

Tiger International, Inc.
1986 Annual Report

TIGERS



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Financial Summary

For the year ended December 31,

(Amounts in thousands, except per share data)

	1986	1985
Revenues	\$1,110,948	\$1,147,045
Loss from continuing operations	(45,063)	(57,187)
Loss from discontinued operations	—	(15,500)
Net Loss	\$ (45,063)	\$ (72,687)
Loss per share		
Continuing operations	\$ (1.45)	\$ (2.11)
Discontinued operations	—	(.58)
	\$ (1.45)	\$ (2.69)
Assets	\$ 883,457	\$ 956,118
Stockholders' equity	\$ (43,160)	\$ (4,462)
Book value per common share	\$ (1.37)	\$ (.15)

Corporate Information

Tiger International, Inc. 7401 World Way West, Los Angeles, CA 90009, (213) 417-1081

The Flying Tiger Line Inc. 7401 World Way West, Los Angeles, CA 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, CA 90071

Stock Exchanges New York Stock Exchange, 20 Broad St., New York, NY, 10005

Pacific Stock Exchange, 301 Pine St., San Francisco, CA 94104

Midwest Stock Exchange

1 Financial Plaza, 440 S. LaSalle St., Chicago, IL 60605

Transfer Agents Manufacturers Hanover Trust Company
450 West 33rd St., New York, NY 10001

Manufacturers Hanover Trust Company of California
50 California St., San Francisco, CA 94111

Registrars The Bank of New York, 90 Washington St., New York, NY 10015

Manufacturers Hanover Trust Company of California
50 California St., San Francisco, CA 94111

Annual Meeting The Annual Meeting of Stockholders will be held on Thursday, May 28, 1987 at 10:00 a.m. at the Beverly Hilton Hotel, 9876 Wilshire Boulevard, Beverly Hills, California 90210.

Cover:
Historic "Circle T" logo was re-introduced to the Company's 35-jetfreighter fleet in early 1987, signifying historical roots of vision and purpose combined with renewed commitment to go forward as a united organization.

To Our Shareholders:

In 1986, Tiger International, Inc. and our principal subsidiary, The Flying Tiger Line Inc., began a revitalization effort which we are confident will return our company to a vigorous competitive position in the global air cargo marketplace and create the financial foundation necessary to generate improved returns on our shareholders' investment.

Flying Tigers

While Tiger International is the publicly traded holding company for The Flying Tiger Line Inc. and Warren Transport, Inc., the thrust of our rebuilding program is centered on the airline because of its overriding importance to Tiger International.

In 1986 we focused on the essential elements of our business — people, revenues, costs and financial structure — and implemented strategic plans and set action priorities which we expect will result in a reinvigorated Tiger International evolving over the next one to two years. Our strategy for returning Flying Tigers to profitability and for building market strength consists of a three-step "building block" process which includes the participation and commitment of employees in every part of our organization, and the involvement of investors and the financial markets.

The first step, which is essentially completed, is *the reduction of operating expenses to reasonably competitive levels*. The central element of this effort was a mutual agreement, in late 1986 and early 1987 by Flying Tigers and its employee groups, to an innovative employee partnership program. This program consisted of comprehensive labor cost reductions and the provision of profit sharing and stock ownership plans to all participating employees.

The second step, targeted for completion in April 1987, is *a major refinancing of Flying Tigers' debt*, with the overall objectives of significantly increasing our financial flexibility and enhancing liquidity over the next five years.

The third step, which is well underway and will evolve throughout 1987 and beyond, is *the implementation of a long-term strategic marketing plan that will enable us to carve out a worldwide market niche that we can defend and expand*.

Employee Partnership Program

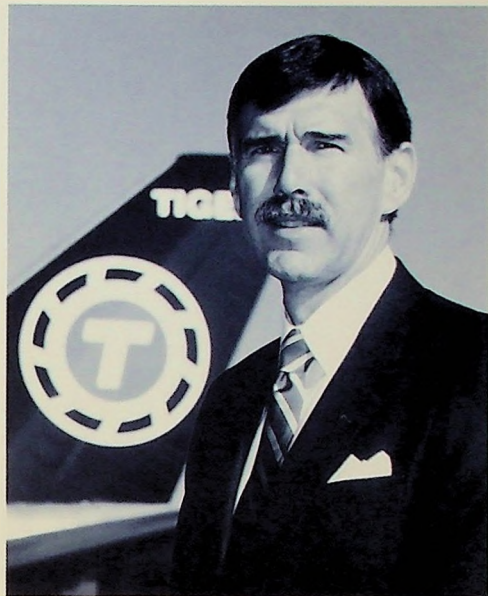
Comprehensive economic reductions were introduced in December 1986 and January 1987 through agreements with the principal employee groups including: pilots; mechanics and various ground personnel; flight attendants; and our general and administrative personnel. These agreements, which cover wages, benefits and work rules, provide a net annual savings of \$60 million, or approximately 22 percent, compared to 1986 annual labor costs.

The purpose of the Employee Partnership Program is to encourage employee productivity by creating an ownership stake in Flying Tigers and to complement the wage concessions and work rule changes which were accepted by participating employee groups to enhance the airline's prosperity.

The cornerstones of the Employee Partnership Program are a profit sharing plan, which will distribute 15 percent of profits after the first \$10 million; and a stock ownership plan, in which warrants will be granted to allow employees to buy up to 10 percent of The Flying Tiger Line's common stock at \$1.00 per share.

Achieve Debt Refinancing

The restructuring of \$290 million of Flying Tigers' debt offers several benefits which will contribute to our long-term profitability and financial health. We are selling a public offering of \$140 million and privately placing \$150 million of secured debt, to benefit from lower prevailing interest rates and higher 747 aircraft market values which secure these instruments. This will significantly reduce our long-term debt service requirements, both principal and interest, by approximately \$100 million over the next five years. In addition we will be eliminating existing loan agreements which have restricted our financial flexibility, including limitations on capital investment.



Stephen M. Wolf

Strategic Marketing Plan

The enhancement of our marketing position in an intensely competitive marketplace involves capitalizing on our existing strengths, introducing meaningful product improvements and defining a long-term strategic direction which pinpoints and exploits our special market niche.

Our existing strengths are many and varied. First, we have what is possibly the most widely recognized name in the worldwide air cargo industry. Flying Tigers is the largest and the oldest scheduled air cargo carrier in the world, with traditions originating in the mid-1940s. The recent re-introduction of the "Circle T" on the tails of our aircraft symbolizes both the rich heritage and the commitment by our people to go forward to create, once again, a vibrant and competitive company.



Second, we operate the world's largest fleet of Boeing 747 jet-freighter aircraft, 18 airplanes, which represents about one-quarter of the total 747 cargo fleet in the world. At the same time, we employ six DC-8 and 11 B-727 freighter aircraft which, together with the 747s, offer a full range of cargo capacities and favorable scheduling flexibility to our customers for domestic and international shipping services.

Third, we provide an advanced, full service cargo handling capability to our customers on the most extensive scheduled route system in the world.

Fourth, we are the largest combined U.S. military contract carrier for both personnel and cargo.

Finally, we have 5,700 dedicated employees worldwide who, in partnership with Flying Tigers, are committed to and united behind the goal of establishing Flying Tigers as a potent, competitive force in the global air cargo industry.

Product Improvements

Over the past year we introduced several important product improvements which are having a substantial impact on the revenue side of our business.

- We leased six DC-8-73 freighter aircraft, the first of which began service in January 1987, with the balance joining our fleet in March 1987. The DC-8 expands our cargo handling capacity in the 100,000 pound range and provides increased flexibility both domestically and internationally. We are presently training and upgrading existing, recalled and new hire pilots.

- The full service, on-line air cargo hub in Columbus, Ohio marked its first anniversary in March 1987, having operated more than 4,300 jetfreighter flights and handled an average of 1 million pounds of domestic and international cargo per day.

- We are introducing extensive automated cargo handling equipment and customers' specific software applications, which provide faster and higher quality shipping and delivery services.

- We have been designated the carrier to work with U.S. Customs in the development of an automated cargo handling system, which enhances customer service by offering greater reliability and speed in handling shipments through customs at our nine gateway locations from overseas.

Full service, all types of cargo handling capabilities make the Columbus hub facility a key base for international and domestic service.



Flying Tigers offers commercial shippers direct door-to-door service, which complements global full service capabilities for international and domestic shippers in the U.S. market.



Long-Term Marketing Direction

Our long-term marketing strategy is an evolutionary process which is already underway, as supported by the recent DC-8 acquisition; the initiation of new service to Bangkok, Thailand and Milan, Italy; and the launching of weekly Asia-to-Europe flights.

While we continue to define and refine our long range marketing plans, the basic components of our present strategic direction are:

- To develop a worldwide, full service, on-line cargo system which provides superior cargo handling services to our customers on both international and domestic routes.

- To enhance intra-region cargo service, especially within the Pacific region; inter-region service which flows through U.S. gateways from and to international origination and destination points; and inter-region non-U.S. traffic flows, as exemplified by our recently introduced Asia-to-Europe service.

- To escalate the development of the Columbus, Ohio hub facility as an international distribution point, which was substantially enhanced in March 1987 when the U.S. Department of Commerce designated Rickenbacker airport as a free trade zone.

- To provide customers with an increasing array of automated support services, which will give us distinct marketing advantages over our competition.

The strength of our marketing effort is the people who breathe life into it, including those with "leading edge" relationships with customers and those who are unseen in the so-called "back office," but whose roles are equally important.

The key to realizing the healthy position we are seeking is a united effort by every employee to do our jobs in such a superior way that present customers, and those new ones we will attract in the future, will continue to need, want and pay for our services -- in fact, will *insist* on Flying Tigers as their air shipper of first preference.

We are a classic service business. Between the initial order and the delivery of cargo to the final destination, we have dozens of opportunities to either "do it right" or "otherwise." Much of our business is not routine from our customers' standpoint, but is routine for Flying Tigers. How well we perform routinely in meeting our customers' requirements will largely determine how successfully and how quickly the airline's revitalization will occur.

Management Changes

To accomplish this essential rebuilding program, several senior management changes were implemented beginning in the last quarter of 1986: I became chairman, president and chief executive officer of Tiger International, in addition to holding the same positions at Flying Tigers.

At Flying Tigers, James A. Cronin was named senior vice president-marketing and Edwin H. Wallace became senior vice president-international sales and service. Ronald D. Marasco was named senior vice president-operations.

Flying Tigers serves direct shippers, freight forwarders, brokers and cargo agents internationally and direct shippers domestically in transporting equipment, commodities, livestock and other valuable (and often exotic) cargo. Airline is the world's largest shipper of cattle.



Flying Tigers handled 2.2 billion ton miles of cargo on scheduled world-wide service in 1986. Airline is also largest Military Airlift Command contract carrier for both cargo and personnel, and operates large commercial charter business.

New vice presidents included Charles W. Thompson (Human Resources), Donald E. Pritchett (Flight Operations) and Roy A. King (Atlantic Division).

Two new directors were elected to the boards of both Tiger International, Inc. and The Flying Tiger Line Inc.: Lowell C. Freiberg, senior vice president and chief financial officer of Reliance Group Holdings, Inc.; and Ralph Strangis, founding member of Kaplan, Strangis & Kaplan.

Warren Transport

The specialized trucking business of our wholly owned Warren Transport subsidiary, which we acquired in 1981, continued its profitability in 1986, with pre-tax income of \$2.1 million on revenues of \$36.6 million. Warren is the leading hauler of agricultural machinery in the United States and a substantial transporter of construction equipment, and has expanded its operations into the hauling of general commodities.

In spite of declining U.S. farm machinery sales and higher insurance costs, Warren has remained profitable through a combination of cost controls and the generation of revenues from other than agricultural markets.

Although the specialized trucking marketplace is undergoing extensive restructuring and economic turmoil, Warren expects to maintain its reputation for quality service and innovative approaches by utilizing existing equipment, drive-aways and new equipment effectively.

Tiger International

At year end 1986, \$119 million was outstanding under Tiger International's secured obligation to a former bank group of North American Car, the railcar operation discontinued in December 1984. One-half will become due in June 1988, with the balance due in June 1989. Tiger International is formulating a refinancing strategy to satisfy this obligation. For a detailed discussion of our financial position, please refer to our Form 10-K Annual Report.

We of Tiger International value the continuing support of our shareholders, customers and employees as we go forward with our revitalization efforts in 1987.

Stephen M. Wolf
Chairman of the Board, President
and Chief Executive Officer



Warren handled more than 400 million ton miles in 1986 and has strong relationships with trucking owner-operators.

March 31, 1987

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, 1986 Commission file number 1-6457

Tiger International, Inc.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of incorporation
or organization)*

95-2623176

(I.R.S. Employer Identification No.)

7401 World Way West,
Los Angeles, California 90009

(Address of principal executive offices)

(213) 417-1081

(Registrant's telephone number, including area code)

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

Title of each class

Name of each exchange on which registered

Common Stock, \$1 Par Value

New York, Midwest and Pacific Stock Exchanges

1½% Sinking Fund Debentures

New York Stock Exchange

Due October 1, 1995

8½% Convertible Subordinated Debentures

New York Stock Exchange

Due July 1, 2005

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 26, 1987, 25,788,647 shares of registrant's Common Stock, \$1 par value, were held by non-affiliates. It is estimated that as of March 26, 1987, the aggregate market value of such stock was \$317,522,716 based upon the average high and low sale prices on such date.

On March 26, 1987, 32,014,940 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 1987 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, 1987, pursuant to Regulation 14A.

ANNUAL REPORT ON FORM 10-K

Tiger International, Inc.
December 31, 1986

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** Incorporated by Reference from Registrant's Definitive Proxy Statement for Registrant's 1987 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 cargo 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"). Until December 13, 1985, Tiger International owned 25% of Hall's Motor Transit Company ("Hall's"), which had, until January 7, 1985, been a wholly owned subsidiary of Tiger International. See "Item 1. Business — Discontinued Operations — Hall's Motor Transit Company." Hall's was treated as a discontinued operation for accounting purposes by Tiger as of December 31, 1984. In addition, Tiger International, through its wholly owned subsidiary Tiger Leasing Group, Inc. ("Tiger Leasing Group"), previously engaged in (i) aviation services and (ii) railcar services and other leasing operations, all of which have been accounted for as discontinued operations, effective December 31, 1982 and December 31, 1983, respectively.

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 CARGO 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, Australia, Latin America and the Middle East. Flying Tigers is the largest air cargo carrier in the world as measured by cargo revenue ton miles (one ton of revenue cargo flown one mile) carried in 1985, 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-cargo air carrier.

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

Flying Tigers is a 99%-owned subsidiary of Tiger International. See "Item 1. Business — History of Financial Restructuring — 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.

On February 23, 1987, Flying Tigers filed a Pre-effective Amendment No. 2 to a Registration Statement on Form S-1 with the Securities and Exchange Commission. Flying Tigers proposes to refinance a significant portion of its outstanding indebtedness using the proceeds from the sale of trust certificates to be issued under the Registration Statement along with the concurrent private placement refinancing of certain leveraged lease indebtedness. See "Item 1. Business — History of Financial Restructuring — Flying Tigers".

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 cargo service is provided (i) by 18 B-747 aircraft, 6 DC-8-73 aircraft and 11 B-727 aircraft that are owned or leased and operated by Flying Tigers, (ii) by other airlines pursuant to interline arrangements whereby Flying Tigers utilizes the belly and main cargo deck capacity of other scheduled airlines to ship cargo and (iii) by contracts with independent aircraft operators whereby Flying Tigers contracts for the use of an aircraft and crew. Trucking services are provided almost exclusively by nonaffiliated trucking companies under contracts with Flying Tigers. In January 1987, Flying Tigers entered into an operating lease for the six DC-8-73 aircraft which were delivered to Flying Tigers from January through March 1987 and were integrated into the operating fleet upon delivery.

Prior to 1982, Flying Tigers operated primarily on an airport-to-airport basis serving freight forwarders and brokers both internationally and in the United States. Airport-to-airport shipments by freight forwarders and brokers continue to constitute the principal component of Flying Tigers' international operations. See "Item 1. Business — Air Cargo Operations — Flying Tigers — Scheduled Operations — *International Operations*." In 1982, however, Flying Tigers initiated domestic door-to-door service offered directly to retail customers in the United States in addition to continuing to serve its traditional domestic and international airport-to-airport market. At present, Flying Tigers' domestic operations comprise both door-to-door and airport-to-airport service. See "Item 1. Business — Air Cargo Operations — Flying Tigers — Scheduled Operations — *Domestic 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 Cargo 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

International Operations

As of March 26, 1987, Flying Tigers provided international scheduled air service for both cargo and mail between points in the United States and cities in Asia, Europe, Latin America, Australia 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, Belgium, the Federal Republic of Germany, Italy, Switzerland, the United Kingdom, the Republic of Ireland, the United Arab Emirates, Oman, 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.

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 air carriers.

Flying Tigers is currently the largest United States cargo air carrier serving the Asian market as measured by cargo revenue ton miles. In recent years, the transpacific market has become increasingly significant to Flying Tigers' results of operations. The transpacific market accounted for \$653,395,000, \$544,177,000, and \$599,781,000 of Flying Tigers' revenues in 1984, 1985 and 1986, respectively, and approximately 70%, 66%, and 67% of Flying Tigers' total scheduled cargo capacity in 1984, 1985 and 1986, respectively. See "Item 1. Business — Air Cargo Operations — Flying Tigers — Operating Information." In 1985, Flying Tigers experienced both increased competition and decreased demand in the transpacific market compared to 1984, which

caused a 17% decrease in 1985 transpacific revenues. 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 and to evaluate new services for that market in an attempt to increase revenues.

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. Flying Tigers offers charter service outbound from Australia to Asian markets. The integration of the Australian route with previously existing transpacific routes enables Flying Tigers to generate additional revenue ton miles while positioning aircraft for the traditionally strong eastbound transpacific market. In 1986, Flying Tigers expanded eastbound "around-the-world" scheduling whereby domestically originated cargo is carried to the transatlantic market and the Middle East, transatlantic cargo is carried to the Middle East and Asia and Asian cargo is carried to the United States. In March 1987, this concept was expanded further by adding 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" cargo service because it holds more authorizations to provide service to foreign countries than any other all-cargo air carrier. Flying Tigers believes that "around-the-world" flying improves directional balance by deploying capacity to strong markets while positioning aircraft in Asia to service Flying Tigers' major market. In addition, 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 express service from Hong Kong to four major United States gateway cities. The new service includes customs clearance in the United States and will be considered for expansion to other international locations based upon the results of the test marketing.

In October 1983, Flying Tigers established two European hubs, one located in London and one 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 cargo is well balanced between in- and out-bound destinations.

Comprehensive trade legislation currently 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.

