

The Flying Tiger Corporation

1973 Annual Report

Financial Highlights	<i>Years Ended December 31</i>	
	1973	1972
Revenue (000)	\$292,242	\$257,211
Net Income (000)	\$ 34,503	\$ 29,810
Fully diluted earnings per share	\$ 2.68	\$ 2.28
Stockholders' equity (000)	\$198,691	\$166,337
Book value per common share	\$ 15.99	\$ 13.49
Return on average stockholders' equity	18.8%	19.6%
Cash dividends paid per common share	\$.20	\$ —

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The Flying Tiger Corporation

The Flying Tiger Corporation had an excellent year in 1973, reflecting the outstanding performances of The Flying Tiger Line Inc. and Tiger Leasing Group. Corporation fully diluted earnings per share were \$2.68, up 18 percent from \$2.28 in 1972. Revenue was \$292 million, an increase of 14 percent from \$257 million in 1972. Return on average stockholders' equity was 18.8 percent and 19.6 percent for 1973 and 1972, respectively.

Record net income of \$34.5 million was achieved, 52 percent of which was contributed by Tiger Leasing Group and 48 percent by Flying Tiger Line.

The highlight of the performance of The Flying Tiger Line Inc., our all-cargo airline subsidiary, was the growth in domestic business, up 48 percent to \$72 million. This was far in excess of the 14 percent growth of the domestic air freight industry overall. There are several reasons for this large increase. Our marketing studies pointed to a need for increased schedule frequencies which we implemented with great success. Furthermore, a strong domestic economy and a growing recognition of the value of air freight contributed to the business surge. In some markets competitive airlines cut all-cargo flights in an attempt to fill passenger plane bellies. This worked to our advantage.

International common carriage revenue increased nine percent to \$84.7 million. International trade and currency uncertainties were responsible for a relative weakness in the growth of traffic from Japan. This was offset in part by increased exports of U. S. merchandise, made more competitive by two devaluations of the U. S. dollar. Our traffic to and from the other important countries in Southeast Asia continued to grow.

International mail revenue increased 14 percent to \$23.2 million. The volume of international mail, the majority of which is military-related, was expected to decline as the Vietnam war wound down. However, we were able to increase our revenue by improving our service, thereby increasing our share of the available business, and by an increase in rates. Much military mail has the characteristics of business mail and

can be expected to continue as long as the various military headquarters are located in Asia.

Military Airlift Command (MAC) business declined 53 percent to \$15.6 million. Contributing less than nine percent of airline revenue and less than six percent of total corporate revenue, MAC is no longer an important factor in our business.

By the end of 1973, the energy crisis began to cause problems for Flying Tiger Line. At first, supply appeared to be our greatest concern. We completed the year, however, without having cancelled a flight for lack of fuel. As the energy crisis continued, the central problem became the price of fuel. As of March 1, 1974, the weighted average price of fuel for international commercial service was 42.9 cents per gallon, 249 percent above average 1973 prices; domestic prices averaged 22.3 cents per gallon, 68 percent above those in 1973.

While the impact of these jumps in our fuel cost hit us immediately, relief through rate increases was delayed. This lag effect is a problem with any regulated industry. Fortunately, the Civil Aeronautics Board recognized this problem and is attempting to minimize delays as much as possible.

The energy crisis will force the airline to adjust to higher fuel costs. But that adjustment will not alter the unique service that only air freight can provide.

With our leadership in the Pacific air freight market and our growth in market share domestically, Flying Tiger Line is well on its way to becoming the best and largest carrier of air freight in the world. A measure of the stature of Flying Tiger Line in the international aviation community is reflected in the election of Wayne M. Hoffman, the airline's chairman, to the executive committee of the International Air Transport Association, the principal rate and policy agency of world commercial aviation.

The record performance of North American Car Corporation, National Equipment Rental, Ltd., and their subsidiaries—now known collectively as Tiger Leasing Group—was most responsible for the improved performance of the entire company in 1973. The Leasing Group's results reflect increased penetration in existing markets and expansion into new geographical areas and lines of leasing. In 1973, North American Car, with a record capital budget of \$95 million, led the rail car leasing industry for the second year in a row in the placement of new rail cars on lease. National Equipment Rental, with \$60.4 million of industrial equipment and aircraft added to the lease portfolio in 1973, had the best year in its history.

\$35

\$3.00

\$29

\$2.40

\$23

\$1.80

\$17

\$1.20

\$11

\$.60

\$5

\$.00

\$-1

\$.60

Net Income (millions)

Net income for 1973, 52 percent contributed by Tiger Leasing Group and 48 percent by Flying Tiger Line, increased 16 percent from 1972. It represents an 18.8 percent return on average stockholders' equity.

- Fourth Quarter
- Third Quarter
- Second Quarter
- First Quarter

Earnings Per Share (dollars)

Fully diluted earnings per share increased 18 percent from 1972 to 1973. Per share earnings for 1969 to 1972 have been adjusted to reflect stock dividends and splits.

- Fourth Quarter
- Third Quarter
- Second Quarter
- First Quarter

1969 \$ 4.311

1969 \$.52

1970 \$10.528

1970 \$1.16

1971 \$20.378

1971 \$1.65

1972 \$29.810

1972 \$2.28

1973 \$44.503

1973 \$2.68

Of particular significance during 1973 were the growth and expansion of Tiger Leasing Group outside the United States.

The average number of rail cars leased by North American Car (Canada) Ltd. increased 19 percent to 5,246 cars, reflecting a significant increase in the demand for special fertilizer and lumber cars.

North American Car's newly organized, Paris-based European rail car subsidiary, NACCO, S.A., had approximately \$6 million of cars under lease or committed for lease at the end of 1973. Leasing and financing operations were expanded to Mexico and South America with the acquisition in 1973 of a rail car leasing company headquartered in Mexico City.

National Equipment Rental's Brussels-based subsidiary wrote leases in Europe covering 18 percent of National Equipment Rental's computer portfolio. Significantly, the nearly three year average term of these leases is more than double that of U.S. computer leases.

National Equipment Rental's establishment of an operation in Taiwan in early 1974 will permit us to offer a full range of leasing services to the many growing markets of Asia.

Rising interest rates adversely affected the earnings of the Leasing Group during 1973. However, increases in lease rates to compensate for higher costs as well as the probability that interest rates will continue to decline gradually in 1974 should enable Tiger Leasing Group to improve its profit margins in the near future.

In 1973, the Leasing Group adopted a more conservative method of accounting for investment credits attributable to the purchase of equipment for finance leases. This change in accounting method had the effect of deferring tax credits of approximately \$3.2 million which will be reflected in income in future years.

1974 will be another record year for Tiger Leasing Group. North American Car's capital budget is \$150 million, a 58

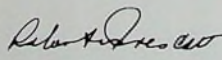
percent increase over 1973. New car leasing objectives for 1974 have already been substantially met, and leases are being written for deliveries well into 1975. National Equipment Rental's capital budget is \$45 million, 29 percent over 1973's \$35 million. These amounts do not include expenditures for rail cars under finance leases by North American Car nor for the purchase of aircraft by National Equipment Rental.

In 1974, Tiger Leasing Group will concentrate on coordinating its marketing and selling activities. The goal of the Leasing Group is to be the broadest-based leasing company in the world. This goal will be achieved through a combination of our financial expertise, thorough knowledge of lease equipment, and worldwide scope of operations.

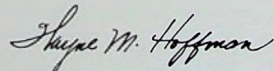
When we created The Flying Tiger Corporation in 1970, we stated our objectives: (1) to stabilize the relatively cyclical earnings of the airline, (2) to reduce our overall labor intensity in a period of high labor inflation, (3) to utilize tax deferrals to provide additional funds, and (4) to achieve these and other goals without sacrificing growth in revenue and profit.

With the acquisition of North American Car, National Equipment Rental, and the other companies that comprise Tiger Leasing Group, many of these objectives have been realized. In 1974, the effects of the energy crisis on the airline will be offset in part by the high level of business from Tiger Leasing Group. The portion of each dollar of revenue going to pay for the cost of labor has dropped from 29.3 percent in 1970 to 25.4 percent in 1973 for the total corporation. Furthermore, the combined enterprise has obtained tax deferrals which would otherwise not have been available.

As we look forward to 1974, the short term prospects for Flying Tiger Corporation are, of course, clouded by the effects of the energy crisis on Flying Tiger Line. Increased fuel costs will have a severe impact on earnings in the first quarter of 1974. We are confident, however, that adjustments to offset high fuel costs will soon reverse these effects to a substantial degree. When this is accomplished, Flying Tiger Corporation will continue its record of growth in revenue and profit.



Robert W. Prescott
Chairman of the Board



Wayne M. Hoffman
President and Chief Executive Officer

March 15, 1974

100%
80%
60%
40%
20%
0%

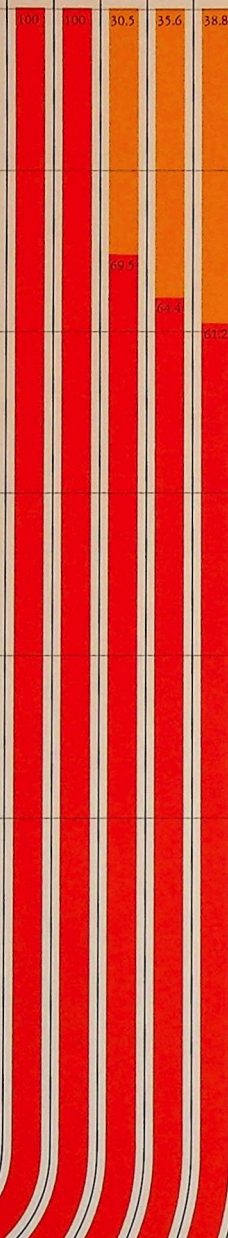
100%
80%
60%
40%
20%
0%

Sources of Revenue (percent)

Distribution of Revenue (percent)

- Leasing
- Airline

- Taxes
- Interest
- Net Income
- Depreciation and Maintenance
- Wages and Benefits
- Other



1969
1970
1971
1972
1973

1969
1970
1971
1972
1973

\$300

\$250

\$200

\$150

\$100

\$50

\$0

\$950

\$800

\$650

\$500

\$350

\$200

\$ 50

**Revenue
(millions)**

Total corporate revenue increased 14 percent from 1972 to 1973. Of the total, Flying Tiger Line contributed 61 percent and Tiger Leasing Group (North American Car and its subsidiaries) contributed 39 percent.

