intends to continue to devote a substantial portion of its resources to the transpacific market.

Flying Tigers expanded its route structure and improved directional balance in the transpacific market by launching B-747 scheduled service from the United States to Australia in 1983 and New Zealand in 1988. Flying Tigers offers charter service outbound from Australia and New Zealand to Asian markets. The integration of the South Pacific routes with previously existing transpacific routes enables Flying Tigers to generate additional revenue ton miles while positioning aircraft for the traditionally strong eastbound transpacific market. Further, in 1986, Flying Tigers expanded eastbound "around-the-world" scheduling whereby domestically originated freight is carried to the transatlantic market and the Middle East, European freight is carried to the Middle East and Asia and Asian freight is carried to the United States. In March 1987, consistent with Flying Tiger's marketing strategy to develop new markets, Flying Tigers added westbound "around-the-world" flights to service the growing Asia to Europe market while expanding capacity from Europe to the United

States. Flying Tigers is uniquely positioned to offer "around-the-world" freight service because it holds more authorizations to provide service to foreign countries than any other all-freight air carrier. Flying Tigers recently began offering airport-to-door service between Japan and the United States in addition to its traditional airport-to-airport service. Early in 1986, Flying Tigers began market testing an international airport-to-door service from Hong Kong to four major United States gateway cities. This service includes customs clearance in the United States and will be expanded to other international and domestic locations in 1988.

In October 1983, Flying Tigers established two European hubs, one located in London and the other in Frankfurt. Scheduled flights to France have been replaced by, and scheduled flights from Switzerland and Italy have been supplemented by, a high-speed trucking network connecting with the Frankfurt hub for international service.

Flying Tigers currently serves Latin America with scheduled service to and from cities in Brazil and Argentina. Latin American freight is well balanced between in-bound and out-bound destinations.

Comprehensive trade legislation is pending in Congress. If such legislation is enacted, import restrictions could be imposed on certain goods. Flying Tigers is unable to predict whether such trade legislation will be enacted or, if enacted, what effect such legislation would have on the business of Flying Tigers.

Flying Tigers' domestic door-to-door service is marketed directly to retail customers. In offering its domestic door-to-door service, Flying Tigers does not emphasize the express document segment of the domestic air freight market, but rather offers freight services to direct shippers of the type previously provided by the traditional freight forwarder. Flying Tigers is one of the few domestic air freight carriers that can transport freight shipments weighing in excess of 150 pounds. In its domestic operations, Flying Tigers currently offers both first-day and second-day delivery options and both guaranteed and nonguaranteed delivery times.

Flying Tigers has developed and has continued to expand its domestic trucking capabilities, which rely on nonaffiliated contract trucking services. Flying Tigers utilizes its trucking operations both to transport freight to and from airport terminal facilities and to transport freight from the shipper to the consignee. Flying Tigers operates an airfreight and trucking hub in Columbus, Ohio, which serves as Flying Tigers' principal domestic freight hub. The Columbus, Ohio air freight hub commenced operations in March 1986. In March 1987, the Columbus hub was designated part of a foreign trade zone by the Department of Commerce.

In 1985, 1986 and 1987, door-to-door service revenues represented 57%, 66% and 66% respectively, of all domestic scheduled service revenues. Although between 1983 and 1985 door-to-door revenues largely replaced the revenues lost in the declining airport-to-airport portion of Flying Tigers' domestic operations, overall domestic revenues did not increase significantly in such years. In 1986, total domestic revenues declined 27% from 1985 levels and in 1987 declined a further 8% from 1986 levels. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **Military Airlift Command**

The United States Air Force currently grants Flying Tigers the largest fixed MAC contract award of any air carrier. MAC contracts for both passenger and freight services are awarded annually on the basis of an airline's participation in the Civil Reserve Air Fleet ("CRAF"). Under CRAF, Flying Tigers has committed its entire B-747 aircraft fleet and its DC-8 aircraft fleet for use by the United States in certain national emergencies. If Flying Tigers' aircraft are requisitioned in such an emergency, Flying Tigers will be compensated by the United States for use of the aircraft.

Revenues from MAC charters were \$105,680,000 in 1985, \$113,528,000 in 1986 and \$155,841,000 in 1987. Flying Tigers was awarded MAC contracts, subject to expansion based upon

availability of aircraft, for the fiscal years commencing October 1984, 1985 and 1986 of \$60,833,000, \$74,377,000 and \$99,049,000, respectively. The increases in the fixed portion of the MAC contract reflect the fact that Flying Tigers' aircraft represented a greater portion of all aircraft committed to CRAF in that year. MAC changed to a calendar year basis effective January 1, 1988. Pending the final award for the fiscal year 1988, Flying Tigers is serving MAC on the basis of extension of the prior year's contract.

MAC contracts contain standard provisions that make them subject to renegotiation and to termination at the convenience of the United States.

#### **Commercial Charters**

Flying Tigers provides commercial freight charters throughout the world and thereby supplements the utilization of aircraft by the scheduled service markets. Total commercial charter operations generated revenues of \$56,132,000 in 1985, \$46,682,000 in 1986 and \$45,018,000 in 1987. Charter revenues in 1985 increased \$13,527,000 as compared to 1984. This increase reflects the increased availability of B-747 aircraft due to the decline in the demand for transpacific scheduled services. The decline in commercial charter revenues in 1986 compared to 1985 reflects a reduction of charters from the United States and Europe to the transpacific market and the reduction of one B-747 freighter aircraft from the fleet early in 1986. The decline in commercial charter revenues in 1987 reflects the lack of aircraft availability due to their use in the growing scheduled services and MAC markets. Charters to the transpacific market increased in 1987, allowing Flying Tigers to position aircraft for scheduled service return flights to the United States. However, charters from the United States to Japan are limited by the U.S.-Japan bilateral agreement. Charters to the transatlantic market have declined due to competition, demand and aircraft availability. In 1987, Flying Tigers received approval from the Department of Transportation ("DOT") for a joint venture previously approved by the General Administration of Civil Aviation of China ("CAAC"). This joint venture with CAAC provides for an exclusive worldwide agreement for B-747 charters into the Peoples Republic of China from points in the United States, Europe and Australia.

## Operating Information

The following table presents certain information relating to Flying Tigers' scheduled and non-scheduled freight and passenger (including MAC) operations for the periods indicated. The load factors (percentage of capacity utilized) in the table are based on weight. On a volume basis such load factors would be higher since capacity tends to be limited more by volume than by weight.

	For the Year Ended December 31,		
	1985	1986	1987
<b>Revenues (000's)</b>			
<b>Scheduled Freight Operations</b>			
Domestic .....	\$ 212,929	\$ 155,601	\$ 142,985
Transpacific .....	544,177	599,781	689,407
Transatlantic .....	105,368	83,848	82,010
Latin America .....	63,988	45,409	50,409
<b>Total Scheduled Freight Operations .....</b>	<b>926,462</b>	<b>884,639</b>	<b>964,811</b>
Commercial Charters .....	56,132	46,682	45,018
Military Airlift Command .....	105,680	113,528	155,841
Rentals, Service Sales and Other .....	20,748	29,487	26,010
<b>Total Revenues .....</b>	<b>\$1,109,022</b>	<b>\$1,074,336</b>	<b>\$1,191,680</b>
<b>Scheduled Freight Capacity (000's)</b> (available ton miles)			
Domestic .....	471,335	460,048	444,034
Transpacific .....	2,195,494	2,153,498	2,451,896
Transatlantic .....	458,390	409,116	407,453
Latin America .....	207,454	171,972	181,019
<b>Total Scheduled Freight Services .....</b>	<b>3,332,673</b>	<b>3,194,634</b>	<b>3,484,402</b>
<b>Load Factor (percentages)</b>			
Scheduled Freight Services .....	67.9%	69.4%	73.0%
<b>Yield (revenue per revenue ton mile) (cents)</b>			
Scheduled Freight Services .....	41.0¢	39.9¢	38.0¢
<b>Revenue Per Pound (cents)</b>			
Scheduled Freight Services .....	98.1¢	105.1¢	105.3¢

## **Customers**

Flying Tigers' international freight customers are principally freight forwarders, brokers and freight agents.

Flying Tigers' domestic freight customers are principally direct shippers. As a result of the 1978 deregulation of the domestic air freight business, Flying Tigers lost a significant amount of its traditional airport-to-airport business between 1982 and 1986 as certain of its former customers — freight forwarders, brokers and cargo agents such as UPS, Burlington Air-Express, Emery, Airborne and CF Airfreight — purchased or leased aircraft for use directly in their operations. Declining airport-to-airport revenues had been supplemented by revenues from door-to-door service provided directly to shippers, and overall domestic revenues generally increased between 1982 and 1985. However, in 1986 and 1987 domestic revenues declined 27% and 8%, respectively. See "Item 1. Business — Air Freight Operations — Flying Tigers — Scheduled Operations" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." The customer base for the domestic door-to-door service is principally comprised of medium-sized and large national accounts. Flying Tigers does not emphasize the express document segment of the market, but rather offers freight services to the direct shipper of the type previously provided by the traditional freight forwarder. Flying Tigers is one of the few domestic air freight carriers that can transport freight shipments in excess of 150 pounds.

Approximately 13% of Flying Tigers' business in 1985, 14% in 1986, and 16% in 1987, respectively, was attributable to two agencies of the United States Government: MAC and the United States Postal Service. No other customer constituted 10% or more of Flying Tigers' total revenues. MAC charter rates are determined by MAC based upon average costs for participating carriers. Prior to January 1, 1985, international and domestic service mail rates were established by the Civil Aeronautics Board ("CAB"). The Airline Deregulation Act of 1978 provided for the dissolution of the CAB on January 1, 1985; however, its remaining functions were transferred to and continued by the DOT. Since January 1, 1985, international mail rates have been established by the DOT. Domestic service rates are determined by a negotiating and bidding process with the United States Postal Service.

## **Fuel Costs**

The cost of Flying Tigers' air freight operations is significantly influenced by the price of aviation fuel, which is a significant component of Flying Tigers' total operating costs. Currently, every \$.01 change in the price-per-gallon of fuel changes annual expenses by approximately \$3,200,000. The average cost-per-gallon of fuel dropped from \$.85 in 1985 to \$.60 in 1986 and \$.58 in 1987. Significant fuel price decreases were being realized throughout most of 1986 and early 1987. However, prices began to increase in the second half of 1987. No assurance can be given that fuel prices will maintain current levels or decline, or will not increase in the future. Moreover, the decrease in fuel prices is an industry-wide savings that benefits Flying Tigers' competitors as well. Accordingly, lower fuel prices may result in increased price competition. In addition, Flying Tigers may be unable to increase its prices in response to increases in fuel prices. The effect of changing crude oil prices on the price of aviation fuel is not experienced immediately, but rather only after the time necessary for refining and marketing. Flying Tigers has fuel supply contracts, most of which are one year in duration and provide for sales of fuel at market prices prevailing at the date of sale. Flying Tigers' fuel supply contracts provide for an amount of fuel currently estimated to be adequate for its anticipated needs. However, such contracts do not provide protection against price increases.

## **Domestic Regulation of Air Transport Industry**

Flying Tigers is subject to the Federal Aviation Act under which the DOT and the Federal Aviation Administration ("FAA") and, in certain cases, the President of the United States, exercise jurisdiction over various phases of its business.

Generally, under the current regulatory environment, air freight carriers are permitted to provide air freight service between any points in the United States, Puerto Rico and the Virgin Islands and to price such service at any level or in any manner so long as such prices are not unduly discriminatory, prejudicial, preferential or predatory. The DOT's jurisdiction also extends to several other aspects of Flying Tigers' business, including its accounts and records, certain mergers and acquisitions of control, consolidations, interlocking relations, competitive practices and cooperative agreements. The FAA is concerned with the regulation of flying operations, including matters dealing with safety, aircraft, personnel and ground facilities.

#### **International Route Authorizations and Rates**

Certificates of Public Convenience and Necessity previously issued by the CAB pursuant to Section 401 of the Federal Aviation Act (and issued by DOT since January 1, 1985) authorize Flying Tigers to operate its Asian, South Pacific, European and Middle Eastern routes. Flying Tigers holds exemption authority, which must be renewed periodically, issued pursuant to Section 416 of the Federal Aviation Act to operate its all-freight services to Brazil, Argentina, New Zealand and Canada. Subject to the foregoing and with the exception of Japan, Flying Tigers holds permanent certificate authority from the United States for all other international points it now serves. Flying Tigers' authority to serve Japan, first granted in 1968, was issued on a temporary basis and must be renewed periodically. In March 1988, Flying Tiger's authority to serve Japan was renewed for an additional five years. Flying Tigers will continue in the future to make timely application for all renewals and has no reason to believe that such renewals will not be granted.

Although the domestic portion of Flying Tigers' business has been substantially deregulated, the DOT regulates international routes, fares, rates and practices and is authorized to investigate and take action against discriminatory treatment of United States air carriers abroad. The right of a foreign carrier to provide service into the United States and of a United States carrier to service foreign points is subject to the DOT's approval and generally requires a bilateral agreement between the United States and such foreign carrier's government. Flying Tigers must then be granted the permission of such foreign government to provide specific flights and services. See "Item 1. Business — Air Freight Operations — Flying Tigers — Competition." Flying Tigers has been granted authorizations to operate between more foreign countries and the United States than any other all-freight air carrier.

Flying Tigers is a member of IATA, as are most major United States and foreign international air carriers. Rates for services over international routes are usually established by member agreements at periodic IATA Traffic Conferences. Such agreements are subject to approval by the DOT (and when so approved are exempted from the antitrust laws of the United States) and, generally, by the foreign governments having jurisdiction over the points served.

#### **Environmental Regulations**

Flying Tigers must comply with the Aviation Safety and Noise Abatement Act enacted in 1980 and with engine emissions regulations promulgated under the Clean Air Act of 1970. Certain of the airports at which Flying Tigers operates have adopted noise abatement regulations which to date have not had a significant impact on Flying Tigers' overall operations.

#### **Other Regulations**

The Federal Communications Commission has jurisdiction over certain aspects of the operations of airlines due to the use of radio facilities. In addition, the National Mediation Board has jurisdiction over the labor relations of Flying Tigers under the Railway Labor Act, as amended.

#### **Competition**

The air freight industry is highly competitive. Competition is based on a combination of factors, primarily price and such service-sensitive factors as the frequency and capacity of scheduled service, geographic coverage and reliability. Flying Tigers currently holds certificates of authority to serve

more foreign countries than any other United States air freight carrier. Flying Tigers' extensive scheduled international route structure enables it to offer single-carrier service to many international points not offered by its principal domestic all-freight competitors. With respect to international inbound and outbound air freight service, Flying Tigers' scheduled service to and from cities in the United States combined with its domestic air freight and trucking coverage enables it to offer shippers of international freight more extensive single-carrier service to a greater number of United States cities than most of its international competitors. However, in the international air freight market, many of Flying Tigers' competitors are government-owned, controlled or subsidized. As a result, such competitors may have greater resources, lower costs, less profit sensitivity and more favorable operating conditions in particular markets than Flying Tigers. In addition, many of Flying Tigers' foreign competitors have lower labor costs than Flying Tigers.

The transportation of international freight is generally governed by bilateral agreements between United States and the governments of the foreign countries. Such bilateral agreements regulate, among other things, competition. Competition has increased on routes between the United States and certain European and Asian countries because of the United States Government's "open skies" policies, which provided greater access to the United States market for foreign carriers based in countries that grant United States carriers reciprocal rights. Transatlantic competition is particularly intense, which has adversely affected revenues in that market. Flying Tigers has decided to reallocate some of its capacity from transatlantic to other international markets and to offer additional services, such as "around-the-world" flying from Europe to the Middle East and Asia, to improve its market position in the transatlantic market and to achieve a better balance of freight movement between markets. In certain other foreign countries, such as Japan, the right of such countries' air carriers to provide service into the United States and the right of a United States air carrier to service points in such foreign countries is controlled by bilateral agreements between the United States and such foreign countries. Accordingly, competition may be lessened in such foreign countries.

In May 1985, Nippon Cargo Airlines ("NCA"), a new Japanese all-cargo airline, initiated transpacific operations between Tokyo and San Francisco and New York. A majority of NCA is owned by Japanese steamship companies and air freight forwarders. NCA's fleet consists of four B-747 aircraft. NCA currently is operating nine scheduled roundtrip all-freight flights per week. NCA is permitted to fly only to San Francisco and New York. NCA's current scheduled service to the United States represents 12% of the total freight capacity provided by scheduled all-freight carriers transporting freight between Japan and the United States.

Pursuant to a memorandum of understanding between the governments of the United States and Japan, two additional U.S. carriers each were granted rights to one daily flight between the United States and Japan and will carry freight in the bellies of aircraft on such flights, and the DOT was authorized to select a United States carrier to commence small package service to Japan. Federal Express Corp. was selected for this service. Flying Tigers expects that in the future it will be subject to additional transpacific competition from both Japanese and United States air carriers.

Flying Tigers' major transpacific competitors are Japan Air Lines, Northwest Airlines, China Airlines, NCA, Singapore Airlines, Korean Air, United Airlines, Qantas Airways and Air New Zealand. Flying Tigers' major transatlantic competitors are Air France, Alitalia, British Airways, Cargolux, Emery Air Freight, Federal Express, KLM-Royal Dutch Airlines, Lufthansa, PanAm, Sabena, Scandinavian Airlines, Swissair and Trans World Airlines. In Latin America, Flying Tigers' major competitors are Varig, PanAm and Aerolineas Argentinas.

The Airline Deregulation Act of 1978 has promoted domestic competition by enabling carriers to enter and depart air freight routes with greater freedom, reducing the authority of the United States Government to control fares and enhancing the ability of persons not already engaged in aviation to commence operations without United States Government approval. Domestically, a number of airlines as well as freight transportation and forwarding companies, some of which were previously significant customers of Flying Tigers, have commenced or expanded operations in the air freight

market since deregulation, greatly increasing competition in that market. See "Item 1. Business — Air Freight Operations — Flying Tigers — Scheduled Operations."

In its domestic door-to-door delivery market, Flying Tigers competes primarily with Emery, UPS, Burlington Air-Express, CF Airfreight, Airborne and Federal Express. In the domestic airport-to-airport market, Flying Tigers competes with most of the major passenger air carriers, which transport freight not requiring main cargo deck capabilities in the bellies of their passenger aircraft.

#### **Employee Relations**

On March 1, 1988, Flying Tigers employed 6,445 persons, of which 5,684 were full-time employees and 761 were part-time employees; 731 of the employees were employed outside the United States. About one-half of Flying Tigers' employees are covered by contracts with labor unions which conform generally to the pattern of labor agreements in the passenger airline industry rather than to the nonunion environment of the air freight industry. In addition, certain of Flying Tigers' contracts with labor unions contain provisions necessary to comply with the labor laws of the various foreign countries in which Flying Tigers operates. Flying Tigers' labor contracts are for varying terms, generally thirty-six to forty-two months.

Flying Tigers' labor contracts are with the Air Line Pilots Association, International ("ALPA"), the International Association of Machinists AFL/CIO ("IAM") and the International Brotherhood of Teamsters ("IBT"), which represents flight attendants and ground school instructors. In November and December 1986, Flying Tigers entered into a memorandum of understanding with pilots represented by ALPA and letter agreements with employees represented by IAM and IBT, respectively, providing for wage concessions, work rule changes and other cost reduction measures. These agreements cover approximately 50% of Flying Tigers' employees, and with the exception of the ALPA agreement, which did not require ratification, were ratified by the respective members. These agreements will provide Flying Tigers with increases in productivity and reductions in labor costs of approximately \$58,000,000 annually through May 1990, based upon 1986 labor costs. In addition, in December 1986, Flying Tigers implemented certain wage and other reductions with respect to its nonunionized staff and eliminated approximately 124 management and sales positions resulting in additional cost savings.

To encourage the efforts of its employees by creating an ownership stake in Flying Tigers and to compensate participating employee groups for wage and other concessions and work rule changes that have been or will be made, Flying Tigers agreed to implement a program comprised of two basic components, an equity component and a profit sharing component. The equity component consists of the issuance of a master warrant to a trustee for the benefit of eligible participants representing 1,818,950 warrants exercisable into equivalent number of shares of Flying Tigers' common stock at an exercise price of \$1.00 per share during the period commencing on December 1, 1989 and ending May 31, 1990 ("Warrant"). However, Flying Tigers may exercise limited rights of redemption or substitution prior to such date. In the event there is no active market for the common stock of Flying Tigers, Tiger International may be required, under an agreement with Flying Tigers, to issue substitute warrants to purchase 1.8 million shares of Tiger International Common Stock or issue 1.8 million shares of Tiger International Common Stock. The profit sharing component consists of an agreement to pay eligible participants 15% of Flying Tigers' income (as defined in the agreement) in excess of \$10,000,000 for each of the years ending on December 31, 1987, 1988 and 1989 and in excess of \$4,166,000 for the five months ending on May 31, 1990. For the year ended December 31, 1987, Flying Tigers paid, in March 1988, \$16,516,000 under the terms of the profit sharing plan. In addition, Flying Tigers has agreed in principle to permit all employees participating in the Employee Partnership Program, collectively, to designate one member of Flying Tigers' Board of Directors.

