FLYING TIGERS **review**

For the employees of Flying Tigers • March 1987

Employee Partnership Program Continues

Profit Sharing/Stock Ownership Plans Unveiled

The employee profit sharing and the stock ownership plans—cornerstones of the Employee Partnership Program—are in place and ready for employee participation.

This mutually advantageous program was formulated after agreements were made with representatives of Flying Tigers' Air Line Pilot's Association (ALPA), International Association of Machinists (IAM) and Association of Flight Attendants (AFA) to participate in a comprehensive employee partnership and cost reduction program. A similar program went into effect on January 1, 1987 for administrative, office and executive employees. The purpose of the Employee Partnership Program is to encourage the efforts of employees by creating an ownership stake in their Company, and to compensate participating employee groups for wage concessions and work-rule changes that have been made in an effort to ensure the Company's prosperity.

"The profit sharing and stock ownership plans allow employees to benefit directly from the success of activities at their Company," said Stephen M. Wolf, chairman, president and chief executive officer for Flying Tigers. "Our three-point macro objectives to reduce costs, restructure our debt and develop a long-term strategic directive, will place each participating employee in a favorable position to benefit from our profitability.

"As we seek ways to provide a superior level of service, while seizing opportunities to generate more traffic, so will our chances improve for consistent profitability; not only for our investors who own stock, but for our employees who will share directly in the Company's profits through profit sharing and stock ownership.

"Fifteen percent of profits after the first $10 million will be distributed to those employees participating in the partnership program. Also, stock warrants will be granted which allow participating employees to buy 10 percent of Flying Tigers' stock at $1.00 per share."

Term Sheet/Letter

A letter was sent early in the month by Charles W. Thomson, vice president-human resources, to elected representatives of employee groups eligible to participate in the plans—Air Line Pilot's Association (ALPA), the International Association of Machinists (IAM) and the Association of Flight Attendants (AFA)—with a term sheet which outlines the major elements of the employee profit sharing and stock ownership plans as established with agreements with ALPA, IAM and AFA.

As *Flying Tigers Review* was going to press, a letter to all employees eligible to participate in the profit sharing and stock ownership plans was being finalized and will be provided to each participant by the end of March. The letter will explain how the various plans will work, how employees can benefit from the profit sharing plan, and how employees can become involved in the stock ownership portion of the program.

Meetings Scheduled

Also in March, a series of meetings will be held with management personnel to discuss the profit sharing and stock ownership plans. Under the heading, "Managing for Excellence," these meetings focus not only on these plans, but address how best to manage within the partnership environment. Initial meetings take place this month with maintenance and terminal service personnel at the Columbus hub and the Los Angeles freight station, with future meetings planned in upcoming weeks with supervisory personnel at other stations, including general and administrative employees.

"These meetings represent the crucial first step in implementing our profit sharing and stock ownership plans," said Charles Thomson, vice president-human resources. "Joining me and members of the human resources department are James Cronin, senior vice president-marketing, and Ronald Marasco, senior vice president-operations."

Profit Sharing

Permanent full-time and part-time employees will have the opportunity to benefit in the Company's profitability through the profit sharing plan of the Employee Partnership Program. Eligible participants must be on paid active status for at least 30 consecutive days during the year in order to receive that year's allocation.

At the end of the Company's fiscal year, 15 percent of the profits after the first $10 million will be distributed on an equitable basis to employees. The first 25 percent of profits to be distributed will be divided equally between all participating employees, with the remaining 75 percent distributed to each employee based on W-2 earnings of that employee.

Stock Ownership

Another key feature of the Employee Partnership Program is the stock ownership/equity sharing program, where stock warrants will be granted allowing participating employees to buy 10 percent of Flying Tigers' stock. A warrant is a certificate which entitles the bearer to purchase shares of common stock at $1.00 per share (the exercise price). A master warrant will be issued to a trustee designated by the Company for the benefit of employees. The master warrant represents 1.8 million shares (10 percent of Flying Tigers' stock) which can be distributed to eligible participants on December 1, 1989.

Employees will be able to obtain warrants that may then be used to purchase Flying Tigers' common stock. Warrants are exercisable for a period of six months, commencing December 1, 1989.

It was decided in the best interest of participating employees to allocate warrants each year of the program, (December 1987, December 1988, December 1989), rather than wait for the full three-year period to expire. At the end of the year, a certificate or statement indicating the number of warrants will be issued to participating employees that may be redeemed.