- Fourth Quarter
- Third Quarter
- Second Quarter
- First Quarter

**Assets
(millions)**

Total corporate assets increased 25 percent from 1972 to 1973. The major contributor to this growth was Tiger Leasing Group with its record expenditures for equipment to lease.

1969 \$ 98,321

1970 \$125,511

1971 \$209,550

1972 \$257,211

1973 \$292,242

1969 \$197,743

1970 \$210,746

1971 \$658,100

1972 \$715,904

1973 \$894,084

\$200

\$ 18

\$170

\$ 15

\$140

\$ 12

\$110

\$ 9

\$ 80

\$ 6

\$ 50

\$ 3

\$ 20

\$ 0

Stockholders' Equity
(millions)

The 19 percent increase in stockholders' equity from 1972 to 1973 results from 1973 net income of \$34.5 million and sales of stock through stock purchase and option plans, reduced by dividends on common and preferred shares and partial redemption of \$1.20 preferred stock.

Book Value Per Share
(dollars)

Book value per common share, up 19 percent from 1972 to 1973, is calculated by dividing stockholders' equity by the number of common shares outstanding (for 1971 and 1972, \$1.20 preferred shares are treated as if converted to common). At the end of 1973, the number of common shares outstanding was 12,425,511.

1969 \$ 42,903

1970 \$ 53,811

1971 \$134,673

1972 \$166,357

1973 \$198,691

1969 \$ 5.18

1970 \$ 6.47

1971 \$11.19

1972 \$13.49

1973 \$15.99

The Flying Tiger Line Inc.

The Flying Tiger Line added another excellent year to its record of growth.

Common carriage revenue grew 24 percent to \$156.7 million in 1973 and more than offset the 53 percent decrease in Military Airlift Command business to \$15.6 million.

Domestic operating profit (before interest and taxes) increased 216 percent to \$8.1 million in 1973 from \$2.6 million in 1972, more than four times the percentage increase in domestic revenue.

Flying Tiger Line led the domestic air freight industry in growth. Domestic common carriage revenue increased 48 percent to \$72 million in 1973 while the industry as a whole grew 14 percent. This growth in market share was achieved with a substantial increase in capacity. In winning this new business, the airline increased its domestic load factor without a drop in revenue per ton mile. Domestic business has continued to increase in 1974.

Domestic mail business grew 157 percent to \$4.9 million in 1973 from \$1.9 million the year before largely because of the successful containerized mail program pioneered by Flying Tiger Line and the United States Postal Service.

The airline led the industry in all-cargo Pacific crossings, retaining its position as a leading air cargo carrier between the United States and Asia.

International freight revenue continued to grow despite trade uncertainties which restricted the high growth rates enjoyed on the Pacific over the last several years. Transpacific freight revenue grew to \$61.9 million in 1973 from \$58 million in 1972, a seven percent increase. International revenue per ton

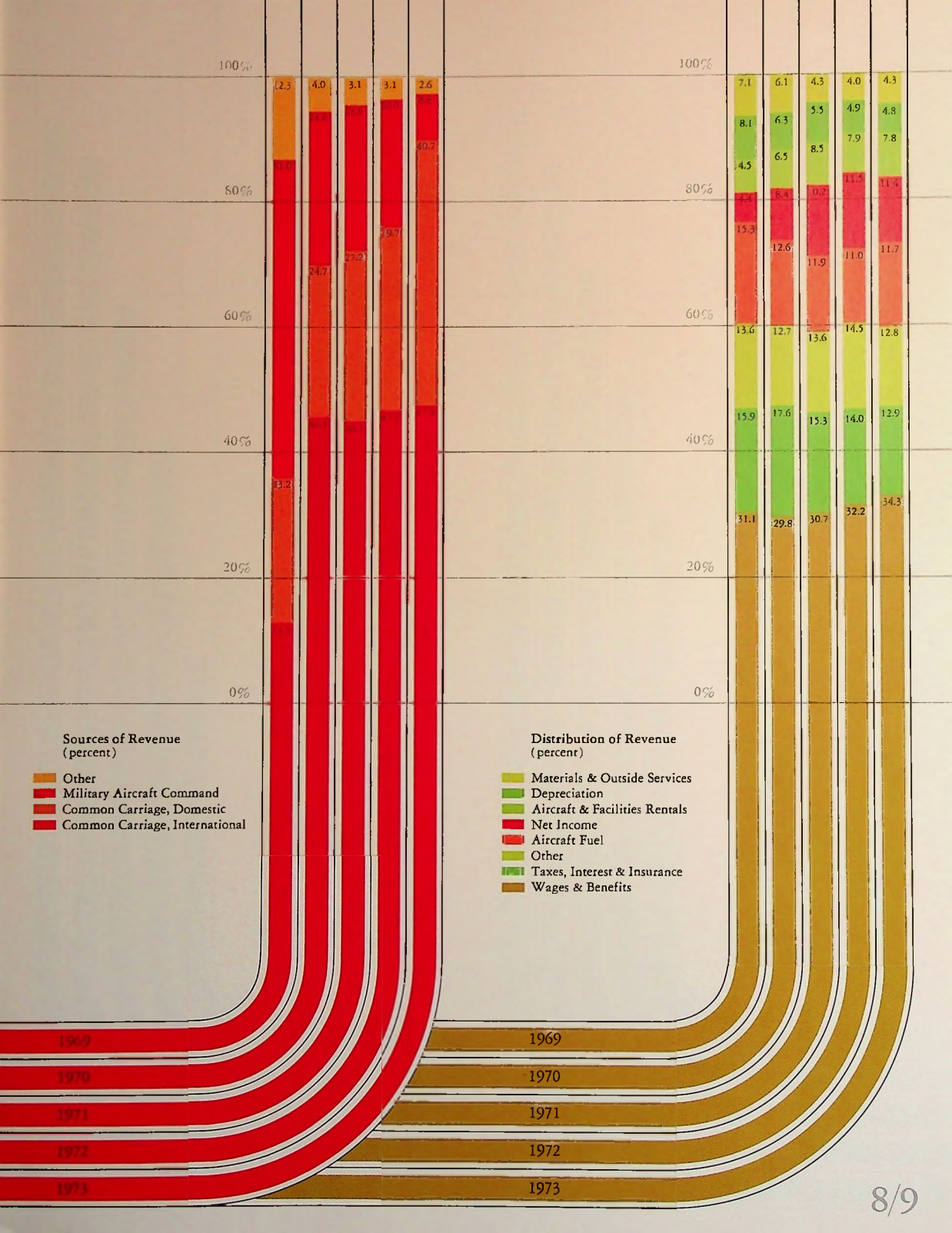
mile increased significantly to 19 cents in 1973 from 17.7 cents the year before. This was mainly the result of changes in the mix of goods shipped.

With the increase of exports from the United States to Asia, the directional flows of traffic across the Pacific were brought more into balance.

1973 was a year of expansion for Flying Tiger Line. Two DC8-63 aircraft, which had been on lease to other airlines, were placed in Tiger service at the beginning of October. This brought the operating fleet to 19 stretched freighters. Construction of the new \$6 million cargo facility at John F. Kennedy International Airport in New York progressed towards its planned completion in July 1974. The airline moved into its new terminal in Seoul, Korea. Plans were finalized for new facilities in Seattle and Portland and for expansion at the Boston and Chicago terminals. A new sales office was established in San Diego, and the Atlanta office was expanded.

At the end of 1973, the effects of the energy crisis on the supply and cost of fuel confronted Flying Tiger Line. While no flight was cancelled for lack of fuel in 1973, the impact of the fuel crisis is discernible in several areas. Increases in fuel costs of approximately \$835,000 adversely affected 1973 earnings in the fourth quarter. High fuel prices and limited supply in 1974 restricted the airline's ability to increase scheduled capacity over the levels of corresponding periods in 1973. Efforts to reduce expenses resulted in substantial personnel cuts which, to a limited extent, have been restored.

The airline believes that international fuel prices are at unrealistically high levels at present. While prices are expected to decline somewhat, it is unlikely they will ever return to early 1973 levels. Increased costs will have to be offset with increased freight rates and efficiency improvements. Experience shows that the air freight market is far more service-sensitive than price-sensitive. Rate increases will not affect the advantages air freight has over other modes of transportation. The airline will continue to emphasize service to its customers. This dedication to service is basic to Flying Tiger Line's record of growth.



\$180
\$160
\$140
\$120
\$100
\$80
\$60

\$21
\$18
\$15
\$12
\$9
\$6
\$3

**Revenue
(millions)**

Airline revenue increased eight percent from 1972 to 1973 despite a 53 percent drop in Military Airlift Command business to \$15.6 million in 1973. Domestic common carriage grew 48 percent to \$72 million from \$48.8 million. International common carriage increased nine percent to \$84.7 million from \$77.6 million.

**Net Income
(millions)**

These figures include the following equity in the net income of North American Car (25 percent owned by the airline):
1971—\$1.4 million;
1972—\$3.1 million;
1973—\$4.5 million.
Net income, excluding this equity (as shown on page 13), reflects an increase in the effective income tax rate from 46 percent in 1972 to 49 percent in 1973.

1969	\$ 96.893
1970	\$123.372
1971	\$144.247
1972	\$164.354
1973	\$176.928

1969	\$ 4.311
1970	\$10.328
1971	\$14.748
1972	\$18.922
1973	\$20.182

36
34
32
30
28
26
24

\$240
\$230
\$220
\$210
\$200
\$190
\$180

**Aircraft Miles Flown
(millions)**

Aircraft miles flown increased two percent from 1972 to 1973. Miles flown in scheduled domestic service grew 40 percent to 13,832,000 miles in 1973 from 9,879,000 miles in 1972. Miles flown in scheduled international service increased six percent to 14,016,000 miles from 13,279,000 miles.