Domestic Operations

As of March 26, 1987, Flying Tigers provided domestic scheduled service for both cargo and mail directly to 30 United States cities and to San Juan, Puerto Rico.

Traditionally, Flying Tigers provided domestic airport-to-airport service to freight forwarders and brokers. Flying Tigers significantly increased its domestic service points following deregulation of the air freight industry in 1978. However, beginning in 1982 and continuing to the present, a number of Flying Tigers' significant airport-to-airport customers, particularly large national accounts such as United Parcel Service of America, Inc. ("UPS"), began to operate their own aircraft, thus decreasing or eliminating their demand for Flying Tigers' domestic airport-to-airport services. In 1982, in an attempt to replace the lost revenues from the decline in demand for its airport-to-airport services, Flying Tigers commenced a domestic door-to-door service 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 cargo carriers that can transport cargo shipments weighing in excess of 150 pounds. In its domestic operations,

Flying Tigers currently offers both overnight 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 almost exclusively on nonaffiliated contract trucking services. Flying Tigers utilizes its trucking operations both to transport cargo to and from airport terminal facilities and to transport less time-sensitive freight from the shipper to the consignee. Flying Tigers operates a trucking hub in Columbus, Ohio, which, combined with the new air freight hub in the same city, serves as Flying Tigers' principal domestic freight hub. The new Columbus, Ohio air freight hub commenced operations on March 3, 1986.

In 1984, 1985 and 1986, door-to-door service revenues represented 57%, 57%, 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. Domestic door-to-door, domestic airport-to-airport and total domestic revenues declined significantly (14%, 43% and 27%, respectively) from 1985 levels. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Flying Tigers believes that the high fixed and other costs, including high labor costs, in the domestic market, as well as scheduling problems in connecting international in-bound with domestic out-bound flights, continued to adversely affect the results of Flying Tigers' domestic operations. Flying Tigers has determined that service to and from cities in the United States is critical to its international operations. In an effort to enhance the integration of its domestic and international operations and to increase domestic revenues, Flying Tigers continues to review its markets, schedules, product mix and fleet configuration.

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 cargo 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 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 \$104,411,000 in 1984, \$105,680,000 in 1985 and \$113,528,000 in 1986. Flying Tigers was awarded a new MAC contract for the twelve months commencing October 1, 1986, the fixed portion of which is \$99,049,000, subject to expansion based on availability of aircraft, compared with fixed annual portions awarded in October 1983, 1984 and 1985 of \$72,155,000, \$60,833,000 and \$74,377,000, respectively. The decrease in the fixed portion of the 1984 MAC contract was partially attributable to the Flying Tigers' replacement of DC-8 aircraft, which were committed to CRAF, with B-727 aircraft, which are not eligible for CRAF. The increase in the fixed portion of the 1985 MAC contract reflects the fact that Flying Tigers' aircraft represented a greater portion of all aircraft committed to CRAF in that year. The addition of a second B-747 passenger aircraft in 1985 increased Flying Tigers' ability to operate additional MAC expansion flights as well. Flying Tigers intends to continue to operate at least two B-747 passenger aircraft for MAC. In January 1987, Flying Tigers entered into an operating lease for six DC-8-73 aircraft. The DC-8-73 aircraft are eligible for, and will be committed to, CRAF.

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 cargo charters throughout the world and thereby supplements the utilization of aircraft by the scheduled service markets. Total commercial charter operations generated revenues of \$42,605,000 in 1984, \$56,132,000 in 1985 and \$46,682,000 in 1986. Increased commercial charter revenues in 1985 compared to 1984 reflect increased availability of B-747 aircraft due to the decline during the year of the demand for scheduled transpacific 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. 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 nonscheduled cargo 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,		
	1984	1985	1986
Revenues (000's)			
Scheduled Cargo Operations			
Domestic	\$ 214,872	\$ 212,929	\$ 155,601
Transpacific	653,395	544,177	599,781
Transatlantic	98,367	105,368	83,848
Latin America	41,402	63,988	45,409
Total Scheduled Cargo Operations	1,008,036	926,462	884,639
Commercial Charters	42,605	56,132	46,682
Military Airlift Command	104,411	105,680	113,528
Rentals, Service Sales and Other	15,965	20,748	29,487
Total Revenues	<u>\$1,171,017</u>	<u>\$1,109,022</u>	<u>\$1,074,336</u>
Scheduled Cargo Capacity (000's) (available ton miles)			
Domestic	465,574	471,335	460,048
Transpacific	2,393,897	2,195,494	2,153,498
Transatlantic	413,820	458,390	409,116
Latin America	135,548	207,454	171,972
Total Scheduled Cargo Services	<u>3,408,839</u>	<u>3,332,673</u>	<u>3,194,634</u>
Load Factor (percentages)			
Scheduled Cargo Services			
Domestic	57.2%	53.7%	49.5%
Transpacific	72.7	71.3	75.1
Transatlantic	68.1	67.7	62.1
Latin America	71.2	64.5	67.8
Total Scheduled Cargo Services	<u>70.0%</u>	<u>67.9%</u>	<u>69.4%</u>
Yield (revenue per revenue ton mile) (cents)			
Scheduled Cargo Services			
Domestic(1)	80.7¢	84.2¢	68.3¢
International	37.4	35.5	36.7
Total Scheduled Cargo Services	<u>42.3¢</u>	<u>41.0¢</u>	<u>39.9¢</u>
Revenue Per Pound (cents)			
Scheduled Cargo Services			
Domestic	68.1¢	72.8¢	68.3¢
International	118.7	109.4	118.7
Total Scheduled Cargo Services	<u>102.5¢</u>	<u>98.1¢</u>	<u>105.1¢</u>

Glossary

"Available ton miles" are determined by multiplying the number of cargo tons available by the number of miles flown.

"Revenue ton miles" are determined by multiplying the number of revenue tons carried by the number of miles flown.

"Load factor" is determined by dividing the revenue ton miles by the available ton miles.

"Yield" is determined by dividing cargo revenue by revenue ton miles.

(1) Yields are calculated on the basis of revenue ton miles flown by Flying Tigers' aircraft and exclude supplemental contract flying services purchased by Flying Tigers for the domestic market. Such services were substantially eliminated in 1986. If the revenue ton miles provided by such services in the years ended December 31, 1984 and 1985 are included in calculating domestic yields, such yields would be 73.6¢ and 75.6¢, respectively.

Customers

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

Flying Tigers' domestic cargo 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 Northern Inc., Emery Air Freight Corporation and Airborne Freight Corp. — 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 domestic revenues declined 27% compared to 1985. See "Item 1. Business — Air Cargo Operations — Flying Tigers — Scheduled Operations — *Domestic 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 cargo air carriers that can transport cargo shipments in excess of 150 pounds.

Approximately 12% of Flying Tigers' business in 1984, 13% in 1985, and 14% in 1986, 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 cargo 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 \$3,000,000. The average cost-per-gallon of fuel dropped from \$.89 in 1984 to \$.85 in 1985 and to \$.60 in 1986. Significant fuel price decreases were realized throughout most of 1986. However, no assurance can be given that fuel prices will continue to 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 and lower revenues for all air carriers, including Flying Tigers. 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 cargo carriers are permitted to provide air cargo 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.

At the urging of Congress, in 1986 the FAA commenced a detailed inspection of all air carriers which resulted, in certain cases, in the imposition of significant fines. In January 1987, the FAA concluded a detailed inspection of Flying Tigers' operations. As a result of such investigation, Flying Tigers has paid, without admitting liability, a nominal fine relating primarily to certain insufficiencies in record keeping. Corrective actions have been taken by Flying Tigers to the satisfaction of the FAA.

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, Australian, European and Middle Eastern routes. Flying Tigers also holds exemption authority, which must be renewed annually, issued pursuant to Section 416 of the Federal Aviation Act to operate its all-cargo services to Brazil, Argentina and Saudi Arabia. With the exception of Japan and Saudi Arabia, Flying Tigers holds permanent certificate authority from the United States for all of the Australian, Asian, European and Middle Eastern 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. Flying Tigers will make timely application for all renewals and has no reason to believe that 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 Cargo Operations — Flying Tigers — Competition." Flying Tigers has been granted authorizations to operate between more foreign countries and the United States than any other all-cargo air carrier.

Flying Tigers currently 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 cargo 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 cargo air 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-cargo competitors. With respect to international inbound and outbound air cargo service, Flying Tigers' scheduled service to and from cities in the United States combined with its domestic air cargo 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 cargo 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.

Internationally, 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 and has caused Flying Tigers to reallocate some of its capacity from transatlantic to other international markets and to seek 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. The air freight forwarders are estimated to originate more than three-fourths of Flying Tigers' Japan-United States eastbound freight. NCA's fleet consists of three B-747 aircraft, with a fourth on order for delivery during the later part of 1987. NCA currently is operating nine scheduled roundtrip all-cargo 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 8% of the total cargo capacity of all air carriers transporting cargo between Japan and the United States. NCA's operations, in addition to the competition of other foreign air carriers, such as Japan Air Lines ("JAL"), that fly cargo from Japan to the United States, have had an adverse effect on Flying Tigers' transpacific revenues, revenue ton miles and yields. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." Pursuant to a memorandum of understanding between the governments of the United States and Japan, (i) in the near future, two additional U.S. carriers each will be granted rights to one daily flight between the United States and Japan and will carry cargo in the bellies of aircraft on such flights, and (ii) the DOT will select a United States carrier to commence small package service to Japan effective April 1, 1987. An administrative law judge has recommended to the Secretary of Transportation that Federal Express Corp. be 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 JAL, Northwest Airlines, Inc., China Airlines, Ltd., NCA, Singapore Airlines, Korean Air, United Airlines, Qantas Airways, Ltd. and Air New Zealand. Flying Tigers' major transatlantic competitors are Air France, Alitalia-Linee Aeree Italiane, S.P.A., British Airways, British Caledonian Airways, Cargolux, Emery Air Freight Corporation, KLM-Royal Dutch Airlines, Lufthansa, Pan American World Airways, Inc. ("PanAm"), Sabena Belgian World Airlines, SAS, Swissair and Trans World Airlines, Inc. In Latin America, Flying Tigers major competitors are Varig S.A., PanAm, Transbrazil and Aerolineas Argentinas.

The Airline Deregulation Act of 1978 has promoted domestic competition by enabling carriers to enter and depart air cargo 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 cargo market since deregulation, greatly increasing competition in that market. See "Item 1. Business — Air Cargo Operations — Flying Tigers — Scheduled Operations — *Domestic Operations.*"

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

Employee Relations

On March 1, 1987, Flying Tigers employed 6,055 persons, of which 5,454 were full-time employees and 602 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 that conform generally to the pattern of labor agreements in the passenger airline industry rather than to the nonunion environment of the air cargo industry. Flying Tigers believes its labor costs are substantially higher than the labor costs of most of its domestic and international competitors in the air cargo 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"), the Association of Flight Attendants ("AFA") and the International Brotherhood of Teamsters, which represents 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 AFA, respectively, providing for wage concessions, work rule changes and other cost reduction measures. These agreements, which have become effective, cover approximately 50% of Flying Tigers' employees, and with the exception of the ALPA agreement which does not require ratification, have been 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. Flying Tigers currently is involved in negotiations with representatives of certain other employees contemplating wage and other concessions and work rule changes consistent with those of the existing agreements.

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 has agreed in principle to implement a program comprised of two basic components, an equity component and a profit sharing component. It is anticipated that the equity component will consist of the issuance of a master warrant to a trustee for the benefit of eligible participants representing 1,818,950 warrants exercisable into an 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"), unless Flying Tigers exercises 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 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. It is anticipated that the profit sharing component will consist of an agreement to pay eligible participants 15% of Flying Tigers' income from operations, less interest expense accrued and contingent interest or payments in settlement thereof in connection with the Flying Tigers Restructuring Agreements, 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. The exact terms of the program have not been developed as of this date, but are anticipated to be consistent with the foregoing discussion. In addition, Flying Tigers has

agreed in principle to permit all employees participating in its labor cost reduction program, collectively, to designate one member of Flying Tigers' Board of Directors.

Liquidity of Flying Tigers

As of July 2, 1985, pursuant to the terms of the Flying Tigers Restructuring Agreements (as hereinafter defined), Flying Tigers was required to begin making payments of deferred principal and interest on substantially all of its private debt and capital leases; also pursuant to the terms of the Flying Tigers Restructuring Agreements, Flying Tigers is required to pay 80% of the net proceeds of any sale of assets to reduce deferred principal and interest on its debt and capital leases. See "Item 1. Business — History of Financial Restructuring — Flying Tigers." Although Flying Tigers remains free to sell assets, subject to the foregoing restriction, there can be no assurance that Flying Tigers would be able to sell any of its present assets at the fair market value thereof or that any future asset sales will not adversely impact Flying Tigers' operations as presently conducted.

For fiscal years 1982, 1983 and 1985, Flying Tigers' cash flow from operations was inadequate to cover interest due and required principal payments on its indebtedness. In such periods, cash flow from operations was supplemented significantly by cash from the sale of assets (1982-1985), cash on hand (1985) and the deferral of certain debt payments pursuant to the Flying Tigers Restructuring Agreements (1983). See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." However, with its cash of \$143,159,000 at December 31, 1986, Flying Tigers anticipates no liquidity problems in 1987. Nonetheless, Flying Tigers is, and after the planned refinancing will remain, 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, 1985 aggregated approximately \$471,813,000 and \$507,984,000, respectively. Net stockholders' equity was \$124,842,000 and \$143,572,000 at December 31, 1986 and December 31, 1985, respectively. The Flying Tigers Restructuring Agreements generally prohibit Flying Tigers from incurring new indebtedness for borrowed money, and a stock agreement places certain restrictions on Flying Tigers relating to the issuance and sale of its voting securities. See "Item 1. Business — History of Financial Restructuring — Flying Tigers." After completion of the contemplated refinancing of Flying Tigers indebtedness, Flying Tigers will be relieved of certain restrictive financial covenants imposed by the Flying Tigers Restructuring Agreements. However, certain continuing and new debt obligations of Flying Tigers will restrict Flying Tigers' ability to incur indebtedness for borrowed money and capitalized lease obligations, which may adversely affect Flying Tigers' ability to meet its cash requirements because Flying Tigers will be dependent substantially on funds generated by 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. It is the leading hauler of agricultural machinery in the United States. 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 \$38,616,000 in 1984, \$38,023,000 in 1985 and \$36,612,000 in 1986. Warren handled 432 million ton-miles in 1984, 407 million ton-miles in 1985 and 402 million ton miles in 1986. Warren's operating ratio was 94.1% in 1984, 93.9% in 1985 and 95.7% in 1986. A significant portion of Warren's business is performed for Deere and Company. As of December 31, 1986, Warren owned 21 tractors (switch only) and 1,276 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, and the ICC, the 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. Some showing of public need must be made before these regulatory agencies will authorize service by additional carriers. The passage by Congress of the Motor Carrier Act of 1980, however, 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 because of increased expenses, 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, 1987, Tiger had approximately 6,200 employees.

DISCONTINUED OPERATIONS

Hall's Motor Transit Company

Until January 7, 1985, Hall's was a wholly owned subsidiary of Tiger International. On January 7, 1985, Hall's completed a financial restructuring in connection with which (i) Hall's acquired 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. Tiger

International ceased participation in the management of Hall's from and after January 7, 1985. On December 13, 1985, in connection with a proposed additional refinancing of Hall's, Tiger International sold its remaining 25% equity interest in Hall's to Hall's Acquisition Corp.

Hall's was unable to complete its proposed additional refinancing and, 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 and management's analysis of (i) a claim of approximately \$40 million against Tiger International and its subsidiaries, including Flying Tigers, based on the withdrawal liability of Hall's under the Multiemployer Pension Plan Amendments Act of 1980 ("MEPPAA"), and (ii) the effect on Flying Tigers Restructuring Agreements if the MEPPAA withdrawal liability of Hall's is imposed on Tiger International and its subsidiaries, or any of them.

Railcar Services

Through subsidiaries of 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 — History of Financial Restructuring."

North American Car Corporation ("North American"), the railcar services division of Tiger and a subsidiary of Tiger Leasing Group, provided a major portion of Tiger's earnings through 1981. However, North American's earnings declined in 1982, and it incurred a pretax loss of \$69,400,000 in 1983. Tiger decided to dispose of its railcar services business and treated this business 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 — History of Financial Restructuring," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Notes to Consolidated Financial Statements."

HISTORY OF FINANCIAL RESTRUCTURING

General

On February 14, 1983, Flying Tigers, North American, TigerAir and certain other subsidiaries of Tiger International began deferring payments of principal of and interest on a substantial portion of their bank and institutional debt as a cash conservation measure. Tiger International continued to make payments on all debt at the parent company level. In addition, Tiger International's subsidiaries continued to make scheduled payments to certain creditors, including generally holders of public debt, suppliers and trade creditors. During 1983, Flying Tigers, TigerAir, North American and certain other Tiger International subsidiaries executed restructuring agreements with most of their respective bank lenders, pursuant to which defaults on indebtedness were waived or suspended.

The following is a summary of Tiger's financial restructuring agreements which does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the agreements and documents referred to therein. Copies of certain of such agreements and documents have been filed with the Securities and Exchange Commission.

North American

In connection with the 1983 restructuring of North American's indebtedness, Tiger International executed a promissory note to North American in the principal amount of approximately \$132,000,000, which represented advances previously made to Tiger International by North American. In 1984, Tiger International executed a \$900,000 promissory note to North American, which represented North American's advances to Tiger International in 1984. These Tiger International promissory notes (the "Tiger International Notes") were held by certain bank lenders of North American (the "North American Bank Lenders") to secure North American's obligations under the Amended and Restated Master Credit Terms

Agreement among North American, the North American Bank Lenders and a certain bank as collateral agent for the North American Bank Lenders (the "Collateral Agent"), dated December 6, 1983 (the "North American Restructuring Agreement").

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.

For a discussion of the sale of North American's railcar fleet to General Electric Credit Corporation ("GECC"), the settlement of a dispute between North American and Tiger International regarding the allocation of tax benefits pursuant to a tax allocation agreement and the effect of the tax allocation settlement on the net operating loss carryforwards of Tiger International and its subsidiaries see "Note 1 — Discontinued Operations — North American" of "Notes to Consolidated Financial Statements."

Tiger International

Tiger International's Obligations to North American

Recent Developments

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. As a result of one such investigation, on March 5, 1987, North American and the Official Committee of Unsecured Creditors representing certain unsecured creditors of North American in the North American Chapter 11 proceedings delivered to Tiger International a proposed "Complaint to Recover Fraudulent Transfers and for Other Relief" marked "Draft for Settlement Discussion Purposes Only" (the "draft complaint"). The draft complaint asserts claims against Tiger International and certain former directors of North American, some of whom were directors of Tiger International. For a discussion of the draft complaint and possible claims that might be 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."