Positive Signs

"With our Employee Partnership Program in place, the addition of the DC-8 aircraft to the fleet; favorable reaction by prospective investors to our debt restructuring: the start-up of new services to Bangkok, Milan and Asia-to-Europe scheduled flights; and with the price of fuel remaining steady, I am encouraged that we are headed in the right direction in 1987," Mr.

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Second Step

Debt Restructuring Update

A series of financial presentations conducted throughout the country over a six-day period relating to Flying Tigers' financial debt offering concluded in Houston, Texas on March 13.

The presentations, led by Stephen Wolf, chairman, president and chief executive officer, were made in San Diego, Los Angeles, New York, Boston, Minneapolis, Chicago, Pittsburgh, Kansas City and Houston as part of the Company's comprehensive debt restructuring plan—the vital second step in Flying Tigers' three-step strategy to return to profitability.

The financial offering dealt with a $140 million dollar public debt instrument in the form of Equipment Trust Certificates and a related $150 million private placement, which is also in the form of an Equipment Trust Certificate.

In a twx to all employees, Mr. Wolf said, "The investment community over the past few months has started to develop confidence in Flying Tigers, and that is very apparent by the reception to this offering. I am pleased to report that the offering has been oversubscribed. An expression of confidence such as this by the investment community is heartwarming and gratifying to all of us.

"This change in Wall Street's view of Flying Tigers has come about as a result of our Employee Partnership Program and employees' support and significant effort—all of which is dearly appreciated," Mr. Wolf concluded.

In a related development, Julius Maldutis, a top-rated airline analyst with Salomon Brothers, recently added Tiger International to his list of recommended stocks, and has joined the ranks of security analysts following Tiger International and Flying Tigers.

In a report to his clients, Mr. Maldutis noted, "Tiger International, Inc. is well on its way to returning to profitability. Sharp cost reductions plus new marketing alliances could produce higher-than-expected earnings for 1987 and 1988. Accordingly, . . .we reaffirm our buy recommendation on Tiger International, Inc. shares."

Employee Communications Task Force Formed

KEY COMMUNICATORS*—An Employee Communications Task Force was formed this month of union and non-union employees to formulate a recommended employee communications effort for the Company. The group met several times within a course of two weeks and completed a report on potential vehicles and methods for improving communication with and among employees. Members of the group,* ***shown at a recent meeting above,*** *are* ***(left to right):*** *Chaille Maddox (task force chairperson), director-training & development; Rick Kerrigan, manager-national accounts; Forrest King, audio-visual specialist; Vance Daddi, project analyst; Carol Mann, manager-charter operations; Joy Sabol, manager-corporate communications; Dennis Boyle, lead mechanic; Lee Cunningham, supervisor-trucking control; Dennis Bird, director-traffic services; Anita Anderson, sr. executive secretary; Mike McCaverty, stock clerk-inventory management; Carole Karnofsky, supervisor-traffic files; Douglas Happ, captain; and Jackie Kyger, operations analyst.* ***Not pictured is*** *Jim Harper, ramp serviceman and Mike Serrano, stock clerk.* ***For more information on the Employee Communications Task Force, see photo and The Chairman's Column on page 2.***

Captain Pritchett Named VP-Flight Operations

Donald E. Pritchett has been named vice president of flight operations for Flying Tigers, responsible for cockpit and flight attendant employees and directing flight training standards, flight planning, crew resources and regional flight administration functions. He reports to Ronald D. Marasco, senior vice president of operations.

"Captain Pritchett's distinguished career in aviation and flight operations, coupled with his active membership in aerospace organizations, will be valuable assets to our flight management team," said Stephen M. Wolf, chairman, president and chief executive officer.

Captain Pritchett most recently served as vice president-flight operations for Pan Am, responsible for the carrier's extensive global flight operations department.

A 32-year veteran of Pan Am, he joined the carrier in 1955 as a pilot-navigator. Captain Pritchett subsequently served as a 707 check pilot and was later promoted to a variety of flight management positions, including director-flight operations and system director-flight training and standards, prior to his being named vice president of flight operations in 1981.

An active member in several industry associations, he is currently chairman of the aviation safety-ad hoc committee for the National Aeronautics and Space Administration (NASA) and is also a member of NASA's aeronautics advisory committee. Additionally, Captain Pritchett served as chairman of the operations council for the Air Transport Association of America (ATA) and is a member of the technical committee for the International Air Transport Association (IATA).

A senior 747 pilot, Captain Pritchett has logged approximately 20,000 hours in commercial aircraft and has been rated on the Boeing 377, Douglas DC-4 and the Boeing 707, 727 and 747 aircraft.