**Assets
(millions)**

Almost the entire increase in assets from 1972 to 1973 was attributable to the \$21.3 million growth in current assets. At the end of 1973, the airline's current ratio (current assets divided by current liabilities) was 1.79:1 and its ratio of long-term debt to equity was 0.80:1.

1969	25.087
1970	28.046
1971	32.242
1972	33.441
1973	34.190

1969	\$197.743
1970	\$204.900
1971	\$217.828
1972	\$215.071
1973	\$235.876

The Flying Tiger Line Inc. and Subsidiaries

Condensed Financial Statements*

CONSOLIDATED BALANCE SHEETS

December 31, 1973 and 1972

<i>Assets</i>	1973	1972
	<i>(expressed in thousands)</i>	
Current Assets:		
Cash and certificates of deposit	\$ 23,097	\$ 7,989
Receivables—net	42,760	36,782
Other current assets	5,445	5,353
Total Current Assets	71,302	50,124
Investment in North American Car Corporation	26,970	22,505
Note Receivable from The Flying Tiger Corporation	9,000	9,000
Property and Equipment, at cost:		
Aircraft, engines and other flight equipment	133,246	132,268
Other equipment	8,617	7,961
Buildings and leasehold improvements	16,065	10,350
	157,928	150,579
Less—Reserves for depreciation and amortization	50,279	40,525
	107,649	110,054
Aircraft leased to others, net of reserves for depreciation	14,191	14,162
	121,840	124,216
Other Assets and Deferred Charges	6,764	9,226
	\$235,876	\$215,071
<i>Liabilities and Stockholder's Equity</i>		
Current Liabilities:		
Current installments of long-term debt	\$ 3,418	\$ 6,149
Accounts payable and accrued liabilities	36,466	21,377
Total Current Liabilities	39,884	27,526
Long-Term Debt:		
Equipment trust certificates, etc.	43,213	49,747
Note payable to The Flying Tiger Corporation	25,000	25,000
Deferred Credits, principally deferred income taxes	42,326	38,227
Stockholder's Equity:		
Common stock interest of Parent Company	21,925	21,925
Retained earnings	63,528	52,646
	85,453	74,571
	\$235,876	\$215,071

*These condensed financial statements are in general conformity with those published by The Flying Tiger Line Inc., the formats being consistent with those prescribed by the Civil Aeronautics Board and in general use in the airline industry. The formats and grouping of accounts herein do not conform to the separate Flying Tiger Line Inc. graphs or the Consolidated Financial Statements of The Flying Tiger Corporation presented elsewhere in this Annual Report, although included therein and should be read in conjunction with those financial statements and related notes.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1973 and 1972

	1973	1972
Operating Revenues	<i>(expressed in thousands)</i>	
Common carriage		
Domestic	\$ 71,998	\$ 48,802
International	84,711	77,610
Military Airlift Command	15,579	32,862
Charters, service sales, etc.	4,640	5,080
	176,928	164,354
Operating Expenses	144,766	131,880
Income from Operations	32,162	32,474
Other (Income) Expense:		
Interest expense	3,613	4,524
Other—net	(2,134)	(1,124)
	1,479	3,400
Income Before Income Tax Provision and Equity in Net Income of North American Car Corporation	30,683	29,074
Income tax provision	14,966	13,300
Income Before Equity in Net Income of North American Car Corporation	15,717	15,774
Equity in net income of North American Car Corporation	4,465	3,148
Net Income	\$ 20,182	\$ 18,922

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1973 and 1972

<i>Source of Funds:</i>		
Operations—		
Net income	\$ 20,182	\$ 18,922
Add (deduct)—items not involving funds		
Depreciation and amortization, including amounts charged to other accounts	10,151	9,469
Deferred income tax provision	3,474	6,766
Equity in net income of North American Car Corporation	(4,465)	(3,148)
Other—net	1,092	(1,291)
Funds Provided by Operations	30,434	30,718
Proceeds From Unsecured Note—Equipment Financing	—	9,000
Other—net	4,840	2,388
Funds Provided	35,274	42,106
<i>Application of Funds:</i>		
Current Maturities and Payment of Long-Term Debt	6,282	33,465
Purchase of Property and Equipment	10,872	18,161
Cash Dividends on Common Stock	9,300	7,350
Funds Applied	26,454	58,976
Net Increase (Decrease) in Working Capital	\$ 8,820	\$ (16,870)

Tiger Leasing Group

In 1973, for the first time more than half the Corporation's earnings were contributed by Tiger Leasing Group. North American Car Corporation and its subsidiaries produced 52 percent of net income and 39 percent of revenue for the year.

North American Car added 6,099 rail cars to its fleet in 1973, primarily jumbo tank cars for petroleum products and covered hopper cars to meet substantially increased demands for grain. This was the largest annual addition of cars since the company's founding in 1905 and brought the total rail car fleet to 32,922 cars at the end of 1973. The majority of these cars are on operating leases to shippers on a full-service basis for terms of from five to 15 years; North American Car maintains the rail cars, pays appropriate taxes, and accounts for and collects mileage and per diem compensation when due from the railroads.

Besides new rail equipment, North American Car re-leased and renewed leases on the approximately 15 percent of its fleet which came off lease during 1973 on generally better terms than prevailed in the expired leases of these cars. As a result of the continuing high demand for rail equipment and a program of increased maintenance, 98 percent of the fleet was operating in revenue service at the end of the year.

The rail car share of the total transportation market increased due to the energy crisis, which altered previous patterns of distribution. A small shift of product flow away from trucks, barges, and other modes of surface transportation represents a significant potential increase in the tank car, covered hopper, and bulkhead flat car movements of petroleum products, grains, and lumber products.

National Equipment Rental, Ltd. leases commercial and industrial equipment, aircraft, and computers. \$36 million of

general industrial equipment was placed under finance leases in 1973, up from \$27 million the year before. Finance leases differ from operating leases in that during their initial non-cancellable term finance leases return the cost of the equipment as well as the interest, related expenses, and a profit on the investment.

National Aircraft Leasing delivered two Boeing 727-200 jet airliners under operating leases to a major airline and placed a DC-8 jet with an international carrier under a finance lease. By early 1974, National Aircraft Leasing had advanced its NAL-111 executive jet program with leases to a major bank and two large NYSE corporations.

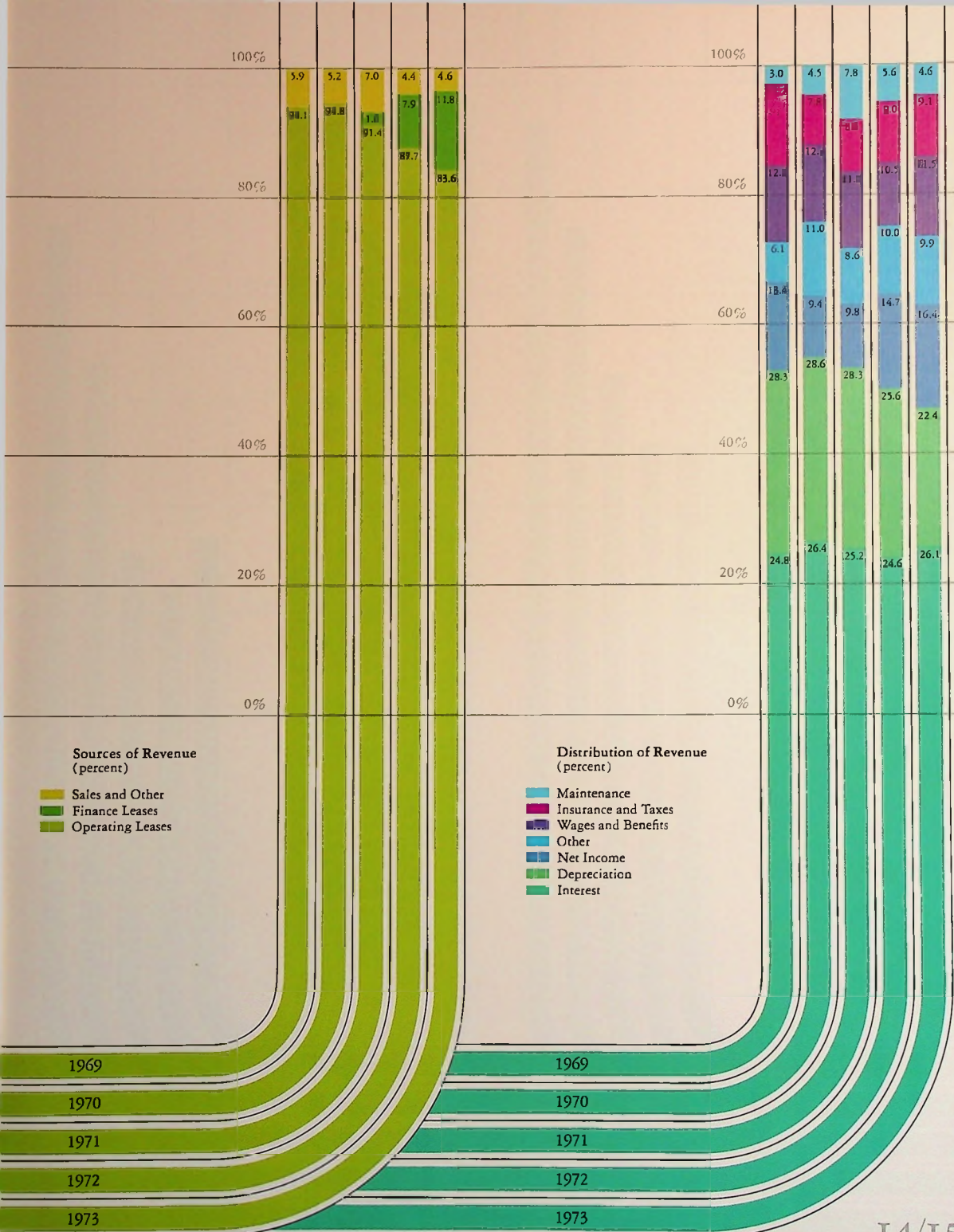
National Computer Rental continued to lease profitably its portfolio of third-generation computers. Aided by its successful European lease program, National Computer Rental achieved an average of 97 percent of its computer portfolio on lease throughout the year.