The New Tiger International Note

As a result of the filing of the Chapter 11 Companies' reorganization petitions, the Tiger International Notes, which on December 5, 1984, totalled approximately \$145.2 million including accrued interest, became immediately due and payable. In May 1985, the Bankruptcy Court approved a settlement of the Tiger International Notes among Tiger International, North American and the North American Bank Lenders.

To make the initial payment required by the settlement of the Tiger International Notes and to raise funds for its general corporate purposes, on March 1, 1985, Tiger International completed the sale to certain underwriters of shares of Tiger International convertible preferred stock; the underwriters, in turn, sold 8,050,000 shares of depositary convertible preferred stock ("Depositary Stock") to the public at \$8.25 per share. In May 1985, 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 of the Tiger International Notes. Tiger International issued a new promissory note to North American for the remaining principal balance of \$96.9 million (the "New Tiger International Note"). Terms of the New Tiger International Note are described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 1 — Discontinued Operations" of "Notes to Consolidated Financial Statements."

The New Tiger International Note requires prepayments of principal and interest upon the occurrence of certain events. To secure performance of its obligations under the New Tiger International Note, Tiger International executed a Stock Pledge Agreement (the "Stock Pledge") pursuant to which Tiger International pledged to North American 47% of the outstanding common stock of Flying Tigers (8,549,067 shares), which is 47.5% of the Flying Tigers common stock owned by Tiger International (the "Pledged Shares"). In the event that Flying Tigers pays any dividends on its common stock or Tiger International sells any of the Pledged Shares, 100% of any dividend payments allocable to the Pledged Shares or proceeds of the sale would be applied first to interest and then to principal, in the order of maturity. Further, to the extent Tiger International receives net cash proceeds from any other source, including, but not limited to, sales of shares of common stock of Flying Tigers other than the Pledged Shares, dividends from Flying Tigers allocable to shares other than the Pledged Shares, dividends from any of its other subsidiaries or sales of its equity or debt securities, 60% of all proceeds received in any year in excess of \$10,000,000 would be applied to payment of the New Tiger International Note, first to interest and then to principal, in the order of maturity. In 1986, as part of an overall settlement of all claims which the North American Bank Lenders asserted against North American, North American transferred the Tiger Note Cash Proceeds, the New Tiger International Note and the security represented by the Stock Pledge and the Pledged Shares to the Collateral Agent in partial satisfaction of North American's obligations under the North American Restructuring Agreement.

Under the New Tiger International Note, a default occurs only upon nonpayment of the note, a breach of any anti-dilution provisions contained in the note, any bankruptcy proceeding involving Tiger International or Flying Tigers or upon a default under certain other agreements of Tiger International and Flying Tigers.

Exchange Offer

In September 1983, Tiger International acquired \$37,894,000 principal amount of its outstanding 11½% Sinking Fund Debentures due October 1, 1995, (the "Old 11½% Debentures") and \$55,563,000 principal amount of its outstanding 8% Convertible Subordinated Debentures due July 1, 2005, (the "Old 8% Debentures") pursuant to an exchange offer (the "Tiger International Exchange Offer"). In exchange, Tiger International issued \$28,368,600 principal amount of its 11½% Sinking Fund Debentures, due April 1, 1995, (the "New 11½% Debentures"), \$36,030,000 principal amount of its 8% Convertible Subordinated Debentures due July 1, 1995, (the "New 8% Debentures"), 3,156,924 shares of Common Stock and warrants to purchase an additional 3,156,924 shares of Common Stock. Tiger International also issued \$1,313,000 principal amount of New 11½% Debentures, 56,022 shares of Common Stock and warrants to purchase an additional 56,022 shares of Common Stock in exchange for \$1,751,000 principal amount of Old 11½% Debentures held by Flying Tigers at the time of the Tiger International Exchange Offer. As a result of the Tiger International Exchange Offer, Tiger International's outstanding long-term debt was reduced by \$29,058,000 principal amount. The investment banker that assisted Tiger International in the Tiger International Exchange Offer received as compensation for its services warrants to purchase 200,000 shares of Common Stock, which may be exercised in whole or in part at any time between January 1, 1984, and June 30, 1988, at \$8.00 per share.

Both principal of and interest on the New 11½% Debentures and the New 8% Debentures, including sinking fund obligations, are payable at Tiger International's option in cash or in Common Stock. Tiger International did so elect with respect to the payment of interest during 1983, 1984, 1985 and 1986 on its New 11½% Debentures and its New 8% Debentures, satisfying its aggregate \$22,800,000 interest obligations by delivering 3,685,977 shares of Common Stock and cash for fractional shares.

Restructuring Warrants and Limitation on Advances

In connection with the Override Agreement among Flying Tigers, Tiger International and certain Private Lenders (as defined therein), dated as of December 21, 1983, as amended, and the Credit Agreement, as amended, among Flying Tigers, the Private Lenders and a certain bank as agent for the Private Lenders, dated as of September 30, 1983, (collectively, the "Flying Tigers Restructuring Agreements") and the North American Restructuring Agreement, Tiger International agreed to issue to creditors of such companies warrants to

purchase Common Stock (the "Restructuring Warrants") in connection with (i) the deferral of interest on North American loans and (ii) advances to be made by North American and Flying Tigers to Tiger International in 1984 and future years for the payment of certain of Tiger International's expenses. As of December 31, 1985, Tiger International had issued Restructuring Warrants to purchase 246,204 shares of Common Stock to North American lenders at exercise prices (subject to adjustment) ranging from \$5.15 to \$6.99 per share in connection with the deferral of interest and Restructuring Warrants to purchase 140,069 shares of Common Stock to lenders of North American and Flying Tigers at exercise prices (subject to adjustment) ranging from \$5.94 to \$7.39 per share in connection with advances made by such companies to Tiger International. No further Restructuring Warrants will be issued.

The above described Restructuring Warrants and Common Stock issued on account thereof are restricted securities and accordingly may not be resold, transferred or exercised without an effective registration statement relating thereto or an exemption from the registration requirements.

Flying Tigers

On December 30, 1983, Flying Tigers and substantially all of its private lenders entered into the Flying Tigers Restructuring Agreements pursuant to which 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. In consideration for amounts deferred under the Flying Tigers Restructuring Agreements and for a new \$45 million credit facility which expired on June 30, 1985, with no borrowings outstanding, Flying Tigers agreed to pay its lenders up to \$20,000,000 of contingent interest, cumulatively, based upon future earnings in the years 1985 through 1989 ("Contingent Interest"). Contingent Interest, if any, is payable in the years 1986 through 1990. Flying Tigers did not achieve the 1985 or 1986 earnings level that would have caused Contingent Interest payments to be required in 1986 or 1987. The principal and interest deferred under the Flying Tigers Restructuring Agreements is payable over a five-year period that commenced on July 2, 1985. The Flying Tigers Restructuring Agreements also contain strict financial covenants concerning working capital, capital expenditures, net worth, additional borrowings and payment of cash dividends on common stock. Substantially all Flying Tigers assets then held or subsequently acquired have been pledged to secure its obligations under the Flying Tigers Restructuring Agreements. The Flying Tigers Restructuring Agreements also require that 80% of the net proceeds of all asset sales must be paid to the participating creditors to reduce the outstanding amounts of deferred principal and interest.

As part of a proposed refinancing of its indebtedness, Flying Tigers filed a Pre-effective Amendment No. 2 to a Registration Statement on Form S-1 with the Securities and Exchange Commission on February 23, 1987. Flying Tigers proposes to sell 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 proceeds of the proposed sale of the Trust Certificates would be used to repay a substantial portion of the Flying Tigers' indebtedness subject to the Flying Tigers Restructuring Agreements 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 Restructuring Agreements and paying to certain creditors a premium of \$5,000,000 to settle in full and terminate the right of such creditors to receive Contingent Interest. The Trust Certificates would be secured by title to four used B-747-200F aircraft owned by Flying Tigers.

Concurrent with the consummation of the proposed sale of the Trust Certificates, approximately \$150,356,000 of purchase money indebtedness of the owner of four B-747-200F and four spare engines leased by Flying Tigers under capital leases is proposed to be refinanced by the owner of such equipment. If completed, such refinancing would decrease the cost to Flying Tigers of leasing such equipment.

The Flying Tigers Restructuring Agreements would be terminated concurrently with the successful completion of the proposed refinancing. The proposed refinancing would reduce Flying Tigers' principal obligations due in the near future, relieve Flying Tigers of the requirement of making quarterly payments of

both deferred and matured principal and interest and Contingent Interest under the Flying Tigers Restructuring Agreements and remove certain operational and other restrictions imposed on Flying Tigers by the Flying Tigers Restructuring Agreements.

In March and April 1984, Flying Tigers completed exchange offers whereby \$2,404,000 principal amount of 9% Equipment Trust Certificates due October 1, 1991, and \$85,000 principal amount of 5% Convertible Subordinated Debentures due April 1, 1986, were 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."

In connection with Tiger International's pledge of the Pledged Shares discussed above, Flying Tigers executed a Stock Agreement (the "Stock Agreement") in favor of North American and the Collateral Agent. The Stock Agreement imposes on Flying Tigers, and the Stock Pledge imposes on Tiger International, certain covenants that restrict, but do not preclude, the issuance of additional voting securities of Flying Tigers, the amendment of Flying Tigers' Certificate of Incorporation and the sale, merger or consolidation of all or substantially all of the business of Flying Tigers.

Beginning in 1988, Tiger International will be obligated to begin making substantial cash payments on the New Tiger International Note. Flying Tigers is presently prohibited from providing funds to Tiger International under the terms of the Flying Tigers Restructuring Agreements and Flying Tigers will continue to be subject to substantial restrictions on its ability to pay dividends and advance funds to Tiger International upon the successful completion of the proposed refinancing. Tiger International will therefore require additional financing or capital to meet its obligations to North American. However, the source of any such additional financing or capital is uncertain. As a result, it is possible that ownership and control of Flying Tigers may change at some point in the future through foreclosure of the Stock Pledge or through other means, and it is not possible to predict what effect such changes would have on the business of Flying Tigers or Tiger International.

Other Subsidiaries

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, which constituted an involuntary bankruptcy proceeding against NER. The hearing on the involuntary petition has been postponed from time to time to permit negotiations between such creditors and NER.

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.

TIGER RECENT FINANCIAL PERFORMANCE AND LIQUIDITY

During the years 1984, 1985 and 1986 Tiger experienced net losses of \$88,940,000 (\$4.13 per share), \$72,687,000 (\$2.69 per share) and \$45,063,000 (\$1.45 per share), respectively. In 1985 and 1986, Tiger reported losses from continuing operations of \$57,187,000 and \$45,063,000; in 1984, Tiger reported income from continuing operations of \$44,205,000. Tiger's stockholders' equity decreased from \$84,536,000 at December 31, 1983 to \$1,961,000 at December 31, 1984 and decreased to a deficit of \$4,462,000 at December 31, 1985 and a deficit of \$43,160,000 at December 31, 1986. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Tiger International's cash requirements for 1987 are estimated to be approximately \$9.7 million. At December 31, 1986, Tiger International had cash balances of approximately \$8.7 million. Warren is free from restrictions limiting dividends and advances to Tiger International. During 1986, Tiger International received \$9 million, in cash, from Warren and in 1987 Tiger International expects to receive additional cash from Warren. As a result, Tiger International anticipates no liquidity problems during 1987.

Tiger International's cash requirements in each of the years 1988 and 1989 will be in excess of \$80 million due to payments required under the New Tiger International Note. Flying Tigers is presently prohibited from providing funds to Tiger International under the terms of the Flying Tigers Restructuring Agreements, and Flying Tigers will continue to be subject to substantial restrictions on its ability to pay dividends and advance funds to Tiger International upon the successful completion of the proposed refinancing of Flying Tigers discussed above under "History of Financial Restructuring — Flying Tigers." Tiger International may not be able to meet its future debt service and other cash requirements with funds from Flying Tigers and Warren. If Tiger International were unable to obtain sufficient funds from its subsidiaries to meet its cash obligations in 1988 and 1989, it may be necessary for Tiger International to attempt to refinance its indebtedness, seek additional capital or sell stock or assets of its subsidiaries. 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 the Flying Tigers and North American Restructuring Agreements and certain debt instruments from paying such a dividend until at least 1991.

Item 2. PROPERTIES.

General

Flying Tigers' ground facilities are comprised principally of (a) leasehold improvements, including cargo 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.

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 now operates (i) 18 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 freighter aircraft, which are leased under operating leases. In addition to its operating fleet as of March 26, 1987, Flying Tigers leased five B-727-100F aircraft, all of which were subleased to other air carriers and one B-727-100 passenger aircraft which is being held available for sublease. In January 1987, Flying Tigers entered into an operating lease for the six DC-8-73 aircraft which were delivered to Flying Tigers from January through March 1987 and integrated into the operating fleet upon delivery.

The following table illustrates the composition of Flying Tigers' operating fleet at March 26, 1987:

	Aircraft Under		Aircraft Owned	Total
	Operating Leases	Capital Leases		
B-747-100F	—	—	7	7
B-747-200F	—	5	5	10
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 September 1987 to September 1992, 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-727-100 aircraft subject to operating leases, all for fair market value, subject, in the case of certain B-727-100 aircraft, to a maximum price. Flying Tigers has an option, exercisable in 1987, to purchase the six DC-8-73 aircraft at specified prices at the end of the second through fifth years of the lease.

New Terminal Facility

In late 1985, Flying Tigers began a relocation of its principal domestic freight hub from O'Hare International Airport in Chicago to a new combined air and trucking hub in Columbus, Ohio. The new 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. Flying Tigers intends to maintain O'Hare International Airport as a significant origination and destination point. It is anticipated that the combined cost of operating the principal hub in Columbus and maintaining O'Hare International Airport as a significant origination and destination point will be less than the cost of establishing and operating the principal hub at O'Hare International Airport. Since the Columbus hub facility and substantially all of the related equipment are leased, Flying Tigers incurred no significant capital investment arising from the relocation of the hub.

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" for a discussion of possible 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" 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, 1986, 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 19, 1987, concerning those persons who serve as executive officers of Tiger International.

<u>Name</u>	<u>Title</u>	<u>Age</u>
Stephen M. Wolf	Chairman of the Board, President and Chief Executive Officer(1)	45
Robert J. Harter, Jr.	Senior Vice President, General Counsel and Secretary(2)	42
Larry G. Morris	Senior Vice President — Chief Financial Officer(3)	48
Joseph K. McDonnell	Vice President — Controller and Treasurer(4)	43

- (1) Mr. Wolf was elected Chairman of the Board, President and Chief Executive Officer of Flying Tigers and a director of Tiger International on August 8, 1986. On January 22, 1987, Mr. Wolf was elected Chairman of the Board, President and Chief Executive Officer of Tiger International. Mr. Wolf formerly served as President, Chief Executive Officer and a director of Republic Airlines, Inc. ("Republic") from April, 1985 to August 4, 1986, when Republic was acquired by NWA, Inc. Mr. Wolf was President, Chief Operating Officer and a director of Republic from April 1984 to April 1985, and was Executive Vice President of Republic from February 1984 to April 1984. Between December 1982 and September 1983, Mr. Wolf was President, Chief Operating Officer and a director of Continental Airlines Corporation (which filed for Chapter 11 reorganization under the federal bankruptcy laws in September 1983, after Mr. Wolf had resigned as an officer and director). Mr. Wolf is a director of the Air Transport Association of America ("ATA") and a member of the Executive Committee of the International Air Transport Association ("IATA").
- (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; Secretary since June 1980; and Associate General Counsel from April 1978 to June 1979.
- (3) Mr. Morris was elected Senior Vice President-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-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; Assistant Controller since October 1980; and Director of Accounting from 1977 to 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 26, 1987, by approximately 18,186 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>
1985		
First Quarter	\$10½	\$6¼
Second Quarter	10½	6½
Third Quarter.....	8¾	5¾
Fourth Quarter.....	8½	6
1986		
First Quarter	9¾	7¾
Second Quarter	8¾	6
Third Quarter.....	7¾	4¾
Fourth Quarter.....	9¼	3¾
1987		
First Quarter (through March 26, 1987)	13¼	7¾

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. Due to losses incurred by subsidiaries, provisions in certain subsidiaries' bank credit agreements, indentures and restructuring agreements restricting or prohibiting payment by subsidiaries of dividends to Tiger International and the limitation on advances under the restructuring agreements, dividends on the Common Stock are not currently being paid. In addition, agreements entered into by Tiger International in connection with the North American and Flying Tigers Restructuring Agreements 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 all obligations owed to the creditors who are parties to such restructuring agreements have been paid. The North American restructuring agreements are not presently expected to be terminated, nor dividends to be paid, until at least 1989. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "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, 1986 (in thousands, except per share data):

	1986	1985	1984	1983	1982
Results of Operations					
Revenues from Continuing Operations	\$1,110,948	\$1,147,045	\$1,209,890	\$1,056,868	\$ 945,861
Income (Loss) from Continuing Operations	\$ (45,063)	\$ (57,187)	\$ 44,205	\$ (84,988)	\$ (63,821)
Net Loss(1)	\$ (45,063)	\$ (72,687)	\$ (88,940)	\$ (222,840)	\$ (136,223)
Income (Loss) Per Common Share From Continuing Operations	\$ (1.45)	\$ (2.11)	\$ 2.05	\$ (4.71)	\$ (3.77)
Loss Per Share(1)	\$ (1.45)	\$ (2.69)	\$ (4.13)	\$ (12.34)	\$ (8.04)
Cash Dividends Declared Per Common Share	\$ —	\$ —	\$ —	\$ —	\$ —
Working Capital Provided (Used) by Continuing Operations(2)	\$ 69,307	\$ 17,331	\$ 105,163	\$ 9,003	\$ (67,795)
Financial Position					
Total Assets(3)	\$ 883,457	\$ 956,118	\$1,026,728	\$1,113,766	\$2,440,619
Long-Term Obligations(3)	\$ 652,218	\$ 674,633	\$ 603,058	\$ 691,892	\$1,632,849
Stockholders' Equity (Deficit)	\$ (43,160)	\$ (4,462)	\$ 1,961	\$ 84,536	\$ 283,166
Book Value Per Common Share....	\$ (1.37)	\$ (.15)	\$.09	\$ 4.16	\$ 16.72

(1) 1983 includes an extraordinary gain of \$19.8 million (\$1.10 per share) from an exchange of debt for other securities.

(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.

(3) 1982 includes assets and liabilities associated with discontinued operations. See "Note 1 — Discontinued Operations" of "Notes to Consolidated Financial Statements."

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 cargo 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.

Operating losses, combined with funds required for business acquisitions and equipment additions, had the effect of adversely affecting liquidity while reducing Tiger's equity from \$419.4 million at December 31, 1981, to a deficit of \$43.2 million at December 31, 1986.