He received his flying training as a United States Naval Aviation Cadet in 1951 at Pensacola, Florida and served in the United States Marine Corps.

Captain Pritchett attended Willamette University and Oregon State University.

Donald Pritchett

Asia-to-Europe/Milan Service

New International Flights Launched

Flying Tigers expanded its extensive international coverage and service capability in March with the commencement of scheduled westbound B-747 Asia-to-Europe jetfreighter flights and DC-8 jetfreighter service to Milan, Italy.

These new routes greatly enhance service offerings to the Company's global shippers. Inauguration of scheduled Asia-to-Europe flights, with through service to the United States and back to Asia, link the major commercial centers of the world via one full-service cargo carrier on an around-the-world basis in both eastbound and westbound directions.

Flying Tigers currently provides around-the-world B-747 jetfreighter service in an eastbound direction, operating from the United States through Europe and the Middle East to Asia and return to the U.S.

The new westbound flight #11 operates weekly on a Taipei-Bangkok-Dubai-Brussels-London-New York routing. The Asia-to-Europe market is one of the fastest growing

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Chaille Maddox, above left, director of training and development, and Flying Tigers' Chairman Stephen Wolf discuss elements outlined in a report submitted to Mr. Wolf by the Employee Communications Task Force, a committee recently formed to develop a recommended employee communications plan. The Chairman's Column, *on this page, contains additional information on the task force.*

The Chairman's Column

by Stephen M. Wolf

Last month, we initiated this column in Flying Tigers Review *in order to discuss significant aspects of our business and to elaborate on specific topics and questions which you have raised.*

The launching of this column and overall upgrade in the quality and format of Flying Tigers Review *are early steps in an overall effort to expand employee communications in order to keep you as informed as possible as to where we are succeeding and/or where we need greater focus.*

In order to obtain as much input as possible as to how best to implement a heightened level of awareness with all Flying Tiger employees, I asked Chaille Maddox, director of training & development, to chair a small group of approximately 15 employees to formulate a recommended employee communications plan. This group met several times over the course of the past two weeks, and developed a blueprint of potential employee communications methods and vehicles. The findings from this employee communications task force were being finalized as this issue of Flying Tigers Review *was going to press and will be outlined in detail in the next issue of this newspaper.*

In the meantime, you have seen the return of a twx-style communication vehicle that is sent systemwide advising you of special news items about the Company and our industry. Flying Tigers Review *will continue to be published on a monthly basis, (although I hope to eventually publish it every two weeks) and will elaborate on those news items, in addition to focusing on employees, departments and divisions within the Company.*

In order for you to fully understand the significance of your role at Flying Tigers, it is important for you to be as knowledgeable as possible about your Company. It is equally important that you fully understand the environment of the airline industry; politically, economically and commercially alike; and the unique role Flying Tigers plays in the ever-changing airfreight market.

Through greater understanding, you will be better able to appreciate the contribution you individually can make toward reaching our goals and thereby realize the impact your performance has in helping or hindering our collective ability to meet our strategic objectives.

I encourage employees to express their attitudes and opinions and urge you to take advantage of the opportunity this column provides by submitting questions to the Corporate Communications Department, HDQ 905, HDQSRFT. And now, I would like to address current questions of interest.

Q. During your Chairman's Conference last Fall, you outlined the three-step strategy necessary for Flying Tigers to achieve profitability. The comprehensive cost reduction program—the first step—is essentially complete and the debt restructuring, which is the second phase of the program, you indicated would be finalized by early next month. When will the third step—Flying Tigers developing a marketing strategy that we can defend on a worldwide basis—be finalized and how will that strategy be communicated to employees?

A. Redefining and enhancing our market position is an evolutionary process and is currently well underway as evidenced by our acquisition of six DC-8 aircraft and the initiation of new service to Bangkok, Milan and the launching of weekly Asia-to-Europe flights. Our extensive worldwide route network, complemented by our domestic infrastructure and state-of-the-art Columbus hub, positions us well to meet the market challenges ahead. Our overall longer-term worldwide marketing plan is well underway and we expect an itemized program to be completed in the second quarter. Details of that plan will be communicated to employees through *Flying Tigers Review* as well as through employee meetings—The Chairman's Conference—and others that will occur on an on-going basis systemwide throughout 1987.