National Equipment Rental expanded its field sales force in the United States and Canada to 17 people in 13 regional offices and established operations in Europe and Asia to serve the rapidly growing financing needs of foreign markets.

NAC Leasing Corporation participated in the underwriting of \$69 million of net finance leveraged lease transactions principally involving railroad rolling stock. Bell Worldwide, Inc., which leases heavy construction and maintenance equipment, has expanded its foreign activities and is currently performing in a consulting capacity for the developers of Alaska's North Slope pipeline.

The growth of Tiger Leasing Group has resulted in a cumulative contribution to The Flying Tiger Corporation. The unique "layering effect" of the leasing business represents a continuous stream of revenue for the average length of each year's leases. With each succeeding year, a new layer of leases is added to the combined layers of previous years. The result is a growing revenue stream extending many years into the future.

With a capital budget increase of 50 percent to \$195 million in 1974 from \$130 million in 1973, 1974 will be another record year for Tiger Leasing Group.



\$120
\$100
\$80
\$60
\$40
\$20
\$0

\$24
\$20
\$16
\$12
\$8
\$4
\$0

**Revenue
(millions)**

Tiger Leasing Group revenue increased 25 percent from 1972 to 1973. Revenue from operating leases (on most rail cars, computers, and some aircraft) increased 19 percent to \$95.1 million from 1972 to 1973. Revenue from finance leases (on industrial and transportation equipment) grew 85 percent to \$13.4 million.

**Net Income
(millions)**

Net income grew 39 percent from 1972 to 1973. In 1973, investment credit attributable to equipment for finance leases was recognized on the deferral method. Deferred credits of approximately \$3.2 million will be reflected in income in future years.

1969	\$ 50,034
1970	\$ 51,961
1971	\$ 63,442
1972	\$ 91,327
1973	\$113,775

1969	\$ 6,712
1970	\$ 4,900
1971	\$ 6,213
1972	\$13,376
1973	\$18,650

\$ 700
\$ 600
\$ 500
\$ 400
\$ 300
\$ 200
\$ 100

\$ 230
\$ 195
\$ 160
\$ 125
\$ 90
\$ 55
\$ 20

**Assets
(millions)**

Tiger Leasing Group assets grew 33 percent from 1972 to 1973 reflecting the high level of business enjoyed in 1973. Of the total increase, 79 percent is attributable to equipment purchased for lease by North American Car and 21 percent to purchases by National Equipment Rental.

**Equipment Acquisitions
(millions)**

Equipment acquired for lease in 1973 includes \$23 million of equipment "leased in." Equipment is "leased in" when the tax benefits from ownership cannot be most effectively used by Tiger Leasing Group. The tax benefits are then reflected in lower effective rental costs to the Leasing Group.

1969	\$309.356
1970	\$327.285
1971	\$456.540
1972	\$513.219
1973	\$682.145

1969	\$ 32.295
1970	\$ 42.359
1971	\$ 36.711
1972	\$103.928
1973	\$207.624

Tiger Leasing Group*

Condensed Financial Statements**

CONSOLIDATED BALANCE SHEETS

December 31, 1973 and 1972

<i>Assets</i>	1973	1972
	<i>(expressed in thousands)</i>	
Cash	\$ 23,833	\$ 19,169
Receivables, including finance lease receivables—net	156,339	66,372
Inventories	14,832	8,759
Property, Plant and Equipment, at cost:		
Equipment for lease or under lease	644,027	562,527
Shop properties, chemical and terminal facilities	15,795	15,105
	659,822	577,632
Less—accumulated depreciation	184,638	167,092
	475,184	410,540
Other	10,489	7,902
	\$680,677	\$512,742
<i>Liabilities and Stockholders' Equity</i>		
Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 31,488	\$ 23,984
Senior Long-Term Debt		
Equipment obligations	353,696	268,137
Notes payable	78,867	55,998
	464,051	348,119
Subordinated Long-Term Debt	31,385	33,189
Deferred Taxes and Investment Credits	61,405	38,341
Stockholders' Equity:		
Preferred stock		
Publicly held interest in \$3 Cumulative, stated value \$50 per share	7,077	8,867
Preferred stock interest held by Parent Company	14,707	732
Common stock interest of Parent Company and affiliate	32,170	31,755
Retained earnings	69,882	51,739
Total stockholders' equity	123,836	93,093
	\$680,677	\$512,742

*Tiger Leasing Group consists of North American Car Corporation consolidated with its subsidiaries, including National Equipment Rental, Ltd.

**These financial statement formats are in general conformity with those published by North American Car Corporation and National Equipment Rental, Ltd. separately, and are consistent with leasing industry practice. The formats and grouping of accounts herein do not conform to the separate Tiger Leasing Group graphs or the Consolidated Financial Statements of The Flying Tiger Corporation presented elsewhere in this Annual Report, although included therein and should be read in conjunction with those financial statements and related notes.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1973 and 1972

	1973	1972
	<i>(expressed in thousands)</i>	
Revenues:		
Rental and operating revenue	\$108,968	\$ 87,977
Other revenue	4,807	3,350
	113,775	91,327
Costs and Expenses:		
Maintenance	11,775	10,470
Depreciation and other costs of operations	30,799	27,632
Cost of sales	2,503	2,053
Selling, general and administrative expenses	12,143	9,118
Interest and amortization of debt expense	29,751	22,436
	86,971	71,709
Income Before Income Tax Provision	26,804	19,618
Income tax provision	8,154	6,242
Net Income	\$ 18,650	\$ 13,376

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1973 and 1972

Source of Funds:

Operations—

Net income	\$ 18,650	\$ 13,376
Add (deduct) items not involving funds		
Depreciation	25,489	23,407
Deferred income tax provision	6,782	4,353
Other—net	1,000	1,434
Funds provided by operations	51,921	42,570
Proceeds from issuance of long-term debt	161,911	68,574
Issuance of preferred stock	13,975	732
Retirement of property and equipment	6,065	9,404
Increase (decrease) in deferred taxes not affecting net income	16,282	(33)
Increase in accounts payable and accrued liabilities	7,504	9,596
Collection of finance lease receivables	11,611	11,492
	217,348	99,765
	\$269,269	\$142,335

Application of Funds:

Additions to property, plant and equipment	\$184,617	\$ 94,105
Increase in receivables excluding finance lease receivables	15,737	2,142
Payments on debt	55,420	39,249
Increase (decrease) in cash	4,664	(1,375)
Increase in inventories	6,073	871
Redemption of preferred stock	1,375	177
Other—net	1,383	7,166
	\$269,269	\$142,335

The Flying Tiger Corporation & Subsidiaries

The Flying Tiger Line Inc.

Officers

Wayne M. Hoffman
Chairman of the Board
Robert W. Prescott
President & Chief Executive Officer
Joseph J. Healy
Executive Vice President & Chief Operating Officer
David J. Barish
Vice President—Finance
Anna Chennault
Vice President—International Affairs
Donald Chickering
Vice President—Marketing
James E. Colburn
Vice President—Operations

L. R. Emerson
Vice President—Asia
William Gelfand
Vice President—Government & Postal Programs
Charles I. Hopkins, Jr.
Vice President—Personnel Relations
John F. McDonald
Vice President—Maintenance & Engineering
Wayne E. Partridge
Vice President—Law
George A. Zettler
Vice President—Sales & Service
R. J. Valenta
Corporate Controller

Ray Vingo
Treasurer
Rosanne O'Brien
Secretary
Stuart M. Warren
General Attorney & Assistant Secretary
Myer Feldman
Assistant Secretary
J. W. Rosenthal
Assistant Secretary

We note with regret the passing of Edwin H. Rees, Vice President—Public Relations.

Tiger Leasing Group

Officers

North American Car Corporation
Wayne M. Hoffman
Chairman of the Board
Thomas F. Grojean
President & Chief Executive Officer
Robert B. Oppenheimer
Executive Vice President—Operations
John B. Aspegren
Vice President
Robert A. Boerke
Vice President—Engineering
Joseph J. Connors
Vice President—Mideastern District
John E. Flynn
Vice President & General Counsel
Louis W. Hansen
Vice President—Purchasing
Francis W. Kreidler
Vice President—Marketing
Martin A. Lynch
Vice President—Finance
H. Russell Platt III
Vice President—Sales
Paul F. Robinson
Vice President—Alexander Chemicals Div.