Tiger reported a net loss of \$45.1 million in 1986 compared to a net loss of \$72.7 million in 1985 and a net loss of \$88.9 million in 1984. From continuing operations, Tiger reported a loss of \$45.1 million in 1986 compared to a loss of \$57.2 million in 1985 and income of \$44.2 million in 1984.

In February 1987, Flying Tigers filed a pre-effective amendment to a registration statement with the Securities and Exchange Commission ("SEC") and proposes to refinance approximately \$140 million of its debt through the sale of equipment trust certificates. Concurrently, Flying Tigers proposes to refinance approximately \$150 million of capitalized lease obligations.

In November and December 1986, Flying Tigers entered into agreements in principle 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 Motor Transit Company ("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 Car Corporation ("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 to General Electric Credit Corporation ("GECC") for approximately \$420 million.

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

In early 1984, Flying Tigers completed an exchange offer whereby debt was exchanged for Flying Tigers' common stock and warrants to purchase Flying Tigers' common stock. As a result of this exchange offer, Tiger International's ownership has been reduced to 99% of Flying Tigers outstanding common stock.

Through subsidiaries of Tiger Leasing Group, Inc. ("Tiger Leasing Group"), Tiger previously engaged in the railcar and aviation services businesses and other leasing activities. In December 1983, a transaction was completed under which GECC took over the management and operation of the railcar leasing and repair business of North American, the largest subsidiary of Tiger Leasing Group. In addition, GECC was given an option to purchase the remainder of North American's railcar fleet. Also in 1983, North American restructured its indebtedness with certain of its creditors (the "North American Restructuring Agreement"). As a result of a decision to liquidate the North American railcar fleet, through the option given to GECC or otherwise, and the North American Restructuring Agreement, Tiger accounted for these activities as a discontinued operation effective December 31, 1983. Also, Tiger International announced its decision to sell or liquidate all of Tiger Leasing Group's other operations and, accordingly, these operations were accounted for as discontinued effective December 31, 1983.

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

Liquidity

Working capital provided by operations amounted to \$69.3 million in 1986 compared to \$17.3 million in 1985. Working capital used in operations amounted to \$38.9 million in 1984. Working capital provided by continuing operations were \$69.3 million in 1986 compared to \$17.3 million in 1985 and \$105.2 million in 1984. In addition, proceeds from the sale of assets by Flying Tigers were \$23.3 million in 1985 and \$69.7 million in 1984. Asset sales in 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. At December 31, 1983, Tiger International considered this obligation to be a contingent liability because management believed that

sufficient cash would be provided from the North American railcar fleet liquidation to repay North American's outstanding indebtedness. 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 proposed settlement of Tiger International's notes payable to North American.

In May 1985, the Bankruptcy Court approved a 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 the New Tiger International Note payable to North American for the remaining principal balance of \$96.9 million. At December 31, 1986, the outstanding balance of the New Tiger International Note, including accrued and capitalized interest, was \$118.9 million. See "Note 1 — Discontinued Operations — North American" of "Notes to Consolidated Financial Statements" for a description of the terms of the New Tiger International Note.

As a result of the filing by North American of a voluntary petition in reorganization under Chapter 11 of the Bankruptcy Code and certain provisions of debt restructuring agreements between Flying Tigers and certain of its creditors ("Flying Tigers Restructuring Agreements"), North American and Flying Tigers were thereafter prohibited from making advances to Tiger International (see below).

Tiger International's cash needs for 1987 are approximately \$9.7 million. At December 31, 1986, Tiger International had cash resources of approximately \$8.7 million. Warren is free from restrictions limiting dividends and advances to Tiger International. During 1986, Tiger International received \$9 million, in cash, from Warren and in 1987 expects to receive additional cash. As a result, Tiger International anticipates no liquidity problems during 1987. Flying Tigers intends to refinance a significant portion of its long-term obligations (see below). In the planned refinancing, Flying Tigers' Restructuring Agreements will be terminated, and Flying Tigers will be permitted to pay dividends and make advances to Tiger International. However, such dividends and advances will be limited. As a result, Tiger International may not be able to meet its future debt service requirements with funds from Flying Tigers and Warren. Therefore, no assurance can be given that Tiger International will have sufficient funds to satisfy its cash requirements for 1988 and thereafter. Tiger International estimates its cash requirements in each of the years 1988 and 1989 will be in excess of \$80 million. If Tiger International were unable to obtain sufficient funds from its subsidiaries to meet its cash obligations, it may be necessary for Tiger International to attempt to refinance its indebtedness, seek additional capital or sell stock or assets of its subsidiaries.

During September and October, 1986, in a series of meetings, management of Flying Tigers advised employees of the need for substantial current cost reductions as an initial step to restoring Flying Tigers as a viable air cargo competitor. Management also indicated that Flying Tigers needs to refinance its long-term debt and requires a new marketing strategy to reverse its eroding worldwide market position that has resulted from new low cost competitors and an inability to finance capital expenditures on new aircraft.

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 in principle 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. See "Item 1 — Business — Air Cargo Operations — Flying Tigers — Employee Relations", for further details.

Flying Tigers, with its available cash on hand of \$143.2 million, together with the anticipated savings from the economic cost reduction plans, anticipates no liquidity problems in 1987. In addition, Flying Tigers has a one billion yen (approximately \$6.3 million based on the yen-to-dollar exchange rate at December 31, 1986) line of credit with a Japanese bank. This agreement is secured by Japanese trade accounts receivable and expires on January 31, 1988. As of December 31, 1986, there were no borrowings outstanding under this agreement.

In December 1983, Flying Tigers finalized debt restructuring agreements with its creditors. These restructuring agreements provided for, among other things, the deferral, until July 2, 1985, and beyond, of approximately \$48 million of principal and interest otherwise payable in 1983 and 1984. The deferred amounts are payable in 20 quarterly installments of approximately \$2.4 million; the first such installment became due and was paid on July 2, 1985. In addition to stated interest, Flying Tigers may be required to pay annually in each of the years 1986 through 1990 contingent interest if certain earnings levels are achieved. The cumulative amount of such contingent interest may not exceed \$20 million. Flying Tigers did not achieve the 1985 and 1986 earnings levels to cause contingent interest payments to be required in 1986 and 1987. The Flying Tigers Restructuring Agreements also require that 80% of the aggregate net proceeds from sales of assets be paid to the participating creditors to reduce the outstanding amount of deferred principal.

The Flying Tigers Restructuring Agreements contain strict financial covenants and substantially all previously unencumbered assets have been pledged to secure the obligations thereunder and generally prohibit Flying Tigers from incurring new indebtedness for borrowed money.

In February 1987, Flying Tigers filed a pre-effective amendment to a registration statement with the SEC and intends to refinance approximately \$140 million of its debt through the sale of equipment trust certificates. In addition, Flying Tigers intends to refinance approximately \$150 million of capitalized lease obligations. The Flying Tiger Restructuring Agreements would be terminated upon the successful completion of the proposed refinancing. However, Flying Tigers ability to supplement cash on hand and cash from operations in the future will continue to be limited by certain contractual restrictions including, among other things, (i) limitations on Flying Tigers' ability to incur additional indebtedness for borrowed funds and to sell shares of common stock and (ii) the fact that most of Flying Tigers aircraft will continue to be subject to liens securing existing principal and interest obligations. Under the terms of Flying Tigers' Restructuring Agreements, Flying Tigers has had high debt service costs. The planned refinancing of Flying Tigers' debt and capital lease obligations would reduce Flying Tigers principal and interest obligations in the near term and improve liquidity. The termination of Flying Tigers' Restructuring Agreements in the proposed refinancing would terminate Flying Tigers' obligation to pay contingent interest. Flying Tigers would pay a premium of \$5 million to settle and terminate the contingent interest obligation. In addition, the termination of Flying Tigers Restructuring Agreements would eliminate certain restrictive operating covenants. Flying Tigers would, however, continue to be subject to a high degree of financial leverage and, with the exception of the yen line of credit described above, would not have available to it any significant committed credit facilities. (See "Note 11 — Subsequent Events" of "Notes to Consolidated Financial Statements".)

Upon the successful completion of the proposed refinancing and the termination of Flying Tigers' Restructuring Agreements, Flying Tigers would be permitted to pay dividends and make advances to Tiger International, but the provisions of certain continuing and new debt obligations would limit such dividends and advances.

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 8⅝% Senior Subordinated Debentures due July 1, 1995 ("New 8⅝% Debentures"), Common Stock and warrants to purchase Common Stock. The New 11½% Debentures and the New 8⅝% 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 11½% Debentures and the New 8⅝% Debentures in 1986 (\$6.5 million), 1985 (\$6.5 million) and 1984 (\$6.5 million) by delivering an aggregate of 1,031,791, 921,768 and 1,139,738 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 the Flying Tigers and North American Restructuring Agreements, absent an amendment or change in the terms thereof, Tiger International is prohibited from paying dividends (other than stock dividends) on its Common Stock.

Capital Resources

Capital expenditures were \$10 million in 1986 compared to \$27.3 million in 1985 and \$48.6 million in 1984. At December 31, 1986, Tiger had no significant future purchase commitments.

In January 1987, Flying Tigers entered into an operating lease for the use of six McDonnell Douglas DC-8-73 aircraft. Such aircraft will enable Flying Tigers to improve its load factor on certain routes, to reallocate currently underutilized B-747 aircraft and to service additional routes.

Results of Operations

Continuing Operations Overview

Revenues from continuing operations in 1986 were \$1,110.9 million compared to \$1,147 million in 1985 and \$1,209.9 million in 1984.

Losses from continuing operations were \$45.1 million in 1986 compared to \$57.2 million in 1985 and income of \$44.2 million in 1984.

Air Cargo

Flying Tigers' revenues for 1986 were \$1,074.3 million, a 3% decrease from the 1985 revenues of \$1,109 million, and a 8% decrease from Flying Tigers' 1984 revenues of \$1,171 million. Flying Tigers reported a pretax loss of \$18.6 million in 1986 compared to a pretax loss of \$44.2 million in 1985 and a pretax profit of \$60.8 million in 1984. 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. In addition, 1985 results include approximately \$13.0 million of reserves, most of which relate to increases in engine overhaul costs, and a \$14.1 million transaction loss relating to debt obligations payable in

Japanese yen. Included in the results for 1984 is a pretax gain of \$16.4 million on the sale of DC-8 aircraft. Beginning in January 1987, certain of Flying Tigers' Japanese customers entered into firm yen-denominated commitments to purchase a minimum level of cargo 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 will be 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 cargo services and Military Airlift Command ("MAC") and commercial charters. Scheduled service revenues in 1986 were \$884.6 million, down from \$926.5 million in 1985. Scheduled service revenues were \$1,008 million in 1984. The transpacific market accounted for 67%, 66% and 70% of Flying Tigers' total scheduled capacity in 1986, 1985 and 1984, respectively.

In 1986, scheduled service revenues decreased \$41.8 million (5%) compared to 1985, mainly 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 was a lower number of frequencies as a result of Flying Tigers having one less aircraft in its fleet. 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%. Revenues in the Latin American market decreased 29% from 1985 levels reflecting a reduction of service to that market.

The decrease in 1985 scheduled service revenues from 1984 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.

Scheduled service revenues in 1984 increased over 1983 levels primarily as the result of a strong transpacific market and the redeployment of aircraft to this market. In October 1983 Flying Tigers reduced flight frequency across the Atlantic by 50% and established two European hubs, one located in London and one in Frankfurt. Scheduled flights to France and Italy were replaced, and scheduled flights from Switzerland were supplemented, by a trucking network operating out of the hubs. The new approach reduced fixed costs in Europe and allowed Flying Tigers to redeploy aircraft to the Asian market where demand was strong. As a result of this redeployment of aircraft and the strong demand, 1984 revenue ton miles increased 28% in the transpacific market, but declined 33% in the transatlantic market. In September 1983, Flying Tigers began weekly scheduled service to Australia. An additional frequency was added in July 1984 to meet increased demand. In addition, the redeployment of aircraft enabled Flying Tigers to expand its operations in Latin America, where a substantial increase in revenue ton miles was realized. In 1984 domestic revenues increased 11% (\$20.4 million) from 1983 levels while volumes decreased 10%. The

increase in revenues was the result of continued growth in the door-to-door market where average domestic yields increased significantly.

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 \$113.5 million in 1986 compared to \$105.7 million in 1985 and \$104.4 million in 1984. 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 cargo ton miles. Commercial cargo charter revenues were \$46.7 million in 1986 compared to \$56.1 million in 1985 and \$42.6 in 1984. The decrease in 1986 was the result of fewer charters from the United States and Europe to the transpacific market. The increase in 1985 commercial cargo charter revenues is partly the result of increased availability of aircraft resulting from excess capacity on the scheduled service routes, especially in the transpacific area. 1984 commercial cargo charter revenues declined 33% in 1984 from 1983 levels.

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 by 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.

In 1984 operating expenses increased 6% or \$58.4 million over 1983. However, as a percentage of revenues, operating expenses in 1984 were 91% compared to 98% in 1983. Total fuel and oil costs increased \$5.9 million (2%) due to an 8% increase in total miles flown in 1984 partially offset by a decrease in the average price per gallon of fuel by 5 cents from 1983. Other flying operations increased \$25.1 million (18%) due to increased crew costs which were necessary to support the additional flying and rental of Boeing 727 aircraft used to replace DC-8 aircraft. Ground operations increased \$28.7 million (11%) due to expansion of operations associated with the door-to-door delivery service and increased international volumes. Maintenance expenses increased due to increased flying of B-747 aircraft primarily in the transpacific market.

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 glass, and glass products, rubber products, building materials and paper and paper products. Warren's operating ratio was 95.7% in 1986

compared to 93.9% in 1985 and 94.1% in 1984. Warren handled 402 million ton miles in 1986, 407 million ton miles in 1985 and 432 million ton miles in 1984. Revenue per ton was \$79.51 in 1986 compared to \$79.76 in 1985 and \$76.24 in 1984. Warren's revenues for 1986 were \$36.6 million compared to \$38.0 million in 1985 and \$38.6 million in 1984. Pretax income was \$2.1 million in 1986 compared to \$3.2 million in 1985 and \$3.3 million in 1984. Warren has been able to maintain its profitability level as a result of controlling its variable expenses in relationship to its lower revenues. However, the decrease in 1986 pretax results is due to reduced revenues caused by the continued decline in U.S. farm machinery sales and significant increases in insurance costs.

Discontinued Operations

Trucking — Hall's

Effective as of December 31, 1984, Tiger accounted for this business as a discontinued operation. See "Note 1 — Discontinued Operations — Hall's Motor Transit Company" of "Notes to Consolidated Financial Statements."

Railcar Services

Effective December 31, 1983, Tiger accounted for this business as a discontinued operation. On December 5, 1984, North American filed a voluntary petition under Chapter 11 of the Bankruptcy Code. See "Note 1 — Discontinued Operations — North American" of "Notes to Consolidated Financial Statements."

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.

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 sheet of Tiger International, Inc. and subsidiaries at December 31, 1986 and the related consolidated statements 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. The consolidated financial statements of Tiger International, Inc. and subsidiaries for the years ended December 31, 1985 and 1984 were examined by other auditors whose report dated March 26, 1986 expressed an unqualified opinion on those statements.

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

ARTHUR YOUNG & COMPANY

Los Angeles, California
March 26, 1987

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have examined the consolidated balance sheets of Tiger International, Inc. (a Delaware corporation) and subsidiaries (collectively "Tiger") as of December 31, 1985, and the related consolidated statements of operations, stockholders' equity and changes in financial position for each of the two years in the period ended December 31, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Tiger as of December 31, 1985, and the results of its operations and the changes in its financial position for each of the two years in the period ended December 31, 1985, 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.

On January 7, 1985, Tiger International sold 75% of its equity interest in Hall's Motor Transit Company ("Hall's") and accounted for this operation as a discontinued operation effective December 31, 1984. As of December 13, 1985, Tiger International transferred its remaining 25% equity interest in Hall's to the majority shareholder of Hall's. The railcar services segment ("North American") and other leasing businesses were accounted for as discontinued operations at December 31, 1983. Accordingly, the results of operations of these businesses have been segregated in the Consolidated Statements of Operations. In addition, footnote information for 1986 does not include the accounts of these businesses except as specifically indicated. The balance sheets at December 31, 1986 and 1985 do not include the accounts of the discontinued businesses.

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. Transaction gains and losses are recorded in income as incurred.

Prior to 1985, Tiger deferred gains and losses resulting from the effects of changes in exchange rates on certain long-term debt obligations payable in Japanese yen, because the obligations were entered into as a hedge of yen-denominated revenues. As of December 31, 1984, gains of \$6,506,000 were deferred.

As a result of the net decline in the yen-to-U.S. dollar exchange rate between January 1, 1983 and December 31, 1985, the dollar cash flows expected, at the latter date, to repay fully the unpaid balances of such long-term yen-denominated obligations increased by \$14,111,000 over the dollar cash flows expected with regard to such obligations as of January 1, 1983, (the \$20,617,000 sum of such \$14,111,000 and the foregoing \$6,506,000 of deferred gain as of December 31, 1984, constitutes the change in such expected cash flows that occurred during 1985). In view of the magnitude of the foregoing increase and developments in 1985 pertaining to the competitive environment in which the foregoing yen-denominated revenues are generated, Tiger ceased accounting for such obligations as a hedge against such revenues. In 1986, the yen-to-U.S. dollar exchange rate continued to decline such that the dollar cash flows required to repay the yen-denominated obligations as of December 31, 1986, increased an additional \$27,491,000 (of which \$24,237,000 is related to the long-term portion) compared to December 31, 1985. Accordingly, for the years ended December 31, 1986 and 1985, Tiger recorded foreign exchange losses of \$27,491,000 and \$14,111,000, respectively, relating to such obligations. Such losses have been included in the caption "Foreign exchange losses, net" in the Consolidated Statements of Operations.

Beginning in January 1987, certain of Flying Tigers' Japanese customers entered into firm yen-denominated commitments to purchase a minimum level of cargo 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 has a remaining life of five years. As a result, gains and losses on the yen-denominated debt resulting from the fluctuation of the yen-to-dollar exchange rates will be deferred and amortized as an adjustment to 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. 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 credits are accounted for as a reduction of the provisions for income taxes in the year in which the credits arise or to the extent they are utilizable without exceeding the deduction limits. In addition, 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.

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, 1986, 1985 and 1984. In 1986 and 1985 they are anti-dilutive and in 1984 they are not materially dilutive.