#### **Liquidity of Flying Tigers**

With its cash and short-term investments of \$248,014,000 at December 31, 1987, Flying Tigers anticipates no liquidity problems in 1988. Nonetheless, Flying Tigers is subject to a high degree of

financial leverage. Flying Tigers' long-term indebtedness and capitalized lease obligations as of December 31, 1986 and December 31, 1987 aggregated approximately \$471,813,000 and \$473,199,000, respectively. Net stockholders' equity was \$124,842,000 and \$206,552,000 at December 31, 1986 and December 31, 1987, respectively. In April 1987 Flying Tigers refinanced a substantial portion of its indebtedness. In March 1988, Flying Tigers obtained a new \$50,000,000, unsecured line of credit to be used as an additional source of cash when and if necessary. See "Item 1. Business — Recent Developments — Flying Tigers." See also "Item 1. Business — Tiger Recent Financial Performance and Liquidity" and "Item 7. Management's Discussion and Analysis and Financial Condition and Results of Operations."

#### **TRUCKING — WARREN**

Warren, which was acquired in 1981, is primarily a specialized truckload hauler of heavy machinery and other commodities that require special equipment. Warren is authorized by the Interstate Commerce Commission (the "ICC") to operate in interstate or foreign commerce as a motor common carrier of general commodities between all points in the United States. Warren also is authorized by the Ontario Highway Transport Board to operate in the Province of Ontario and by the applicable state commissions to operate in intrastate commerce in six Midwestern states.

Warren's operating revenues were \$38,023,000 in 1985, \$36,612,000 in 1986 and \$40,216,000 in 1987. Warren handled 407 million ton-miles in 1985, 402 million ton miles in 1986 and 433 million ton miles in 1987. Warren's operating ratio was 93.9% in 1985, 95.7% in 1986 and 94.9% in 1987. A significant portion of Warren's business is performed for Deere and Company. As of December 31, 1987, Warren owned 23 tractors (switch only) and 1,277 semi-trailers. Warren leases truck tractors with drivers from owner-operators.

For further information concerning the operations of Warren, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **Regulation of the Motor Carrier Industry**

Warren is subject to the Interstate Commerce Act, under which the ICC and the DOT's Bureau of Motor Carrier Safety exercise jurisdiction over various phases of each carrier's business.

Trucking companies operate pursuant to certificates of public convenience and necessity or contract carrier permits issued by the ICC. These certificates and permits specify the commodities that can be hauled and the territory in which a carrier can operate. The ICC also has jurisdiction over rates, mergers, acquisitions and certain issuances of securities. Carriers set their own rates subject to ICC review to assure that such rates are not prejudicial, preferential, predatory or unduly discriminatory. The Motor Carrier Act of 1980 imposed restrictions on collective ratemaking activities by trucking companies, but has allowed greater pricing flexibility for carriers independently setting rates.

The Bureau of Motor Carrier Safety is concerned with the safety of motor carrier operations, including the general safety of a carrier's operators and equipment and the qualifications and the maximum hours of service of drivers.

Warren is subject to economic regulation by regulatory agencies of the states in which it is authorized to transport intrastate traffic and by the provincial agencies of Canada. Warren's operations are also subject to administrative regulation by all the jurisdictions in which it operates.

#### **Competition**

The motor carrier industry is highly competitive. Warren competes with other motor common carriers, motor contract carriers, private carriers and railroads. The operating certificates and permits granted to Warren do not give it exclusive rights in any of the areas in which it does business. A substantial number of carriers operate within the same areas served by Warren. Further, the ICC, various state regulatory agencies and the provincial agencies in Canada may authorize operations by

additional carriers in the same areas of interstate, intrastate and foreign commerce now served by Warren. However, some showing of public need must be made before these regulatory agencies will authorize service by additional carriers. The Motor Carrier Act of 1980 has substantially lessened the burden of proof that the ICC requires to authorize operations by additional carriers.

#### **Rates**

The rates and charges assessed by Warren for regulated interstate transportation are on file with the ICC. Regional tariff bureaus, on behalf of their members, including Warren, publish revisions of rates and charges subject to the approval of the ICC. Due to the changing regulatory and market environment, many carriers, including Warren, have improved pricing flexibility by issuing and filing individual carrier tariffs with the ICC.

While rate increases have generally been granted to cover increased costs incurred by carriers, there can be no assurance that further rate increases will be sufficient to offset future increases in wages and expenses, or that rate increases will follow these increases promptly.

#### **Cost and Availability of Fuel**

Warren primarily uses owner-operators who are responsible for purchasing their own fuel.

#### **TIGER EMPLOYEES**

As of March 1, 1988, Tiger had approximately 6,600 employees.

#### **DISCONTINUED OPERATIONS**

##### **Hall's Motor Transit Company**

On March 10, 1986, Hall's filed a voluntary petition for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code").

See "Note 7 — Contingencies and Legal Actions" of "Notes to Consolidated Financial Statements" for a discussion of a settlement of a claim alleged against Tiger International and its subsidiaries based on the withdrawal liability of Hall's under the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPAA").

##### **Railcar Services**

Through subsidiaries of Tiger Leasing Group, Inc. ("Tiger Leasing Group"), Tiger previously engaged in the railcar and aviation services businesses and other leasing activities. On December 5, 1984, Tiger Leasing Group and certain of its subsidiaries filed voluntary petitions for reorganization under the Bankruptcy Code. See "Item 1. Business — Tiger Leasing Group Chapter 11 Proceedings."

Tiger accounted for North American Car Corporation ("North American") as a discontinued operation effective December 31, 1983. On December 5, 1984, North American filed a voluntary petition for reorganization pursuant to Chapter 11 of the Bankruptcy Code. See "Item 1. Business — Tiger Leasing Group Chapter 11 Proceedings," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements."

#### **TIGER RECENT FINANCIAL PERFORMANCE AND LIQUIDITY**

In 1987, Tiger reported net income of \$57,779,000 (\$1.55 per share). For the years 1985 and 1986 Tiger experienced net losses of \$72,687,000 (\$2.69 per share) and \$45,063,000 (\$1.45 per share), respectively. In 1987, Tiger reported income from continuing operations and before extraordinary credit of \$58,679,000; in 1985 and 1986, Tiger reported losses from continuing operations of \$57,187,000 and \$45,063,000, respectively. Tiger's stockholders' equity at December 31, 1987 was \$20,086,000. At December 31, 1986 stockholders' equity was a deficit of \$43,160,000 and at December 31, 1985 was a deficit of \$4,462,000. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Tiger International's cash requirements for 1988, excluding cash requirements associated with settlements relating to lawsuits involving discontinued operations and excluding the planned acquisition of the minority stockholders' interests in Flying Tigers, are estimated to be approximately \$30.0 million. See "Item 1. Recent Developments — Tiger International". At December 31, 1987, Tiger International had cash balances of approximately \$2.4 million. However, Tiger International anticipates satisfying all its 1988 cash requirements by application of dividends and tax payments it expects to receive from Flying Tigers. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Tiger International has not paid a dividend on its Common Stock since the fourth quarter of 1981 and is presently prohibited by the terms of its Senior Secured Extendable Reset Notes from paying dividends (other than dividends in Common Stock) until at least 1993.

## **RECENT DEVELOPMENTS**

### **Tiger International**

In May 1985, the Bankruptcy Court approved a settlement among Tiger International, North American and the North American Bank Lenders of Tiger International's obligations to North American under a promissory note in the original principal amount of \$132 million. As part of the settlement, Tiger International issued a new \$96.9 million promissory note to North American (the "Tiger International Note"). The Tiger International Note was secured by a pledge of 47% of the common stock of Flying Tigers. At December 31, 1987, the outstanding balance of the Tiger International Note, including accrued and capitalized interest, was \$131.7 million. In March 1988, Tiger International repaid this obligation, at a substantial discount, using cash and the proceeds from the issuance of \$100 million of Senior Secured Extendable Reset Notes. To secure performance of its obligations under the Senior Secured Extendable Reset Notes, Tiger International pledged 51% of the outstanding common stock of Flying Tigers. The terms of this financing are described in "Note 4 — Long-term Debt" of "Notes to Consolidated Financial Statements." See also "Note 1 — Discontinued Operations" of "Notes to Consolidated Financial Statements."

In the first quarter of 1988, Tiger International reached agreements in principle regarding settlements of (1) a lawsuit filed by North American against Tiger International in 1987, and (2) claims under the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPAA") asserted against Tiger International by Hall's multiemployer pension plans. (For more information regarding the foregoing settlements, see "Note 1 — Discontinued Operations — Hall's" and "Note 7 — Contingencies and Legal Actions" of "Notes to Consolidated Financial Statements.")

In the first quarter of 1988, the Boards of Directors of Tiger International and Flying Tigers approved a proposed transaction pursuant to which Tiger International would acquire the minority stockholders' interests in Flying Tigers. In connection with the proposed acquisition of the minority stockholders' interests in Flying Tigers, the Boards of Directors of Tiger International and Flying Tigers also approved a transaction pursuant to which Tiger International would acquire all of the outstanding warrants to purchase shares of Flying Tigers' common stock (other than those held by the employee groups of Flying Tigers).

### **Flying Tigers**

Pursuant to certain agreements between Flying Tigers and its lenders (the "Flying Tigers Restructuring Agreements") defaults on approximately \$588,000,000 principal amount of indebtedness were waived or suspended, and principal and interest payments of approximately \$48,100,000 otherwise payable in 1983 and 1984 were deferred. As part of the Flying Tigers Restructuring Agreements, Flying Tigers agreed to pay its lenders up to \$20,000,000 of contingent interest, cumulatively, based upon earnings in the years 1985 through 1989 ("Contingent Interest"). Flying Tigers did not achieve the 1985 or 1986 earnings level that would have caused Contingent Interest payments to be required for those years. The principal and interest deferred under the Flying Tigers

Restructuring Agreements was payable over a five-year period that commenced on July 2, 1985. The Flying Tigers Restructuring Agreements also contained strict financial covenants concerning working capital, capital expenditures, net worth, additional borrowings and payment of cash dividends on common stock. Substantially all of Flying Tigers assets were pledged under the Flying Tigers Restructuring Agreements.

In April 1987, Flying Tigers completed a refinancing of a substantial portion of its outstanding indebtedness. As part of the refinancing, Flying Tigers sold approximately \$90,000,000 First Priority Trust Certificates due 1997 and \$50,000,000 Second Priority Trust Certificates due 1999 (collectively, the "Trust Certificates"). The Trust Certificates are secured by four used B-747-200F aircraft owned by Flying Tigers. Scheduled principal maturities of the Trust Certificates do not commence until April 1993.

As part of the refinancing, Flying Tigers paid to the creditors under the Flying Tigers Restructuring Agreements \$5,000,000 to settle in full and terminate the right of such creditors under the Flying Tigers Restructuring Agreements to receive Contingent Interest.

Concurrent with the consummation of the sale of the Trust Certificates, approximately \$143,703,000 of purchase money indebtedness of the owner of four B-747-200F aircraft and four spare engines leased by Flying Tigers under capital leases was refinanced by the owner of such equipment. The refinancing of the capital leases caused a reduction in the payments by Flying Tigers as a result of the reduced interest rate obtained in the refinancing.

The application of the Trust Certificate proceeds paid a substantial portion of the Flying Tigers' indebtedness that was subject to the Flying Tigers Restructuring Agreements, which were terminated concurrently with the repayment of such indebtedness. The effects of such termination, the repayment of indebtedness and the refinancing thereof with the proceeds of the Trust Certificates were intended (1) to reduce Flying Tigers' principal obligations due in the near future, (2) to relieve Flying Tigers from the requirement under the Flying Tigers Restructuring Agreements to make quarterly payments of both deferred and matured principal, deferred interest and contingent interest, and (3) to remove certain operational and other restrictions imposed on Flying Tigers by the Flying Tigers Restructuring Agreements.

In 1984, Flying Tigers completed exchange offers whereby debt was exchanged for 189,504 shares of Flying Tigers' common stock and warrants to purchase 89,094 shares of Flying Tigers' common stock (collectively, the "Flying Tigers Exchange Offers"). The financial advisor to Flying Tigers also received warrants to purchase 50,000 shares of Flying Tigers' common stock as part of the Flying Tigers Exchange Offers. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### **TIGER LEASING GROUP CHAPTER 11 PROCEEDINGS**

On December 5, 1984, Tiger Leasing Group, its direct subsidiary North American and substantially all of its subsidiaries, and another indirect subsidiary of Tiger Leasing Group (collectively, the "Chapter 11 Companies"), filed voluntary petitions for reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Central District of California (the "Bankruptcy Court"), which is a unit of the United States District Court for the Central District of California (the "District Court"). The Bankruptcy Court and District Court and any other United States Bankruptcy Court or United States District Court having jurisdiction over these cases collectively are referred to hereinafter as the "Bankruptcy Court." Since the date of the filing of the voluntary petitions for reorganization, the Chapter 11 Companies have operated as debtors-in-possession under Chapter 11 of the Bankruptcy Code.

Certain of the creditors in the Chapter 11 proceedings have expressed an intent to investigate the past transactions between North American, Tiger Leasing Group and Tiger International. For a discussion of claims asserted against Tiger International arising out of its relationship with the

Chapter 11 Companies see "Item 3. Legal Proceedings" and "Note 1 — Discontinued Operations" and "Note 7 — Contingencies and Legal Actions" of "Notes to Consolidated Financial Statements."

As a result of the Chapter 11 proceedings of the Chapter 11 Companies, payment defaults and failures to satisfy covenants of debt and other obligations, certain of the obligations of Tiger International's indirectly owned subsidiaries are currently in default, and the maturity dates either have been accelerated or are subject to acceleration by the respective lenders. Individual secured creditors of such subsidiaries whose debt is currently in default could foreclose on the equipment and other assets securing the lenders' respective obligations, could bring actions to attach assets of such subsidiaries or could commence proceedings under the Bankruptcy Code against such subsidiaries. There can be no assurance that creditors of such subsidiaries would not bring attachment or foreclosure actions or that any such actions could be settled on favorable terms. A number of such creditor actions may result in the bankruptcy of certain subsidiaries. However, Tiger International believes that there would be no grounds for consolidating Tiger International or its assets with the bankruptcy estates of such subsidiaries in the event such bankruptcies were commenced. Further, Tiger International does not believe that there were any transfers to it which could be set aside under the Bankruptcy Code or comparable state statutes in the event of such bankruptcies. For a discussion of possible claims relating to tax benefit accounts see "Note 1 — Discontinued Operations" of "Notes to Consolidated Financial Statements."

On October 18, 1985, National Equipment Rental Ltd. ("NER"), a subsidiary of Tiger Leasing Group, defaulted on its 5¼% Subordinated Debentures due 1988 because of non-payment of accrued interest. On March 20, 1986, certain creditors of NER filed a petition under Chapter 7 of the Bankruptcy Code. The hearing on the involuntary petition was postponed from time to time to permit negotiations between such creditors and NER. Such negotiations were ultimately unsuccessful, and, on June 24, 1987, NER filed a voluntary petition for reorganization under Chapter 11 of Title II of the Bankruptcy Code. NER does not have adequate assets to pay all its debt. Tiger International believes there are no grounds for consolidating its assets with the NER bankruptcy estate and that there were no transfers from NER to Tiger International which can be set aside under the Bankruptcy Code or comparable state statutes.

TigerAir and Tiger Equipment and Services, Ltd. ("TE&S") are in default under the terms of their restructuring agreements.

NER, TigerAir and TE&S do not have adequate assets to pay all their debt.

## **Item 2. PROPERTIES.**

### **General**

Tiger International leases its executive offices, which are located in Los Angeles, California, from Flying Tigers.

Flying Tigers' ground facilities are comprised principally of (a) leasehold improvements, including freight terminals, flight equipment maintenance facilities and sales and administrative offices, and (b) equipment used in servicing aircraft, conducting a worldwide communication system, in maintaining its flight and ground properties, and conducting sales, training and other administrative functions. Flying Tigers' headquarters and its principal maintenance and training bases are located on a 30-acre tract leased at Los Angeles International Airport. A maintenance hangar, general office building and flight training center have been constructed on this property by Flying Tigers. Flying Tiger's principal domestic air and trucking hub is located in Columbus, Ohio. The hub, which commenced full operations on March 3, 1986, incorporates specific design features to facilitate aircraft and freight handling as well as integrated truck hub operations.

Warren leases its executive and general offices and principal garage facilities in Waterloo, Iowa. Of the 17 terminal facilities operated by Warren, Warren owns ten and leases seven.

### Flying Tigers' Aircraft Fleet

Flying Tigers presently operates (i) 19 B-747 freighter aircraft, which is approximately one-fourth of the world's civilian B-747 freighter capacity, (ii) two B-747 passenger aircraft, which are held for use under MAC, (iii) six DC-8-73 freighter aircraft and (iv) 11 B-727-100 freighter aircraft, which are leased under operating leases. In addition to its operating fleet as of March 25, 1988, Flying Tigers leased six B-727-100F aircraft, all of which were subleased to other air carriers.

The following table illustrates the composition of Flying Tigers' operating fleet at March 25, 1988:

	Aircraft Under		Aircraft Owned	Total
	Operating Leases	Capital Leases		
B-747-100F .....	—	—	7	7
B-747-200F .....	1	5	5	11
B-747-200CF .....	1	—	—	1
B-747-200P* .....	2	—	—	2
DC-8-73 .....	6	—	—	6
B-727-100F .....	11	—	—	11

\* Passenger aircraft held for use under the MAC contract.

Substantially all of Flying Tigers' operating fleet (other than aircraft subject to operating leases) is currently encumbered by equipment trust certificates, capital leases or similar obligations.

The operating leases expire during the period December 1988 to November 1994, and the capital leases expire during the period July 1990 to January 2001. Most of the operating and capital leases have renewal options of various duration. Flying Tigers has options to purchase at each lease expiration date the five B-747-200F aircraft subject to capital leases and all B-727-100F aircraft subject to operating leases, all for fair market value, subject, in the case of certain B-727-100F aircraft, to a maximum price. Flying Tigers has an option, exercisable through November 1990, to purchase the B-747-200F aircraft and two spare engines on operating lease at specified prices from November 1991 through November 1994.

### Item 3. LEGAL PROCEEDINGS.

See "Note 7 — Contingencies and Legal Actions" of "Notes to Consolidated Financial Statements" for a discussion and analysis of material litigation matters in which Tiger International has been named as a defendant or may have liability.

See "Note 1 — Discontinued Operations — Hall's Motor Transit" of "Notes to Consolidated Financial Statements" for a discussion of a settlement of claims against Tiger International and its subsidiaries, including Flying Tigers, related to the potential MEPPAA withdrawal liability of Hall's.

See "Note 1 — Discontinued Operations — North American" of "Notes to Consolidated Financial Statements" for a discussion of the settlement of certain claims by North American related to the allocation of certain tax benefits among North American, Tiger International and other tax affiliates of Tiger International.

See "Note 9 — Income Taxes" of "Notes to Consolidated Financial Statements" for a discussion of litigation concerning a petition for redetermination of certain deficiencies asserted against Tiger by the Internal Revenue Service.

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the fourth quarter of the fiscal year ended December 31, 1987, no matters were submitted to a vote of security holders of Tiger International, through the solicitation of proxies or otherwise.

## EXECUTIVE OFFICERS OF THE REGISTRANT

Each officer is appointed by the Board of Directors of Tiger International and serves at its pleasure.

The following table provides certain information as of March 25, 1988, concerning those persons who serve as executive officers of Tiger International.