James J. Redmond
Controller
Kenneth J. Petrine
Secretary & Counsel
Louis H. Schnur
Treasurer
Peer Pedersen
Assistant Secretary

North American Car (Canada) Ltd.
Robert A. Greenbury
President

NAC Leasing Corporation
Eugene H. Crew
President

NACCO, S.A.
David MacNaughton
President

Equipo Nacional de Arrendamiento, S.A.
Steven H. Spencer
President

Bell Worldwide, Inc.
Thomas V. Murphy
President

National Equipment Rental, Ltd.
Harry M. Weisberg
President
David B. Burroughs
Executive Vice President
Richard M. Avidon
Treasurer
Gerald S. Jacobs
Secretary

National Aircraft Leasing, Ltd.
Lewis B. Simon
President

National Computer Rental, Ltd.
Thomas J. McArdle
President

John M. Phelan
Executive Vice President

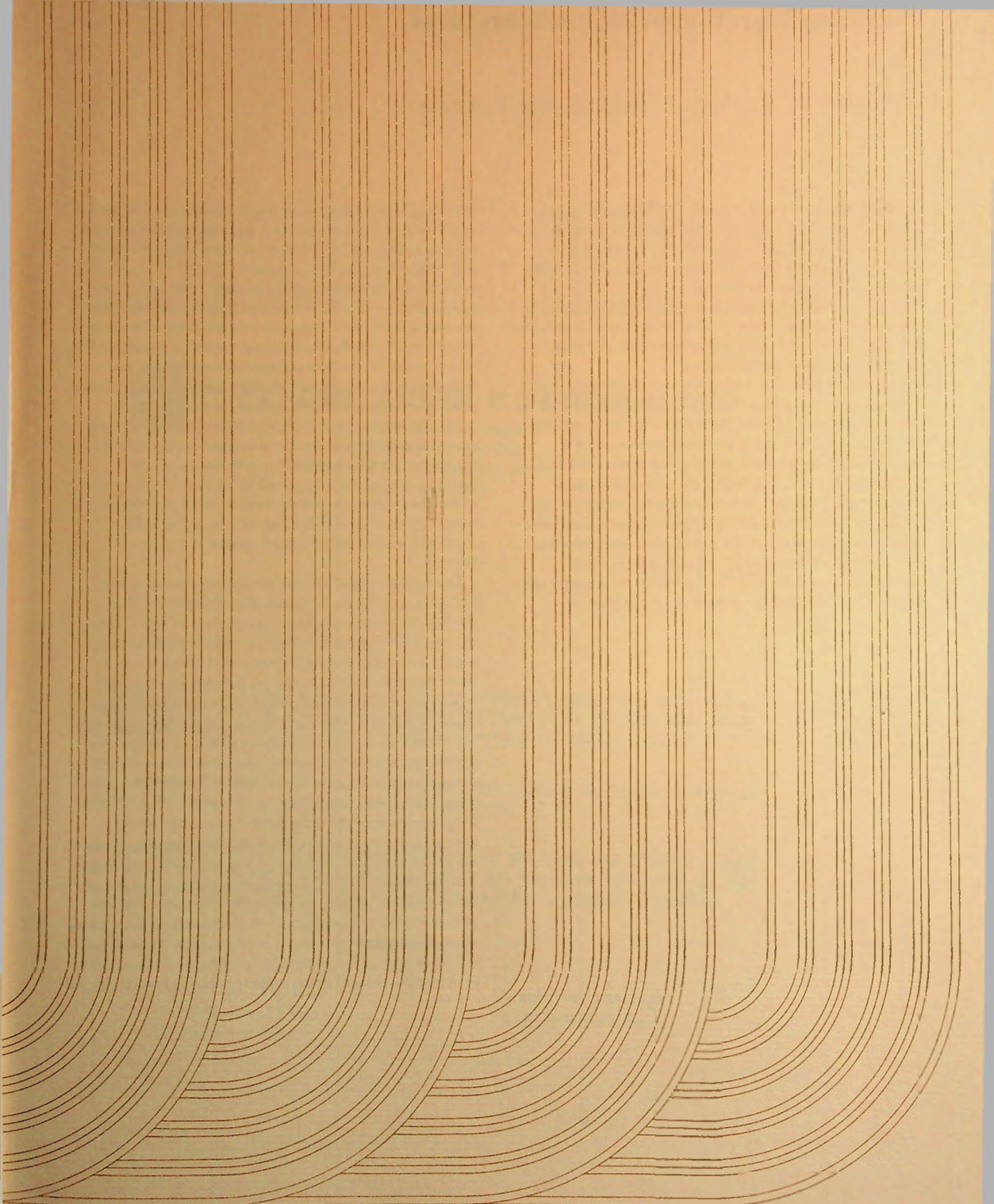
National Equipment Rental, S.A.
Benjamin Tepper
Managing Director
Pierre Hardy
Assistant Managing Director

The Flying Tiger Line Inc.

The Flying Tiger Line Inc.
7401 World Way West
Los Angeles, California 90009

Tiger Leasing Group

Tiger Leasing Group
222 South Riverside Plaza
Chicago, Illinois 60606



The Flying Tiger Corporation & Subsidiaries

Summary of Significant Accounting Policies

The following accounting policies of The Flying Tiger Corporation and subsidiaries are presented to facilitate the understanding of information presented in the financial statements. This summary should be read in conjunction with the notes to the financial statements.

Principles of Consolidation: The consolidated financial statements include the accounts of The Flying Tiger Corporation and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Translation of Items in Foreign Currencies: The accounts of foreign subsidiaries and assets and liabilities relating to operations outside the United States have been translated into United States dollars at the rate of exchange prevailing at year end except that property, plant and equipment and related debt have been translated at the approximate rates prevailing when acquired. Income and expense items have been translated at average rates during the year, except depreciation which has been calculated at the approximate rates prevailing when the property was acquired. All conversion gains or losses are included in income. The Company's foreign revenues and assets located in foreign countries are not significant.

Pension Plans: Pension costs are accrued and funded based on the actuarially determined cost of the plans. The Company amortizes the unfunded liability for past service costs over periods ranging from 13 to 30 years.

Revenue Recognition: The Company's operations consist primarily of the air transportation of property and mail and the leasing, under operating leases, of specialized railroad cars, computers, aircraft, trailers and construction equipment and the leasing, under finance leases, of industrial equipment, specialized railroad cars and aircraft. Revenue related to air transportation is recognized as the services are performed.

During their initial non-cancellable term, operating leases return less than the full cost of the equipment plus interest charges and are generally for shorter terms and at more favorable rates than would prevail for comparable equipment under finance leases. Revenue related to operating leases is recognized monthly as billed. Expenses including interest, depreciation and maintenance are charged to income as incurred.

During their initial non-cancellable term, finance leases return the cost of the equipment, after taking into account residual values, which generally approximate 10 percent of the cost of the equipment, as well as interest charges, related expenses and a profit on the investment. Aggregate rentals receivable, less unearned income, is shown as a non-current receivable. Aggregate rental income to be earned on finance leases (representing the excess of total rentals receivable under the contract plus estimated residual values, over the cost of the related equipment) is recognized as revenue during the term of the lease in decreasing amounts related to the declining balance of the unrecovered investment.

Property, Plant and Equipment: The cost of aircraft, leasing equipment and other property and equipment acquired, the cost of modifying aircraft purchased or leased, and the cost of rebuilding or modifying leasing equipment, is charged to the appropriate property and equipment accounts. The cost of maintenance and repairs is charged to expense. Maintenance expense includes provisions for aircraft airframe and engine overhauls, accrued on the basis of hours flown; the actual cost of overhaul is charged to the related reserve when incurred. Any

difference between the actual cost and estimated cost of overhauls is a charge or credit to maintenance expense. Upon sale or other disposal of property and equipment, the applicable cost and accumulated reserves for depreciation and maintenance are eliminated from the accounts. Any difference between sales price and the net book value is included in income with respect to property other than car equipment and certain aircraft components which are on composite depreciation methods.

Retirements of car equipment and certain aircraft components made in the ordinary course of business are generally charged to the reserve for depreciation and any proceeds realized are credited to the same account. Upon destruction of equipment, or other abnormal retirement, the cost and accumulated depreciation are eliminated from the accounts and the difference between the proceeds received and the net book value is included in or charged to income.

The Company provides for depreciation and amortization principally on the straight line method, using estimated service lives for the various classes of assets.

Inventory: Inventory includes aircraft spare parts and operating supplies and parts and components for assembly and maintenance of equipment for lease, principally on an average cost basis.

Amortization of Assets: The cost in excess of fair value of net assets of acquired business is not being amortized since, in the opinion of management, there has been no diminution in the value of the acquired business. Any gain on acquisition of minority interests in acquired business is credited to the cost when realized.

Deferred debt expense is being amortized over the period the related indebtedness is outstanding, using the interest method.

Income Taxes: Payment of income taxes has been partially deferred through deduction of accelerated depreciation and other allowable deductions for tax purposes, and by the differing treatment of finance leases for tax and financial reporting purposes. Investment credits, on equipment acquired for use in airline operations and under operating leases, are accounted for as a reduction of the provisions for income taxes in the year in which the credits arise. In 1973 the Company changed its method of accounting for investment credits arising from the acquisition of equipment for lease, under finance leases, to a deferral method whereby the credits are amortized over the initial terms of the related leases in decreasing amounts related to the declining balance of the unrecovered investment.

Current Portion of Debt: The Company excludes from the current portion of debt amounts of equipment obligations due within one year which will be paid from the proceeds of net rentals to be received during the next year from leases extending beyond one year.

The Flying Tiger Corporation & Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 1973 and 1972

	1973	1972
	<i>(expressed in thousands)</i>	
Revenues:		
Common carriage—		
Domestic	\$ 71,998	\$ 48,802
International	84,711	77,610
Military Airlift Command	15,579	32,862
Equipment leasing	107,571	86,482
Other	12,383	11,455
	292,242	257,211
Costs and Expenses:		
Airline operations	113,555	103,191
Leasing operations	16,052	13,645
Selling, general and administrative	35,352	31,052
Depreciation and amortization (Note 8)	33,558	30,729
Interest, and preferred dividends of subsidiary	34,984	27,636
	233,501	206,253
Income Before Income Tax Provision	58,741	50,958
Income tax provision (Note 5)	24,238	21,148
Net Income	\$ 34,503	\$ 29,810
Primary Earnings Per Share (Note 10)	\$ 2.70	\$ 2.54
Fully Diluted Earnings Per Share (Note 10)	\$ 2.68	\$ 2.28
Supplementary Earnings Per Share Data:		
The Company's \$1.20 Series Cumulative Convertible Preferred Stock was called for redemption on March 1, 1973. Assuming that these securities were converted into common stock at the beginning of 1972, earnings per share would be as follows:		
Primary Earnings Per Share	\$ 2.68	\$ 2.30
Fully Diluted Earnings Per Share	\$ 2.68	\$ 2.28

The summary of significant accounting policies and the accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1973 and 1972