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

	For the Years Ended December 31		
	1986	1985	1984
Revenues:			
Operating revenues	\$1,110,948	\$1,147,045	\$1,209,890
Costs and Expenses:			
Costs of operations	836,664	907,756	875,525
Selling, general and administrative	151,133	158,980	160,762
Depreciation and amortization	59,258	58,424	65,880
	<u>1,047,055</u>	<u>1,125,160</u>	<u>1,102,167</u>
Income from operations	<u>63,893</u>	<u>21,885</u>	<u>107,723</u>
Other income (expense):			
Gain on sale of equipment and facilities	2,357	12,662	16,591
Interest expense	(83,480)	(85,710)	(78,847)
Interest capitalized	26	88	986
Foreign exchange losses, net	(27,256)	(14,292)	(7,412)
Other	(603)	8,180	10,064
	<u>(108,956)</u>	<u>(79,072)</u>	<u>(58,618)</u>
Income (loss) from continuing operations before income taxes...	(45,063)	(57,187)	49,105
Income tax provision	—	—	4,900
Income (Loss) From Continuing Operations	(45,063)	(57,187)	44,205
Discontinued operations:			
Loss from operations of discontinued businesses, less applicable tax benefit of \$-0-, \$-0- and \$(4,900)	—	—	(14,878)
Provision for loss on disposal of discontinued operations	—	(15,500)	(118,267)
	<u>—</u>	<u>(15,500)</u>	<u>(133,145)</u>
Net Loss	<u>\$ (45,063)</u>	<u>\$ (72,687)</u>	<u>\$ (88,940)</u>
Income (loss) per share			
— Continuing operations	\$ (1.45)	\$ (2.11)	\$ 2.05
— Discontinued operations	—	(.58)	(6.18)
Loss Per Share	<u>\$ (1.45)</u>	<u>\$ (2.69)</u>	<u>\$ (4.13)</u>
Shares used in computation of income (loss) per share	<u>31,095</u>	<u>27,053</u>	<u>21,518</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	1985
	(In thousands)	
A S S E T S		
Current Assets:		
Cash, including certificates of deposit	\$ 36,396	\$ 50,115
Short-term interest bearing investments at cost, which approximates market value.....	117,105	90,523
Receivables, net	138,256	156,371
Inventories	15,959	14,504
Prepaid expenses and other	8,424	11,372
Total Current Assets	316,140	322,885
Property and Equipment:		
Equipment used in operations	822,218	820,065
Buildings and leasehold improvements	51,869	50,163
Terminal facilities and other	77,919	75,598
Equipment acquisitions in process.....	797	2,558
	952,803	948,384
Less accumulated depreciation and amortization	452,435	385,622
	500,368	562,762
Other Assets:		
Investments, other receivables and deferred charges.....	13,702	15,180
Cost in excess of fair value of acquired businesses, net	53,247	55,291
	66,949	70,471
Total Assets.....	\$883,457	\$956,118

TIGER INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	1986	1985
	(In thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current portion of long-term obligations	\$ 59,150	\$ 58,462
Accounts payable and accrued liabilities.....	<u>159,720</u>	<u>172,131</u>
Total Current Liabilities	<u>218,870</u>	<u>230,593</u>
Long-term Obligations:		
Notes payable and equipment obligations.....	269,785	294,910
Note payable to North American	118,921	107,245
Subordinated debt.....	26,627	25,628
Capital lease obligations	<u>236,885</u>	<u>246,850</u>
	<u>652,218</u>	<u>674,633</u>
Deferred Credits:		
Overhaul liability — leased flight equipment	17,000	17,220
Other.....	<u>36,557</u>	<u>35,968</u>
	<u>53,557</u>	<u>53,188</u>
Commitments and Contingencies		
Minority Stockholders' Equity	<u>1,972</u>	<u>2,166</u>
Stockholders' Equity:		
Common stock, \$1 par value		
Authorized — 50,000,000 shares;		
outstanding — 31,773,868 and 30,772,387 shares.....	31,774	30,772
Additional paid-in capital	319,596	314,082
Accumulated deficit.....	<u>(391,316)</u>	<u>(346,253)</u>
	(39,946)	(1,399)
Less treasury stock, at cost (279,031 and 255,306 shares)	3,214	3,063
Total Stockholders' Equity.....	<u>(43,160)</u>	<u>(4,462)</u>
Total Liabilities and Stockholders' Equity	<u>\$883,457</u>	<u>\$956,118</u>

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, 1986

	<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, 1983.....	\$20,508	\$250,998	\$(184,626)	\$(2,344)	\$ 84,536
Net loss	—	—	(88,940)	—	(88,940)
Issuance of Common Stock in lieu of cash interest payments	<u>1,203</u>	<u>5,313</u>	<u>—</u>	<u>(151)(1)</u>	<u>6,365</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	<u>42</u>	<u>375</u>	<u>—</u>	<u>(417)(2)</u>	<u>—</u>
Balance at December 31, 1985.....	30,772	314,082	(346,253)	(3,063)	(4,462)
Net loss	—	—	(45,063)	—	(45,063)
Issuance of Common Stock in lieu of cash interest payments	<u>1,002</u>	<u>5,514</u>	<u>—</u>	<u>(151)(1)</u>	<u>6,365</u>
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>

(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		
	1986	1985	1984
	(In thousands)		
Source of Funds:			
Continuing operations			
Income (loss) from continuing operations	\$ (45,063)	\$ (57,187)	\$ 44,205
Items not involving working capital—			
Depreciation and amortization	59,258	58,424	65,880
Deferred income taxes	—	—	4,900
Gain on sale of equipment used in operations	(2,357)	(12,662)	(16,591)
Overhaul reserves, net	13,865	(1,143)	4,508
Deferred interest payable to North American	11,676	10,334	—
Foreign exchange loss on long-term portion of yen-denominated debt	24,237	14,111	—
Other	7,691	5,454	2,261
Working capital provided by continuing operations	<u>69,307</u>	<u>17,331</u>	<u>105,163</u>
Discontinued operations			
Loss from discontinued operations	—	(15,500)	(133,145)
Items not involving working capital—			
Depreciation and amortization	—	—	9,124
Other	—	15,500	(20,006)
Working capital used by discontinued operations	<u>—</u>	<u>—</u>	<u>(144,027)</u>
Total working capital provided (used) by operations	69,307	17,331	(38,864)
Retirement of property and equipment	925	2,092	43,983
Proceeds from sale of aircraft, engines, aircraft parts and facilities	2,395	23,278	69,652
Proceeds from debt financing	389	—	9,703
Refinancing of note payable to North American	—	96,911	—
Issuance of common stock and warrants	6,365	66,264	6,365
Working capital of discontinued businesses	—	—	3,649
Total Source of Funds	<u>79,381</u>	<u>205,876</u>	<u>94,488</u>
Application of Funds:			
Additions to long-term receivables	—	—	10,500
Additions to property and equipment	10,012	27,288	48,614
Reductions of long-term obligations	61,495	58,381	79,730
Other	2,896	10,323	(16,715)
Total Application of Funds	<u>74,403</u>	<u>95,992</u>	<u>122,129</u>
Increase (Decrease) in Working Capital	<u>\$ 4,978</u>	<u>\$ 109,884</u>	<u>\$ (27,641)</u>
Changes in Components of Working Capital:			
Cash, including certificates of deposit	\$ (13,719)	\$ (84,515)	\$ 93,683
Short-term interest bearing investments	26,582	66,350	22,516
Receivables, net	(18,115)	(11,900)	(19,825)
Inventories	1,455	(2,525)	(7,497)
Prepaid expenses and other	(2,948)	(894)	2,836
Increase (Decrease) in Current Assets	<u>(6,745)</u>	<u>(33,484)</u>	<u>91,713</u>
Note payable to North American	—	(132,151)	132,151
Current portion of long-term obligations	688	(402)	9,867
Accounts payable and accrued liabilities	(12,411)	(10,815)	(22,664)
Increase (Decrease) in Current Liabilities	<u>(11,723)</u>	<u>(143,368)</u>	<u>119,354</u>
Increase (Decrease) in Working Capital	<u>\$ 4,978</u>	<u>\$ 109,884</u>	<u>\$ (27,641)</u>

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

Income (losses), by segment, from discontinued operations are summarized as follows:

	For the Years Ended December 31	
	1985	1984
	(In thousands)	
Hall's.....	\$(15,500)	\$ (20,578)
North American.....	—	(141,951)
Tiger Leasing.....	—	24,484
	(15,500)	(138,045)
Income tax benefit.....	—	(4,900)
	<u>\$(15,500)</u>	<u>\$(133,145)</u>

Hall's Motor Transit

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 realized a loss, effective December 31, 1984, of \$10.6 million on the sale of its stock in Hall's, and accounted for Hall's as a discontinued operation in its 1984 financial statements. In addition, Tiger International's remaining 25% minority equity interest in Hall's was written off effective December 31, 1984.

From and after January 7, 1985, Tiger International did not participate in the management of Hall's. On December 13, 1985, after negotiations concerning a proposed additional refinancing of Hall's, Tiger International transferred its remaining 25% minority stock interest in Hall's to Hall's Acquisition Corp. In addition, Tiger International agreed that if Hall's could obtain \$5 million in additional debt financing by March 1, 1986, and such financing would effectuate a turnaround of Hall's results of operations, the Hall's Note held by Tiger International would be restructured as part of the proposed refinancing, and the lien securing the repayment of the Hall's Note would be released to the extent necessary for Hall's to procure such additional debt financing. As a result of this agreement, at December 31, 1985, Tiger International wrote off the Hall's Note as a \$10.5 million charge to discontinued operations. Also effective December 31, 1985, Tiger recorded a \$5 million reserve relating to guarantees of Hall's workers' compensation obligations.

As of March 1, 1986, Hall's had not accomplished arrangements for additional refinancing, and Tiger International had agreed to an extension of the deadline for such refinancing to March 15, 1986. However, 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. Until January 7, 1985, Tiger International, Flying Tigers, Warren's Transport, Inc. and all other subsidiaries of Tiger International (except for

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

Hall's, the "Tiger International Companies") were members of the controlled group of corporations that included Hall's. As of that date, no MEPPAA withdrawal by Hall's had occurred. At December 29, 1984, Hall's audited financial statements disclosed a contingent MEPPAA withdrawal liability of approximately \$40 million. Because Tiger International has not been involved in the management of Hall's since January 7, 1985, Tiger International does not have any current information concerning the amount of Hall's MEPPAA withdrawal liability but estimates that various multiemployer plans have filed approximately \$36 million in MEPPAA withdrawal claims in the Hall's bankruptcy.

Withdrawal liability may not generally be assessed against entities that have ceased to be members of a controlled group of corporations at the time of a withdrawal. A sale to an unrelated party of 75% of the equity interest in a subsidiary corporation will generally terminate the controlled group relationship between the corporations so long as the sale is a bona fide transaction that does not have, as a principal purpose, the evasion or avoidance of MEPPAA withdrawal liability. Accordingly, the sale of Tiger International's 75% equity interest in Hall's to Hall's Acquisition Corp. on January 7, 1985, should cause the Tiger International Companies to cease to be members of the Hall's controlled group as of January 7, 1985, so long as Tiger International's sale of its 75% equity interest in Hall's was a bona fide sale and a principal purpose of such sale was not the evasion or avoidance of MEPPAA withdrawal liability.

If, however, Tiger International were held to have MEPPAA withdrawal liability for Hall's withdrawal, Flying Tigers would have joint and several liability with Tiger International. Under MEPPAA, if damages are assessed, they may include the withdrawal liability and interest thereon, attorneys' fees and costs and penalties. The management of Tiger International believes that, absent any default in the payment of a MEPPAA judgment, any MEPPAA judgment could be paid with interest, by monthly payments to the multiemployer plans and that the amount of such monthly payments would be approximately \$1 million per month, but such payments would be refunded if the Tiger International Companies eventually prevail in establishing that they have no MEPPAA withdrawal liability. In addition, it is not known yet whether the Tiger International Companies could be required to make interim withdrawal liability payments pending final resolution of the withdrawal liability (if any) of the Tiger International Companies.

Many of the multiemployer plans with claims against Hall's have asserted that the Tiger International Companies are liable for these claims. Tiger International and Flying Tigers intend to resist aggressively imposition of MEPPAA withdrawal liability against the Tiger International Companies and to interpose all appropriate defenses to the imposition of such liability. In order to resolve the question of the potential MEPPAA liability of the Tiger International Companies, on July 3, 1986, the Tiger International Companies filed a class action in the Federal District Court of Delaware naming all of the multiemployer plans of Hall's as defendants. The Tiger International Companies are seeking a declaratory judgment that the Tiger International Companies are not liable for the MEPPAA withdrawal liability of Hall's.

The outcome of the action filed by the Tiger International Companies will be dependent upon certain legal and factual determinations to be made in the course of the litigation. No assurance can be given that the MEPPAA withdrawal liability of Hall's will not be imposed on some or all of the Tiger International Companies, including Flying Tigers. However, the management of Tiger International believes that its sale of 75% of Hall's stock, which was undertaken in connection with the overall financial restructuring of Hall's that was completed on January 7, 1985, constituted a bona fide sale undertaken for legitimate business purposes and that the evasion or avoidance of MEPPAA liability was not a principal purpose of such sale. Accordingly, it is the opinion of the management of Tiger International that the Tiger International Companies should prevail in any litigation asserting that the Tiger International Companies, including Flying Tigers, should be jointly and severally liable with Hall's for the MEPPAA withdrawal liability of Hall's.

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

If the Tiger International Companies were determined to be liable for the MEPPAA withdrawal liability of Hall's, Flying Tigers may be deemed to be in default under the Flying Tigers Restructuring Agreements, which provide that a MEPPAA withdrawal liability in excess of \$5 million of any Flying Tigers "ERISA Affiliate" (as defined in the Flying Tigers Restructuring Agreements) constitutes an event of default under such agreements. Such a default under the Flying Tigers Restructuring Agreements may cause acceleration of the entire principal and interest of the debt obligations covered by the Flying Tigers Restructuring Agreements.

The results of operations for Hall's, included under the caption "Discontinued Operations" in the Consolidated Statement of Operations for 1984, are as follows:

	For the Year Ended December 31 1984
	(In thousands)
Revenues	\$191,255
Costs and expenses	201,233
Loss before income taxes	\$ (9,978)

North American

In December 1983, a transaction (the "GECC Management Transaction") was completed under which General Electric Credit Corporation ("GECC") took over the management and operation of the railcar leasing and repair business of North American Car Corporation ("North American"), the largest subsidiary of Tiger Leasing Group Inc. ("Tiger Leasing Group"). In addition, GECC was given an option to purchase the remainder of North American's railcar fleet. As a result of a decision to liquidate the North American railcar fleet, through the option given to GECC or otherwise, and the North American Restructuring Agreement finalized in 1983, Tiger accounted for these activities as a discontinued operation effective December 31, 1983.

In connection with the 1983 restructuring of North American's indebtedness, North American entered into the Amended and Restated Master Credit Terms Agreement among North American, certain bank lenders to North American (the "North American Bank Lenders") and a certain bank as collateral agent for the North American Bank Lenders (the "Collateral Agent"), dated December 6, 1983 (the "North American Restructuring Agreement"). 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. The promissory note was held by the North American Bank Lenders as security for the repayment of North American's debt. At December 31, 1983, Tiger International considered this obligation to be a contingent liability because management believed that sufficient cash would be provided from the North American railcar fleet liquidation to repay North American's outstanding indebtedness. Effective September 30, 1984, due to an alleged default under North American's Restructuring Agreement, Tiger recorded the \$132 million obligation plus \$9.8 million of accrued interest as a liability and established a \$132 million investment in North American. The interest was charged to operations as a loss from discontinued operations. On December 5, 1984, North American filed a voluntary petition for reorganization under Chapter 11 of Title 11 of the United States Code in the United States Bankruptcy Court ("Bankruptcy Court"). As a result, the \$132 million note, which had a maturity date of January 1991 and an interest rate of 7%, became immediately due and payable and another promissory note, payable to North American, in the principal amount of \$900,000 (for advances made to Tiger International during 1984) also became due and payable (the two promissory notes are hereinafter referred to as the "Tiger International Notes"). At December 31, 1984, Tiger International's obligations to North American under the Tiger International Notes totaled

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

approximately \$145.2 million, of which approximately \$12.1 million represented interest. At December 31, 1984, Tiger International wrote off its \$132 million investment in North American.

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 under the Tiger International Notes.

In May 1985 the Bankruptcy Court approved the settlement of the Tiger International Notes, 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 balances on the Tiger International Notes.

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 "New Tiger International Note"). The New Tiger International Note is secured by a pledge by Tiger International (the "Stock Pledge") of 47% of the common stock of Flying Tigers (the "Pledged Shares"). Tiger International is not required to make any interest or principal payments until June 30, 1988. Unpaid interest is to be capitalized, and 50% of such interest and 50% of the outstanding principal balance is due and payable on June 30, 1988. Thereafter, current interest accrued is payable quarterly with the remaining capitalized interest and principal balance outstanding being due and payable on June 30, 1989. However, Tiger International will be required to make prepayments of principal and interest upon the occurrence of certain events (see "Note 4 — Long-Term Debt"). If prepayments of principal are made prior to June 30, 1987, then a like amount that would otherwise be due and payable on June 30, 1989, shall be extended to become due and payable on June 30, 1990. At December 31, 1986, the amount payable under the New Tiger International Note, including accrued and capitalized interest, was \$118.9 million.

At December 31, 1985, North American's assets consisted of operating assets, principally its railcar fleet, the Tiger Note Cash Proceeds and the New Tiger International Note. In addition, 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 has 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 to GECC for approximately \$420 million. It is estimated that the sale will result in a taxable gain of approximately \$215 million for federal income tax purposes. A substantial portion of this gain will be 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 will be 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

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

losses of other members of the affiliated group to shelter the taxable income created by the disposition of North American's assets.

In 1986, as part of an overall settlement of all claims which the North American Bank Lenders asserted against North American, North American transferred the Tiger Note Cash Proceeds, the New Tiger International Note, and the security represented by the Stock Pledge and the Pledged Shares to the Collateral Agent in partial satisfaction of North American's obligations under the North American Restructuring Agreement.

See "Note 7 — Contingencies and Legal Actions" for 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.

In December 1984, reserves of approximately \$24.5 million previously established for these operations were reversed and offset the other 1984 losses from discontinued operations noted above, because these reserves were no longer considered by Tiger International to be required.

At December 31, 1985, TigerAir, Inc. ("TigerAir"), an indirect subsidiary of 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 will, for the most part, be offset against Tiger NOL exclusive of those of TigerAir. The tax effect of this utilization by TigerAir of its affiliates' NOL will be 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 the 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

During 1984, Flying Tigers sold 10 DC-8-63F aircraft and the associated re-engining positions for proceeds of \$69,652,000 resulting in a pretax gain of \$16,400,000.

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 an operating lease for six DC-8-63 aircraft which are scheduled for delivery from January through March 1987. The leases contain purchase options, exercisable in 1987, at specific prices at the end of the second through fifth years of the lease.