<u>Name</u>	<u>Title</u>	<u>Age</u>
James A. Cronin III	President(1)	33
Robert J. Harter, Jr.	Senior Vice President, General Counsel and Secretary(2)	43
Larry G. Morris	Senior Vice President and Chief Financial Officer(3)	49
Joseph K. McDonnell	Vice President, Controller and Treasurer(4)	44

- (1) Mr. Cronin was elected President of Tiger International on December 12, 1987, succeeding Stephen M. Wolf, who voluntarily terminated his employment on that date. Mr. Cronin has also been President and Chief Operating Officer of Flying Tigers since September 22, 1987. Also on September 22, 1987, Mr. Cronin was elected to the Board of Directors of Tiger International and Flying Tigers. Prior to such promotion, Mr. Cronin had been Senior Vice President — Marketing of Flying Tigers since December 1986 and Senior Vice President — U.S. Division of Flying Tigers since July 1985. Mr. Cronin was Vice President of Tiger International from January 1985 to July 1985 and Assistant to the Chairman of Tiger International from July 1983 to July 1985. From June 1984 to January 1985, Mr. Cronin was President of Hall's Motor Transit Company, a former Tiger International affiliate (which filed for Chapter 11 reorganization under the federal bankruptcy laws in March 1986, fourteen months after Mr. Cronin had resigned as an officer). From June 1983 to June 1984, Mr. Cronin was President of TigerAir, Inc., a Tiger International affiliate. Prior to that, Mr. Cronin was Director — Strategic Planning with Tiger International from July 1982 to July 1983.
- (2) Mr. Harter was promoted to Senior Vice President on June 28, 1985. Prior to such promotion, Mr. Harter had been Vice President, General Counsel and Secretary since July 1983; Vice President — Administration since April 1982; Vice President — Law since July 1979; and Secretary since June 1980.
- (3) Mr. Morris was elected Senior Vice President and Chief Financial Officer of Tiger International in October 1986. From January 1986, until October 1986 he was Senior Vice President-Finance and Administration. From 1983 until December 1985, he was Senior Vice President, Finance and Administration-Electronics, Defense and Telecommunications Group of Penn Central Corporation (formerly GK Technologies, Inc.) Greenwich, Connecticut. During the 1980-1982 period, he held corporate Senior Vice President positions at Penn Central Corporation and GK Technologies, Inc. Mr. Morris is also Senior Vice President and Chief Financial Officer of Flying Tigers.
- (4) Before becoming Vice President, Controller and Treasurer in October 1985, Mr. McDonnell had been Vice President-Controller since February 1984; Controller since June 1983; and Assistant Controller since October 1980.

Part II

**Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.**

The common stock of Tiger International (the "Common Stock") is traded on the New York, Midwest and Pacific Stock Exchanges and was held as of March 25, 1988, by approximately 16,551 holders of record. The following table sets forth the high and low sales prices for the Common Stock on the consolidated transaction reporting system for the indicated periods:

	<u>High</u>	<u>Low</u>
<b>1986</b>		
First Quarter .....	\$ 9 <sup>3</sup> / <sub>8</sub>	\$ 7 <sup>3</sup> / <sub>8</sub>
Second Quarter .....	8 <sup>5</sup> / <sub>8</sub>	6
Third Quarter .....	7 <sup>3</sup> / <sub>8</sub>	4 <sup>3</sup> / <sub>8</sub>
Fourth Quarter .....	9 <sup>3</sup> / <sub>4</sub>	3 <sup>5</sup> / <sub>8</sub>
<b>1987</b>		
First Quarter .....	13 <sup>1</sup> / <sub>8</sub>	7 <sup>7</sup> / <sub>8</sub>
Second Quarter .....	15	11 <sup>1</sup> / <sub>4</sub>
Third Quarter .....	17 <sup>3</sup> / <sub>4</sub>	13 <sup>3</sup> / <sub>4</sub>
Fourth Quarter .....	17 <sup>1</sup> / <sub>2</sub>	5 <sup>3</sup> / <sub>4</sub>
<b>1988</b>		
First Quarter (through March 25, 1988) .....	15	9 <sup>1</sup> / <sub>2</sub>

Tiger International has been advised that, due to its failure to satisfy certain continued listing criteria, the New York Stock Exchange is reviewing the continued listing of the Common Stock.

Tiger International has not paid a cash dividend since the fourth quarter of 1981. Provisions in Tiger International's Senior Secured Extendable Reset Notes prohibit the payment by Tiger International of dividends (other than dividends in Common Stock) or other distributions on or with respect to its outstanding Common Stock until at least 1993. See "Note 4 — Long Term Debt" of "Notes to Consolidated Financial Statements."

## Item 6. SELECTED FINANCIAL DATA.

The following table presents selected consolidated financial data for Tiger International and its subsidiaries for each of the five years ended December 31, 1987 (in thousands, except per share data):

	1983	1984	1985	1986	1987
<b>Results of Operations</b>					
Revenues from Continuing Operations.....	\$1,056,868	\$1,209,890	\$1,147,045	\$1,110,948	\$1,231,896
Income (Loss) from Continuing Operations .....	\$ (84,988)	\$ 44,205	\$ (57,187)	\$ (45,063)	\$ 58,679
Net Income (Loss)(1) .....	\$ (222,840)	\$ (88,940)	\$ (72,687)	\$ (45,063)	\$ 57,779
Income (Loss) Per Common Share From Continuing Operations.....	\$ (4.71)	\$ 2.05	\$ (2.11)	\$ (1.45)	\$ 1.61
Income (Loss) Per Share(1) ..	\$ (12.34)	\$ (4.13)	\$ (2.69)	\$ (1.45)	\$ 1.55
Cash Dividends Declared Per Common Share .....	\$ —	\$ —	\$ —	\$ —	\$ —
Working Capital Provided by Continuing Operations(2) .....	\$ 9,003	\$ 105,163	\$ 17,331	\$ 69,307	\$ 160,540
<b>Financial Position</b>					
Total Assets.....	\$1,113,766	\$1,026,728	\$ 956,118	\$ 883,457	\$ 995,812
Long-Term Obligations .....	\$ 691,892	\$ 603,058	\$ 674,633	\$ 652,218	\$ 632,251
Stockholders' Equity (Deficit) .....	\$ 84,536	\$ 1,961	\$ (4,462)	\$ (43,160)	\$ 20,086
Book Value Per Common Share.....	\$ 4.16	\$ .09	\$ (.15)	\$ (1.37)	\$ .63

(1) 1983 includes an extraordinary gain of \$19.8 million (\$1.10 per share) from an exchange of debt for other securities. 1987 includes an extraordinary tax credit of \$8.2 million (\$.22 per share) from the utilization of net operating loss carryforwards.

(2) See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Consolidated Statement of Changes in Financial Position" for additional information pertaining to the source and application of funds.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### Summary

Tiger International, Inc. ("Tiger International") is a holding company that has investments in operating companies providing air freight transportation and trucking services. Tiger International's principal subsidiaries are The Flying Tiger Line Inc. ("Flying Tigers") and Warren Transport, Inc. ("Warren"). Tiger International and its subsidiaries are referred to herein as Tiger.

Tiger reported net income of \$57.8 million in 1987 compared to a net loss of \$45.1 million in 1986 and a net loss of \$72.7 million in 1985. From continuing operations, Tiger reported income of \$58.7 million in 1987 compared to a loss of \$45.1 million in 1986 and a loss of \$57.2 million in 1985.

In 1988, Tiger International reached agreements in principle providing for the settlement of two litigation matters involving discontinued operations: a lawsuit regarding transactions between Tiger International and North American Car Corporation ("North American") and a lawsuit regarding the alleged withdrawal by Hall's Motor Transit Company ("Hall's") from its multi-employer pension plans. Conclusion of the settlements will require certain court approvals and the satisfaction of other

customary conditions. Tiger International also reached an agreement with a group of banks holding the Tiger International Note, originally issued to North American in May 1985 as indicated below, whereby Tiger International became entitled to prepay the Tiger International Note at a significant discount. At December 31, 1987, the Tiger International Note had an approximate balance of \$131.7 million. In March 1988, Tiger International prepaid the Tiger International Note using cash and the proceeds from the issuance of \$100 million Senior Secured Extendable Reset Notes.

In April 1987, Flying Tigers refinanced approximately \$140 million of its debt through the sale of equipment trust certificates. Concurrently, Flying Tigers refinanced approximately \$143.7 million of capitalized lease obligations.

In November and December 1986, Flying Tigers entered into agreements with substantially all of its unionized employees providing for reduced salaries, work rule changes and other cost reduction measures. In addition, Flying Tigers eliminated certain management and sales positions and implemented certain wage and other cost reduction programs with respect to its non-union staff.

Until January 7, 1985, Hall's was a wholly owned subsidiary of Tiger International. On January 7, 1985, Hall's completed a financial restructuring pursuant to which (i) Hall's obtained a new \$5 million credit facility, and (ii) Tiger International sold 75% of its equity interest in Hall's to Hall's Acquisition Corp., a corporation owned by certain members of Hall's existing management group. In connection with such financial restructuring, Hall's agreed to reaffirm its existing \$10.5 million obligation to Tiger International (the "Hall's Note"), secured by a lien on Hall's assets subordinate to that of the lenders providing credit facilities to Hall's. Tiger International accounted for this business as a discontinued operation effective December 31, 1984. As of December 13, 1985, Tiger International transferred its remaining 25% interest in Hall's to Hall's Acquisition Corp. and wrote off the Hall's Note as a charge to discontinued operations.

In March 1986, Tiger International reached a settlement with both North American and TigerAir, Inc. ("TigerAir") regarding their respective claims under tax allocation agreements. No cash payments were required by Tiger International. Also, in 1986, North American finalized the sale of its railcar fleet and other assets.

In May 1985, Tiger International issued 8,050,000 shares of Common Stock, finalized a settlement of its \$145.2 million obligation to North American and issued a note payable (the "Tiger International Note") to North American. (See further discussion under "Liquidity" below).

Tiger International has not paid dividends on the Common Stock since the fourth quarter of 1981.

### **Liquidity**

Working capital provided by operations amounted to \$151.4 million in 1987 compared to \$69.3 million in 1986 and \$17.3 million in 1985. Working capital provided by continuing operations was \$160.5 million in 1987 compared to \$69.3 million in 1986 and \$17.3 million in 1985. In addition, proceeds from the sale of assets by Flying Tigers were \$23.3 million in 1985. Asset sales in 1987 and 1986 were not significant.

In connection with the North American Restructuring Agreement, Tiger International issued a promissory note to North American in the principal amount of \$132 million, representing advances previously made by North American to Tiger International. This promissory note was held by certain lenders of North American as security for the repayment of North American's debt. On December 5, 1984, North American filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code. As a result, this obligation, which had a maturity date of January 1991 and an interest rate of 7%, became immediately due and payable. In late 1984, Tiger recorded the \$132 million obligation plus accrued interest as a liability. Another promissory note payable to North American, in the principal amount of \$900,000 (for advances made in 1984) also became due and payable. At

December 31, 1984, the notes payable to North American, including accrued interest, totalled \$145.2 million.

On March 1, 1985, Tiger International completed an offering of convertible preferred stock to certain underwriters, who in turn sold 8,050,000 shares of Depositary Convertible Preferred Stock ("Depositary Stock") to the public at \$8.25 per share. This offering was part of a settlement of Tiger International's notes payable to North American.

In May 1985, the Bankruptcy Court approved the settlement of Tiger International's notes payable to North American, and all outstanding shares of Depositary Stock were converted into shares of Tiger International Common Stock. Approximately \$49.9 million from the sale of the Depositary Stock was used to pay accrued interest and to reduce the principal balances on Tiger International's notes to North American. Tiger International retained approximately \$10 million of the proceeds for general corporate purposes.

Subsequently, Tiger International executed a note payable to North American (the "Tiger International Note") for the remaining principal balance of \$96.9 million. At December 31, 1987, the outstanding balance of the Tiger International Note, including accrued and capitalized interest, was \$131.7 million.

In March 1988, Tiger International satisfied this obligation in full using cash and the proceeds from the issuance of \$100 million Senior Secured Extendable Reset Notes. See "Note 4 — Long-Term Debt" of "Notes to Consolidated Financial Statements" for a description of the terms of this indebtedness.

In addition, in the first quarter of 1988, Tiger International reached agreements in principle regarding settlements of (1) a lawsuit filed by North American against Tiger International in 1987, and (2) claims under the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPAA") asserted against Tiger International by Hall's multiemployer pension plans. (For more information regarding the foregoing settlements, see "Note 1 — Discontinued Operations — Hall's" and "Note 7 — Contingencies and Legal Actions" of "Notes to Consolidated Financial Statements.")

Excluding the above settlement costs and the planned acquisition of the minority stockholders' interest in Flying Tiger, Tiger International's cash needs for 1988 are approximately \$30.0 million. At December 31, 1987, Tiger International had cash of approximately \$2.4 million. Flying Tigers is permitted to pay dividends and make advances to Tiger International to the extent of 50% of cumulative net income subsequent to December 31, 1986 plus \$25 million. (See below for information relating to the refinancing of Flying Tigers' indebtedness.) In addition, under the terms of a tax sharing agreement between Tiger International and Flying Tigers, Flying Tigers is to calculate its taxable income as if it were a separate taxable entity and pay the resulting tax liability to Tiger International, subject to provisions pertaining to net operating loss carryforwards, investment tax carryforwards and certain other items. During 1987, Flying Tigers made a \$5.0 million prepayment of its estimated 1987 tax liability to Tiger International. At December 31, 1987, Flying Tigers had a remaining liability to Tiger International for unpaid taxes of \$17.2 million. In 1988, through March 25, Flying Tigers advanced approximately \$25 million to Tiger International, declared a cash dividend of approximately \$8.1 million to Tiger International and also paid its tax liability to Tiger International. A significant amount of these advances and dividends were used to pay off the Tiger International Note and to satisfy settlements relating to discontinued operations. Warren is free from restrictions limiting advances and dividends to Tiger International. As a result, Tiger International anticipates being able to meet its 1988 cash requirements with funds advanced by Flying Tigers and Warren in the form of cash advances, dividends or payments pursuant to a tax sharing agreement.

In November and December 1986, Flying Tigers entered into agreements in principle providing for reduced salaries, work rule changes and other cost reduction measures with substantially all of its union employees. These agreements will provide Flying Tigers with increases in productivity and reductions in labor costs, based on 1986 labor costs, of approximately \$58 million annually through

May 1990. In addition, in December 1986, Flying Tigers implemented certain wage and other cost reductions with respect to its nonunion staff and eliminated approximately 124 management and sales positions, which will provide Flying Tigers with additional savings. In return for such savings, Flying Tigers agreed to grant to participating employees a profit participation, warrants to purchase approximately 1.8 million shares of Flying Tigers' common stock at \$1.00 per share and the right to elect one member to Flying Tigers' Board of Directors. The warrants are exercisable between December 1, 1989 and May 31, 1990. If the warrants are exercised, Tiger International's ownership will be reduced to 90% of Flying Tigers' outstanding common stock. Under certain circumstances, the above warrants may be converted into warrants and/or Common Stock of Tiger International. In March 1988, Flying Tigers paid approximately \$16.5 million to its employees under the terms of the profit sharing plan for the year ended December 31, 1987. For further details see "Item 1 — Business — Air Freight Operations — Flying Tigers — Employee Relations."

Flying Tigers, with its available cash and short-term investments of \$248.0 million, anticipates no liquidity problems in 1988. In addition, Flying Tigers has a one billion yen (approximately \$8.3 million based on the yen-to-dollar exchange rate at December 31, 1987) line of credit with a Japanese bank. This agreement expires on March 31, 1989. As of December 31, 1987, there were no borrowings outstanding under this agreement. Flying Tigers remains subject to a high degree of financial leverage. Substantially all of the Flying Tigers' aircraft continue to be subject to liens securing principal and interest obligations. In March 1988, Flying Tigers obtained a new \$50.0 million unsecured line of credit to be used as an additional source of cash when and if necessary.

In April 1987, Flying Tigers completed a refinancing of a substantial portion of its outstanding indebtedness. As part of the refinancing, Flying Tigers sold approximately \$90 million First Priority Trust Certificates due 1997 and \$50 million Second Priority Trust Certificates due 1999 (collectively, the "Trust Certificates"). The Trust Certificates are secured by four used B-747-200F aircraft owned by Flying Tigers. Scheduled principal maturities of the Trust Certificates do not commence until April 1993.

As part of the refinancing, Flying Tigers paid to the creditors under the Flying Tigers Restructuring Agreements \$5 million to settle in full and terminate the right of such creditors under the Flying Tigers Restructuring Agreements to receive contingent interest based on Flying Tigers' profits in the years 1987 through 1989.

Concurrent with the consummation of the sale of the Trust Certificates, approximately \$143.7 million of purchase money indebtedness of the owner of four B-747-200F aircraft and four spare engines leased by Flying Tigers under capital leases was refinanced by the owner of such equipment. The refinancing of the capital leases caused a reduction in the payments by Flying Tigers as a result of the reduced interest rate obtained in the refinancing.

The application of the Trust Certificate proceeds paid a substantial portion of the Flying Tigers' indebtedness that was subject to the Flying Tigers Restructuring Agreements, which were terminated concurrently with the repayment of such indebtedness. The effects of such termination, the repayment of indebtedness and the refinancing thereof with the proceeds of the Trust Certificates were intended (1) to reduce Flying Tigers' principal obligations due in the near future, (2) to relieve Flying Tigers from the requirement under the Flying Tigers Restructuring Agreements to make quarterly payments of both deferred and matured principal, deferred interest and contingent interest, and (3) to remove certain operational and other restrictions imposed on Flying Tigers by the Flying Tigers Restructuring Agreements.

In September 1983, Tiger International completed an exchange offer, whereby debentures were exchanged for new securities consisting of 11½% Sinking Fund Debentures due April 1, 1995 ("New 11½% Debentures") and 8⅞% Senior Subordinated Debentures due July 1, 1995 ("New 8⅞% Debentures"), Common Stock and warrants to purchase Common Stock. The New 11½% Debentures and the New 8⅞% Debentures give Tiger International the option to satisfy both principal (including sinking fund obligations) and interest requirements in cash or in Common Stock. Tiger

International elected to satisfy its interest obligations on the New 11 $\frac{1}{2}$ % Debentures and the New 8 $\frac{3}{8}$ % Debentures in 1987, through July 1, 1987 (\$3.3 million), 1986 (\$6.5 million) and 1985 (\$6.5 million) by delivering an aggregate of 304,577, 1,031,791 and 921,768 shares, respectively, of Common Stock.

Also in 1983, TigerAir and TE&S, both subsidiaries of Tiger Leasing Group, finalized debt restructuring agreements with their creditors. However, as a result of the filings by North American and Tiger Leasing Group of voluntary petitions for reorganization pursuant to Chapter 11 of the Bankruptcy Code in December 1984, North American, Tiger Leasing Group, TigerAir and TE&S are in default under their restructuring agreements. In addition the proceeds from the sale of North American's railcar fleet was not sufficient to pay off all of North American's obligations. The Tiger Leasing Group and North American bankruptcy proceedings could result in unsatisfied creditor claims of up to \$300 million after the sale of their assets and completion of the bankruptcy proceedings. See "Note 1 — Discontinued Operations" and "Note 7 — Contingencies and Legal Actions" of "Notes to Consolidated Financial Statements" with regard to other contingencies.

As a result of the limitations in Tiger International's Senior Secured Extendable Reset Notes, absent an amendment or change in the terms thereof, Tiger International is prohibited from paying dividends (other than stock dividends) on its Common Stock prior to 1993.

### **Capital Resources**

Capital expenditures were \$10.3 million in 1987 compared to \$10 million in 1986 and \$27.3 million in 1985. At December 31, 1987, Tiger had no significant future purchase commitments.

### **Results of Operations**

#### *Continuing Operations Overview*

Revenues from continuing operations in 1987 were \$1,231.9 million compared to \$1,110.9 million in 1986 and \$1,147 million in 1985.

Income from continuing operations was \$58.7 million in 1987. Losses from continuing operations were \$45.1 million in 1986 compared to \$57.2 million in 1985.

#### *Air Freight*

Flying Tigers' revenues for 1987 were \$1,191.7 million, an 11% increase from the 1986 revenues of \$1,074.3 million. Flying Tigers' 1985 revenues were \$1,109 million. Flying Tigers reported a pretax profit of \$106.6 million in 1987 compared to a pretax loss of \$18.6 million in 1986 and a pretax loss of \$44.2 million in 1985. Included in the results for 1987 is a charge of \$5.0 million for contingent interest accrued under the terms of, and paid in the refinancing of Flying Tigers' Restructuring Agreements. Included in the results for 1986 is a \$27.5 million transaction loss relating to debt obligations payable in Japanese yen. Included in the results for 1985 are pretax gains of \$12.6 million from the sale of DC-8 aircraft, engines and spare parts and the sale of leasehold improvements and a \$14.1 million transaction loss on the yen denominated debt. Beginning in January 1987, certain of Flying Tigers' Japanese customers entered into firm yen-denominated commitments to purchase a minimum level of freight services from Flying Tigers over the next five years. Such yen-denominated revenue commitments are part of hedging transaction involving the yen-denominated debt. As a result, gains and losses on the yen-denominated debt resulting from the fluctuation of the yen-to-dollar exchange rates are deferred and amortized as an adjustment to revenues over the remaining life of the debt rather than being recognized entirely in the current period.

Flying Tigers' major services include domestic, transpacific, transatlantic and Latin American scheduled freight services and Military Airlift Command ("MAC") and commercial charters. Scheduled service revenues in 1987 were \$964.8 compared to \$884.6 million in 1986 and \$926.5 million in 1985.