	1973	1972
	<i>(expressed in thousands)</i>	
SOURCE OF FUNDS:		
Operations—		
Net income	\$ 34,503	\$ 29,810
Add (deduct) items not involving working capital		
Depreciation and amortization charged to operations	33,558	30,729
Depreciation and amortization charged to other accounts	2,246	2,177
Deferred income tax provision (Note 5)	19,595	17,529
Other—net	(2,208)	(4,504)
Working capital provided by operations	87,694	75,741
Financing—		
Proceeds from equipment financing and other borrowings	181,233	77,365
Proceeds from common stock issued upon exercise of stock options and warrants	1,583	3,120
	182,816	80,485
Other—		
Collection of long-term and finance lease receivables	13,679	13,702
Retirement of property and equipment	12,938	10,029
	26,617	23,731
Funds Provided	297,127	179,957
APPLICATION OF FUNDS:		
Long-term debt—		
Payments on long-term debt	66,153	76,030
Increase (decrease) in current portion of long-term debt	(12,268)	6,830
	53,885	82,860
Purchase of property and equipment including finance lease equipment	192,776	112,266
Other—		
Cash dividends and redemption of preferred stock	1,024	1,978
Cash dividends on common stock	3,725	—
All other—net	4,414	2,899
	9,163	4,877
Funds Applied	255,824	200,003
Net increase (decrease) in working capital (Note 9)	\$ 41,303	\$ (20,046)
OTHER CHANGES IN FINANCIAL POSITION:		
Conversion of \$1.20 Series Cumulative Convertible Preferred Stock into common shares	\$ 1,668	\$ 281

The summary of significant accounting policies and the accompanying notes are an integral part of these statements.

The Flying Tiger Corporation & Subsidiaries

Consolidated Balance Sheets

December 31, 1973 and 1972

<i>Assets</i>	1973	1972
	<i>(expressed in thousands)</i>	
Current Assets:		
Cash and certificates of deposit (Note 3)	\$ 64,128	\$ 35,550
Receivables, less allowance for doubtful accounts	51,197	45,080
Inventories, principally at average cost	17,697	11,354
Prepaid expenses and other	9,181	7,768
Total current assets	142,203	99,752
 Finance Lease Receivables (Note 3):		
Aggregate future rentals, less allowance for doubtful accounts (due within one year — 1973 \$25,397,000 and 1972 \$13,071,000)	183,735	99,213
Estimated residual value of leased equipment	11,711	8,134
	195,446	107,347
Less: Unearned income	64,694	46,711
	130,752	60,636
 Property, Plant and Equipment, at cost (Notes 3 and 8):		
Equipment for lease or under operating lease (Note 2)	682,999	605,072
Equipment used in airline operations	133,246	132,268
Buildings and leasehold improvements	22,133	16,147
Shop and terminal facilities and other equipment	19,844	18,760
	858,222	772,247
Less: Accumulated depreciation and amortization	264,791	243,295
	593,431	528,952
 Other Assets:		
Cost in excess of fair value of net assets of acquired business (Note 7)	15,862	16,167
Long-term receivables (Note 2)	5,910	5,782
Unamortized debt expense and other assets	5,926	4,615
	27,698	26,564
	\$894,084	\$715,904

<i>Liabilities and Stockholders' Equity</i>	1973	1972
	<i>(expressed in thousands)</i>	
Current Liabilities:		
Current portion of senior and subordinated debt (Note 3)	\$ 15,179	\$ 27,447
Accounts payable and accrued liabilities	49,322	36,408
Accrued income taxes	2,931	2,429
Total current liabilities	67,432	66,284
Senior Debt (Note 3):		
Equipment obligations	386,444	308,884
Notes and lease contracts payable to banks and others	104,311	52,460
	490,755	361,344
Subordinated Debt (Note 3)	30,235	31,739
Deferred Credits:		
Deferred income taxes and investment credits (Note 5)	91,745	74,180
Other	8,149	7,153
	99,894	81,333
Commitments and Contingent Liabilities (Notes 1 and 11)		
Minority Stockholders' Equity (Note 7):		
North American Car Corporation \$3 Cumulative Preferred Stock, \$50 stated value—		
Authorized—145,907 shares (1973) and 191,978 shares (1972)		
Outstanding—141,537 shares (1973) and 177,347 shares (1972)	7,077	8,867
The Flying Tiger Corporation Stockholders' Equity (Notes 3 and 7):		
Preferred Stock, \$1 par value—		
Authorized—3,000,000 shares		
Outstanding—None (1973) and 1,488,035 shares (1972)		
\$1.20 Series Cumulative Convertible Preferred	—	1,488
Common Stock, \$1 par value—		
Authorized—35,000,000 shares		
Outstanding—12,425,511 shares (1973) and 10,017,200 shares (1972)	12,426	10,017
Additional paid-in capital	121,369	103,431
Retained earnings	64,896	51,401
	198,691	166,337
	\$894,084	\$715,904

The Flying Tiger Corporation & Subsidiaries

Consolidated Statements of Stockholders' Equity

For the years ended December 31, 1973 and 1972

	1973				1972	
	\$1 Par \$1.20 Series Cumulative Convertible Preferred Stock	\$1 Par Common Stock	Additional Paid-in Capital	Retained Earnings	Total	Total
	<i>(expressed in thousands)</i>					
Balance, beginning of year	\$1,488	\$10,017	\$103,431	\$51,401	\$166,337	\$134,673
Add—						
Net income	—	—	—	34,503	34,503	29,810
Issuance of shares under stock options including related tax benefits	—	106	1,463	—	1,569	3,832
Issuance of shares pursuant to the stock purchase plan	—	45	1,044	—	1,089	—
Five percent stock dividend	—	589	16,444	—	17,033	12,962
Conversion of \$1.20 Series Cumulative Convertible Preferred Stock into common shares (Note 7)	—	1,668	—	—	1,668	281
Issuance of shares upon exercise of warrants	—	1	13	—	14	—
Transfer to stated capital in connection with the three for two stock distribution effected as a stock dividend	—	—	—	—	—	3,004
	—	2,409	18,964	34,503	55,876	49,889
Deduct—						
Dividends on \$1.20 Series Cumulative Convertible Preferred Stock	—	—	—	12	12	1,978
Cash dividends on common shares*	—	—	—	3,725	3,725	—
Fair value of five percent stock dividend	—	—	—	17,033	17,033	12,962
Conversion of \$1.20 Series Cumulative Convertible Preferred Stock into common shares including redemption of fractional shares (Note 7)	1,443	—	297	—	1,740	281
Redemption of \$1.20 Series Cumulative Convertible Preferred Stock	45	—	729	238	1,012	—
Three for two stock distribution effected as a stock dividend	—	—	—	—	—	3,004
	1,488	—	1,026	21,008	23,522	18,225
Balance, end of year (Notes 3 and 7)	\$ —	\$12,426	\$121,369	\$64,896	\$198,691	\$166,337

*Includes the \$.10 per common share cash dividend declared December, 1973, paid February, 1974.

The summary of significant accounting policies and the accompanying notes are an integral part of these statements.

Notes to Financial Statements

(1) Lease and Purchase Commitments:

At December 31, 1973 and 1972 the Company had long-term leases on aircraft and aircraft engines used in airline operations, car equipment and aircraft under lease, facilities and other equipment. There are renewal and purchase options on the aircraft and aircraft engines and renewal options on the leased equipment and facilities. Rentals during the renewal option periods are generally at rates as favorable as for the initial lease periods.

The schedules below summarize the annual rental expense included in the Statements of Income for the years ended December 31, 1973 and 1972, the annual and aggregate rentals for subsequent years and the present value of minimum remaining lease payments. Sublease rentals relating to equipment under lease, which are generally higher than those paid by the Company, have been excluded. Finance leases herein are as defined by the Securities and Exchange Commission and the present value does not represent the cost of such equipment were it to be purchased.

Annual Rentals Included in the Statements of Income	1973	1972
Non-capitalized finance leases	\$13,693,000	\$11,609,000
Other leases	1,563,000	1,555,000
	\$15,256,000	\$13,164,000

The finance leases are net of sublease revenues of \$2,178,000 and \$3,327,000 in 1973 and 1972, respectively, excluding sublease revenues from equipment under lease.

The estimated present values of the net minimum remaining finance lease commitments are as follows:

	Weighted Average Interest Rate	1973	1972
Aircraft and engines used in airline operations	7.6%	\$ 78,354,000	\$ 82,477,000
Equipment for lease or under lease:			
Car equipment	6.8%	27,502,000	14,385,000
Aircraft	6.4%	13,627,000	—
Facilities and other equipment	6.0%	9,476,000	9,923,000
		\$128,959,000	\$106,785,000

The present values were computed using the interest rates implicit in the applicable leases which range from 4.3% to 8.5% and are net of rentals from subleases, excluding those from equipment under lease.

The Flying Tiger Corporation & Subsidiaries

Notes to Financial Statements (Continued)

The minimum remaining lease payments at December 31, 1973 are as follows:

	Total	Non-capitalized Finance Leases			Other Leases
		Aircraft and Engines	Equipment for Lease or Under Lease	Facilities and Other Equipment	Facilities and Other Equipment
1974	\$17,811,000	\$11,629,000	\$ 3,942,000	\$ 1,196,000	\$1,044,000
1975	17,743,000	11,629,000	4,001,000	1,270,000	843,000
1976	17,660,000	11,629,000	4,001,000	1,220,000	810,000
1977	17,014,000	11,181,000	4,001,000	1,050,000	782,000
1978	15,822,000	10,344,000	4,001,000	907,000	570,000
1979 to 1983	79,240,000	51,720,000	21,200,000	4,166,000	2,154,000
1984 to 1988	31,362,000	7,371,000	18,586,000	4,054,000	1,351,000
1989 to 1993	12,784,000	—	10,011,000	2,773,000	—
1994 and beyond	725,000	—	—	725,000	—
	\$210,161,000	\$115,503,000	\$69,743,000	\$17,361,000	\$7,554,000

As of December 31, 1973, there are no significant rentals to be received from sublease of aircraft and engines or facilities and other equipment.