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

Note 3 — Business Segment and Geographic Data

Tiger is engaged primarily in two businesses: air cargo and specialized trucking. Air cargo and trucking services are provided in the United States. International air cargo operations are conducted primarily between cities in the United States and points in Asia, Europe, Latin America, the Middle East and Australia.

Segment data	Revenues	Pretax Results Before Interest Expense	Interest Expense Net	Pretax Income (Loss)	Identifiable Assets	Capital Expenditures	Depreciation and Amortization Expense
				(In thousands)			
1986							
Air Cargo.....	\$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>
1985							
Air Cargo.....	\$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....	1,147,045	28,435	85,622	(57,187)	956,118	27,288	58,424
Discontinued Operations.	—	(15,500)	—	(15,500)	—	—	—
	<u>\$1,147,045</u>	<u>\$ 12,935</u>	<u>\$ 85,622</u>	<u>\$ (72,687)</u>	<u>\$ 956,118</u>	<u>\$ 27,288</u>	<u>\$ 58,424</u>
1984							
Air Cargo.....	\$1,171,017	\$ 125,638	\$ 64,855	\$ 60,783	\$ 978,494	\$ 46,097	\$ 64,274
Trucking.....	39,453	2,923	5	2,918	30,307	1,503	1,268
Other.....	(580)	(1,595)	13,001	(14,596)	17,927	9	338
Continuing Operations....	1,209,890	126,966	77,861	49,105	1,026,728	47,609	65,880
Discontinued Operations.	191,255	(125,106)	12,939	(138,045)	—	1,005	9,124
	<u>\$1,401,145</u>	<u>\$ 1,860</u>	<u>\$ 90,800</u>	<u>\$ (88,940)</u>	<u>\$1,026,728</u>	<u>\$ 48,614</u>	<u>\$ 75,004</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 \$145,640,000, \$144,613,000 and \$143,775,000 for the years ended December 31, 1986, 1985 and 1984, 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 cargo and passenger operations are as follows:

	For the Years Ended December 31		
	1986	1985	1984
		(In thousands)	
Scheduled Cargo Operations			
Domestic.....	\$ 155,601	\$ 212,929	\$ 214,872
Transpacific.....	599,781	544,177	653,395
Transatlantic.....	83,848	105,368	98,367
Latin America.....	45,409	63,988	41,402
Total Scheduled Cargo Operations.....	884,639	926,462	1,008,036
Commercial Charter.....	46,682	56,132	42,605
Military Airlift Command.....	113,528	105,680	104,411
Other.....	29,487	20,748	15,965
Total Air Cargo Revenues.....	<u>\$1,074,336</u>	<u>\$1,109,022</u>	<u>\$1,171,017</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	1985
	(In thousands)	
Notes Payable and Equipment Obligations:		
Tiger International, Inc.		
11½% Debentures due April 1995, net of imputed interest (effective rate 20.7%)	\$ 20,750	\$ 19,839
11½% Debentures due October 1995, net of imputed interest (effective rate 13.0%)	14,107	13,937
Note payable to North American (Prime + 2%)	118,921	107,245
Subsidiaries		
9% to 12% and prime + 2% equipment trust certificates due 1987 to 1997 (average rate 10.0% in 1986)	109,177	123,460
10.56% to 12% master sales agreements (payable in yen) due 1987 to 1992	119,401	107,547
12.5% to 13.5% conditional sale agreement due 1987 to 1990	1,450	5,233
6% to 14.5% and prime + 2% promissory notes due 1987 to 1990 (average rate 10.1% in 1986)	5,962	10,115
Term notes at prime + ¼% and prime + 2% due 1987 to 1990 (average rate of 8.6% in 1986)	49,084	63,839
	438,852	451,215
Less current portion	50,146	49,060
	<u>\$388,706</u>	<u>\$402,155</u>
Subordinated Debt:		
Tiger International, Inc.		
8¾% Senior Subordinated Debentures due July 1995, net of imputed interest (effective rate 19.2%)	\$ 22,190	\$ 21,191
8¾% Convertible Subordinated Debentures due July 2005	4,437	4,437
Subsidiaries (net of imputed interest)		
5% Convertible Subordinated Debentures due April 1986	—	2,490
	26,627	28,118
Less current portion	—	2,490
	<u>\$ 26,627</u>	<u>\$ 25,628</u>

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

Scheduled Maturities

As of December 31, 1986, 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>
1987	\$ 50,146	\$ 9,004	\$ 59,150
1988	115,164	10,148	125,312
1989	114,552	10,942	125,494
1990	42,614	7,845	50,459
1991	59,721	9,524	69,245
Later Years	83,282	198,426	281,708
Total	<u>\$465,479</u>	<u>\$245,889</u>	<u>\$711,368</u>

Tiger International, Inc. (Parent)

The terms of the 11½% Sinking Fund Debentures due April 1, 1995, (the "New 11½% Debentures"), \$28.4 million in aggregate outstanding principal amount, and the 8⅞% Senior Subordinated Debentures due July 1, 1995, (the "New 8⅞% Debentures"), \$36.0 million in aggregate outstanding principal amount, (the New 11½% Debentures and the New 8⅞% Debentures are hereinafter referred to as the "New 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 Debentures in 1986 (\$6.5 million), 1985 (\$6.5 million) and 1984 (\$6.5 million) by delivering 1,031,791, 921,768 and 1,139,738 shares, respectively, of common stock. Minor amounts were paid in cash for fractional shares.

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 8⅞% 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 8⅞% Debentures originally issued. Tiger International may deliver outstanding New 8⅞% Debentures and apply as a credit New 8⅞% 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 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

TIGER INTERNATIONAL, INC. AND SUBSIDIARIES
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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 8½% Convertible Subordinate Debentures due July 1, 2005 (the "Old 8½% Debentures") is convertible into Common Stock at an adjusted price of \$31 per share and are redeemable at a premium at any time at the option of Tiger International. As a mandatory sinking fund for the retirement of the Old 8½% 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 8½% Debentures. Tiger International may deliver outstanding Old 8½% Debentures and apply as a credit Old 8½% 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 8½% Debentures to meet the mandatory sinking fund requirement for all years.

The New Tiger International Note in principal amount of \$118.9 million is secured by a pledge by Tiger International of 47% of the common stock of Flying Tigers presently outstanding (the "Pledged Shares") and requires prepayments of principal and interest upon certain events. If Flying Tigers pays any dividends on its common stock or Tiger International sells any of the Pledged Shares, 100% of any dividend payments allocable to the Pledged Shares or proceeds of the sale shall be applied first to interest and then to principal, in the order of maturity. Further, to the extent Tiger International receives net cash proceeds from any other source, including, but not limited to, sales of shares of common stock of Flying Tigers other than the Pledged Shares, dividends from Flying Tigers allocable to shares other than the Pledged Shares, dividends from any of Tiger International's other subsidiaries, or sales of its equity or debt securities, 60% of all proceeds received in any year in excess of \$10 million are required to be applied to payment of the note, first to interest and then to principal, in the order of maturity. Under the terms of the New Tiger International Note, a default would occur only upon nonpayment of the note, a breach of any anti-dilution provisions contained in the note, any bankruptcy proceeding involving Tiger International or Flying Tigers or upon a default under certain other agreements of Tiger International and Flying Tigers (see "Note 1 — Discontinued Operations — North American" for further information).

Subsidiaries

During December 1983, Flying Tigers and substantially all of its private lenders executed restructuring agreements whereby defaults on approximately \$588 million principal amount of indebtedness were waived or suspended. The Flying Tigers Restructuring Agreements provided for the deferral, until July 2, 1985, of approximately \$48 million of principal and interest otherwise payable in 1983 and 1984. The deferred amounts are payable in 20 quarterly installments of approximately \$2.4 million which commenced July 2, 1985. In addition to stated interest, Flying Tigers has agreed to pay annually in each of the years 1986 through 1990 contingent interest if certain earnings levels are achieved. The cumulative amount of such contingent interest may not exceed \$20 million. Flying Tigers did not achieve the 1986 or 1985 earnings level to cause contingent interest payments to be required in 1987 or 1986.

A Flying Tigers debt agreement requires the maintenance of compensating balances or fees in lieu thereof. At December 31, 1986, approximately \$3.4 million of cash, the use of which was unrestricted, was intended to meet the compensating balance requirement.

See "Note 11 — Subsequent Events" for information relating to a proposed refinancing of Flying Tigers' debt.

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

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

stock has been reduced to 99%, of which 47.5% has been pledged to North American, which in turn pledged the Pledged Shares to the Collateral Agent for North American's lenders.

Restrictions on Cash, Dividend Payments and Assets Secured by Debt

At December 31, 1986, Flying Tigers' cash balance was \$143.2 million. However, under the Flying Tigers Restructuring Agreements, Flying Tigers is presently prohibited from providing funds to Tiger International. Also, the Flying Tigers Restructuring Agreements require that 80% of the aggregate net proceeds from sales of assets be paid to the participating creditors to reduce the outstanding amounts of deferred principal and interest. In addition, the Flying Tigers Restructuring Agreements contain strict financial covenants and substantially all previously unencumbered assets have been pledged to secure the obligations thereunder. (See "Note 11 — Subsequent Events") Warren Transport is free from restrictions limiting dividends and advances to Tiger International.

Note 5 — Commitments

Leases

At December 31, 1986, 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.

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

	1986	1985
	(In thousands)	
Equipment used in operations.....	\$268,869	\$268,869
Less accumulated amortization.....	93,777	78,822
	\$175,092	\$190,047

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, 1986, 1985 and 1984 was \$55,535,000, \$55,587,000 and \$44,797,000, respectively.

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

Scheduled Minimum Future Lease Payments: At December 31, 1986, 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):

<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1987.....	\$ 37,460	\$ 50,556
1988.....	38,169	47,967
1989.....	38,255	47,016
1990.....	34,542	41,789
1991.....	35,685	38,382
Later years	<u>341,381</u>	<u>134,033</u>
Total minimum lease payments.....	525,492	<u>\$359,743</u>
Less amount representing interest	<u>279,603</u>	
Present value of net minimum future lease payments.....	245,889	
Less current portion.....	<u>9,004</u>	
Long-term capital lease obligations.....	<u>\$236,885</u>	

Minimum payments under non-cancellable operating leases have not been reduced by minimum sublease rentals of \$25,735,000 due in the future under non-cancellable subleases.

Purchase Commitments

At December 31, 1986, Tiger had no significant future purchase commitments.

Guarantees

At December 31, 1986, Tiger was contingently liable under outstanding guarantees in the amount of \$24,466,000, 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 cargo facilities at the Anchorage, Dallas-Fort Worth, Houston and Los Angeles airports. There are no defaults existing on these guarantees as of December 31, 1986.

Note 6 — Capital Stock

Common Stock

At December 31, 1986, Tiger International had reserved the following number of shares of Common Stock for possible future issuance:

Key Employees Incentive Stock Option Plan.....	750,000
Conversion of Convertible Subordinated Debentures.....	600,000
Exercise of Common Stock Warrants.....	4,950,000
Non-Statutory Stock Options.....	<u>1,500,000</u>
	<u>7,800,000</u>

Stock Option Plan

During 1981, the stockholders approved a Key Employees Incentive Stock Option Plan (the "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.

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

A summary of changes in stock options under the Plan for the three years ended December 31, 1986, is as follows:

	Number of Shares	Option Price Per Share
Outstanding at December 31, 1983	340,666	\$9.25-14.13
Granted	387,776	6.13- 8.00
Exercised	—	—
Cancelled or expired	<u>87,936</u>	<u>9.25-14.13</u>
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	<u>487,756</u>	<u>\$5.75-12.38</u>

The aggregate purchase price of shares subject to outstanding options granted under the Plan was \$4,294,000 at December 31, 1986, \$5,014,000 at December 31, 1985, \$5,932,000 at December 31, 1984. At December 31, 1986, all stock options are exercisable.

In January 1987, options to purchase 200,500 shares of Common Stock were granted under the Plan at a price of \$8.875 per share, the market value on the date of grant.

Non-Statutory Stock Options

As an inducement essential to Mr. 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 Mr. Wolf as Chairman of the Board, President, Chief Executive Officer and a director 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 request 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, the Board of Directors of Tiger International granted Mr. Wolf a stock option to purchase 250,000 shares of Common Stock at \$5.25 per share (the market value on the date of grant). In addition, the Board of Directors of Flying Tigers granted Mr. Wolf a stock option to purchase 1,000,000 shares of Flying Tiger's Common Stock at \$5.45 per share (the fair value on the date of grant). Mr. Wolf's stock options are exercisable in three installments through August 8, 1996. The first installment representing 25% of the shares covered by

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

each option is exercisable immediately; the second installment representing 25% of the shares covered by each option is exercisable on the first anniversary of the date of such options; and the third installment representing 50% of the shares covered by each option is exercisable after August 8, 1988. Under certain circumstances, Mr. Wolf may also transfer his rights under his stock options to an underwriter and has the right to request the registration of the sale of the shares acquired upon exercise of his stock options. Mr. Wolf was elected a director of Tiger International on August 8, 1986 and Chairman of the Board, President, and Chief Executive Officer of Tiger International on January 22, 1987.

Warrants

Pursuant to an Exchange Offer completed in September 1983, Tiger International issued, in registered form, 3,212,946 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 the 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 in principal 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 in principal to grant to participating employees a profit participation, warrants to purchase approximately 1.8 million shares of Flying Tigers' Common Stock, and the right to designate one member of Flying Tigers' Board of Directors. In the event there is no active market for the common stock of Flying Tigers, Tiger International may be required 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.

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.

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On March 5, 1987, North American and the Official Committee of Unsecured Creditors representing certain unsecured creditors of North American in the North American bankruptcy proceedings delivered to Tiger International a draft complaint marked "Draft for Settlement Discussion Purposes Only" (the "draft complaint") asserting claims against Tiger International and certain former directors of North American, some of whom were also directors of Tiger International. The draft 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 Notes), the North American Restructuring Agreement and the GECC Management Transaction referred to in "Note 1 — Discontinued Operations — North American". Though no lawsuit has yet been filed in respect of these claims, the draft complaint states that the claims against Tiger International would be based on the principal theories that:

- (1) the funds transfers were intended to defraud creditors of North American;
- (2) the funds transfers were made without fair consideration in the face of North American's insolvency, or themselves rendered North American insolvent;
- (3) Tiger International controlled and dominated North American and, in so doing, grossly abused North American's property and assets and separate corporate existence for the benefit of Tiger International and its other subsidiaries as reflected in the foregoing funds transfers, the GECC Management Transaction and the North American Restructuring Agreement referred to in "Note 1 — Discontinued Operations — North American";
- (4) Tiger International violated the Racketeer Influenced and Corrupt Organizations provisions of the Organized Crime Control Act of 1970 by causing the funds transfers; and
- (5) the foregoing transfers and transactions involved breaches of fiduciary duty owed by Tiger International to North American.

These claims against Tiger International assert that the foregoing transfers aggregate approximately \$217 million, and seek payment of that amount by Tiger International to North American, as well as (i) interest accruing on the funds transfers from the dates thereof, (ii) additional substantial sums to compensate North American for consequential damages caused by the alleged misconduct including, but not limited to, an amount sufficient to pay all unsatisfied creditors claims allowed in the North American bankruptcy proceedings and (iii) at least \$300 million in punitive damages.

The \$217 million of alleged transfers (which includes the \$133 million in advances represented by the Tiger International Notes) is net of an alleged \$20 million credit for a reduction in the amount required to be paid by North American to the North American Bank Lenders but no credit is given for the Tiger Note Cash Proceeds (approximately \$49.9 million), the New Tiger International Note (approximately \$96.9 million in principal amount), or the security for repayment of the New Tiger International Note (the Stock Pledge and the Pledged Shares), all of which were transferred by North American to the Collateral Agent in partial satisfaction of North American's obligations to the North American Bank Lenders.

If a complaint is filed, Tiger International will defend vigorously against the foregoing claims. Preliminary discussions regarding the possible settlement of these claims against Tiger International have taken place. Though no assurances can be given as to whether a settlement will be reached or, if so, as to the terms thereof, or, failing a settlement, as to the outcome of any litigation that might be instituted in respect of such claims, the management of Tiger International believes that it has meritorious defenses against the claims.

Alter ego claims against Tiger International arising out of the North American bankruptcy have been asserted in the following pending lawsuits: *Mecanoexportimport 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).

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The plaintiff in *Mecanoexportimport* is a trading company owned by the Socialist Republic of Romania. The individual defendants include former officers and employees of North American. The suit alleges that North American improperly obtained proceeds of certain letters of credit plaintiff provided in connection with the sale of certain railcar kits to North American. It further alleges that North American improperly refused to purchase additional railcar kits. The suit contains 22 counts which appear to allege claims for breach of contract, fraud, breach of fiduciary duty, conversion and possibly other claims.

Tiger International is sued as North American's alter ego based on allegations that Tiger International through Tiger Leasing Group owned all of the stock of North American; that Tiger International exercised total control and dominion over the affairs of North American by interlocking directors; that Tiger International officers had signatory powers on North American bank accounts and drew funds from North American bank accounts without notice to North American; and that Tiger International intermingled its financial affairs with North American, including the transfer of North American's earnings to Tiger International.

The current complaint supersedes a complaint against North American that was stayed as a result of North American's bankruptcy proceedings in December 1984. As of March 19, 1987, no discovery has been conducted. The 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.

One of the individual defendants has asserted a claim for indemnity against Tiger International in the event of any judgment or settlement against him in the litigation. Tiger International has denied responsibility to indemnify the officers and directors of North American and has indicated an intention to defend vigorously against any such claims of indemnity by North American officers and directors.

The *Hunter-Keith* suit involves two consolidated actions. *Hunter-Keith* is a syndicator of transportation equipment. *Hunter-Keith* filed a first action on June 9, 1983, against North American seeking specific performance of an agreement to purchase certain pressure-differential railcars from North American (the "specific performance action"). Plaintiff obtained a temporary restraining order against the sale by North American of either the railcars or the right to manage the railcars.

On August 7, 1984, the plaintiff filed a second complaint against GECC and the former president of North American, alleging that North American violated the temporary restraining order by granting certain management rights to the railcars to GECC and by granting certain liens to First National Bank of Chicago. The complaint further alleged that GECC interfered with North American's performance of the alleged purchase agreement and that GECC's transactions with North American violated the antitrust laws.

The commencement of North American's Chapter 11 bankruptcy proceedings on December 5, 1984, (see "Note 1 — Discontinued Operations — North American") automatically stayed the actions relating to North American. The two lawsuits were consolidated on December 10, 1984.

On December 19, 1985, the plaintiff in *Hunter-Keith* was granted leave to amend its complaint to state claims against Tiger International and served Tiger International with a complaint on March 19, 1986.