In 1987, scheduled freight revenues increased \$80.2 million (9%) compared to 1986. The improvements in scheduled freight revenues occurred in the transpacific and Latin American markets. Transpacific revenues increased \$89.6 million (15%) reflecting an increase in revenue ton miles as demand increased both to and from that market. The weakening of the U.S. dollar combined with the expansion of eastbound flying and the addition of westbound "around the world" flying has resulted in substantial improvements in the balance of freight to the transpacific market versus freight from that market. Additionally, increases in revenue ton miles in the Latin American market resulted in an increase in revenues of \$5.0 million (11%) over last year. Revenues in the domestic market declined \$12.6 million (8%) as a result of decreases in both volumes and yields. The declines in domestic volumes resulted from intense competition and excess capacity in the domestic marketplace and the lingering effects of the loss of business caused by an announcement in late 1986 that Flying Tigers had been directed by its Board of Directors to immediately obtain formal offers for the purchase of all of its assets. The Board of Directors subsequently rescinded this directive. The decline in domestic yields was attributable to competitive pricing pressures in the door-to-door markets. Revenues in the transatlantic market were down \$1.8 million (2%) due to a decline in yields in that highly competitive market.

In 1986, scheduled service revenues decreased \$41.8 million (5%) compared to 1985, due to reduced revenues in the domestic, transatlantic and Latin American markets. These declines were partially offset by improvements in the transpacific market where revenues increased 10% or \$55.6 million. Revenues in the domestic market decreased 27% (\$57.3 million) as a result of a 22% decrease in volumes, primarily in the airport-to-airport segment, and a 9% decrease in yields occurring largely in the door-to-door segment. The declines in domestic volumes and yields resulted from excess capacity in the domestic marketplace, the fact that certain former customers began or increased flying of their own aircraft, and a shift in the product mix to freight requiring second-day delivery. Revenues in the transatlantic market were down 20% (\$21.5 million) on a 18% decline in revenue ton miles. The reduction in transatlantic revenue ton miles was the result of a decline in traffic to the United States, which Flying Tigers believes was caused by the weakening of the U.S. dollar abroad. In addition, there were fewer flight frequencies as a result of Flying Tigers having one less aircraft in its fleet. Revenues in the Latin American market decreased 29% from 1985 levels reflecting a reduction of service to that market. Transpacific revenue ton miles increased 3% and yields improved 7%. The improved yields are primarily the result of the strengthening of the Japanese yen. Transpacific load factors increased 5% even though transpacific capacity was reduced by 2%.

In 1985 scheduled service revenues decreased \$81.6 million (8%) compared to 1984. This decrease was primarily the result of a weakened transpacific market where revenues were down 17% (\$109.2 million). This decrease in transpacific revenues was principally in U.S. bound traffic from Taiwan, Republic of Korea and Japan and was primarily attributable to the apparel and electronics markets. Both of these markets experienced significant inventory accumulation in the fourth quarter of 1984. The decline in the transpacific market was partially offset by improvements in the transatlantic and Latin American markets. In 1985 the transatlantic market had a 7% (\$7 million) increase in revenues associated with a 10% increase in revenue ton miles. Latin American revenues in 1985 increased 55% (\$22.6 million) on a 39% increase in revenue ton miles. Domestic revenue ton miles declined 5% in 1985. However, as a result of increased volumes in the door-to-door market and improved yields in the airport-to-airport market, domestic revenues in 1985 did not decline significantly from 1984 levels.

To increase Flying Tigers efficiency and reliability, plans were initiated in 1984 to relocate Flying Tigers' United States hub operations from Chicago to Rickenbacker Air National Guard Base in Columbus, Ohio. The new hub, which began operations on March 3, 1986, incorporates specific design features to facilitate aircraft and freight handling as well as integrated truck hub operations.

MAC revenues were \$155.8 million in 1987 compared to \$113.5 million in 1986 and \$105.7 million in 1985. The increase in 1987 is due to increases in both MAC passenger and MAC freight

revenue ton miles as well as improvements in yields. The increase in 1986 is due to Flying Tigers operating one extra passenger aircraft for MAC during 1986. This increase in MAC passenger flying was offset, in part, by a 19% reduction in MAC revenue freight ton miles. Commercial charter revenues were \$45.0 million in 1987 compared to \$46.7 million in 1986 and \$56.1 million in 1985. The decrease in 1986 was the result of fewer charters from the United States and Europe to the transpacific market. In 1985 commercial charter revenues increased \$13.5 million as a result of increased availability of aircraft resulting from excess capacity on the scheduled service routes, especially in the transpacific area.

Income from operations for 1987 was \$153.2 million, an increase of \$83.0 million over 1986 operating income of \$70.2 million. In 1985, operating income was \$25.7 million. The increase in 1987 operating profits is due in large part to the increases in revenues, reductions in the cost of fuel compared to the first half of 1986 and to labor savings which resulted from the Employee Partnership Program initiated in December 1986. The Employee Partnership Program provides for salary reductions, work rule changes and other cost saving measures, along with provisions for profit sharing and stock ownership plans for all participating employees.

Total operating expenses in 1987 increased \$34.4 million (3%) to support the 11% increase in total operating revenues. The cost of flying operations increased \$30.0 million (18%) primarily as a result of the rentals of and the costs of flying the six DC-8 aircraft which were added to the fleet during the first quarter of 1987. These costs were offset, in part, by a \$24.1 million decrease in total crew costs. Such labor savings are net of the costs of hiring and training additional pilots to support the addition of the six DC-8 aircraft to the fleet. The cost of fuel and oil increased \$2.8 million (2%) due to a 6% increase in fuel consumed to support the increased flying which was offset, in part, by a 4% reduction in the average cost per gallon of fuel. The cost per gallon of fuel was declining significantly during the second and third quarters of 1986; however, fuel prices have increased during the third and fourth quarters of 1987 compared to prices paid during the first half of 1987. Ground operations decreased \$1.6 million due to a \$5.7 million net decrease in labor costs and reduced trucking and freight forwarding volumes. Such savings were offset in part by increases in the costs of fueling, landing and handling aircraft. Maintenance costs increased \$1.8 million (1%) due primarily to increased costs of B-747 overhauls and overhaul provisions for the added DC-8 flying, offset in part by reduced labor costs.

Total operating expenses in 1986 decreased \$79.3 million (7%) compared to 1985. This decline is due in large part to a significant reduction in the cost of fuel. During 1986 fuel and oil costs decreased \$81.1 million (31%) compared to 1985, primarily due to reductions in the cost per gallon of fuel. Other flying operations expenses decreased \$19 million (10%) as a result of a \$28.4 million savings from reduced contract flying provided by other carriers due to reductions in freight volumes and the expiration of such contracts. These savings were partially offset by a \$5.2 million increase in crew costs resulting from contract rate increases and by a \$2.1 million increase in aircraft insurance costs. Ground operations costs increased \$15.4 million (5%) due to a \$6.1 million increase in union labor costs and a \$7.8 million increase in the costs of landing and handling of aircraft. These increases were offset in part, by reductions in freight forwarding. Maintenance costs increased \$14.1 million (12%) due to increased overhaul costs. Sales, advertising and publicity expenses declined \$14.9 million (14%) as a result of reduced commissions paid to agents and forwarders and a reduction in labor costs.

Operating expenses during 1985 increased 2% or \$21.4 million over 1984. Total fuel and oil costs decreased \$19.6 million (7%) due to a decrease in the average price per gallon of fuel of 4 cents from 1984 combined with a 3% decrease in fuel consumption. Other flying operations expenses increased \$18.0 million (11%) due to increased purchased transportation and increased rental of Boeing 727 aircraft used to replace the DC-8 aircraft which were eliminated from the fleet. The Boeing 727 aircraft are being leased under operating leases, while the DC-8 aircraft were either owned or leased under capital leases. The increase in aircraft rentals was partially offset by a \$7.4 million (12%)

decrease in depreciation expense related to the DC-8 aircraft. Ground operations expenses increased \$15.0 million (5%) as a result of expansion of trucking and freight forwarding services used to replace DC-8 aircraft. Maintenance expenses increased \$19.7 million (20%) primarily as a result of increased engine overhaul costs and increased flying of B-747 aircraft.

#### *Trucking — Warren*

Warren operates as a specialized truckload hauler of heavy machinery and other specialized equipment for both the farm and construction industries. During 1982, Warren also expanded its operations into hauling truckload shipments of general commodities, in particular parts and machinery, agriculture implements, tractors and building materials. Warren's operating ratio was 94.9% in 1987 compared to 95.7% in 1986 and 93.9% in 1985. Warren handled 433 million ton miles in 1987, 402 million ton miles in 1986 and 407 million ton miles in 1985. Revenue per ton was \$77.69 in 1987 compared to \$79.51 in 1986 and \$79.76 in 1985. Warren's revenues for 1987 were \$40.2 million compared to \$36.6 million in 1986 and \$38.0 million in 1985. Pretax income was \$2.5 million in 1987 compared to \$2.1 million in 1986 and \$3.2 million in 1985. Warren's revenues increased in 1987 due to the introduction of new products and an aggressive marketing plan. In addition, an improved operating ratio resulted in higher pretax earnings in 1987 compared to the prior year. In 1986, Warren was able to maintain its profitability level as a result of controlling its variable expenses in relationship to its lower revenues. The decrease in 1986 pretax results is due to reduced revenues caused by a decline in U.S. farm machinery sales and significant increases in insurance costs.

#### **Discontinued Operations**

In 1988, Tiger International reached agreements in principle pertaining to two litigation matters involving discontinued operations: a lawsuit regarding transactions between Tiger International and North American and a lawsuit regarding the alleged withdrawal by Hall's from its multi-employer pension plans. Conclusion of the settlements will require certain court approvals and the satisfaction of other customary conditions. Tiger International also reached an agreement with the holders of certain indebtedness which originated with North American whereby Tiger International became entitled to prepay the debt at a significant discount. At December 31, 1987, this indebtedness had an approximate balance of \$131.7 million. Tiger International arranged the financing of this prepayment during March 1988 (see "Liquidity" above). Based on the foregoing developments, Tiger International recorded, as of December 31, 1987, a pretax provision of \$15.0 million as a charge to discontinued operations.

#### **Impact of Inflation**

Inflation has not had a significant effect on the results of operations of Tiger in recent years. However, based upon the current appraisal values of B-747 aircraft, if it were necessary for Tiger to replace its fleet, depreciation expense would be higher.

#### **Recent Accounting Changes**

In 1987, the Financial Accounting Standards Board issued a new standard on accounting for income taxes. Tiger is not required to adopt this new standard until January 1, 1989. It is not believed that the new standard would have a material effect on Tigers' financial position and results of operations at December 31, 1987.

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**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders  
Tiger International, Inc.

We have examined the accompanying consolidated balance sheets of Tiger International, Inc. and subsidiaries at December 31, 1986 and 1987 and the related consolidated statements of operations, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The consolidated financial statements of Tiger International, Inc. and subsidiaries for the year ended December 31, 1985 were examined by other auditors whose report dated March 26, 1986 expressed an unqualified opinion on those statements.

In our opinion, the 1986 and 1987 statements mentioned above present fairly the consolidated financial position of Tiger International, Inc. and subsidiaries at December 31, 1986 and 1987 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

ARTHUR YOUNG & COMPANY

Los Angeles, California  
March 29, 1988

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of  
Tiger International, Inc.:

We have examined the consolidated balance sheet of Tiger International, Inc. (a Delaware corporation) and subsidiaries (collectively "Tiger") as of December 31, 1985 and the related consolidated statement of operations, stockholders' equity and changes in financial position 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.

In our opinion, the financial statements referred to above present fairly the financial position of Tiger as of December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Los Angeles, California,  
March 26, 1986.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Principles of Consolidation**

The consolidated financial statements include the accounts of Tiger International, Inc. ("Tiger International") and its subsidiaries (collectively "Tiger"). All significant intercompany accounts and transactions have been eliminated.

In 1983 and 1984, respectively, Tiger discontinued operations of its railcar segment and other leasing businesses and Hall's Motor Transit Company ("Hall's") as more fully explained in Note 1 to the Consolidated Financial Statements.

**Foreign Currency Transactions**

Monetary assets and liabilities of foreign operations have been translated at exchange rates as of the balance sheet dates. Property and equipment are translated at the prevailing exchange rates on the dates of acquisition. Revenues and expenses are translated at the monthly rates prevailing during the year. Depreciation and amortization are translated at the historical rates effective on the dates of acquisition of the underlying assets. Excluding hedging transactions, as discussed below, transaction gains and losses are recorded in income as incurred.

In 1985 and 1986, transaction losses of \$14,111,000 and \$27,491,000, respectively, resulting from fluctuations in the yen/dollar exchange rate on certain long-term debt obligations payable in Japanese yen were included in the results of operations.

Beginning in January 1987, certain Japanese customers of The Flying Tiger Line Inc. ("Flying Tigers") entered into firm yen-denominated commitments to purchase a minimum level of freight services from Flying Tigers over the next five years. Such yen-denominated revenue commitments are part of a hedging transaction involving the yen-denominated debt which correspondingly had a remaining life of five years as of January 1987. As a result, gains and losses on the yen-denominated debt resulting from the fluctuation of the yen-to-dollar exchange rates (losses of \$24,021,000 at December 31, 1987) are being deferred and amortized as an adjustment to the related hedged revenues over the remaining life of the debt rather than being recognized entirely in the current period.

**Inventories**

Inventories consist of fuel and maintenance and assembly parts for aircraft and trucks and are carried at the lower of average cost or market.

**Property and Equipment**

Expenditures for additions and major improvements, replacements or renewals are capitalized. Assets retired or otherwise disposed of are eliminated from the accounts along with the related accumulated depreciation, and gains and losses are included in income. Certain aircraft components are depreciated under the composite method and no gain or loss is recognized upon unit retirements. Maintenance expense includes provisions for aircraft airframe and aircraft engine overhauls accrued by a charge to expense on the basis of hours flown; the actual overhaul cost is charged to the related reserve when incurred. Expenditures for repairs and minor renewals are charged to expense as incurred. The capitalized cost of aircraft and other related equipment includes interest incurred prior to the time such assets are placed in service.

Tiger has included as assets the costs of certain leased property and equipment which, by the terms of the agreements, meet the definition of capital leases; the present value of related lease obligations is recorded as a liability.

Depreciation of property and equipment, including assets under capital lease, is provided primarily on a straight-line basis over the estimated useful lives of the various assets as follows: airframes and engines — 5 to 20 years (0% to 15% salvage value); trucks — 5 to 8 years; other — 2 to 30 years.

#### **Intangibles**

Intangibles consist of cost in excess of fair value of net assets of acquired businesses and are amortized on a straight-line basis over their estimated useful lives of 40 years.

#### **Income Taxes and Tax Benefits**

Provision is made for deferred income taxes attributable to timing differences which result when revenues and expenses are reported for tax purposes in periods different from their recognition for financial reporting purposes.

Investment tax credit carryforwards are recognized as a reduction of the provisions for federal income taxes to the extent such credits are expected to be utilized against net deferred federal income taxes which reverse during the carryforward period.

Investment tax credits that have been applied to reduce income tax provisions, but which Tiger elects to permit to expire by reason of the deduction of accelerated depreciation and other allowable tax deductions, are amortized over the remaining lives of the property and equipment to which the tax deductions relate.

In 1987, the Financial Accounting Standards Board issued a new standard on accounting for income taxes. Tiger is not required to adopt this new standard until January 1, 1989. It is not believed that the new standard would have a material effect on Tiger's financial position and results of operations at December 31, 1987.

#### **Earnings Per Share**

Earnings per share are based on the weighted average number of shares of Tiger International Common Stock ("Common Stock") outstanding during each period increased by the effect of dilutive stock options and warrants to purchase Common Stock.

Fully diluted earnings per share are based on the weighted average number of shares of Common Stock outstanding during each period computed as described above and assuming the conversion, where dilutive, of convertible debt into Common Stock at the beginning of the period or at issuance date. Interest expense on the convertible debt, net of income taxes, is added back to net income for purposes of the calculation. Fully diluted earnings per share amounts are not presented for the years ended December 31, 1985, 1986 and 1987. In 1985 and 1986 the computation was anti-dilutive and in 1987 are not materially dilutive.

For the year ended December 31, 1987, Tiger's earnings per share reflect the dilutive effect of outstanding options to purchase common stock of Flying Tigers and warrants Flying Tigers has agreed to issue to purchase its common stock. Accordingly, only Tiger International's proportionate share of Flying Tigers' earnings per share has been included in computing Tiger's earnings per share.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	For the Years Ended December 31		
	1985	1986	1987
Revenues:			
Operating revenues .....	\$1,147,045	\$1,110,948	\$1,231,896
Costs and Expenses:			
Costs of operations .....	907,756	836,664	872,709
Selling, general and administrative .....	158,980	151,133	155,731
Depreciation and amortization .....	58,424	59,258	58,187
	<u>1,125,160</u>	<u>1,047,055</u>	<u>1,086,627</u>
Income from operations .....	21,885	63,893	145,269
Other Income (Expense):			
Gain on sale of equipment and facilities .....	12,662	2,357	461
Interest expense .....	(85,710)	(83,480)	(83,830)
Interest capitalized .....	88	26	—
Foreign exchange gains (losses), net .....	(14,292)	(27,256)	1,519
Other, net .....	8,180	(603)	11,860
	<u>(79,072)</u>	<u>(108,956)</u>	<u>(69,990)</u>
Income (loss) from continuing operations before income taxes and before extraordinary credit .....	(57,187)	(45,063)	75,279
Income tax provision .....	—	—	16,600
Income (Loss) From Continuing Operations Before Extraordinary Credit .....	(57,187)	(45,063)	58,679
Discontinued Operations:			
Losses from discontinued operations less applicable tax benefit of \$5,900 in 1987 .....	(15,500)	—	(9,100)
Income (Loss) Before Extraordinary Credit .....	(72,687)	(45,063)	49,579
Extraordinary tax credit .....	—	—	8,200
Net Income (Loss) .....	<u>\$ (72,687)</u>	<u>\$ (45,063)</u>	<u>\$ 57,779</u>
Income (loss) per share			
— Continuing operations .....	\$ (2.11)	\$ (1.45)	\$ 1.61
— Discontinued operations .....	(.58)	—	(.28)
	<u>(2.69)</u>	<u>(1.45)</u>	<u>1.33</u>
— Extraordinary tax credit .....	—	—	.22
Net Income (Loss) Per Share .....	<u>\$ (2.69)</u>	<u>\$ (1.45)</u>	<u>\$ 1.55</u>
Shares used in computation of income (loss) per share .....	<u>27,053</u>	<u>31,095</u>	<u>32,985</u>

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31	
	1986	1987
	(In thousands)	
<b>A S S E T S</b>		
<b>Current Assets:</b>		
Cash, including certificates of deposit.....	\$ 36,396	\$ 54,380
Short-term interest-bearing investments at cost, which approximates market value.....	117,105	200,315
Receivables, net .....	138,256	144,933
Inventories.....	15,959	18,137
Prepaid expenses and other .....	8,424	20,016
<b>Total Current Assets.....</b>	<b>316,140</b>	<b>437,781</b>
<b>Property and Equipment:</b>		
Equipment used in operations.....	822,218	822,988
Buildings and leasehold improvements.....	51,869	48,308
Terminal facilities and other.....	77,919	80,767
Equipment acquisitions in process.....	797	186
	952,803	952,249
<b>Less accumulated depreciation and amortization.....</b>	<b>452,435</b>	<b>493,194</b>
	<b>500,368</b>	<b>459,055</b>
<b>Other Assets:</b>		
Deposits, deferred charges and investments.....	13,702	47,772
Cost in excess of fair value of acquired businesses, net.....	53,247	51,204
	66,949	98,976
<b>Total Assets.....</b>	<b>\$883,457</b>	<b>\$995,812</b>

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	December 31	
	1986	1987
	(In thousands)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Current portion of long-term obligations.....	\$ 59,150	\$ 70,201
Accounts payable and accrued liabilities .....	159,720	191,983
<b>Total Current Liabilities .....</b>	<b>218,870</b>	<b>262,184</b>
<b>Long-term Obligations:</b>		
Notes payable and equipment obligations .....	269,785	288,576
Note payable to North American .....	118,921	100,000
Subordinated debt.....	26,627	25,869
Capital lease obligations.....	236,885	217,806
	652,218	632,251
<b>Deferred Credits and Other Liabilities:</b>		
Overhaul liability — leased flight equipment.....	17,000	29,589
Other.....	36,557	48,880
	53,557	78,469
<b>Commitments and Contingencies</b>		
Minority Stockholders' Equity.....	1,972	2,822
<b>Stockholders' Equity:</b>		
Common stock, \$1 par value		
Authorized — 50,000,000 shares;		
outstanding — 31,773,868 and 32,410,021 shares.....	31,774	32,410
Additional paid-in capital .....	319,596	324,503
Accumulated deficit .....	(391,316)	(333,537)
	(39,946)	23,376
Less treasury stock, at cost (279,031 and 286,291 shares).....	3,214	3,290
<b>Total Stockholders' Equity (Deficit).....</b>	<b>(43,160)</b>	<b>20,086</b>
<b>Total Liabilities and Stockholders' Equity.....</b>	<b>\$883,457</b>	<b>\$995,812</b>

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
For the three years ended December 31, 1987

	<u>\$1 Par Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit (In thousands)</u>	<u>Treasury Stock</u>	<u>Total</u>
Balance at December 31, 1984.....	\$21,711	\$256,311	\$(273,566)	\$(2,495)	\$ 1,961
Net loss.....	—	—	(72,687)	—	(72,687)
Issuance of Common Stock upon conversion of Depository Convertible Preferred Stock .....	8,050	51,854	—	—	59,904
Issuance of Common Stock in lieu of cash interest payments...	969	5,542	—	(151)(1)	6,360
Issuance of Common Stock upon conversion of debentures by an affiliate.....	42	375	—	(417)(2)	—
Balance at December 31, 1985.....	<u>30,772</u>	<u>314,082</u>	<u>(346,253)</u>	<u>(3,063)</u>	<u>(4,462)</u>
Net loss.....	—	—	(45,063)	—	(45,063)
Issuance of Common Stock in lieu of cash interest payments...	<u>1,002</u>	<u>5,514</u>	—	(151)(1)	6,365
Balance at December 31, 1986.....	<u>31,774</u>	<u>319,596</u>	<u>(391,316)</u>	<u>(3,214)</u>	<u>(43,160)</u>
Net income.....	—	—	57,779	—	57,779
Issuance of Common Stock in lieu of cash interest payments...	557	4,251	—	(76)(1)	4,732
Issuance of Common Stock upon exercise of stock options and warrants .....	<u>79</u>	<u>656</u>	—	—	<u>735</u>
Balance at December 31, 1987.....	<u>\$32,410</u>	<u>\$324,503</u>	<u>\$(333,537)</u>	<u>\$(3,290)</u>	<u>\$ 20,086</u>

- (1) Represents Common Stock issued to Flying Tigers for interest on the New 11½% Debentures.  
(2) Represents Common Stock issued to Flying Tigers on the conversion of 5% Convertible Subordinated Debentures.