If the finance leases discussed above had been capitalized, with the related leasehold interest amortized on a straight-line basis and interest cost was accrued on the basis of outstanding lease liability, net income would have been reduced by approximately \$1,586,000 in 1973 and \$2,110,000 in 1972 as follows:

	Decrease in Net Income	Actual Rental Expense	Imputed	
			Interest	Amortization
1973	\$1,586,000	\$13,693,000	\$8,510,000	\$8,354,000
1972	2,110,000	11,609,000	8,128,000	7,701,000

This effect on net income does not represent the effect had the equipment been purchased since it does not give effect to service lives, investment credits, income tax deferrals, or residual values which would have been applicable to a purchase.

(2) Disposition of Aircraft:

The Company has seven CL-44 aircraft and a partial interest in an expanded fuselage CL-44 aircraft which are either under lease or have been sold on a deferred payment basis to a single overseas airline. These arrangements extend through 1978 and are renewable thereafter. The disposition of these aircraft is being recorded under the cost recovery method and the balances at December 31, 1973 and 1972 were as follows:

	1973	1972
Aircraft and equipment under lease	\$ 9,942,000	\$11,846,000
Sale of aircraft on deferred payment contract and other receivables	4,391,000	4,297,000
	\$14,333,000	\$16,143,000

During 1973, the lessee airline exercised its option to purchase one of the aircraft then on lease which was subsequently resold. Cash payments of \$1,810,000 include substantially all of the net cash proceeds from resale.

The financial condition of the lessee is such that recovery of a substantial portion of these amounts is dependent upon success of future operations of the lessee. In management's opinion, the lessee's operations or other disposition of the aircraft will be adequate to provide recovery of remaining costs.

(3) Long-term Debt:

The outstanding balance of equipment obligations and other debt at December 31, 1973 and 1972, consisted of the following:

	December 31	
	1973	1972
Senior Debt:		
The Flying Tiger Corporation—		
Variable rate (prime to $\frac{3}{4}$ % over prime) unsecured notes payable to banks, due in quarterly installments 1974 to 1980	\$ 25,590,000	\$ 7,310,000
Subsidiaries—		
Equipment and facilities obligations:		
4.4% to 10.5% equipment obligations maturing serially 1974 to 1993 (average rate 7.1%)	278,592,000	217,963,000
6.6% to 6.75% equipment trust certificates due 1974 to 1981	31,061,000	38,242,000
Variable rate (prime to $\frac{1}{2}$ % over prime) and $6\frac{3}{4}$ % equipment obligations due 1974 to 1979 (average rate 7.9%)	80,251,000	56,786,000
7% note, secured by facilities, due 1974 to 1988	3,356,000	3,489,000
Variable rate (prime to 1% over prime) and $5\frac{1}{4}$ % to 10% notes and lease contracts payable, secured by receivables and related equipment and facilities leased, due 1974 to 1991 (average rate 8.6%)	89,032,000	64,998,000
	507,882,000	388,788,000
Less:		
Principal amount of equipment trust certificates held in treasury	3,398,000	1,447,000
Current portion*	13,729,000	25,997,000
	\$490,755,000	\$361,344,000
Subordinated Debt:		
Subsidiaries—		
$5\frac{1}{8}$ % Subordinated Sinking Funds Notes, payable in equal installments to 1984	\$ 12,650,000	\$ 13,800,000
$5\frac{1}{4}$ % Convertible Subordinated Debentures due 1988	4,784,000	6,637,000
$6\frac{3}{4}$ % Senior Subordinated Note due 1982	2,700,000	3,000,000
$9\frac{1}{4}$ % Subordinated Debentures due 1992	13,523,000	12,285,000
	33,657,000	35,722,000
Less:		
Principal amount of $5\frac{1}{4}$ % Subordinated Debentures held in treasury	420,000	—
Current portion	1,450,000	1,450,000
Imputed discount	1,552,000	2,533,000
	\$ 30,235,000	\$ 31,739,000

*Exclusive of \$25,370,000 and \$23,923,000 in 1973 and 1972, respectively, maturing within one year which is not reflected as a current liability because payment will be made from net rentals to be received during the next year from leases extending beyond one year.

The Flying Tiger Corporation & Subsidiaries

Notes to Financial Statements (Continued)

The maturities and required payments of long-term debt for the five years subsequent to December 31, 1973, are as follows:

1974	\$ 40,549,000
1975	108,652,000*
1976	45,374,000
1977	42,253,000
1978	46,092,000

*Includes \$60,126,000 of interim financing which is expected to be repaid out of the proceeds of the sale of long-term equipment obligations.

The unsecured notes payable to banks of The Flying Tiger Corporation are outstanding under a term loan agreement which includes provisions limiting other borrowings and the payment of cash dividends on common shares. At December 31, 1973, \$9,351,000 of retained earnings were free of such cash dividend limitations.

The equipment trust agreements and other debt agreements of subsidiaries contain restrictive provisions as to the payment of cash dividends and have provisions as to working capital, additional borrowing, capital expenditures, etc. The Company and its subsidiaries have revolving lines of credit with various banks totaling \$135,500,000 of which \$93,468,000 was borrowed as of December 31, 1973.

In conjunction with these lines of credit and lease agreements, the Company and its subsidiaries have informally agreed to maintain average cash balances determined from the bank ledger records throughout the period the loans are outstanding, equivalent to approximately 15% to 20% of the average outstanding loan balance. At December 31, 1973 approximately \$22,785,000 of the Company's cash was intended to meet the provisions of these informal agreements.

The 5¼% Convertible Subordinated Debentures due 1988 are those of National Equipment and are convertible into common shares of American Export Industries, Inc. (AEI), its former parent. Pursuant to the Purchase Agreement between North American and AEI, National Equipment agreed that upon conversion of any debentures prior to their maturity, National Equipment would, at its option, issue debentures of similar terms without a right of conversion or deliver to its former parent that number of shares of AEI stock equal to the number of shares issued by its former parent upon the conversion of the debentures.

At December 31, 1973, \$20,216,000 of the 5¼% Convertible Subordinated Debentures had been exchanged for \$13,523,000 of North American 9¼% Subordinated Debentures (due 1992), plus accrued interest to the date of exchange, pursuant to an offer made during 1972 and completed in 1973. Exchanging holders received \$670 principal amount of North American 9¼% Debentures and a warrant to purchase 17.25 shares of American Export Industries, Inc. for \$57.97 per share, for each \$1,000 principal amount of the National Equipment 5¼% Debentures tendered.

The imputation of debt discount on the subordinated debt of National Equipment assumed an interest rate of 10%, which was the current rate on similar debt at the time of the acquisition of National Equipment. Since the 5¼% Convertible Subordinated Debentures had been recorded at the discounted amount initially, there was no significant gain in connection with the exchange transaction described above.

(4) Translation of Items in Foreign Currencies:

Conversion gains or losses included in income for the years ended December 31, 1973 and 1972, including the gains or losses resulting from the devaluation of the United States dollar on February 13, 1973, were not material. Revenues and costs, and related assets and debt translated at historical exchange rates are not significant. If translated at current rates instead of historical rates the balance of long-term debt would not change significantly.

(5) Income Taxes:

The provisions for income taxes for 1973 and 1972 are as follows:

	1973	1972
Current income taxes	\$ 4,643,000	\$ 3,619,000
Deferred income taxes	19,595,000	17,529,000
Income tax provision	\$24,238,000	\$21,148,000

The income tax provisions for 1973 and 1972 were 41.3% and 41.5% of 1973 and 1972 pretax income, respectively. The primary reasons for the difference between these rates and the 48% Federal tax are as follows:

	Percent of Pretax Income	
	1973	1972
Federal tax rate	48.0%	48.0%
Investment credits	(8.9)	(8.6)
State taxes and other	2.2	2.1

Investment credits deducted from the provision for income taxes were \$5,262,000 and \$4,378,000 for the years ended December 31, 1973 and 1972, respectively.

Effective January 1, 1973, the Company changed its method of accounting for investment credits arising from the acquisition of equipment for lease under finance leases from the "flow through" method to a deferral method. Under the new method the credits are amortized over the initial term of the related lease in decreasing amounts relating to the declining balance of the unrecovered investment. The change was made prospectively since the investment credits relating to finance leases which, under the new method, would have been deferred in 1972 (approximately \$870,000), recorded as a reduction in the provision for taxes in 1972, is considered immaterial with respect to net income for 1972 and would not have a significant effect on net income for 1973 and subsequent years were it to be restated. The net deferral, representing the effect on net income, in 1973 was approximately \$3,187,000, or \$.25 per share.

The Company had approximately \$27,051,000 of investment credit carry forward for tax purposes as of December 31, 1973, of which \$23,864,000 had been applied as a reduction of deferred income tax provisions.

The Flying Tiger Corporation & Subsidiaries

Notes to Financial Statements (Continued)

The investment credits expire for tax purposes as follows:

Year of Expiration	Investment Credits
1974	\$ 916,000
1975	434,000
1976	1,255,000
1977	1,126,000
1978	6,788,000
1979	5,640,000
1980	10,892,000

(6) Pension Plans:

The Company maintains pension plans for substantially all employees. The total costs of the Company's pension plans for the years ended 1973 and 1972, were \$3,926,000 and \$3,386,000, respectively, which includes as to certain of the plans, amortization of unfunded liability for past service benefits. At December 31, 1973, the unfunded past service liability aggregated approximately \$6,113,000 and actuarially-computed value of vested benefits exceeded pension funds by approximately \$1,697,000.

(7) Minority Interest and Capital Stock:

The terms of North American's \$3 Cumulative Preferred Stock require annual retirement of 8,000 shares. The stock is redeemable at any time, subject to certain refunding limitations, at \$53 per share if redeemed prior to September 1, 1976, and at declining amounts for various periods thereafter. The Company has purchased 50,463 shares of preferred stock on the open market at an average price of \$41.25 per share. Such reacquired shares will be applied against required future redemptions. The excess of stated value over cost of the reacquired shares has been applied as a reduction of the cost in excess of fair value of net assets of acquired business.