Plaintiff's amended complaint against Tiger International alleges four causes of action, two of which claim that Tiger International has alter ego liability for North American's alleged obligations to plaintiff. The alter ego claims assert that Tiger International and North American had interlocking managements; that Tiger International controlled North American; that Tiger International transferred more than \$300 million to Tiger International from North American; and that Tiger International otherwise mismanaged North American. The third cause of action alleges interference with contractual or prospective contractual advantage. The fourth cause of action alleges that Tiger International is a co-conspirator with GECC, North American and North American's former president in violating the antitrust laws by promoting

TIGER INTERNATIONAL, INC. AND SUBSIDIARIES
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GECC's monopolization of the management of pressure differential railcars. On the alter ego causes of action the plaintiff seeks payment of any damages in the specific performance action against North American; in the interference with contractual or prospective contractual advantage cause of action, plaintiff seeks approximately \$38,000,000; and on the antitrust cause of action, plaintiff seeks damages of \$38,000,000 to \$47,000,000, trebled. Tiger International intends to defend vigorously against the claims in this action.

Although no assurance can be given that Tiger International will prevail in either the *Mecanoexport-import* or *Hunter-Keith* lawsuits, Tiger International management believes that Tiger International has meritorious defenses to these actions.

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

Note 8 — Retirement Plans

Tiger maintains retirement plans for substantially all of its union and nonunion employees. The total employer cost for all pension plans was \$17,002,000 in 1986, \$13,651,000 in 1985 and \$9,846,000 in 1984. Of these amounts, \$13,809,000 in 1986, \$11,240,000 in 1985 and \$8,088,000 in 1984 were for union employee plans. The total costs include amortization of unfunded prior service costs over periods from 25 to 40 years. Tiger's policy is to fund part of the pension costs in the year in which they are accrued and the remainder in the following year.

The following table summarizes accumulated plan benefit information and plan net assets for Tiger's retirement plans as of the date of the most recent valuations.

	As of January 1	
	1986	1985
	(In thousands)	
Actuarial present value of accumulated plan benefits		
Vested.....	\$224,585	\$190,340
Non-vested.....	32,743	30,676
	<u>\$257,328</u>	<u>\$221,016</u>
Net plan assets including Company balance sheet accruals for benefits.....	<u>\$256,954</u>	<u>\$223,970</u>

The assumed rates of return on investments used to determine accumulated plan benefit information are adjusted annually to reflect changes in the rates set by the Pension Benefit Guaranty Corporation ("PBGC"). The PBGC rates were 4% to 8.75% and 4% to 9.75% as of January 1, 1986 and 1985, respectively. In 1985 and 1984, benefits were increased for certain of Tiger's plans pursuant to agreements with its labor unions. The assumption for valuation earnings used to calculate disability and survivor benefits for certain of the plans was decreased in 1985 and increased in 1986 to reflect amendments to the union contracts. In 1986, the method of calculating future spousal and disability benefits was changed from charging all such benefits to the past service liability to allocating them between past service liability and future normal cost. These changes did not significantly affect pension expenses in the years 1984 or 1985 and increased pension expenses \$1,710,000 in 1986. These changes increased the actuarial present value of accumulated plan benefits by approximately \$13,204,000 in 1986 and \$1,243,000 in 1985.

In addition to providing pension benefits, Tiger provides certain health care and life insurance benefits for retired employees. Substantially all of 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

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insurance benefits is recognized as an expense as claims are paid. For the years ended December 31, 1986, 1985, and 1984, these costs were not significant.

Tiger has a discretionary Executive Incentive Plan, approved by the stockholders in 1976. Amounts awarded under the plan for 1984 were \$714,000. No amounts were awarded for 1986 and 1985.

During 1985, the Financial Accounting Standards Board issued new standards on employers' accounting for pensions. For United States plans, companies are required to adopt the new expense and disclosure standards no later than 1987 and, in certain circumstances, to reflect a minimum pension liability no later than 1989. These new standards will be adopted prospectively; thus the financial statements included herein will not be restated.

Tiger has not made a final determination of the effects which the anticipated changes in accounting may have on Tiger's financial position and results of operations.

Note 9 — Income Taxes

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 1984 provision of \$4,900,000 for income taxes associated with income from continuing operations primarily consists of deferred Federal income tax less the application of investment tax credits of approximately \$20,800,000. The 1984 loss from discontinued operations received an income tax benefit of \$4,900,000.

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>1986</u>	<u>1985</u>	<u>1984</u>
United States Federal income tax rate	(46.0%)	(46.0%)	46.0%
Investment tax credits	—	—	(42.4)
Permanent differences between book and tax income	—	—	4.0
Book losses not benefitted	46.0	46.0	—
State income taxes, net of Federal tax benefit, and other	—	—	2.4
Income tax provision (benefit) effective rate	— %	— %	10.0%

In 1984, Tiger utilized investment tax credit carryforwards to reduce the provision for income tax prior to the recognition of net operating loss carryforwards for financial statement reporting purposes.

In 1986 and 1985, 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 1984, 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 the North American liability and the Hall's sale as discussed in "Note 1 — Discontinued Operations."

For Federal income tax purposes, Tiger files a consolidated income tax return, and at December 31, 1986, the Tiger International tax consolidated group remains substantially unchanged from December 31, 1985. At December 31, 1986, and pending completion and filing of the consolidated tax return, Tiger estimates that it has available for Federal income tax purposes, in 1987 and subsequent years, net operating loss carryforwards ("NOL's") in excess of \$260 million and investment tax credits ("ITC's") of approximately \$44 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 \$275 million and ITC's of approximately \$24 million.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In addition, there are NOL's of approximately \$23,000,000 (for financial statement purposes only) and ITC's of approximately \$11,000,000 (for financial statement and Federal income tax purposes) which were acquired in connection with the acquisition of Seaboard. The ITC's expire primarily in 1993. To the extent such carryforwards are utilized for financial statement purposes in the future, the cost in excess of the fair value of net assets acquired will be adjusted to reflect the income tax benefit derived. All ITC's are subject to reduction of up to 35% under 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.

Note 10 — Details of Certain Accounts

Supplemental Consolidated Balance Sheet Information

	December 31	
	1986	1985
	(In thousands)	
Receivables, Net:		
Trade	\$149,617	\$169,415
Other	2,926	3,868
Less allowance for doubtful accounts and revenue adjustments	<u>(14,287)</u>	<u>(16,912)</u>
Receivables, net	<u>\$138,256</u>	<u>\$156,371</u>
Accounts Payable and Accrued Liabilities:		
Accounts payable	\$ 58,265	\$ 73,748
Accrued liabilities		
Payroll	8,291	9,886
Vacations	19,341	20,583
Interest	16,934	21,665
Income taxes	70	70
Taxes other than payroll and income taxes	15,565	3,784
Pensions	8,290	8,009
Other	<u>32,964</u>	<u>34,386</u>
Accounts Payable and Accrued Liabilities	<u>\$159,720</u>	<u>\$172,131</u>

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

Supplemental Consolidated Statement of Operations Information

	<u>1986</u>	<u>1985</u> (In thousands)	<u>1984</u>
Maintenance and repairs	<u>\$128,862</u>	<u>\$114,757</u>	<u>\$95,631</u>
Taxes other than payroll and income taxes.....	<u>\$ 15,736</u>	<u>\$ 9,486</u>	<u>\$ 7,937</u>
Amortization of cost in excess of fair value of acquired businesses	<u>\$ 1,608</u>	<u>\$ 1,608</u>	<u>\$ 1,608</u>
Advertising costs.....	<u>\$ 6,303</u>	<u>\$ 6,909</u>	<u>\$ 9,859</u>

Note 11 — Subsequent Events

As part of a proposed refinancing of its indebtedness, Flying Tigers filed a Pre-effective Amendment No. 2 to a Registration Statement on Form S-1 with the Securities and Exchange Commission on February 23, 1987. Flying Tigers proposes to sell 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 proceeds of the sale of the Trust Certificates would be used to repay a substantial portion of Flying Tiger's 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 and paying to certain creditors under the Flying Tigers Restructuring Agreements a premium of \$5,000,000 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 would be secured by title to four used B-747-200F aircraft owned by Flying Tigers.

Concurrent with the consummation of the sale of the Trust Certificates, approximately \$150,356,000 of purchase money indebtedness of the owner of four B-747-200F aircraft and four spare engines leased by Flying Tigers under capital leases is proposed to be refinanced by the owner of such equipment. The proposed refinancing would decrease the cost to Flying Tigers of leasing such equipment.

The application of the Trust Certificate proceeds as described above would repay a substantial portion of the Flying Tigers' indebtedness that is presently subject to the Flying Tigers Restructuring Agreements, which will be terminated concurrently with the repayment of such indebtedness. Such termination, the repayment of indebtedness and the refinancing thereof with the proceeds of the Trust Certificates is intended to reduce Flying Tigers' principal obligations due in the near future, to relieve Flying Tigers from the requirement under the Flying Tigers Restructuring Agreements to make quarterly payments of both deferred and matured principal and interest and contingent interest and to remove certain operational and other restrictions imposed on Flying Tigers by the Flying Tigers Restructuring Agreements.

After the termination of Flying Tigers' Restructuring Agreements, Flying Tigers' will be permitted to pay dividends and make advances to Tiger International, but the provisions of certain continuing and new debt obligations will limit such dividends and advances.

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)			
1986				
Revenues	<u>\$263,173</u>	<u>\$261,336</u>	<u>\$286,613</u>	<u>\$299,826</u>
Net Income (Loss).....	<u>\$(34,156)</u>	<u>\$(22,830)</u>	<u>\$ 1,524</u>	<u>\$ 10,399</u>
Income (Loss) Per Share	<u>\$ (1.11)</u>	<u>\$ (.74)</u>	<u>\$.05</u>	<u>\$.33</u>
1985				
Revenues	<u>\$269,971</u>	<u>\$279,246</u>	<u>\$283,883</u>	<u>\$313,945</u>
Loss from Continuing Operations	<u>\$ (4,725)</u>	<u>\$(10,165)</u>	<u>\$(23,266)</u>	<u>\$(19,031)</u>
Loss from Discontinued Operations	<u>—</u>	<u>—</u>	<u>—</u>	<u>(15,500)</u>
Net Loss	<u>\$ (4,725)</u>	<u>\$(10,165)</u>	<u>\$(23,266)</u>	<u>\$(34,531)</u>
Loss Per Share —				
Continuing	<u>\$ (.21)</u>	<u>\$ (.40)</u>	<u>\$ (.77)</u>	<u>\$ (.62)</u>
Discontinued	<u>—</u>	<u>—</u>	<u>—</u>	<u>(.51)</u>
Total	<u>\$ (.21)</u>	<u>\$ (.40)</u>	<u>\$ (.77)</u>	<u>\$ (1.13)</u>
1984				
Revenues	<u>\$276,309</u>	<u>\$293,623</u>	<u>\$313,321</u>	<u>\$326,637</u>
Income (Loss) from Continuing Operations.....	<u>\$ (3,047)</u>	<u>\$ 2,384</u>	<u>\$ 16,507</u>	<u>\$ 28,361</u>
Loss from Discontinued Operations	<u>(3,949)</u>	<u>(1,690)</u>	<u>(6,903)</u>	<u>(120,603)</u>
Income (Loss) Before Extraordinary Item	<u>(6,996)</u>	<u>694</u>	<u>9,604</u>	<u>(92,242)</u>
Extraordinary Item	<u>—</u>	<u>—</u>	<u>3,100</u>	<u>(3,100)</u>
Net Income (Loss).....	<u>\$ (6,996)</u>	<u>\$ 694</u>	<u>\$ 12,704</u>	<u>\$(95,342)</u>
Income (Loss) Per Share —				
Continuing	<u>\$ (.15)</u>	<u>\$.11</u>	<u>\$.78</u>	<u>\$ 1.32</u>
Discontinued	<u>(.19)</u>	<u>(.08)</u>	<u>(.33)</u>	<u>(5.61)</u>
Extraordinary Item	<u>(.34)</u>	<u>.03</u>	<u>.45</u>	<u>(4.29)</u>
Total	<u>\$ (.34)</u>	<u>\$.03</u>	<u>\$.60</u>	<u>\$ (4.43)</u>

Continuing Operations

The seasonal fluctuations in the transportation business and fluctuations in foreign exchange rates are reflected in the above summary.

The third quarter of 1984 includes pretax gains of \$13,100,000 from the sale of DC-8 aircraft and an extraordinary credit \$3,100,000 (\$.15 per share) resulting from the utilization of operating loss carry-forwards. The fourth quarter of 1984 includes pretax gains of \$3,300,000 from the sale of DC-8 aircraft.

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.

Discontinued Operations

The third quarter of 1984 includes a pretax charge for interest expense of \$9,800,000 on Tiger International's \$132,151,000 liability to North American. The fourth quarter of 1984 losses for discontinued operations includes the write off of the investment in North American and losses associated with the sale of Hall's.

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.

Item 9. Disagreements on Accounting and Financial Disclosure.

A report of Form 8-K was filed with the SEC on April 11, 1986 covering a change in Tiger's certifying accountant. The change was not a result of a disagreement with such certifying accountant.

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.....	66
Schedule III — Condensed Parent Company Financial Data	68
Schedule V — Property and Equipment.....	71
Schedule VI — Accumulated Depreciation and Amortization of Property and Equipment	72
Schedule VIII — Valuation and Qualifying Accounts and Reserves	73

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
Number

Description of Exhibit

- 3.1 — Restated Certificate of Incorporation of Tiger International, Inc. dated May 20, 1981, filed as Exhibit 3.1 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 3.2 — Certificate of Amendment, dated July 9, 1984, to Restated Certificate of Incorporation of Tiger International, Inc., filed as Exhibit 3.3, to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 3.3 — Form of Certificate of Determination of Preferences of Tiger International, Inc., filed as Exhibit 3.7 to Tiger International Inc.'s Registration Statement on Form S-1, Registration No. 2-95706, filed with the Securities and Exchange Commission on February 7, 1985 and which hereby is incorporated by reference.
- 3.4 — By-Laws of Tiger International Inc. as amended on November 13, 1985.
- 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, filed as Exhibit 4.1 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 4.2 — Indenture for 8%% 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, filed as Exhibit 4.2 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 4.3 — Warrant Agreement between Tiger International, Inc. and Midlantic National Bank dated as of July 1, 1983, filed as Exhibit 4.3 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 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, filed as Exhibit 4.4 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 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, filed as Exhibit 4.8 to Tiger International, Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1983, filed with the Securities and Exchange Commission, and which hereby is incorporated by reference.
- 4.6 — Form of July Warrant to purchase shares of Common Stock of Tiger International, Inc., filed as Exhibit 4.6 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 4.7 — Indenture dated as of September 1, 1980, between Tiger International, Inc. and Crocker National Bank, as Trustee, filed as Exhibit 2(b) to Tiger International, Inc.'s Registration Statement on Form S-16, Registration No. 2-68885, filed with the Securities and Exchange Commission, on August 20, 1980, and which hereby is incorporated by reference.

Exhibit
Number

Description of Exhibit

- 4.8 — Indenture, dated as of September 1, 1980, between Tiger International, Inc. and Bankers Trust Company, as Trustee, filed as Exhibit 6.2.2 to Tiger International, Inc.'s Registration Statement on Form S-14, Registration No. 2-68788, filed with the Securities and Exchange Commission on August 11, 1980 and which hereby is incorporated by reference.
- 4.9 — Indenture dated as of April 1, 1966 between Seaboard World Airlines, Inc. and Schroeder Trust Company, Trustee, as supplemented by the First Supplemental Indenture, dated as of September 30, 1980 between Tiger International, Inc., Seaboard World Airlines, Inc. and J. Henry Schroeder Bank and Trust Company, formerly called Schroeder Trust Company, as Trustee, filed as Exhibit 4.1 to The Flying Tiger Line Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1980 filed with the Securities and Exchange Commission on March 20, 1981 and which hereby is incorporated by reference.
- 4.10 — Forms of Stock Purchase Warrant issued on March 20, 1984 to purchase shares of Common Stock of Tiger International, Inc., filed as Exhibit 4.10 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 4.11 — 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., filed as Exhibit 4.11 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 4.12 — Forms of Stock Purchase Warrant issued on June 20, 1984 to purchase shares of Common Stock of Tiger International, Inc., filed as Exhibit 4.12 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 4.13 — Equipment Trust Agreement dated as of October 1, 1976, between The Bank of New York, as Trustee, and The Flying Tiger Line Inc., filed as Exhibit 4.13.(a) to Tiger International Inc.'s Registration Statement on Form S-1, Registration Number 2-95706, filed with the Securities and Exchange Commission on February 7, 1985 and which hereby is incorporated by reference.
- 4.14 — Forms of Stock Purchase Warrant issued on September 20, 1984 to purchase shares of Common Stock of Tiger International, Inc., filed as Exhibit 4.15.(a) to Tiger International, Inc.'s Registration Statement on Form S-1, Registration Number 2-95706, filed with the Securities and Exchange Commission on February 7, 1985 and which hereby is incorporated by reference.
- 4.15 — Instruments with respect to issue of long-term debt which are not registered have not been filed as exhibits as the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Tiger International, Inc. 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 — Purchase and Loan Agreement between General Electric Credit Corporation and North American Car Corporation dated September 7, 1983, filed as Exhibit 10.1 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.2 — First Amendment to Purchase and Loan Agreement between General Electric Credit Corporation and North American Car Corporation dated December 5, 1983, filed as Exhibit 10.2 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.