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION**

	For the Years Ended December 31		
	1985	1986	1987
	(In thousands)		
<b>Source of Funds:</b>			
<b>Continuing operations</b>			
Income (loss) from continuing operations before extraordinary tax credit.....	\$ (57,187)	\$ (45,063)	\$ 58,679
Items not involving working capital—			
Depreciation and amortization .....	58,424	59,258	58,187
Gain on sale of equipment used in operations .....	(12,662)	(2,357)	(461)
Overhaul reserves, net .....	(1,143)	13,865	5,527
Deferred interest payable to North American.....	10,334	11,676	12,792
Foreign exchange loss on long-term portion of yen-denominated debt.....	14,111	24,237	—
Other .....	5,454	7,691	25,816
Working capital provided by continuing operations before extraordinary tax credit.....	17,331	69,307	160,540
<b>Discontinued operations</b>			
Loss from discontinued operations.....	(15,500)	—	(9,100)
Items not involving working capital.....	15,500	—	—
Working capital used by discontinued operations.....	—	—	(9,100)
Total working capital provided by operations before extraordinary tax credit .....	17,331	69,307	151,440
Extraordinary tax credit.....	—	—	8,200
Retirement of property and equipment.....	2,092	925	1,899
Proceeds from sale of aircraft, engines, aircraft parts and facilities.....	23,278	2,395	587
Proceeds from debt financing.....	—	389	140,000
Refinancing of note payable to North American .....	96,911	—	—
Issuance of common stock and warrants.....	66,264	6,365	5,467
<b>Total Source of Funds .....</b>	<b>205,876</b>	<b>79,381</b>	<b>307,593</b>
<b>Application of Funds:</b>			
Additions to property and equipment .....	27,288	10,012	10,289
Reductions of long-term obligations .....	58,381	61,495	170,903
Current portion of note payable to North American .....	—	—	31,713
Other .....	10,323	2,896	16,361
<b>Total Application of Funds .....</b>	<b>95,992</b>	<b>74,403</b>	<b>229,266</b>
<b>Increase in Working Capital.....</b>	<b>\$ 109,884</b>	<b>\$ 4,978</b>	<b>\$ 78,327</b>
<b>Changes in Components of Working Capital:</b>			
Cash, including certificates of deposit .....	\$ (84,515)	\$ (13,719)	\$ 17,984
Short-term interest-bearing investments .....	66,350	26,582	83,210
Receivables, net.....	(11,900)	(18,115)	6,677
Inventories .....	(2,525)	1,455	2,178
Prepaid expenses and other .....	(894)	(2,948)	11,592
<b>Increase (Decrease) in Current Assets .....</b>	<b>(33,484)</b>	<b>(6,745)</b>	<b>121,641</b>
Note payable to North American.....	(132,151)	—	—
Current portion of long-term obligations .....	(402)	688	11,051
Accounts payable and accrued liabilities.....	(10,815)	(12,411)	32,263
<b>Increase (Decrease) in Current Liabilities.....</b>	<b>(143,368)</b>	<b>(11,723)</b>	<b>43,314</b>
<b>Increase in Working Capital.....</b>	<b>\$ 109,884</b>	<b>\$ 4,978</b>	<b>\$ 78,327</b>

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1 — Discontinued Operations**

*Summary of 1988 Developments*

In 1988, Tiger International reached agreements in principle providing for the settlement of two litigation matters involving discontinued operations: a lawsuit regarding transactions between Tiger International and North American and a lawsuit regarding the alleged liability for withdrawal by Hall's from its multi-employer pension plans. Conclusion of the settlements will require the execution of definitive documentation, certain court approvals and the satisfaction of other customary conditions. Tiger International also reached an agreement with the holders of certain indebtedness which originated with North American whereby Tiger International became entitled to prepay the debt at a significant discount. At December 31, 1987, this indebtedness had an approximate balance of \$131.7 million. Tiger International arranged the financing of this prepayment during March 1988 (see below). Based on the foregoing developments, Tiger International recorded, as of December 31, 1987, a pretax provision of \$15.0 million as a charge to discontinued operations.

*Hall's Motor Transit*

Tiger accounted for Hall's as a discontinued operation effective December 31, 1984, and as of December 31, 1985, Tiger International wrote off a \$10.5 million note receivable from Hall's as a charge to discontinued operations. Also effective December 31, 1985, Tiger recorded a \$5 million reserve relating to guarantees of Hall's workers' compensation obligations. On March 10, 1986, Hall's filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Middle District of Pennsylvania. In connection with such filing, Hall's may have withdrawn from some or all of its multiemployer pension plans covered by the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPAA"). Under MEPPAA, withdrawal liability may be imposed on an employer that withdraws from a multiemployer pension plan, and such withdrawing employer's MEPPAA withdrawal liability may be asserted jointly and severally against any corporation that is a member of the controlled group of corporations that includes the withdrawing employer corporation. The agreements in principle described above under "Summary of 1988 Developments" include an agreement between Tiger International and multiemployer pension plans holding substantially all of the alleged withdrawal claims that could be asserted against Tiger International.

*North American*

As of December 31, 1983, Tiger International accounted for North American Car Corporation ("North American"), the largest subsidiary of Tiger Leasing Group, Inc. ("Tiger Leasing Group"), as a discontinued operation. However, because of advances made by North American to Tiger International during 1983 and earlier, Tiger International had an obligation to North American. At December 31, 1984, this obligation was approximately \$145.2 million.

On March 1, 1985, Tiger International completed an offering of convertible preferred stock of Tiger International to certain underwriters, who in turn sold 8,050,000 shares of Depositary Convertible Preferred Stock ("Depositary Stock") to the public at \$8.25 per share. This offering was part of a proposed settlement of Tiger International's \$145.2 million obligation to North American.

In May 1985 the Bankruptcy Court approved the settlement of Tiger International's obligation, and all outstanding shares of Depositary Stock were converted into shares of Tiger International Common Stock. Approximately \$49.9 million from the sale of the Depositary Stock was paid in cash to North American (the "Tiger Note Cash Proceeds") to pay accrued interest and to reduce the principal balance of Tiger International's obligation to North American.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under the terms of the settlement, Tiger International then issued a new promissory note payable to North American for the remaining principal balance of \$96.9 million, bearing interest at 2% over the prime rate (the "Tiger International Note"). The Tiger International Note was secured by a pledge by Tiger International (the "Stock Pledge") of 47% of the common stock of Flying Tigers (the "Pledged Shares"). Tiger International was not required to make any interest or principal payments until June 30, 1988. Unpaid interest was capitalized, and 50% of such interest and 50% of the outstanding principal balance was due and payable on June 30, 1988. In 1986, as part of an overall settlement of all claims which certain of North American's bank lenders asserted against North American, North American transferred the Tiger Note Cash Proceeds, the Tiger International Note, and the security represented by the Stock Pledge and the Pledged Shares to these certain North American lenders in partial satisfaction of North American's obligations to these banks. At December 31, 1987, the amount payable under the Tiger International Note, including accrued and capitalized interest, was \$131.7 million. In March 1988, Tiger International repaid this obligation in full using cash and the proceeds from the issuance of \$100 million Senior Secured Extendable Reset Notes. See "Note 4 — Long-term Debt".

At December 31, 1985, North American's financial statements included an amount due from Tiger International under a tax allocation agreement that set forth the basis for the sharing of tax benefits and provisions, and for the settling of intercompany balances, in connection with the filing of Tiger's consolidated federal income tax returns.

The amount due under the tax allocation agreement (the "Tax Benefit Account"), accumulated over the years for which North American had been included in such consolidated tax returns. The amount recorded in the Tax Benefit Account was \$79.9 million at December 31, 1985.

In 1986 North American sold its railcar fleet and other assets for approximately \$420 million. A substantial portion of the taxable gain from this transaction was offset against Tiger's consolidated net operating losses ("NOL") exclusive of those of North American. The tax effect of this utilization by North American of its affiliates' NOL was applied by Tiger International against the \$79.9 million amount referred to above.

Pursuant to a settlement agreement between Tiger International and North American regarding their respective claims under the tax allocation agreement, approved by the Bankruptcy Court on March 31, 1986, Tiger International (and certain of its subsidiaries) and North American (and its subsidiaries) exchanged mutual releases of all claims which each might have against the other under the tax allocation agreement or the Tax Benefit Account. No cash payments were required by either party. Tiger International agreed that it would take no action that would prevent North American from utilizing the net operating losses of other members of the affiliated group to shelter the taxable income created by the disposition of North American's assets.

In addition, in 1988 Tiger International reached agreement in principle providing for the settlement of a lawsuit involving North American. See "Note 7 — Contingencies and Legal Actions" for a description of this settlement and a for a description of other possible claims resulting from the bankruptcy of North American.

*Other Leasing Operations*

Tiger's other leasing operations were also discontinued at December 31, 1983.

At December 31, 1985, TigerAir, Inc. ("TigerAir"), an indirect subsidiary of Tiger Leasing Group, Inc. ("Tiger Leasing Group") also carried a tax benefit account aggregating approximately \$15.2 million arising from allocation of consolidated federal income taxes. In December 1986, TigerAir sold a DC-10-30 aircraft. The tax gain resulting from this sale was, for the most part, offset

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

against Tiger's NOL exclusive of those of TigerAir. The tax effect of this utilization by TigerAir of its affiliates' NOL was applied by Tiger International against the \$15.2 million amount referred to above. Tiger International and TigerAir executed a settlement agreement regarding their mutual claims under the tax allocation agreement similar to that between Tiger International and North American discussed above.

The other leasing operations also carry tax benefits accounts of approximately \$16 million. The accounts accumulated over the years for which the other leasing companies were included in Tiger's consolidated federal income tax returns. The accounts include net operating losses, investment tax credits and foreign tax credits that have been, or were expected to be, utilized to reduce taxes otherwise payable in respect of income of members, other than the other leasing companies, of the Tiger consolidated tax reporting group. Such accounts could result in claims for cash payment of all or a significant portion of such accounts. However, unlike North American and TigerAir, the other leasing operations are not likely to generate enough taxable income as a result of the disposition of their assets to effect a settlement of their accounts through the use of net operating losses of other members of the affiliated group to shelter their income. Though it is not possible to give any assurance as to the ultimate outcome of any such claims, Tiger's position is that no payment by it should be required to settle such accounts.

**Note 2 — Acquisitions and Dispositions**

In 1985, Flying Tigers sold two DC-8-61 aircraft, aircraft engines and parts for approximately \$14,800,000 and recognized pretax gains of approximately \$7,700,000. In addition, during 1985, Flying Tigers sold leasehold facilities for approximately \$8,500,000 resulting in a pretax gain of approximately \$4,800,000.

In January 1987, Flying Tigers entered into a five year operating lease for six DC-8-63 aircraft and spare equipment. In July 1987, Flying Tigers entered into a seven year operating lease for one Boeing 747-200 aircraft and two spare engines which contains a purchase option, exercisable during the first three years of the lease, to purchase the aircraft and spare engines at specified prices at the end of the fourth through seventh year of the lease.

**Note 3 — Business Segment and Geographic Data**

Tiger is engaged primarily in two businesses: air freight and specialized trucking. Air freight and trucking services are provided in the United States. International air cargo operations are conducted

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

primarily between cities in the United States and points in Asia, Europe, Latin America, the Middle East and the South Pacific.

Segment data	Revenues	Pretax Results Before Interest Expense	Interest Expense Net	Pretax Income (Loss)	Identifiable Assets	Capital Expenditures	Depreciation and Amortization Expense
				(In thousands)			
<b>1985</b>							
Air Freight .....	\$1,109,022	\$ 20,225	\$64,457	\$(44,232)	\$911,452	\$26,510	\$56,880
Trucking .....	38,023	3,207	4	3,203	32,454	772	1,213
Other .....	—	5,003	21,161	(16,158)	12,212	6	331
Continuing Operations	<u>\$1,147,045</u>	<u>\$ 28,435</u>	<u>\$85,622</u>	<u>\$(57,187)</u>	<u>\$956,118</u>	<u>\$27,288</u>	<u>\$58,424</u>
<b>1986</b>							
Air Freight .....	\$1,074,336	\$ 42,689	\$61,334	\$(18,645)	\$846,328	\$ 8,437	\$57,817
Trucking .....	36,612	2,129	5	2,124	25,673	1,499	1,145
Other .....	—	(6,427)	22,115	(28,542)	11,456	76	296
Continuing Operations	<u>\$1,110,948</u>	<u>\$ 38,391</u>	<u>\$83,454</u>	<u>\$(45,063)</u>	<u>\$883,457</u>	<u>\$10,012</u>	<u>\$59,258</u>
<b>1987</b>							
Air Freight .....	\$1,191,680	\$165,491	\$58,881	\$106,610	\$961,859	\$ 8,466	\$55,557
Trucking .....	40,216	2,531	3	2,528	28,868	1,795	1,264
Other .....	—	(8,913)	24,946	(33,859)	5,085	28	1,366
Continuing Operations	<u>\$1,231,896</u>	<u>\$159,109</u>	<u>\$83,830</u>	<u>\$ 75,279</u>	<u>\$995,812</u>	<u>\$10,289</u>	<u>\$58,187</u>

The line item "Other" includes parent company and intercompany elimination items.

All significant identifiable assets are located in the United States. Revenues from the United States Government were \$144,613,000, \$145,640,000 and \$192,182,000 for the years ended December 31, 1985, 1986 and 1987, respectively. These revenues were for services performed primarily for the Military Airlift Command of the United States Air Force and the United States Postal Service.

Revenues relating to scheduled and nonscheduled air freight and passenger operations are as follows:

	For the Years Ended December 31		
	1985	1986	1987
	(In thousands)		
Scheduled Freight Operations			
Domestic .....	\$ 212,929	\$ 155,601	\$ 142,985
Transpacific .....	544,177	599,781	689,407
Transatlantic .....	105,368	83,848	82,010
Latin America .....	63,988	45,409	50,409
Total Scheduled Freight Operations .....	926,462	884,639	964,811
Commercial Charter .....	56,132	46,682	45,018
Military Airlift Command .....	105,680	113,528	155,841
Other .....	20,748	29,487	26,010
Total Revenues .....	<u>\$1,109,022</u>	<u>\$1,074,336</u>	<u>\$1,191,680</u>

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 4 — Long-Term Debt**

The outstanding balance of long-term debt at the dates specified is as follows:

	December 31	
	1986	1987
	(In thousands)	
<b>Notes Payable and Equipment Obligations:</b>		
Tiger International, Inc.		
11½% Debentures due April 1995, net of imputed interest (effective rate 20.7%).....	\$ 20,750	\$ 21,859
11½% Debentures due October 1995, net of imputed interest (effective rate 13.0%).....	14,107	14,292
Note payable to North American (Prime + 2%).....	118,921	131,713
Subsidiaries		
9% to 12% equipment trust certificates due 1988 to 1999 (average rate 11.1% in 1987).....	109,177	155,466
10.56% to 11% master sales agreements (payable in yen) due 1988 to 1991.....	119,401	122,228
12.5% to 13.5% conditional sale agreement.....	1,450	—
6% to 9% promissory notes due 1988 to 1991 (average rate 9.7% in 1987).....	5,962	2,317
Term notes at prime + ¼% and prime + 2%.....	49,084	—
	438,852	447,875
Less current portion.....	50,146	59,299
	<b>\$388,706</b>	<b>\$388,576</b>
<b>Subordinated Debt:</b>		
Tiger International, Inc.		
8½% Senior Subordinated Debentures due July 1995, net of imputed interest (effective rate 19.2%).....	\$ 22,190	\$ 23,233
8½% Convertible Subordinated Debentures due July 2005.....	4,437	4,437
	26,627	27,670
Less current portion.....	—	1,801
	<b>\$ 26,627</b>	<b>\$ 25,869</b>

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Scheduled Maturities*

As of December 31, 1987, principal scheduled maturities of long-term debt, including sinking fund requirements for debentures and capital lease obligations (described in "Note 5 — Commitments") are as follows (in thousands):

<u>Year</u>	<u>Long-term Debt</u>	<u>Capital Lease Obligations</u>	<u>Total</u>
1988.....	\$ 61,100	\$ 9,101	\$ 70,201
1989.....	32,516	10,011	42,527
1990.....	34,031	10,035	44,066
1991.....	63,156	11,166	74,322
1992.....	4,770	13,279	18,049
Later Years.....	279,972	173,315	453,287
Total.....	<u>\$475,545</u>	<u>\$226,907</u>	<u>\$702,452</u>

*Tiger International, Inc. (Parent)*

The 11½% Sinking Fund Debentures due April 1, 1995, (the "New 11½% Debentures"), \$28.4 million in aggregate outstanding principal amount, and the 8⅜% Senior Subordinated Debentures due July 1, 1995, (the "New 8⅜% Debentures"), \$36.0 million in aggregate outstanding principal amount give Tiger International the option to satisfy both principal (including sinking fund obligations) and interest requirements in cash or in Common Stock. The New 11½% Debentures and the New 8⅜% Debentures are hereinafter referred to as the "New Debentures". Tiger International elected to satisfy its interest obligations on the New Debentures in 1985 (\$6.5 million), 1986 (\$6.5 million) and 1987 through July 1, 1987 (\$3.3 million) by delivering 921,768, 1,031,791 and 304,577 shares, respectively, of common stock. Minor amounts were paid in cash for fractional shares. The October 1, 1987 and January 1, 1988 interest payments were paid in cash.

As a mandatory sinking fund for the retirement of the New 11½% Debentures, Tiger International is required to deposit prior to April 1 in each year commencing in 1988 and ending in 1994, an amount, in legal tender or Common Stock, sufficient to redeem not less than 10% of the aggregate principal amount of New 11½% Debentures originally issued. Tiger International may deliver outstanding New 11½% Debentures and apply as a credit New 11½% Debentures which have been redeemed at the election of Tiger International in satisfaction of all or part of such mandatory sinking fund payment requirement.

As a mandatory sinking fund for the retirement of the New 8⅜% Debentures, Tiger International is required to deposit prior to July 1 in each year commencing in 1988 and ending in 1994, an amount, in legal tender or Common Stock, sufficient to redeem not less than 5% of the aggregate principal amount of New 8⅜% Debentures originally issued. Tiger International may deliver outstanding New 8⅜% Debentures and apply as a credit New 8⅜% Debentures which have been redeemed at the election of Tiger International in satisfaction of all or part of such mandatory sinking fund payment requirement.

The 11½% Sinking Fund Debentures due October 1, 1995 (the "Old 11½% Debentures"), \$14.6 million in aggregate outstanding principal amount, were originally issued in connection with the acquisition of Seaboard World Airlines ("Seaboard"). As a mandatory sinking fund for the retirement of the Old 11½% Debentures, Tiger International is required to deposit prior to October 1, in each year commencing in 1986 and ending in 1994, an amount sufficient to redeem not less than 10% of the aggregate amount of Old 11½% Debentures outstanding at October 1, 1986. Tiger International may deliver outstanding Old 11½% Debentures and apply as a credit Old 11½% Debentures which

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

have been redeemed at the election of Tiger International or through optional sinking fund payments in satisfaction of all or part of such mandatory sinking fund payment requirement. Tiger International has acquired through an exchange offer sufficient Old 11½% Debentures to meet the mandatory sinking fund requirement for the years 1987 through 1992 and partially for the year 1993.