At December 31, 1973 the Company had reserved shares of common stock for issuance as follows:

Qualified Stock Option Plans	498,756
Qualified Employee Stock Purchase Plan	368,082
Warrants	1,063,580
	1,930,418

At December 31, 1973, options for the purchase of 406,649 shares were outstanding, with an aggregate purchase price of \$9,090,000 granted to officers and key employees at prices ranging from \$11.45 to \$34.66 per share and are exercisable from 1974 to 1978.

During 1971, the stockholders approved a Qualified Employee Stock Purchase Plan. Under the plan employees were offered common stock at \$24.10 per share. During 1973, the Company issued 45,185 shares of common stock to employees upon completion of the first offering under the plan. Also during 1973, the Company made a second offering to employees under the plan at \$28.05 per share, and as of December 31, 1973, the Com-

pany had subscriptions for 146,385 shares under the second offering.

During December 1972, the Company called for redemption the \$1.20 Series Cumulative Convertible Preferred Stock at the redemption price of \$22.50 per share and fixed March 1, 1973 as the date for redemption. Prior to such date, 1,731,656 shares of preferred stock were converted into 1,981,052 Flying Tiger common shares. A total of 44,985 shares were redeemed at \$22.50 per share, plus dividends accrued to March 1, 1973.

At December 31, 1973, the Company had 1,063,580 warrants outstanding, expiring December 31, 1975. Each warrant entitles the holder to purchase one share of common stock for \$17.85.

All of the per share data and data with respect to the conversion features of preferred stock and the warrants have been adjusted to give effect to the five percent stock dividends issued in April 1973 and April 1972 and the three for two stock distribution issued in February 1972. Such data for the warrants also reflect the issuance of additional warrants, concurrently with the issuance of the 1973 five percent stock dividend, to adjust the exercise ratio to one, from 1.05, common share for each warrant.

(8) Depreciation:

The Company uses the following service lives and salvage values in depreciating its fixed assets:

	Service Life (Years)	Salvage Value
Equipment for lease or under lease—		
Car equipment	25 to 30	2%
Computers and related equipment	8.5	15%
Aircraft	5 to 12	0-15%
Equipment used in airline operations—		
Aircraft and engines	10 to 14	15%
Other	3 to 14	—
Buildings and shop properties (average 18 years)	3 to 50	—

The major classes of property and equipment and related reserves as of December 31, 1973 were as follows:

	Original Cost	Accumulated Depreciation and Amortization	Net
Equipment for lease or under lease—			
Car equipment	\$525,887,000	\$126,648,000	\$399,239,000
Aircraft on cost recovery basis	37,039,000	27,097,000	9,942,000
Other	120,073,000	55,112,000	64,961,000
Equipment used in airline operations	133,246,000	42,798,000	90,448,000
Buildings and leasehold improvements	22,133,000	4,562,000	17,571,000
Shop and terminal facilities and other equipment	19,844,000	8,574,000	11,270,000
	\$858,222,000	\$264,791,000	\$593,431,000

The Flying Tiger Corporation & Subsidiaries

Notes to Financial Statements (Continued)

(9) Changes in Working Capital:

The net changes in the components of Working Capital for the years ended December 31, 1973 and 1972 were as follows:

	Increase (Decrease) in Working Capital	
	1973	1972
Cash and certificates of deposit	\$28,578,000	\$(17,149,000)
Receivables	6,117,000	9,158,000
Inventories	6,343,000	1,364,000
Prepaid expenses and other	1,413,000	4,095,000
Current portion of senior and subordinated debt	12,268,000	(7,040,000)
Accounts payable and accrued liabilities	(13,416,000)	(10,474,000)
Net increase (decrease) in working capital	\$41,303,000	\$(20,046,000)

(10) Earnings Per Share:

Primary earnings per share have been computed based upon the weighted average number of the Company's common and common equivalent shares outstanding adjusted for the five percent stock dividends issued in April 1973 and April 1972 and the three for two stock distribution issued in February 1972, after deducting preferred dividend requirements from net income. The common equivalent shares are the shares issuable under outstanding stock options, warrants and stock subscriptions (where dilutive) less those shares the Company could have purchased with the proceeds from the exercise of these options, warrants and subscriptions.

Fully diluted earnings per share have been computed in the same manner (except that common equivalent shares attributable to the assumed exercise of outstanding stock options, warrants and subscriptions have been determined during the period, using the average market price or ending market price, whichever would yield the greater dilution), giving retroactive effect to the assumed conversion of the \$1.20 Series Cumulative Convertible Preferred Stock, after adding to net income the preferred stock dividends.

Supplementary primary and fully diluted earnings per share data have been computed in the same manner, assuming, however, that the \$1.20 Series Cumulative Convertible Preferred Stock, called for redemption on March 1, 1973, had been converted into common shares at the beginning of 1972.

(11) Contingent Liabilities:

At December 31, 1973, various legal actions were pending against the City of Los Angeles, and various actions and cross actions were pending against the airlines using Los Angeles International Airport, including The Flying Tiger Line, involving noise and air pollution in the vicinity of the airport. Most of these suits were brought against the City, which in a number of cases has cross-complained against various airlines, including The Flying Tiger Line, seeking indemnification. In one action, in which the plaintiff was awarded judgment against the City, the court decided in favor of the airline cross-defendants and against the City on the issue of indemnification. The City has appealed this ruling. The Flying Tiger Line's special counsel in these actions, who also represents most of the other airline defendants, is of the opinion that, although the legal issues have not been finally resolved, The Flying Tiger Line has substantial defenses under the present law to the imposition of any liability in such actions.

Auditors' Report

To the Stockholders,
The Flying Tiger Corporation:

We have examined the consolidated balance sheets of THE FLYING TIGER CORPORATION (a Delaware corporation) and subsidiaries as of December 31, 1973 and 1972, and the related consolidated statements of income, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Flying Tiger Corporation and subsidiaries as of December 31, 1973 and 1972, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles which, other than for the change (with which we concur) in the method of accounting for investment credits relating to equipment acquired for lease under finance leases as discussed in Note 5, were consistently applied during the periods.

Los Angeles, California,
March 15, 1974.

ARTHUR ANDERSEN & CO.

The Flying Tiger Corporation & Subsidiaries

Officers and Directors

Directors

Robert W. Prescott
Chairman of the Board

Wayne M. Hoffman
President & Chief Executive Officer

Laurence C. Craigie
*Lockheed Aircraft Corporation
Burbank, California*

J. Howard Edgerton
*Chairman of the Board
California Federal Savings & Loan Assn.
Los Angeles, California*

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

Thomas F. Grojean
*President & Chief Executive Officer
North American Car Corporation
Chicago, Illinois*

Charles Luckman
*Chairman of the Board & Chief Executive Officer
Ordgen Development Corporation
Los Angeles, California*

William E. McKenna
*Chairman of the Board
Technicolor Inc.
Hollywood, California*

Norman L. Meyers
*Meyers, Marshall & Meyers
Washington, D. C.*

Houston Rehrig
*Rehrig-Pacific Company
Los Angeles, California*

Officers

Wayne M. Hoffman
President & Chief Executive Officer

Robert W. Prescott
Chairman of the Board

Rolf Bodenburg
Treasurer

William D. Evans
Controller

Rosanne O'Brien
Secretary

Stephan M. Benoff
*Director of Corporate
& Financial Relations
& Assistant Secretary*

Auditors

Arthur Andersen & Co.

General Counsel
White & Case

Annual Stockholders' Meeting

Date: May 24, 1974

Time: 2 p.m.

Place: Corporate Headquarters

7401 World Way West

International Airport

Los Angeles, California 90009

Common Stock

Transfer Agents

The Chase Manhattan Bank N.A.

1 Chase Manhattan Plaza

New York, N.Y. 10015

Bank of America, Corporate Agency Division

111 West Seventh Street

Los Angeles, California 90014

Registrars

The Bank of New York

90 Washington Street, New York, N.Y. 10015

Union Bank

742 South Hill Street,

Los Angeles, California 90054

Stock Exchanges

New York Stock Exchange

Pacific Stock Exchange

Mid-West Stock Exchange

Warrants

Warrant Agent

The Chase Manhattan Bank N.A.

1 Chase Manhattan Plaza,

New York, N.Y. 10015

Stock Exchanges

American Stock Exchange

Pacific Stock Exchange

Notice to Stockholders

The following notice to stockholders is published in accordance with Section 245.16 of Subpart B of Part 245 of the Economic Regulations of the Civil Aeronautics Board (the Board); section references in the prescribed notice are to sections of such regulations:

(1) Any person who either owned, as of December 31, 1973, or subsequently acquired, beneficially or as a trustee, more than 5 per centum, in the aggregate, of any class of the capital stock of The Flying Tiger Corporation (i.e., The Flying Tiger Corporation's Common Stock, \$1 Par Value) shall file with the Board a

report containing the information required by Section 245.12, on or before April 1, 1974, as to the capital stock owned as of December 31 of the preceding year, and, in the case of stock subsequently acquired, a report under Section 245.13, within 10 days after such acquisition, unless such person has otherwise filed with the Board a report covering such acquisition or ownership; (2) any bank or broker covered by (1) above, to the extent that it holds shares as trustee on the last day of any quarter of a calendar year, shall file with the Board, within 30 days after the end of the quarter, a report in ac-

cordance with the provisions of Section 245.14; and (3) any person required to report under this subpart who grants a security interest in more than 5 percent of any class of the capital stock of The Flying Tiger Corporation shall within 30 days after granting such security interest file with the Board a report containing the information required in Section 245.15.

Any shareholder who believes that he may be required to file such a report may obtain further information by writing to the Director, Bureau of Operating Rights, Civil Aeronautics Board, Washington, D.C. 20428.

Corporate Address

The Flying Tiger Corporation
7401 World Way West
Los Angeles, California 90009