**Exhibit
Number**

Description of Exhibit

- 10.3 — North American Car Corporation Amended and Restated Master Credit Terms Agreement among North American Car Corporation, Creditors of North American Car Corporation and First National Bank of Chicago, as Collateral Agent, dated as of December 6, 1983, filed as Exhibit 10.3 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.4 — North American Car Corporation Intercreditor Agreement between the Creditors of North American Car Corporation and First National Bank of Chicago, as Collateral Agent, dated as of September 8, 1983, filed as Exhibit 10.4 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.5 — Tiger International Agreement among Tiger International, Inc., Creditors of North American Car Corporation and First National Bank of Chicago, as Collateral Agent, dated as of December 6, 1983, filed as Exhibit 10.5 to Tiger International, Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1983, filed with the Securities and Exchange Commission, and which hereby is incorporated by reference.
- 10.6 — Tiger Note, principal amount of up to \$10,000,000, from Tiger International, Inc. to North American Car Corporation dated September 30, 1983, filed as Exhibit 10.6 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.7 — Tiger Note, principal amount of \$132,154,622, from Tiger International, Inc. to North American Car Corporation dated as September 30, 1983, filed as Exhibit 10.7 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.8 — 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, filed as Exhibit 10.8 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.9 — Tiger Leasing Group Note, principal amount of \$81,261,000 from Tiger Leasing Group, Inc. to North American Car Corporation dated September 30, 1983 filed as Exhibit 10.9 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.10 — Pledge Agreement between North American Car Corporation and First National Bank of Chicago dated September 8, 1983, filed as Exhibit 10.12 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.11 — General Security Agreement between North American Car Corporation and First National Bank of Chicago dated September 8, 1983, filed as Exhibit 10.13 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
- 10.12 — Credit Agreement among The Flying Tiger Line Inc., Private Lenders and Chase Manhattan Bank, as agent for the Private Lenders, dated as of September 30, 1983, filed as Exhibit 10.15.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.13	— Override Agreement among The Flying Tiger Line Inc., Tiger International, Inc. and Private Lenders dated as of December 21, 1983, filed as Exhibit 10.16 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
10.14	— First Amendment to Override Agreement among The Flying Tiger Line Inc., Tiger International, Inc. and Private Lenders dated as of December 21, 1983, filed as Exhibit 10.17 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
10.15	— Chattel Mortgage, Pledge Agreement and Security Agreement between The Flying Tiger Line Inc. and United States Trust Company of New York dated as of September 30, 1983, filed as Exhibit 10.18 to Tiger International, Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1983, filed with the Securities and Exchange Commission, and which hereby is incorporated by reference.
10.16	— Warrant Agreement between Tiger International, Inc. and Private Lenders dated as of September 30, 1983, filed as Exhibit 10.19 to Tiger International, Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1983, filed with the Securities and Exchange Commission, and which hereby is incorporated by reference.
10.17	— Tiger Note, principal amount of up to \$5,349,000, from Tiger International, Inc. to The Flying Tiger Line Inc. dated December 30, 1983, filed as Exhibit 10.21 to Tiger International, Inc.'s Registration Statement on Form S-1, Registration No. 2-88929, filed with the Securities and Exchange Commission on January 17, 1984 and which hereby is incorporated by reference.
10.18	— Supplemental Retirement Income Plan, as amended, between Tiger International, Inc. and Wayne M. Hoffman dated December 13, 1977, filed as Exhibit 10.1 to Tiger International, Inc.'s annual report on Form 10-K for the fiscal year ended December 31, 1980, filed with the Securities and Exchange Commission on March 23, 1981 and which hereby is incorporated by reference.
10.19	— 1981 Key Employees Stock Option Plan for Tiger International, Inc. and subsidiaries, filed as Exhibit "A" to Tiger International, Inc.'s Proxy Statement, filed with the Securities and Exchange Commission on April 30, 1981 and which hereby is incorporated by reference.
10.20	— Form of Preferred Stock Note filed as Exhibit 10.28 to Tiger International Inc.'s Registration Statement on Form S-1, Registration Number 2-95706, filed with the Securities and Exchange Commission on February 7, 1985 and which hereby is incorporated by reference.
10.21	— Form of Company Note filed as Exhibit 10.29 to Tiger International Inc.'s Registration Statement on Form S-1, Registration Number 2-95706, filed with the Securities and Exchange Commission on February 7, 1985 and which hereby is incorporated by reference.
10.22	— Note Exchange and Payment Agreement among Tiger International, Inc., North American Car Corporation, and the Collateral Agent, and Exhibits A to I thereto, dated as of May 7, 1985.*
10.23	— Secured Tiger Note, between Tiger International, Inc. and North American Car Corporation, dated as of February 22, 1985.*
10.24	— Stock Pledge Agreement and Assignment, among Tiger International, Inc., North American Car Corporation and the Collateral Agent, dated as of May 21, 1985.*
10.25	— Assignment of 8,549,067 shares of Common Stock of the Flying Tiger Line Inc., pursuant to Stock Pledge Agreement and Assignment.*

* This document, which was filed with the Securities & Exchange Commission as an exhibit to Tiger International's Annual Report on Form 10K for the year ended December 31, 1985, is hereby incorporated by reference.

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.26	— Flying Tiger Line Stock Agreement, among the Flying Tiger Line Inc., North American Car Corporation and the Collateral Agent, dated as of May 21, 1985.*
10.27	— Cash Proceeds Agreement, between North American Car Corporation and the Collateral Agent, dated as of May 21, 1985.*
10.28	— Certificate of Ownership of 8,549,067 shares of Common Stock of the Flying Tiger Line Inc., dated May 3, 1985.*
10.29	— Agreement between Tiger International, Inc., Hall's Motor Transit Company and Hall's Acquisition Corporation, dated December 13, 1985.*
10.30	— Receipt and Acknowledgement by Hall's Acquisition Corporation of twenty-five shares of Hall's Motor Transit Company Capital Stock.*
10.31	— Certificate of Ownership of twenty-five shares of Capital Stock of Hall's Motor Transit Company.*
10.32	— Assignment Separate from Certificate by Tiger International, Inc. of twenty-five shares of Capital Stock of Hall's Motor Transit Company.*
10.33	— Employment Agreement between Tiger International, Inc. and Robert P. Jensen, dated September 13, 1985.*
10.34	— Stock Option to Purchase Common Stock of Tiger International, Inc., for Robert P. Jensen, dated as of August 28, 1985.*
10.35	— Severance Compensation Agreement between Tiger International, Inc., and Robert J. Harter, dated as of August 2, 1985.*
10.36	— Proposed Asset Purchase Agreement between North American Car Corporation, et al. and General Electric Credit Corporation dated February 14, 1986, together with all Exhibits and Schedules thereto.*
10.37	— Tax Allocation Agreement, between Tiger International, Inc. and Members of the group of affiliated corporations within the meaning of Section 1504(a) of the Internal Revenue Code of 1954 (as amended) dated as of December 20, 1977.*
10.38	— Proposed Settlement Agreement between Tiger International, Inc. and North American Car Corporation, relating to the tax benefit account of North American Car Corporation, together with all Exhibits thereto.*
22	— List of subsidiaries of Tiger International, Inc. filed as Exhibit 22 to Tiger International, Inc. Registration Statement on Form S-1, as amended, Registration No. 2-94413, filed with the Securities and Exchange Commission on November 19, 1984 and which hereby is incorporated 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, 1986.

* This document, which was filed with the Securities & Exchange Commission as an exhibit to Tiger International's Annual Report on Form 10K for the year ended December 31, 1985, is hereby incorporated by 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 for the year then ended, we have also examined the consolidated schedules included in this Form 10-K as listed in Item 14(a).

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

ARTHUR YOUNG & COMPANY

Los Angeles, California
March 26, 1987

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

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

In connection with our examinations of the consolidated financial statements included in the Tiger International, Inc. and Subsidiaries' annual report to stockholders included in this Form 10-K, we have also examined the Financial Statement Schedules listed in the Index to Item 14(a). Our examinations of the consolidated financial statements were 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 examinations 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		
	1986	1985	1984
	(In thousands)		
Condensed Statement of Operations:			
Revenues	\$ 779	\$ 988	\$ 840
Costs and expenses	29,515	17,606	15,009
Deferred income tax provision (benefit), net	<u>(1,191)</u>	<u>(1,667)</u>	<u>3,387</u>
	28,324	15,939	18,396
Loss before equity in earnings (losses) of subsidiaries	(27,545)	(14,951)	(17,556)
Equity in earnings (losses) of consolidated subsidiaries	<u>(17,518)</u>	<u>(42,236)</u>	<u>61,761</u>
Income (loss) from continuing operations	(45,063)	(57,187)	44,205
Losses and provision for losses on disposal of discontinued subsidiaries	<u>—</u>	<u>(15,500)</u>	<u>(133,145)</u>
Net loss	<u>\$ (45,063)</u>	<u>\$ (72,687)</u>	<u>\$ (88,940)</u>
Condensed Statement of Changes in Financial Position:			
Source of Funds			
Net loss	\$ (45,063)	\$ (72,687)	\$ (88,940)
Equity in (earnings) losses of consolidated subsidiaries	17,518	42,236	(61,761)
Other, net	<u>13,351</u>	<u>2,052</u>	<u>695</u>
Funds used by continuing operations	(14,194)	(28,399)	(150,006)
Equity of discontinued subsidiaries	<u>—</u>	<u>15,500</u>	<u>(3,906)</u>
Funds used by Parent Company operations	(14,194)	(12,899)	(153,912)
Refinancing of Note Payable to North American Car	<u>—</u>	<u>96,911</u>	<u>—</u>
Dividends and return of capital from subsidiary	11,974	—	—
Proceeds from issuance of stock and debt	<u>6,516</u>	<u>67,896</u>	<u>6,516</u>
Funds Provided (Used)	<u>4,296</u>	<u>151,908</u>	<u>(147,396)</u>
Application of Funds			
Increase (decrease) in investments, notes, advances or other	<u>4,298</u>	<u>(124)</u>	<u>(2,481)</u>
Funds Applied	4,298	(124)	(2,481)
Net increase (decrease) in working capital	<u>\$ (2)</u>	<u>\$ 152,032</u>	<u>\$ (144,915)</u>

See accompanying notes to condensed parent company financial data.

TIGER INTERNATIONAL, INC.
CONDENSED BALANCE SHEET

A S S E T S

	December 31	
	1986	1985
	(In thousands)	
Cash.....	\$ 8,695	\$ 9,223
Other current assets.....	91	176
	<u>8,786</u>	<u>9,399</u>
Investments in subsidiaries:		
The Flying Tiger Line Inc.	197,816	216,267
Warren Transport, Inc.	18,830	29,871
	<u>216,646</u>	<u>246,138</u>
Property and equipment, net.....	318	938
Investments and other.....	2,353	1,875
	<u>\$228,103</u>	<u>\$258,350</u>
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities.....	\$ 4,510	\$ 5,121
Long-term obligations:		
Debentures(1).....	63,385	61,305
Note Payable to North American.....	118,921	107,245
	<u>182,306</u>	<u>168,550</u>
Net payables to subsidiaries:		
The Flying Tiger Line Inc.	74,946	74,855
Warren Transport, Inc.	(863)	2,974
	<u>74,083</u>	<u>77,829</u>
Deferred credits and other.....	8,343	9,442
Stockholders' equity(2).....	(41,139)	(2,592)
	<u>\$228,103</u>	<u>\$258,350</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 1985.

(2) Includes Common Stock at a cost of \$2,021,000 and \$1,870,000 at December 31, 1986 and 1985 held by Flying Tigers.

See accompanying notes to condensed parent company financial data.

TIGER INTERNATIONAL, INC.

Notes to Condensed Parent Company Financial Data

Restrictions on the Transfer of Funds From Subsidiaries to the Parent

At December 31, 1986, Warren Transport is free from restrictions limiting dividends and advances to Tiger International. In connection with the debt restructuring agreements, The Flying Tiger Line Inc. is prohibited from advancing funds to Tiger International, Inc. See "Note 4 — Long-Term Debt" and "Note 11 — Subsequent Events" 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 1984, Tiger International did not receive any dividends from its subsidiaries.

Parent Company Debt

Included in parent company long-term obligations is \$14.1 million of 11½% Debentures due October 1995 and \$20.8 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."

New Tax Sharing Agreement

Subject to the obtaining of any required lenders' consents, 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 will be accomplished by the payment by Tiger International to Flying Tigers of \$74,946,000 of Tiger International's notes ("New Tiger Notes"). Subsequent to the completion of the proposed refinancing and the termination of the Flying Tigers' Restructuring Agreements, it is contemplated that Flying Tigers will declare a dividend to its stockholders of the New Tiger Notes. Upon payment of the New Tiger Notes dividend, Tiger International and Flying Tigers will have no further obligation to each other under the tax allocation agreement or the intercompany notes.

TIGER INTERNATIONAL, INC. AND SUBSIDIARIES

SCHEDULE V — PROPERTY AND EQUIPMENT

For the Three Years Ended December 31, 1986

	<u>Balance at Beginning of Period</u>	<u>Additions</u>	<u>Retirements or Sales</u>	<u>Transfers, Adjustments and Other(1)</u>	<u>Balance at End of Period</u>
	(In thousands)				
Year Ended December 31, 1984					
Equipment used in operations:					
Equipment used in air cargo operations.....	\$ 916,360	\$ 9,245	\$108,603	\$ (3,825)	\$ 813,177
Equipment used in trucking operations.....	<u>54,583</u>	<u>1,425</u>	<u>8,294</u>	<u>(41,061)</u>	<u>6,653</u>
	970,943	10,670	116,897	(44,886)	819,830
Buildings and leasehold improvements.....	88,690	5,399	2,831	(37,307)	53,951
Terminal facilities and other.....	81,715	2,778	5,073	(5,919)	73,501
Construction in process.....	28,884	29,767	56,070	—	2,581
	<u>\$1,170,232</u>	<u>\$48,614</u>	<u>\$180,871</u>	<u>\$ (88,112)</u>	<u>\$ 949,863</u>
Year Ended December 31, 1985					
Equipment used in operations:					
Equipment used in air cargo operations.....	\$ 813,177	\$17,230	\$ 19,201	\$ 1,678	\$ 812,884
Equipment used in trucking operations.....	<u>6,653</u>	<u>394</u>	<u>37</u>	<u>171</u>	<u>7,181</u>
	819,830	17,624	19,238	1,849	820,065
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>
Year Ended December 31, 1986					
Equipment used in operations:					
Equipment used in air cargo operations.....	\$ 812,884	\$ 4,012	\$ 3,583	\$ 585	\$ 813,898
Equipment used in trucking operations.....	<u>7,181</u>	<u>1,142</u>	<u>74</u>	<u>71</u>	<u>8,320</u>
	820,065	5,154	3,657	656	822,218
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>

(1) Includes \$88 million related to discontinued operations for 1984.

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

For the Three Years Ended December 31, 1986

	Balance at Beginning of Period	Additions	Retirements or Sales (In thousands)	Transfers, Adjustments and Other(1)	Balance at End of Period
Year Ended December 31, 1984					
Equipment used in operations:					
Equipment used in air cargo operations.....	\$ 309,541	\$ 53,900	\$ 78,405	\$ 4,011	\$ 289,047
Equipment used in trucking operations.....	27,248	7,577	2,474	(29,484)	2,867
	336,789	61,477	80,879	(25,473)	291,914
Buildings and leasehold improvements	23,323	4,363	847	(6,948)	19,891
Terminal facilities and other	41,215	7,556	3,651	(3,744)	41,376
	<u>\$401,327</u>	<u>\$ 73,396</u>	<u>\$ 85,377</u>	<u>\$ (36,165)</u>	<u>\$353,181</u>
Year Ended December 31, 1985					
Equipment used in operations:					
Equipment used in air cargo 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>
Year Ended December 31, 1986					
Equipment used in operations:					
Equipment used in air cargo 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>

(1) Includes \$39 million related to discontinued operations for 1984.

TIGER INTERNATIONAL, INC. AND SUBSIDIARIES

SCHEDULE VIII — VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

For the Three Years Ended December 31, 1986

	Allowance for Doubtful Accounts and Revenue Adjustments	Inventories Allowance (In thousands)	Aircraft Overhaul Reserves
Balance at December 31, 1983.....	\$ 9,891	\$ 4,943	\$ 48,693
Additions (deductions) —			
Provisions charged to costs and expenses.....	31,205	2,235	43,836
Amounts charged to reserve.....	(28,819)	—	(39,328)
Transfers to discontinued operations.....	(325)	—	—
Other	—	—	(4,588)(1)
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
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.....	<u>\$ 14,287</u>	<u>\$ 6,196</u>	<u>\$ 63,013(2)</u>

(1) Consists primarily of the settlement of overhaul deposits and other related assets.

(2) Includes \$46,013,000 classified in accumulated depreciation and \$17,000,000 classified as other deferred credits.

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 & Treasurer

Date: March 26, 1987

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>
STEPHEN M. WOLF Stephen M. Wolf	Chairman of the Board, President, Chief Executive Officer and Director (Principal Executive Officer)	March 26, 1987
LARRY G. MORRIS Larry G. Morris	Senior Vice President — Chief Financial Officer (Principal Financial Officer)	March 26, 1987
JOSEPH K. McDONNELL Joseph K. McDonnell	Vice President — Controller and Treasurer (Principal Accounting Officer)	March 26, 1987
KELLY H. BURKE Kelly H. Burke	Director	March 26, 1987
GERALD R. FORD Gerald R. Ford	Director	March 26, 1987
LOWELL C. FREIBERG Lowell C. Freiberg	Director	March 26, 1987
CHARLES LUCKMAN Charles Luckman	Director	March 26, 1987
CHARLES T. MANATT Charles T. Manatt	Director	March 26, 1987

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>WILLIAM E. McKENNA</u> William E. McKenna	Director	March 26, 1987
<u>STEPHEN M. PECK</u> Stephen M. Peck	Director	March 26, 1987
<u>William F. Schmeid</u>	Director	March , 1987
<u>SAUL P. STEINBERG</u> Saul P. Steinberg	Director	March 26, 1987
<u>RALPH STRANGIS</u> Ralph Strangis	Director	March 26, 1987

Officers

Tiger International, Inc.

Stephen M. Wolf	Chairman of the Board, President and Chief Executive Officer
Robert J. Harter, Jr.	Senior Vice President – General Counsel and Secretary
Larry G. Morris	Senior Vice President – Chief Financial Officer
Joseph K. McDonnell	Vice President – Controller and Treasurer

The Flying Tiger Line Inc.

Stephen M. Wolf	Chairman of the Board, President and Chief Executive Officer
James A. Cronin	Senior Vice President – Marketing
Ronald D. Marasco	Senior Vice President – Operations
Larry G. Morris	Senior Vice President – Chief Financial Officer
Lawrence M. Nagin	Senior Vice President – Administration and General Counsel, Secretary
Paul A. Stokes	Senior Vice President – Pacific Division
Edwin H. Wallace	Senior Vice President – International Sales and Service
Thomas H. Barron	Vice President – Finance
Larry D. Goodwin	Vice President – Market Planning
Jack T. Kane	Vice President – Sales
Roy A. King	Vice President – Atlantic Division
Cyril D. Murphy	Vice President – International and Governmental Affairs
Donald E. Pritchett	Vice President – Flight Operations
Charles W. Thomson	Vice President – Human Resources

Warren Transport, Inc.

Robert J. Molinaro	President and Chief Executive Officer
Harold C. Andrews	Senior Executive Vice President – Assistant Secretary and Treasurer
Kenneth R. Nelson	Executive Vice President – Director of Marketing
Howard A. Peterson	Executive Vice President – Comptroller
Richard L. Donnelly	Vice President – Operations

Directors

Tiger International, Inc.

The Flying Tiger Line Inc.

Stephen M. Wolf	Chairman of the Board, President and Chief Executive Officer – Tiger International, Inc. and 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 Luckman	Founder – The Luckman Management Company (Architects)
Charles T. Manatt	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 F. Schmied	President and Chief Operating 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	Founding Member – Kaplan, Strangis & Kaplan (Law Firm)

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