The \$4.4 million outstanding principal amount of 8⅜% Convertible Subordinate Debentures due July 1, 2005 (the "Old 8⅜% Debentures") is convertible into Common Stock at an adjusted price of \$31 per share and is redeemable at a premium at any time at the option of Tiger International. As a mandatory sinking fund for the retirement of the Old 8⅜% Debentures, Tiger International is required to deposit prior to July 1 in each year, commencing in 1990 and ending in 2004, an amount sufficient to redeem not less than \$3 million and not more than \$6 million principal amount of Old 8⅜% Debentures. Tiger International may deliver outstanding Old 8⅜% Debentures and apply as a credit Old 8⅜% Debentures which have been converted or redeemed either at the election of Tiger International or through optional sinking fund payments in satisfaction of all or part of such mandatory sinking fund payment requirement. Tiger International has acquired through an exchange offer sufficient Old 8⅜% Debentures to meet the mandatory sinking fund requirement for all years.

The Tiger International Note in principal amount of \$131.7 million, at December 31, 1987, was secured by a pledge by Tiger International of 47% of the common stock of Flying Tigers presently outstanding and required prepayments of principal and interest upon certain events. In March 1988, Tiger International repaid this obligation using cash and the proceeds from the issuance of \$100 million Senior Secured Extendable Reset Notes (see below). As a result, the current portion of the Tiger International Note refinanced in March 1988, has been reclassified to long-term.

The \$100 Million Senior Secured Extendable Reset Notes (the "Reset Notes") issued in March 1988, are due no later than 1993. The Reset Notes bear interest, payable semi-annually, until March 15, 1989 at an initial rate of 12⅜% per annum. In March 1989, Tiger International has the option to prepay at 101.5% of principal amount or to extend the maturity of the Reset Notes for one, two or three years. Thereafter, Tiger has the option to extend the maturity of the Reset Notes to, and including March 15, 1993. Each time Tiger extends the maturity of the Reset Notes, the interest rate will be adjusted to a rate which will cause the Reset Notes to have a market value of 101% of principal amount. The Reset Notes contain covenants relating to the maintenance of net worth and limitations on dividends and other distributions. The Reset Notes are secured by a pledge of 51% of the outstanding common stock of Flying Tigers.

*Subsidiaries*

In April 1987, Flying Tigers completed a refinancing of a substantial portion of its outstanding indebtedness. As part of the refinancing, Flying Tigers sold approximately \$90 million First Priority Trust Certificates due 1997 and \$50 million Second Priority Trust Certificates due 1999 (collectively, the "Trust Certificates").

The proceeds of the sale of the Trust Certificates were used to repay a substantial portion of Flying Tigers' indebtedness and capital lease obligations by prepaying in full certain of Flying Tigers' private equipment trust agreements, prepaying a portion of the principal amounts owed under certain of Flying Tigers' term notes, paying in full all principal and lease payments deferred by the Flying Tigers Restructuring Agreements, which Flying Tigers had entered into in December 1983, and paying to creditors under the Flying Tigers Restructuring Agreements \$5 million to settle in full and terminate the right of such creditors under the Flying Tigers Restructuring Agreements to receive contingent interest based on Flying Tigers' profits in the years 1985 through 1989. The Trust Certificates are secured by four used B-747-200F aircraft owned by Flying Tigers. Scheduled principal maturities of the Trust Certificates do not commence until April 1993.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Concurrent with the consummation of the sale of the Trust Certificates, approximately \$143.7 million of purchase money indebtedness of the owner of four B-747-200F aircraft and four spare engines leased by Flying Tigers under capital leases was refinanced by the owner of such equipment, thereby decreasing the cost to Flying Tigers of leasing such equipment.

The application of the Trust Certificate proceeds as described above paid a substantial portion of the Flying Tigers' indebtedness that was subject to the Flying Tigers Restructuring Agreements, which were terminated concurrently with the repayment of such indebtedness. The effects of such termination, the repayment of indebtedness and the refinancing thereof with the proceeds of the Trust Certificates were intended (1) to reduce Flying Tigers' principal obligations due in the near future, (2) to relieve Flying Tigers from the requirement under the Flying Tigers Restructuring Agreements to make quarterly payments of both deferred and matured principal, deferred interest and contingent interest, and (3) to remove certain operational and other restrictions imposed on Flying Tigers by the Flying Tigers Restructuring Agreements.

In March 1988, Flying Tigers obtained a new one year \$50 million unsecured line of credit. This agreement provides for a commitment fee of  $\frac{1}{2}\%$  on the unused balance of the line of credit. Borrowings bear interest at prime, LIBOR + 1% or a CD rate + 1%. The agreement also provides for certain working capital and debt to equity requirements.

Pursuant to an exchange offer, completed in April 1984, Flying Tigers exchanged \$2.5 million of debt for 189,504 shares of Flying Tigers' common stock and warrants to purchase 89,094 shares of Flying Tigers' common stock. As a result of this exchange offer, Tiger International's ownership of Flying Tigers' common stock has been reduced to 99%.

*Restrictions on Cash Dividend Payments and Assets Secured by Debt*

At December 31, 1987, Flying Tigers' cash balance was \$248.0 million. Under the provisions of certain of Flying Tigers' debt obligations, Flying Tigers is permitted to pay dividends and make advances to Tiger International; however, such dividends and advances are limited to 50% of Flying Tigers' cumulative net income subsequent to December 31, 1986 plus \$25 million. Under Flying Tigers' loan agreements, flight equipment having a net book value of \$234.2 million has been pledged to secure the obligations thereunder. Warren Transport is free from restrictions limiting dividends and advances to Tiger International.

Due to provisions contained in the Reset Notes, Tiger International is prohibited from paying cash dividends on its Common Stock until at least 1993.

**Note 5 — Commitments**

*Leases*

At December 31, 1987, Tiger was lessee under long-term leases on aircraft and engines, facilities and other equipment. These leases extend for varying periods through 2019. There are renewal and fair market value purchase options on most of the leased equipment. Rentals during the renewal option periods are generally at rates that are as favorable as for the initial lease periods. Under most equipment leases, Tiger is obligated for the cost of maintaining and operating the equipment.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Capital Leases: Property and equipment recorded as assets under capital leases at December 31 are as follows:

	1986	1987
	(In thousands)	
Equipment used in operations .....	\$268,869	\$268,869
Less accumulated amortization .....	93,777	108,731
	\$175,092	\$160,138

Operating Leases: Total rental expense, net of sublease rentals, for all operating leases with lease terms in excess of one month for the years ended December 31, 1985, 1986 and 1987 was \$55,587,000, \$55,535,000 and \$71,786,000, respectively.

Scheduled Minimum Future Lease Payments: At December 31, 1987, scheduled minimum future lease payments due under capital leases and non-cancellable operating leases having initial or remaining terms of one year or more are as follows (in thousands):

Year	Capital Leases	Operating Leases
1988 .....	\$ 30,245	\$ 68,559
1989 .....	30,295	67,848
1990 .....	29,414	55,543
1991 .....	29,619	47,643
1992 .....	30,569	23,585
Later years .....	252,191	144,782
Total minimum lease payments .....	402,333	\$407,960
Less amount representing interest.....	175,426	
Present value of net minimum future lease payments .....	226,907	
Less current portion.....	9,101	
Long-term capital lease obligations.....	\$217,806	

Minimum payments under non-cancellable operating leases have not been reduced by minimum sublease rentals of \$23,241,000 due in the future under non-cancellable subleases.

*Guarantees*

At December 31, 1987, Tiger was contingently liable under outstanding guarantees in the amount of \$23,973,000, which will be fully amortized by the year 2010. One guarantee is related to the financing for a DC-8 aircraft sold in 1979 by Seaboard and is secured by the aircraft. The remaining guarantees primarily are related to bonds sold to finance construction of certain airport improvements, and fueling and freight facilities at the Anchorage, Dallas-Fort Worth, Houston and Los Angeles airports. There are no defaults existing on these guarantees as of December 31, 1987.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 6 — Capital Stock**

*Common Stock*

At December 31, 1987, Tiger International had reserved the following number of shares of Common Stock for possible future issuance:

Key Employees Incentive Stock Option Plan .....	684,700
Conversion of Convertible Subordinated Debentures.....	600,000
Exercise of Common Stock Warrants.....	4,373,000
Exercise of Employee Common Stock Warrants .....	1,818,950
Non-Statutory Stock Options.....	<u>1,587,500</u>
	<u>9,064,150</u>

*Stock Option Plan*

During 1981, the stockholders approved a Key Employees Incentive Stock Option Plan (the "1981 Plan") under which options may be granted covering no more than 750,000 shares of Common Stock. The option price is the market value on the date of grant. The options granted are exercisable from 1987 to 1997.

A summary of changes in stock options under the 1981 Plan for the three years ended December 31, 1987, is as follows:

	Number of Shares	Option Price Per Share
Outstanding at December 31, 1984.....	640,506	\$6.13-14.13
Granted.....	—	—
Exercised.....	—	—
Cancelled or expired .....	<u>87,050</u>	<u>8.00-12.38</u>
Outstanding at December 31, 1985.....	553,456	6.13-14.13
Granted.....	107,000	5.75- 8.00
Exercised.....	—	—
Cancelled or expired .....	<u>172,700</u>	<u>6.50-14.13</u>
Outstanding at December 31, 1986.....	487,756	5.75-12.38
Granted.....	245,500	8.88-16.13
Exercised.....	65,300	5.75-12.38
Cancelled or expired .....	<u>22,650</u>	<u>8.00-12.38</u>
Outstanding at December 31, 1987.....	<u>645,306</u>	<u>\$6.13-16.13</u>

The aggregate purchase price of shares subject to outstanding options granted under the 1981 Plan was \$5,014,000 at December 31, 1985, \$4,294,000 at December 31, 1986 and \$5,893,000 at December 31, 1987. At December 31, 1987, stock options covering 412,306 shares are exercisable.

In 1988, the Board of Directors of Tiger International adopted the Tiger International, Inc. 1988 Stock Option Plan (the "1988 Plan"), subject to the approval of Tiger International's stockholders. As adopted by the Board of Directors, an aggregate of 1,000,000 shares of Common Stock is reserved for issuance. The 1988 Plan also authorizes the award of stock appreciation rights ("SARs") with respect to the shares covered by any option granted under the 1988 Plan. The option price per share shall not be less than 100%, in the case of an incentive stock option, or 90%, in the case of a non-statutory stock option, of the fair market value on the date the option is granted. In 1988, options to purchase 565,000 shares of Common Stock, of which 245,000 options were issued in tandem with SAR's, were

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

granted under the 1988 Plan at exercise prices ranging from \$10.75 to \$14.00 per share, the market values on the dates of grant. The 1988 Plan will be submitted for approval by Tiger International's stockholders at the 1988 Annual Meeting.

*Non-Statutory Stock Options*

On August 28, 1985 as an inducement essential to Robert P. Jensen's employment as President and Chief Executive Officer of Tiger International, the Board of Directors granted Mr. Jensen a Non-Statutory Stock Option to purchase 1,000,000 shares of Common Stock at \$7 per share, the market value of the Common Stock on the date of the grant. On August 8, 1986, the Board of Directors granted Mr. Jensen a Non-Statutory Stock Option to purchase 250,000 shares of Common Stock at \$5.25 per share (the market value on the date of the grant). These Stock Options were exercisable at any time on or after August 8, 1986, to and including August 7, 1996. On January 22, 1987, Mr. Jensen was succeeded by Stephen M. Wolf as Chairman of the Board, President and Chief Executive Officer of Tiger International. Pursuant to an agreement dated March 26, 1987 ("Agreement") between Tiger International and Mr. Jensen, Mr. Jensen agreed that he would not exercise the stock option granted to Mr. Jensen on August 8, 1986 in whole or in part and would permit it to expire unexercised. Further, pursuant to the Agreement, the stock option granted to Mr. Jensen on August 28, 1985 to acquire 1,000,000 shares of Tiger's common stock at a price of \$7.00 per share was amended to reduce the number of shares subject to the option to 562,500. This amended stock option is exercisable through March 25, 1991. Under certain circumstances, Mr. Jensen may also transfer his rights under this stock option to an underwriter and has the right to the registration of the sale of the shares acquired upon the exercise of his stock option.

As an inducement essential to Mr. Wolf accepting employment with Flying Tigers, at the time of his employment in August 1986, (a) the Board of Directors of Flying Tigers granted Mr. Wolf a stock option to purchase 1,000,000 shares of Flying Tigers' Common Stock at \$5.45 per share (the fair value of the stock on the date of the grant) (the "FTL Option") and (b) the Board of Directors of Tiger International granted Mr. Wolf a stock option to purchase 250,000 shares of Tiger International's Common Stock at \$5.25 per share (the market value on the date of the grant) (the "First Tiger International Option"). Each option was on substantially identical terms, including the exercise period (through 1996); vesting (25% at grant and, based upon continued employment, 25% one year thereafter and the remainder in August 1988); and certain rights to transfer to an underwriter and to registration for public sale.

In connection with its decision to acquire minority interests in its air freight operating subsidiary, Tiger International and Mr. Wolf entered into a November 1987 agreement, which became effective in March 1988, whereby Mr. Wolf would exchange his FTL Option for an option on additional Tiger International shares. Based upon a review of financial and market information and consultation with an independent investment banker, the FTL Option was exchanged for a new option, intended to represent approximately equivalent fair value to Mr. Wolf, to purchase 1,800,000 shares of Tiger International Common Stock at an exercise price of \$3.05 per share (the "Second Tiger International Option"). The Second Tiger International Option was on the same substantive terms, including vesting, as the FTL Option which it replaced and as the First Tiger International Option. The exchange of options became effective in March 1988. As a result of Mr. Wolf's employment terminating in December 1987, those rights to exercise which would have otherwise vested in August 1988 were forfeited, and Mr. Wolf's right to exercise is limited to 125,000 shares and 900,000 shares of Tiger International Common Stock, respectively, under the First Tiger International Option and the Second Tiger International Option.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Warrants*

Pursuant to an exchange offer completed in September 1983, Tiger International has outstanding, in registered form, 3,199,338 warrants (including 56,022 issued to Flying Tigers) to purchase Common Stock at \$12.50 per share, subject to adjustment. The warrants can be exercised at any time on or after January 1, 1984, through June 30, 1988, subject to certain call provisions. The warrant holder may elect to pay all or part of the exercise price by surrender of New Debentures to the Warrant Agent which shall be credited at the principal amount thereof plus accrued interest. (See "Note 4 — Long-Term Debt.")

In connection with the above mentioned Exchange Offer, Tiger International issued warrants to purchase 200,000 shares of Common Stock to an investment banker as compensation for services performed. Each warrant entitles the warrant holder to purchase one share of Common Stock at \$8.00 per share, subject to adjustment, at any time on or after January 1, 1984, through June 30, 1988. These warrants are not subject to redemption.

In connection with the restructuring agreements entered into by North American and Flying Tigers, Tiger International executed agreements which provided, among other things, that Tiger International issue to the creditors of North American and Flying Tigers warrants with an expiration date of September 30, 1993, in connection with (i) the deferral of interest at North American and (ii) advances made by North American and Flying Tigers to Tiger International. In connection with the deferral of interest, warrants to purchase 246,204 shares of Common Stock have been issued to North American's lenders at exercise prices ranging from \$5.15 to \$6.99. In connection with advances made by North American and Flying Tigers during 1984, 140,069 warrants have been issued to North American's and Flying Tigers' lenders at exercise prices ranging from \$5.94 to \$7.39. No additional warrants will be issued in connection with these agreements.

In 1986, Flying Tigers entered into agreements with substantially all of its unionized employees providing for reduced wages, work rule changes and other cost reduction measures. In addition, management and clerical employees participated in cost reduction programs. In return for such savings, Flying Tigers agreed to grant to participating employees a profit participation, warrants to purchase approximately 1.8 million shares of Flying Tigers' common stock, and, collectively, the right to designate one member of Flying Tigers' Board of Directors. Compensation expense, computed by the excess of the fair value of the stock over the exercise price, is being charged to income over the term of the program. In the event there is no active market for the common stock of Flying Tigers, Tiger International may be required, under an agreement with Flying Tigers, to issue substitute warrants to purchase 1.8 million shares of Tiger International Common Stock or issue 1.8 million shares of Tiger International Common Stock. The profit sharing component consists of an agreement to pay eligible participants 15% of Flying Tigers' income (as defined in the agreement) in excess of \$10,000,000 for each of the years ending on December 31, 1987, 1988 and 1989 and in excess of \$4,166,000 for the five months ending on May 31, 1990. For the year ended December 31, 1987, Flying Tigers paid, in March 1988, \$16,516,000 under the terms of the profit sharing plan.

**Note 7 — Contingencies and Legal Actions**

On December 5, 1984, North American and Tiger Leasing Group filed voluntary petitions for reorganization in the Bankruptcy Court. The North American and Tiger Leasing Group bankruptcy proceedings could result in unsatisfied creditors' claims of up to \$300 million after sale of their assets and completion of the bankruptcy proceedings. See "Note 1 — Discontinued Operations" for a discussion of pending proceedings in the Bankruptcy Court and possible claims pertaining to tax benefit accounts.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In May 1987, North American filed a complaint with the Bankruptcy Court asserting claims against Tiger International and certain former directors of North American, some of whom were also directors of Tiger International. The complaint focuses on various transfers of funds from North American to Tiger International (including the advances by North American to Tiger International evidenced by the Tiger International Note) and the North American Restructuring Agreement. The complaint alleges that the foregoing transfers aggregate approximately \$217 million, and seeks payment of that amount, as well as interest accruing on the funds transfers from the dates thereof. Tiger International and North American have reached agreement in principle, subject to negotiation of definitive documentation and requisite Bankruptcy Court approval, providing for payments to North American in settlement of this lawsuit for which provision has been made as of December 31, 1987.

Alter ego claims against Tiger International arising out of the North American bankruptcy have been asserted in the following pending lawsuits: *Mecanoexport-import adv. Robert Tidball, et al.* (Cook County Circuit Court, Illinois, No. 85L 08193), and *Hunter-Keith, Incorporated v. General Electric Credit Corporation, et al.* (United States District Court for the District of Minnesota, Action No. 4-84-804).

The *Mecanoexport-import* suit seeks compensatory damages against Tiger International of over \$30 million and punitive damages against Tiger International of approximately \$60 million. Tiger International intends to defend vigorously against the claims in this lawsuit. Although no assurance can be given that Tiger International will prevail in the *Mecanoexport-import* lawsuit, Tiger International management believes that Tiger International has meritorious defenses to this action.

In March 1988 an agreement in principle, subject to negotiation of definitive documentation, was reached providing for the settlement of the *Hunter-Keith* lawsuit for which provision has been made as of December 31, 1987.

See "Note 1 — Discontinued Operations — Hall's Motor Transit" for a discussion of a settlement pertaining to Hall's.

**Note 8 — Retirement Plans**

Tiger adopted certain provisions of the Statement of Financial Accounting Standards No. 87 "Employers' Accounting for Pensions" (FAS No. 87) as of January 1, 1987. The adoption of FAS No. 87 had no significant effect on net income for the year ended December 31, 1987. The provisions were adopted prospectively; accordingly, the results of operations for the years ended December 31, 1986 and 1985 have not been restated. As permitted by FAS No. 87, Tiger has elected not to currently adopt certain provisions requiring the recognition of a pension asset and liability in the Consolidated Balance Sheets.

Tiger maintains noncontributory defined benefit pension plans for substantially all of its U.S. employees. The plan covering Tigers' management and clerical employees provides pension benefits based upon a career-average-pay formula. The plans covering Tigers' unionized personnel generally provide for fixed benefits per year of service. Tiger makes contributions to these plans based upon the minimum funding requirements under the Employee Retirement Income Security Act of 1974. Assets of the plans consist primarily of insurance contracts, stocks, bonds and money market accounts.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The net periodic pension cost for the defined benefit plans for the year ended December 31, 1987 consisted of the following (in thousands):

Service costs — benefits earned during the year .....	\$ 6,855
Interest cost on projected benefit obligation .....	22,941
Actual return on assets .....	(18,256)
Net amortization and deferral.....	<u>(4,045)</u>
	<u>\$ 7,495</u>

The following is a summary of the status of the funding of the pension plans and of the amounts recognized in the Consolidated Balance Sheets of Tiger as of January 1, 1987, the date FAS No. 87 was adopted, and December 31, 1987 (in thousands):

	As of January 1, 1987		December 31, 1987	
	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets	Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of benefit obligations:				
Vested benefit obligations.....	\$32,167	\$191,102	\$33,505	\$199,403
Accumulated benefit obligations.....	<u>\$32,942</u>	<u>\$231,916</u>	<u>\$34,314</u>	<u>\$242,238</u>
Projected benefit obligations.....	\$37,717	\$243,397	\$39,591	\$254,998
Assets of the plans at market.....	<u>43,901</u>	<u>204,257</u>	<u>43,891</u>	<u>213,478</u>
Projected benefit obligation (greater) less than assets of the plans.....	6,184	(39,140)	4,300	(41,520)
Unrecognized net (gain) loss .....	—	—	1,633	3,275
Unrecognized net (asset) obligation at January 1, 1987 .....	<u>(7,185)</u>	<u>20,931</u>	<u>(6,706)</u>	<u>19,535</u>
Pension liability recognized on the Consolidated Balance Sheets.....	<u>\$ (1,001)</u>	<u>\$ (18,209)</u>	<u>\$ (773)</u>	<u>\$ (18,710)</u>

In determining the actuarial present value of projected benefit obligations, a discount rate of 8<sup>1</sup>/<sub>2</sub> percent was used. Future compensation levels are assumed to increase at rates ranging from zero to 3 percent. The long-term rate of return on assets was 9<sup>1</sup>/<sub>2</sub> percent.

Tiger provides benefits upon termination or retirement to its non-U.S. employees in certain locations. Such benefits are based upon career-average-pay formulas. Generally, Tiger does not maintain separate funded plans for such benefits. For the year ended December 31, 1987, the cost of such plans was approximately \$1,783,000.

Tiger sponsors defined contribution pension plans on behalf of its pilots and certain other employees. For the pilots' plan, contributions through November 30, 1986 were 11 percent of compensation. As part of the Employee Partnership Program, contributions to the pilots' plan ceased as of that date and accordingly pension expense decreased in 1987. Contributions to the other plans for the year ended December 31, 1987 were not significant.

For the years ended December 31, 1985 and 1986, the total costs of all of these plans were approximately \$13,651,000 and \$17,002,000, respectively.

In addition to providing pension benefits, Tiger provides certain health care and life insurance benefits for retired employees. Substantially all of the Tiger's domestic employees may become eligible for these benefits if they reach normal retirement age while working for Tiger. The cost of retiree health care and life insurance benefits is recognized as an expense as claims are paid. For the year ended December 31, 1987, those costs were not significant.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 9 — Income Taxes**

The income tax provision for 1987 differs from the federal statutory rate of 40% due to reductions provided by investment tax credits offset by state taxes. The extraordinary tax credit for 1987 is the result of Tiger's use of net operating loss carryforwards generated in earlier years reduced by the investment tax credits above offset by a provision for the alternative minimum tax. There was no income tax benefit recorded for the losses incurred in 1986 and 1985 because prior years received all tax benefits arising from the reversal of all available domestic deferred income taxes not previously reduced by tax credits.

The income tax provision related to continuing operations differs from the amount computed using the United States federal income tax rate. A reconciliation between this rate and the effective rate is as follows:

	<u>1985</u>	<u>1986</u>	<u>1987</u>
United States Federal income tax rate .....	(46.0)%	(46.0)%	40.0%
Investment tax credits .....	—	—	(21.5)
Permanent differences between book and tax income .....	—	—	3.0
Book losses not benefitted .....	46.0	46.0	—
State income taxes, net of Federal tax benefit, and other .....	—	—	.6
Income tax provision (benefit) effective rate .....	<u>— %</u>	<u>— %</u>	<u>22.1%</u>

In 1985 and 1986, the principal timing differences relate to depreciation, differing treatment of book reserves and the recognition of various other income and expense items in different financial reporting and tax years. In 1987, the principal timing differences related to the aforementioned items and expenses recognized for financial reporting purposes but deferred for tax purposes relating to the recording of reserves for discontinuing operations as discussed in "Note 1 — Discontinued Operations."

For Federal income tax purposes, Tiger files a consolidated income tax return. At December 31, 1987, and pending completion and filing of the consolidated tax return, Tiger estimates that it has available for Federal income tax purposes, in 1988 and subsequent years, net operating loss carryforwards ("NOL's") in excess of \$270 million and investment tax credits ("ITC's") of approximately \$36 million. None of the NOL's expire prior to 1997. The ITC's expire beginning in 1989. For financial statement purposes, Tiger has NOL's in excess of \$200 million and ITC's of approximately \$9 million. The ITC's have been reduced to reflect the provisions of the Tax Reform Act of 1986.

Tiger's Federal income tax returns for the years 1977 through 1981 have been examined, and certain adjustments have been proposed by the Internal Revenue Service. A petition for redetermination of certain deficiencies asserted against Tiger by the Internal Revenue Service is presently pending in the United States Tax Court. The amounts at issue include approximately \$8,000,000 of investment tax credit claimed by Flying Tigers in 1977 in connection with the modification of certain used B-747 aircraft. The Internal Revenue Service has answered the petition, generally denying all of Tiger's allegations, but has not engaged in any discovery or filed any motions. As a consequence, the resolution of this issue is dependent on a number of factual matters which have not as yet been fully developed. Since the outcome will be dependent upon determinations to be made by the trier of fact, it is not possible to predict the outcome of any such litigation with certainty and no assurance can be given that Tiger will prevail in such litigation. However, in the opinion of management, adequate provision has been made for all income tax liabilities.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 10 — Details of Certain Accounts**

**Supplemental Consolidated Balance Sheet Information**

	December 31	
	1986	1987
	(In thousands)	
Receivables, Net:		
Trade.....	\$ 149,617	\$ 167,628
Other.....	2,926	2,853
Less allowance for doubtful accounts and revenue adjustments.....	(14,287)	(25,548)
Receivables, net.....	\$ 138,256	\$ 144,933
Accounts Payable and Accrued Liabilities:		
Accounts payable.....	\$ 58,265	\$ 59,502
Accrued liabilities		
Payroll and profit sharing.....	8,291	25,979
Vacations.....	19,341	16,395
Interest.....	16,934	12,622
Income taxes.....	70	3,716
Taxes other than payroll and income taxes.....	15,565	15,941
Pensions.....	8,290	7,474
Reserve for discontinued operations.....	—	15,000
Other.....	32,964	35,354
Accounts Payable and Accrued Liabilities.....	\$ 159,720	\$ 191,983

**Supplemental Consolidated Statement of Operations Information**

	1985	1986	1987
	(In thousands)		
Maintenance and repairs.....	\$ 114,757	\$ 128,862	\$ 131,204
Taxes other than payroll and income taxes.....	\$ 9,486	\$ 15,736	\$ 8,188
Amortization of cost in excess of fair value of acquired businesses.....	\$ 1,608	\$ 1,608	\$ 1,608
Advertising costs.....	\$ 6,909	\$ 6,303	\$ 4,616

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)**

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
	(In thousands except per share data)			
<b>1985</b>				
Revenues .....	\$269,971	\$279,246	\$283,883	\$313,945
Loss from Continuing Operations .....	\$ (4,725)	\$ (10,165)	\$ (23,266)	\$ (19,031)
Loss from Discontinued Operations.....	—	—	—	(15,500)
Net Loss .....	\$ (4,725)	\$ (10,165)	\$ (23,266)	\$ (34,531)
Loss Per Share —				
Continuing.....	\$ (.21)	\$ (.40)	\$ (.77)	\$ (.62)
Discontinued.....	—	—	—	(.51)
Total .....	\$ (.21)	\$ (.40)	\$ (.77)	\$ (1.13)
<b>1986</b>				
Revenues .....	\$263,173	\$261,336	\$286,613	\$299,826
Net Income (Loss) .....	\$ (34,156)	\$ (22,830)	\$ 1,524	\$ 10,399
Income (Loss) Per Share .....	\$ (1.11)	\$ (.74)	\$ .05	\$ .33
<b>1987</b>				
Revenues .....	\$265,313	\$296,082	\$317,344	\$353,157
Income from Continuing Operations .....	\$ 4,395	\$ 14,392	\$ 18,528	\$ 21,364
Loss from Discontinued Operations.....	—	—	—	(9,100)
Income Before Extraordinary Item.....	4,395	14,392	18,528	12,264
Extraordinary Tax Credit.....	450	2,850	4,600	300
Net Income .....	\$ 4,845	\$ 17,242	\$ 23,128	\$ 12,564
Income (Loss) Per Share —				
Continuing.....	\$ .14	\$ .38	\$ .49	\$ .60
Discontinued.....	—	—	—	(.28)
Total .....	.14	.38	.49	.32
Extraordinary Tax Credit.....	.01	.08	.13	.01
Total .....	\$ .15	\$ .46	\$ .62	\$ .33

## Continuing Operations

The seasonal fluctuations in the transportation business are reflected in the above summary.

The first quarter of 1985 includes pretax gains of approximately \$5,900,000 from DC-8 aircraft, engine and parts sales and \$4,900,000 from the sale of leasehold property. The fourth quarter of 1985 includes pretax gains of approximately \$1,500,000 from the sale of DC-8 aircraft parts. In addition, the fourth quarter of 1985 includes pretax reserves of \$10,000,000, most of which relate to increases in engine overhaul costs, and a \$14,111,000 loss on yen-denominated debt.

The first, second and third quarters of 1986 includes losses on yen-denominated debt of \$13,200,000, \$10,000,000 and \$7,000,000, respectively. The fourth quarter of 1986 includes \$2,700,000 million gain on yen-denominated debt.

The first quarter of 1987 includes a \$5,000,000 charge for contingent interest accrued and paid in settlement of such amounts due under the Flying Tiger Restructuring Agreements. The extraordinary tax credits in the first, second, third and fourth quarters of 1987 are the result of the utilization of NOL's.

## Discontinued Operations

The fourth quarter of 1985 includes a \$10,500,000 charge relating to the write-off of a note receivable from Hall's, and a charge of \$5 million relating to guarantees of Hall's workers' compensation obligations.

The fourth quarter of 1987 includes an after tax charge of \$9.1 million relating to the resolution of litigation matters involving North American and Halls and the settlement of certain indebtedness which originated with North American.

## Item 9. Disagreements on Accounting and Financial Disclosure.

A report of Form 8-K was filed with the SEC on March 27, 1986 reporting a change in Tiger's certifying accountant. There were no disagreements with accountants on accounting principles or practices, financial statement disclosures or auditing scope or procedures within twenty-four months of the most recent financial statements included herein.

### Part III

Except as provided under the heading "Executive Officers of the Registrant" following Item 4, of Part I hereof, Items 10, 11, 12 and 13 are incorporated by reference to Tiger International's definitive proxy statement (to be filed pursuant to Regulation 14A) which will involve the election of directors.

### Part IV

## Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

### (a) Financial Statement Schedules and Exhibits Filed

<u>Financial Statement Schedules</u>	<u>Page</u>
Reports of Certified Public Accountants on Financial Statements Schedules.....	61
Schedule III — Condensed Parent Company Financial Data .....	63
Schedule V — Property and Equipment .....	66
Schedule VI — Accumulated Depreciation and Amortization of Property and Equipment .....	67
Schedule VIII — Valuation and Qualifying Accounts and Reserves .....	68

The statements and schedules referred to above should be read in conjunction with the consolidated financial statements and notes thereto included in Part II of this Annual Report on Form 10-K. Schedules not included in this section have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

Exhibit  
NumberDescription of Exhibit

- 3.1 — Restated Certificate of Incorporation of Tiger International, Inc. dated March 2, 1988.
- 3.2 — By-Laws of Tiger International Inc. as amended on March 24, 1988.
- 4.1 — Indenture for 11½% Sinking Fund Debentures due April 1, 1995 between Tiger International, Inc. and Midlantic National Bank dated as of July 1, 1983 [4.1](2).
- 4.2 — Indenture for 8¾% Senior Subordinated Debentures due July 1, 1995 between Tiger International, Inc. and American Fletcher National Bank and Trust Company dated as of July 1, 1983 [4.2](2).
- 4.3 — Warrant Agreement between Tiger International, Inc. and Midlantic National Bank dated as of July 1, 1983 [4.3](2).
- 4.4 — Stock Purchase Warrant for the First National Bank of Chicago, as Collateral Agent, to purchase 117,245 shares of Common Stock of Tiger International, Inc. dated as of October 1, 1983 [4.4](2).
- 4.5 — Stock Purchase Warrant for the First National Bank of Chicago, as Collateral Agent, to purchase 54,109 shares of Common Stock of Tiger International, Inc. dated as of January 1, 1984 [4.8](3)
- 4.6 — Form of July Warrant to purchase shares of Common Stock of Tiger International, Inc. [4.6](2).
- 4.7 — Indenture dated as of September 1, 1980, between Tiger International, Inc. and Crocker National Bank, as Trustee [2(b)](4).
- 4.8 — Indenture, dated as of September 1, 1980, between Tiger International, Inc. and Bankers Trust Company, as Trustee [6.2.2](5).
- 4.9 — Forms of Stock Purchase Warrant issued on March 20, 1984 to purchase shares of Common Stock of Tiger International, Inc. [4.10](2).
- 4.10 — Stock Purchase Warrant dated as of April 1, 1984 for the First National Bank of Chicago, as Collateral Agent, to purchase 74,850 shares of Common Stock of Tiger International, Inc. [4.11](2)
- 4.11 — Forms of Stock Purchase Warrant issued on June 20, 1984 to purchase shares of Common Stock of Tiger International, Inc. [4.12](2)
- 4.12 — Equipment Trust Agreement dated as of October 1, 1976, between The Bank of New York, as Trustee, and The Flying Tiger Line Inc. [4.13(a)](6)
- 4.13 — Forms of Stock Purchase Warrant issued on September 20, 1984 to purchase shares of Common Stock of Tiger International, Inc. [4.15(a)](6)
- 4.14 — Form of Equipment Trust Agreement dated as of April 1, 1987 among The Connecticut National Bank, as Collateral Trustee, Meridian Asset Management, Inc., as First Priority Certificate Trustee, United Jersey Bank, as Second Priority Certificate Trustee, and The Flying Tiger Line Inc. [4.1](7)
- 4.15 — Form of First and Second Priority Trust Certificates (filed as part of Exhibit 4.14 hereto.)
- 4.16 — Indenture, dated as a March 1, 1988, between Tiger International, Inc. and Norwest Bank of Minnesota, N.A., as Trustee, with respect to Senior Secured Extendable Reset Notes due no later than 1993.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
4.17	— There is not being filed hereunder as an exhibit any instruments defining the rights of holders of long-term debt of the Registrant and its consolidated subsidiaries under which the total amount of securities authorized does not exceed 10% of the total assets of Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish to the Commission a copy of each such instrument upon its request.
10.1	— Tiger Leasing Group Agreement among Tiger Leasing Group, Inc., Creditors of North American Car Corporation and First National Bank of Chicago, as Collateral Agent, dated September 30, 1983. [10.8](2)
10.2	— Tiger Leasing Group Note, principal amount of \$81,261,000 from Tiger Leasing Group, Inc. to North American Car Corporation dated September 30, 1983. [10.9](2)
10.3	— Warrant Agreement between Tiger International, Inc. and Private Lenders dated as of September 30, 1983. [10.19](3)
10.4	— 1981 Key Employees Stock Option Plan for Tiger International, Inc. and subsidiaries. [A](9)
10.5	— 1981 Key Employees Stock Option Plan for Tiger International, Inc. and subsidiaries, as amended. [28.1](1)
10.6	— Agreement between Tiger International, Inc., Hall's Motor Transit Company and Hall's Acquisition Corporation, dated December 13, 1985. [10.29](10)
10.7	— Receipt and Acknowledgement by Hall's Acquisition Corporation of twenty-five shares of Hall's Motor Transit Company Capital Stock. [10.30](10)
10.8	— Certificate of Ownership of twenty-five shares of Capital Stock of Hall's Motor Transit Company. [10.31](10)
10.9	— Assignment Separate from Certificate by Tiger International, Inc. of twenty-five shares of Capital Stock of Hall's Motor Transit Company. [10.32](10)
10.10	— Employment Agreement between Tiger International, Inc. and Robert P. Jensen, dated September 13, 1985. [10.33](10)
10.11	— Stock Option to Purchase Common Stock of Tiger International, Inc., for Robert P. Jensen, dated as of August 28, 1985. [10.34](10)
10.12	— Agreement dated March 26, 1987 between Tiger International, Inc. and Robert P. Jensen, including the Amended Stock Option, dated March 26, 1987, referred to in that Agreement. [10.41](11)
10.13	— Severance Compensation Agreement between Tiger International, Inc., and Robert J. Harter, dated as of August 2, 1985. [10.35](10)
10.14	— Note Prepayment and Settlement Agreements dated as of January 21, 1988, between Tiger International, Inc., and the Collateral Agent, as defined therein, and all accepting creditors, as defined therein (including exhibits).
10.15	— Stock Pledge Agreement dated as of March 15, 1988, between Tiger International, Inc., The Flying Tiger Line Inc. and Norwest Bank Minnesota, National Association.
10.16	— Registration Rights Agreement dated as of March 15, 1988, between Tiger International Inc. and each of the Purchasers, as defined therein.
10.17	— Securities Purchase Agreement, dated as of March 15, 1988, between Tiger International, Inc. and the Purchasers named on the execution pages thereof (including all exhibits.)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.18	— TLG Guarantee executed by Tiger Leasing Group, Inc. in favor of First National Bank of Chicago, as Collateral Agent, on behalf of the Creditors of North American Car Corporation dated as of September 30, 1983. [10.10](2)
10.19(1)	— First Amended and Restated Pledge Agreement dated as of October 21, 1983 between Tiger Leasing Group, Inc. and Continental Illinois National Bank and Trust Company of Chicago, as Agent. [10.11(1)](2)
10.19(2)	— Amendment Number One to First Amended and Restated Pledge Agreement dated as of June 15, 1984 among Tiger Leasing Group, Inc. and Continental Illinois National Bank and Trust Company, as Agent. [10.11(2)](2)
10.19(3)	— Supplementary Pledge Agreement dated as of June 15, 1984 among Tiger Leasing Group, Inc. and Continental Illinois National Bank and Trust Company of Chicago, as Agent. [10.11(3)](2)
10.19(4)	— Security Agreement (Accounts Receivable) dated as of June 15, 1984 between Tiger Leasing Group, Inc. and Continental Illinois National Bank and Trust Company of Chicago, as Agent. [10.11(4)](2)
10.19(5)	— Creditor Beneficiary Agreement dated as of June 15, 1984 among Tiger Leasing Group, Inc., Continental Illinois National Bank and Trust Company of Chicago, as Agent, and Creditor Beneficiaries. [10.11(5)](2)
10.19(6)	— Supplemental Creditor Beneficiary Agreement dated as of June 15, 1984 among Tiger Leasing Group, Inc., Continental Illinois National Bank and Trust Company of Chicago, as Agent, and Creditor Beneficiaries. [10.11(6)](2)
10.19(7)	— Precedent Agreement dated as of June 15, 1984 among TigerAir, Inc., Tiger Leasing Group, Inc. and Continental Illinois National Bank and Trust Company of Chicago, as Collateral Agent. [10.11(7)](2)
10.20	— Amendment and Restatement as of October 21, 1983 of Credit Agreement dated as of September 8, 1983 among TigerAir, Inc., Tiger Leasing Group, Inc. and Lenders and of Term Loan Agreement dated as of May 23, 1977, as amended as of December 21, 1977 and September 8, 1983 among TigerAir, Inc., Tiger Leasing Group, Inc. and Lenders. [10.14](2)
10.21	— Waiver Agreement and Amendment among TigerAir, Inc., Tiger Leasing Group, Inc., Lenders and Continental Illinois National Bank and Trust Company of Chicago, as Collateral Custodian, dated as of December 21, 1983. [10.20](3)
10.22	— Tiger Note, principal amount of up to \$5,349,000, from Tiger International, Inc. to The Flying Tiger Line Inc. dated December 30, 1983. [10.21](2)
10.23	— Amended and Restated Guaranty from Tiger Leasing Group, Inc. to Continental Illinois National Bank and Trust Company of Chicago dated as of September 8, 1983. [10.22](2)
10.24	— Amended and Restated Guaranty from Tiger Leasing Group, Inc. to the First National Bank of Chicago, dated as of September 8, 1980. [10.23](2)
10.25	— Amended and Restated Guaranty from Tiger Leasing Group, Inc. to the First National Bank of Boston, dated as of September 8, 1980. [10.24](2)
10.26	— Agreement to Terminate Tax Allocation Agreement and Release Intercompany Account among Tiger International, Inc., The Flying Tiger Line Inc., Flying Tiger Air Services, Inc., Sky Voyager, Inc., SWAP, Inc., Tiger Trading Company and Tiger International, Inc. dated August 28, 1986. [10.16](7)

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.27	— Tax Sharing Agreement between Tiger International, Inc. and The Flying Tiger Line Inc. dated August 28, 1986. [10.19](7)
10.28	— Employment Agreement between Tiger International, Inc. and Larry G. Morris dated January 1, 1986. [10.47](11)
10.29	— Employment Agreement between The Flying Tiger Line Inc. and Stephen W. Wolf dated August 8, 1986. [10.22](7)
10.30	— Amendment to Employment Agreement between Tiger International, Inc., The Flying Tiger Line Inc. and Stephen M. Wolf dated as of March 26, 1987. [10.49](11)
10.31	— Settlement Agreement, dated as of March 4, 1988, between Tiger International, Inc., The Flying Tiger Line Inc., Warren Transport, Inc. and the Signatory Funds, as defined therein (including exhibits)
10.32	— First Amendment to MEPPAA Liability Sharing Agreement, dated December 31, 1987, between Tiger International, Inc. and The Flying Tiger Line Inc.
10.33	— Second Amendment to Employment Agreement between Tiger International, Inc. and Stephen M. Wolf dated November 23, 1987.
10.34	— Stock Option to Purchase Common Stock of Tiger International, Inc. for Stephen M. Wolf, dated as of November 23, 1987.
11.1	— Computation of Per Share Earnings (EPS).
22.1	— List of subsidiaries of Tiger International, Inc.
24.1	— Consent of Arthur Young & Company to incorporation of report into Form S-8 Registration Statement by reference.
24.2	— Consent of Arthur Andersen & Co. to incorporation of report into Form S-8 Registration Statement by reference.

(b) Reports on Form 8-K

There were no reports on Form 8-K filed by Tiger International during the last quarter of the fiscal year ended December 31, 1987.

- (1) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Form S-8 Registration Statement No. 33-15559, is hereby incorporated herein by this reference.
- (2) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Form S-1 Registration Statement No. 2-88929, as amended, is hereby incorporated herein by this reference.
- (3) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Form 10-K Annual Report for the fiscal year ended December 31, 1983, is hereby incorporated herein by this reference.
- (4) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Form S-16 Statement No. 2-68885, is hereby incorporated herein by this reference.

- (5) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Form S-14 Registration Statement No. 2-68788, is hereby incorporated herein by this reference.
- (6) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Form S-1 Registration Statement No. 2-95706, is hereby incorporated herein by this reference.
- (7) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Form S-1 Registration Statement No. 2-94413-01, as amended, of The Flying Tiger Line Inc., is hereby incorporated herein by this reference.
- (8) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Form 10-K Annual Report for the fiscal year ended December 31, 1980, is hereby incorporated herein by this reference.
- (9) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Proxy Statement for its 1981 Annual Meeting of Stockholders, is hereby incorporated herein by this reference.
- (10) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Tiger International's Annual Report on Form 10-K for the year ended December 31, 1985, is hereby incorporated herein by this reference.
- (11) This document, a copy of which was filed with the Securities and Exchange Commission as an exhibit, under the exhibit number indicated in brackets at the end of the description of that exhibit above, to Post-effective Amendment No. 1 to Tiger International's Form S-1 Registration Statement No. 2-88929, is hereby incorporated herein by this reference.

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS ON  
FINANCIAL STATEMENT SCHEDULES**

The Board of Directors and Stockholders  
of Tiger International, Inc.

In connection with our examination of the consolidated financial statements of Tiger International, Inc. and subsidiaries at December 31, 1986 and 1987 and for the years then ended, we have also examined the consolidated schedules included in this Form 10-K as listed in Item 14(a) as of those dates.

In our opinion, the consolidated schedules mentioned above present fairly the information required to be stated therein.

ARTHUR YOUNG & COMPANY

Los Angeles, California  
March 29, 1988

Consolidated Balance Sheet as of December 31, 1987			
	1987	1986	1985
Assets			
Current assets			
Cash and cash equivalents	\$ 17,477	\$ 44,954	\$ 11,274
Accounts receivable	17,234	17,741	14,290
Inventories	2,752	13,271	14,823
Prepaid expenses and other receivables	27,309	27,296	14,231
Long-term investments	12,350	—	2,807
Fixed assets used in operations			
Land and buildings	13,000	13,000	13,000
Equipment	9,811	—	—
Leasehold improvements	—	—	—
Goodwill and intangible assets	—	1,374	—
Deferred tax assets	2,389	2,315	2,441
Total Fixed Assets	25,190	14,679	15,441
Total Current Assets	62,863	98,270	51,635
Non-current assets			
Deferred tax assets	—	—	1,110
Total Non-current Assets	—	—	1,110
Total Assets	62,863	98,270	52,745
Liabilities and Equity			
Accounts payable	\$ 13,222	\$ 13,222	\$ 13,222

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON  
FINANCIAL STATEMENT SCHEDULES**

To the Board of Directors and Stockholders of Tiger International, Inc.:

In connection with our examination of the consolidated financial statements of Tiger International, Inc. and Subsidiaries included in this Form 10-K, we have also examined the financial statement schedules listed in Item 14(a) for the year ended December 31, 1985. Our examination of the consolidated financial statements was made for the purpose of forming an opinion on those financial statements taken as a whole. The schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN & CO.

Los Angeles, California,  
March 26, 1986.

**TIGER INTERNATIONAL, INC.**  
**SCHEDULE III — CONDENSED PARENT COMPANY FINANCIAL DATA**  
**CONDENSED STATEMENT OF OPERATIONS AND STATEMENT OF**  
**CHANGES IN FINANCIAL POSITION**

	For the Years Ended December 31		
	1985	1986	1987
	(In thousands)		
<b>Condensed Statement of Operations:</b>			
Revenues .....	\$ 988	\$ 779	\$ 412
Costs and expenses .....	17,606	29,515	33,162
Deferred income tax benefit, net .....	(1,667)	(1,191)	(9,239)
	<u>15,939</u>	<u>28,324</u>	<u>23,923</u>
Loss before equity in earnings (losses) of subsidiaries .....	(14,951)	(27,545)	(23,511)
Equity in earnings (losses) of consolidated subsidiaries .....	(42,236)	(17,518)	82,190
Income (loss) from continuing operations before extraordinary tax credit .....	(57,187)	(45,063)	58,679
Losses and provision for losses on disposal of discontinued subsidiaries .....	(15,500)	—	(9,100)
Income (loss) before extraordinary tax credit .....	(72,687)	(45,063)	49,579
Extraordinary tax credit .....	—	—	8,200
Net income (loss) .....	<u>\$ (72,687)</u>	<u>\$ (45,063)</u>	<u>\$ 57,779</u>
<b>Condensed Statement of Changes in Financial Position:</b>			
<b>Source of Funds</b>			
Net income (loss) before extraordinary tax credit .....	\$ (72,687)	\$ (45,063)	\$ 49,579
Equity in (earnings) losses of consolidated subsidiaries .....	42,236	17,518	(82,190)
Other, net .....	2,052	13,351	(1,670)
Funds used by continuing operations .....	(28,399)	(14,194)	(34,281)
Losses of discontinued subsidiaries .....	15,500	—	9,100
Funds used by Parent Company operations before extraordinary tax credit .....	(12,899)	(14,194)	(25,181)
Extraordinary tax credit .....	—	—	8,200
Refinancing of Note Payable to North American Car ..	96,911	—	—
Dividends and return of capital from subsidiary .....	—	11,974	—
Proceeds from issuance of stock and debt .....	67,896	6,516	5,543
Funds Provided (Used) .....	<u>151,908</u>	<u>4,296</u>	<u>(11,438)</u>
<b>Application of Funds</b>			
Current portion of note payable to North American ....	—	—	31,713
Increase (decrease) in investments, notes, advances or other .....	(124)	4,298	15,577
Funds Applied .....	<u>(124)</u>	<u>4,298</u>	<u>47,290</u>
Net increase (decrease) in working capital .....	<u>\$ 152,032</u>	<u>\$ (2)</u>	<u>\$ (58,728)</u>

See accompanying notes to condensed parent company financial data and  
notes to consolidated financial statements.

**TIGER INTERNATIONAL, INC.**  
**CONDENSED BALANCE SHEET**

**A S S E T S**

	December 31	
	1986	1987
	(In thousands)	
Cash.....	\$ 8,695	\$ 2,375
Other current assets .....	91	396
	<u>8,786</u>	<u>2,771</u>
Receivables from subsidiaries:		
The Flying Tiger Line Inc. ....	—	17,184
Warren Transport, Inc. ....	863	1,913
	<u>863</u>	<u>19,097</u>
Investments in subsidiaries:		
The Flying Tiger Line Inc. ....	197,816	278,676
Warren Transport, Inc. ....	18,830	20,160
	<u>216,646</u>	<u>298,836</u>
Property and equipment, net.....	318	287
Investments and other .....	2,353	2,028
	<u>\$228,966</u>	<u>\$323,019</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Current portion of long-term obligations.....	\$ —	\$ 36,482
Accounts payable and accrued liabilities .....	4,510	20,741
	<u>4,510</u>	<u>57,223</u>
Long-term obligations:		
Debentures(1).....	63,385	60,953
Note Payable to North American.....	118,921	100,000
	<u>182,306</u>	<u>160,953</u>
Payable to The Flying Tiger Line Inc. ....	74,946	74,946
Deferred credits and other.....	8,343	7,714
Stockholders' equity(2).....	(41,139)	22,183
	<u>\$228,966</u>	<u>\$323,019</u>

(1) Includes \$837,000 of New 11½% Debentures and \$1,064,000 of Old 11½% Debentures held by Flying Tigers at December 31, 1986 and 1987.

(2) Includes Common Stock at a cost of \$2,021,000 and \$2,097,000 at December 31, 1986 and 1987 held by Flying Tigers.

See accompanying notes to condensed parent company financial data and notes to consolidated financial statements.

## **TIGER INTERNATIONAL, INC.**

### **Notes to Condensed Parent Company Financial Data**

#### **Restrictions on the Transfer of Funds From Subsidiaries to the Parent**

At December 31, 1987, Warren Transport is free from restrictions limiting dividends and advances to Tiger International. Under the provisions of certain debt obligations The Flying Tiger Line Inc. is permitted to make limited advances and dividends to Tiger International, Inc. See "Note 4 — Long-Term Debt" of "Notes to Consolidated Financial Statements."

#### **Cash Dividends Paid to Parent From Consolidated Subsidiaries**

During the year ended December 31, 1986, Tiger International received \$12.0 million in dividends and return of capital from Warren Transport. Tiger did not receive dividends from any other subsidiary in 1986. During the years ended December 31, 1985 and 1987, Tiger International did not receive any dividends from its subsidiaries. In March 1988, Tiger International received a cash dividend of \$8.1 million from Flying Tigers. Also in the first quarter of 1988, Tiger International received cash advances of \$25.0 million, evidenced by interest bearing promissory notes, from Flying Tigers. See below for a discussion of a dividend relating to amounts due under a tax allocation agreement.

#### **Parent Company Debt**

Included in parent company long-term obligations is \$14.3 million of 11½% Debentures due October 1995 and \$21.9 million of 11½% Debentures due April 1995 issued in connection with the acquisition of Seaboard World Airlines. Tiger's investment in Seaboard World Airlines was contributed to The Flying Tiger Line Inc. in October 1980. For further information on the parent company long-term debt, see "Note 4 — Long-Term Debt" of "Notes to Consolidated Financial Statements." The scheduled maturities of parent company long-term debt is \$4.8 a year for the years 1988 through 1992.

#### **New Tax Sharing Agreement**

Tiger International and Flying Tigers entered into a new tax sharing agreement ("New Tax Sharing Agreement") to replace an existing tax allocation agreement. In addition, Flying Tigers agreed to settle any past obligation of Tiger International to Flying Tigers with respect to the tax allocation agreement and to settle certain intercompany notes.

The settlement of the tax allocation agreement and certain intercompany notes was accomplished in March 1988 by the issuance by Tiger International to Flying Tigers of a promissory note in the principal amount of \$74,946,000 ("New Tiger Note"). Immediately after issuance of the New Tiger Note, Flying Tigers declared a cash dividend to its stockholders, which cash dividend, with respect to Tiger International, will be offset against the amount of the New Tiger Note.

Under the terms of the New Tax Sharing Agreement, Flying Tiger is to calculate its taxable income as if it were a separate taxable entity and pay the resulting tax liability to Tiger International, subject to provisions pertaining to net operating loss carryforwards, investment tax carryforwards and certain other items. For the year ended December 31, 1987, Flying Tigers' tax liability to Tiger International under the New Tax Sharing Agreement was approximately \$22.2 million. During 1987, Flying Tigers made an estimated payment of \$5.0 million and in March 1988, paid the remaining liability.

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**

**SCHEDULE V — PROPERTY AND EQUIPMENT**

For the Three Years Ended December 31, 1987

	<u>Balance at Beginning of Period</u>	<u>Additions</u>	<u>Retirements or Sales (In thousands)</u>	<u>Transfers, Adjustments and Other</u>	<u>Balance at End of Period</u>
<b>Year Ended December 31, 1985</b>					
Equipment used in operations:					
Equipment used in air freight operations.....	\$ 813,177	\$17,230	\$ 19,201	\$ 1,678	\$ 812,884
Equipment used in trucking operations.....	6,653	394	37	171	7,181
	<u>819,830</u>	<u>17,624</u>	<u>19,238</u>	<u>1,849</u>	<u>820,065</u>
Buildings and leasehold improvements.....	53,951	2,234	6,024	2	50,163
Terminal facilities and other .....	73,501	3,499	1,406	4	75,598
Equipment acquisitions in process....	2,581	3,931	3,944	(10)	2,558
	<u>\$ 949,863</u>	<u>\$27,288</u>	<u>\$ 30,612</u>	<u>\$ 1,845</u>	<u>\$ 948,384</u>
<b>Year Ended December 31, 1986</b>					
Equipment used in operations:					
Equipment used in air freight operations.....	\$ 812,884	\$ 4,012	\$ 3,583	\$ 585	\$ 813,898
Equipment used in trucking operations.....	7,181	1,142	74	71	8,320
	<u>820,065</u>	<u>5,154</u>	<u>3,657</u>	<u>656</u>	<u>822,218</u>
Buildings and leasehold improvements.....	50,163	2,403	697	—	51,869
Terminal facilities and other .....	75,598	3,911	1,059	(531)	77,919
Equipment acquisitions in process....	2,558	(1,456)	305	—	797
	<u>\$ 948,384</u>	<u>\$10,012</u>	<u>\$ 5,718</u>	<u>\$ 125</u>	<u>\$ 952,803</u>
<b>Year Ended December 31, 1987</b>					
Equipment used in operations:					
Equipment used in air freight operations.....	\$ 813,898	\$ 5,298	\$ 5,914	\$ —	\$ 813,282
Equipment used in trucking operations.....	8,320	1,523	137	—	9,706
	<u>822,218</u>	<u>6,821</u>	<u>6,051</u>	<u>—</u>	<u>822,988</u>
Buildings and leasehold improvements.....	51,869	401	3,962	—	48,308
Terminal facilities and other .....	77,919	3,645	794	(3)	80,767
Equipment acquisitions in process....	797	(578)	33	—	186
	<u>\$ 952,803</u>	<u>\$10,289</u>	<u>\$ 10,840</u>	<u>\$ (3)</u>	<u>\$ 952,249</u>

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**SCHEDULE VI — ACCUMULATED DEPRECIATION AND**  
**AMORTIZATION OF PROPERTY AND EQUIPMENT**

**For the Three Years Ended December 31, 1987**

	Balance at Beginning of Period	Additions	Retirements or Sales	Transfers, Adjustments and Other	Balance at End of Period
	(In thousands)				
<b>Year Ended December 31, 1985</b>					
Equipment used in operations:					
Equipment used in air freight operations .....	\$289,047	\$ 47,940	\$ 19,084	\$ (2,394)	\$315,509
Equipment used in trucking operations ..	2,867	592	4	—	3,455
	291,914	48,532	19,088	(2,394)	318,964
Buildings and leasehold improvements ..	19,891	2,795	1,914	—	20,772
Terminal facilities and other .....	41,376	5,489	974	(5)	45,886
	<u>\$353,181</u>	<u>\$ 56,816</u>	<u>\$ 21,976</u>	<u>\$ (2,399)</u>	<u>\$385,622</u>
<b>Year Ended December 31, 1986</b>					
Equipment used in operations:					
Equipment used in air freight operations .....	\$315,509	\$ 49,253	\$ 3,314	\$ 14,085	\$375,533
Equipment used in trucking operations ..	3,455	481	—	—	3,936
	318,964	49,734	3,314	14,085	379,469
Buildings and leasehold improvements ..	20,772	2,564	646	—	22,690
Terminal facilities and other .....	45,886	5,352	795	(167)	50,276
	<u>\$385,622</u>	<u>\$ 57,650</u>	<u>\$ 4,755</u>	<u>\$ 13,918</u>	<u>\$452,435</u>
<b>Year Ended December 31, 1987</b>					
Equipment used in operations:					
Equipment used in air freight operations .....	\$375,533	\$ 48,267	\$ 5,277	\$ (7,062)	\$411,461
Equipment used in trucking operations ..	3,936	604	19	—	4,521
	379,469	48,871	5,296	(7,062)	415,982
Buildings and leasehold improvements ..	22,690	2,650	3,240	—	22,100
Terminal facilities and other .....	50,276	5,058	279	57	55,112
	<u>\$452,435</u>	<u>\$ 56,579</u>	<u>\$ 8,815</u>	<u>\$ (7,005)</u>	<u>\$493,194</u>

**TIGER INTERNATIONAL, INC. AND SUBSIDIARIES**  
**SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**  
**For the Three Years Ended December 31, 1987**

	Allowance for Doubtful Accounts and Revenue Adjustments	Inventories Allowance  (In thousands)	Aircraft Overhaul Reserves
Balance at December 31, 1984.....	\$ 11,952	\$ 7,178	\$ 48,613
Additions (deductions) —			
Provisions charged to costs and expenses.....	32,166	686	57,157
Amounts charged to reserve.....	(27,206)	(2,028)	(58,300)
Other.....	—	—	1,678
Balance at December 31, 1985.....	16,912	5,836	49,148(1)
Additions (deductions) —			
Provisions charged to costs and expenses.....	27,757	858	73,876
Amounts charged to reserve.....	(30,382)	(498)	(60,011)
Balance at December 31, 1986.....	14,287	6,196	63,013(1)
Additions (deductions) —			
Provisions charged to costs and expenses.....	21,860	988	73,238
Amounts charged to reserve.....	(10,599)	263	(67,711)
Other.....	—	—	(78)
Balance at December 31, 1987.....	<u>\$ 25,548</u>	<u>\$ 7,447</u>	<u>\$ 68,462(1)</u>

(1) Balances at December 31, 1985, 1986 and 1987 include amounts classified in accumulated depreciation applicable to owned aircraft of \$31,928,000, \$46,013,000 and \$38,873,000, respectively.

## SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIGER INTERNATIONAL, INC.  
(Registrant)

By JOSEPH K. McDONNELL  
Joseph K. McDonnell  
Vice President, Controller and Treasurer

Date: March 29, 1988

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>JAMES A. CRONIN III</u> James A. Cronin III	President and Director (Principal Executive Officer)	March 29, 1988
<u>LARRY G. MORRIS</u> Larry G. Morris	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 29, 1988
<u>JOSEPH K. McDONNELL</u> Joseph K. McDonnell	Vice President, Controller and Treasurer (Principal Accounting Officer)	March 29, 1988
<u>KELLY H. BURKE</u> Kelly H. Burke	Director	March 29, 1988
<u>GERALD R. FORD</u> Gerald R. Ford	Director	March 29, 1988
<u>LOWELL C. FREIBERG</u> Lowell C. Freiberg	Director	March 29, 1988
<u>CHARLES T. MANATT</u> Charles T. Manatt	Director	March 29, 1988
<u>WILLIAM E. McKENNA</u> William E. McKenna	Director	March 29, 1988

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>STEPHEN M. PECK</u> Stephen M. Peck	Director	March 29, 1988
<u>WILLIAM F. SCHMIED</u> William F. Schmied	Director	March 29, 1988
<u>SAUL P. STEINBERG</u> Saul P. Steinberg	Director	March 29, 1988
<u>RALPH STRANGIS</u> Ralph Strangis	Director	March 29, 1988

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**Tiger International, Inc.**

7401 World Way West, Los Angeles, California 90009,  
(213) 417-1081

**The Flying Tiger Line Inc.**

7401 World Way West, Los Angeles, California 90009,  
(213) 646-6161

**Warren Transport, Inc.**

P.O. Box 420, Waterloo, Iowa 50704, (319) 233-6113

**Auditors**

Arthur Young & Company, 515 S. Flower St.,  
Los Angeles, California 90071

**Stock Exchanges**

New York Stock Exchange, 20 Broad Street, New York,  
New York 10005

Pacific Stock Exchange, 301 Pine Street, San Francisco,  
California 94104

Midwest Stock Exchange, 1 Financial Plaza,  
440 S. LaSalle Street, Chicago, Illinois 60605

**Transfer Agents**

Manufacturers Hanover Trust Company,  
450 West 33rd Street, New York, New York 10001

Manufacturers Hanover Trust Company of California,  
50 California Street, San Francisco, California 94111

**Registrars**

The Bank of New York, 90 Washington Street, New York,  
New York 10015

Manufacturers Hanover Trust Company of California,  
50 California Street, San Francisco, California 94111

**Annual Meeting**

The Annual Meeting of Stockholders will be held on  
Thursday, May 26, 1988, at 10:00 a.m. at the Beverly  
Hilton Hotel, 9876 Wilshire Blvd., Beverly Hills,  
California 90210

Tiger International, Inc.  
7401 World Way West  
Los Angeles, CA 90009