Q. What plans are there for our flight attendants? What role do they have in our business plan?

A. MAC has always been one of our revenue cornerstones and flight attendant performance was one of the earliest items communicated to me by MAC. Last Fall, when I met with Gen. Duane H. Cassidy, Commander-In-Chief of the Military Airlift Command, he shared with me the military's high regard for the fine service provided by our flight attendants and our overall high level of MAC operational dependability. Under our MAC agreement, operational dependability and reliability allow us to be eligible for MAC expansion business. We have now completed recalling 30 furloughed flight attendants to support current expansion of military passenger business awarded above and beyond our annual contract award. Our ability to obtain expansion business for military passenger flights is closely related to MAC's evaluative appraisal of the quality of effort put forth by our flight attendants. Although a small group of some 200 employees, our flight attendants create a very positive reflection on Flying Tigers and are an integral part of our business plan.

Q. Does the recent advertising program in USA TODAY featuring our door-to-door services signal that we are staying in the domestic business even though you expressed concern in last month's "The Chairman's Column" about the long-term viability of that market?

A. The advertising campaign underscores that we are in the door-to-door market with a very competitive product. As I pointed out in last month's Chairman's Column, by providing a superior level of service, we will generate more traffic, and thus more revenue. If we do not do the former, the latter will not happen. Our advertising expenditure supports our marketing efforts to obtain a larger share of the domestic market and thus ensure we keep our domestic system fully operational. Keep in mind advertising only prompts trial (a customer to try our service). Our handling the customers' traffic by providing a superior level of service is what will bring the customer back time and again. Conversely, not providing a superior level of service will cause the customer to go elsewhere.

Q. You have been conducting presentations throughout the United States this month to prospective investors. What has been the response by the investors to your presentation and to our proposed debt restructuring?

A. The response has been very positive. We made presentations to prospective investors during a hectic six-day period completed last Friday in San Diego, Los Angeles, New York, Boston, Chicago, Minneapolis, Pittsburgh, Kansas City and Houston as part of our comprehensive debt restructuring plan. We have received exceptionally favorable comments from prospective investors regarding the progress we have made thus far in reducing our costs, our program to restructure debt, and revitalization of our role in the air cargo marketplace. Our debt restructuring efforts should be completed by the end of March. Although our financial restructuring involves a debt instrument, it coincides with escalating awareness of a possible improvement in operations and thus we have been experiencing a significant rise in our stock which is a reflection of what the investment community views the possible future of Flying Tigers to be. This bodes well for our investors, and is certainly a favorable indicator as to benefits our employees will experience as we go forward under our Employee Partnership Program.

Q. In January, you were named chairman, president and chief executive officer for Tiger International in addition to your duties at Flying Tigers. Just recently you were appointed by Transportation Secretary Elizabeth Dole to serve as a member of a high-level commission which has been formed to study the possible privatization of Amtrak. Is this a good time for you to add to your already full plate? Is serving on this commission in the best interest of Flying Tigers?

A. My appointment to this commission recognizes that we at Flying Tigers are capable of providing expertise in solving problems of the transportation industry at the national level. Secretary Dole has asked me to consider, over a short period of time, what type of entity is best suited to manage Amtrak in a manner responsive to market forces, what route structure might result, and what financial arrangements would be necessary—options that are not unlike issues we are addressing here at Flying Tigers. On the one hand, you are correct in suggesting I do not need anything else to do. On the other hand, I will push myself, and I shall add, all of us, if it will be beneficial to Flying Tigers. The positive exposure Flying Tigers will receive as a result of serving on the Secretary's commission will be worth the effort.

Q. The acquisition of the six DC-8s is certainly a positive step for the Company. What plans do you have to add additional aircraft?

A. As of this moment, we are restricted by financial covenants from adding any more aircraft to our fleet. The debt restructuring will eliminate those covenants and enable us to add additional units as we see an opportunity to deploy added aircraft. Currently, our flight training personnel are putting forth a tremendous effort to train hundreds of pilots—both recalled and new hire as well as equipment upgrades for existing pilots—and it will, in fact, continue for months. I mention this training task because I doubt if it would be possible to ask more of our training department. On the other hand, we continue to look for more 747s and DC-8s. If we find an attractive situation (good equipment at a good price) we will just have to ask everyone if they have another ounce of effort. From what I have seen, I believe everyone involved would say yes.

Q. Employees at headquarters say you come to work at 6:30 a.m. and leave late in the evening. What requires such long hours?

A. Working long hours is neither a positive nor negative comment in and of itself. Accomplishing specific tasks that have beneficial meaning to the Company is what is important, and it simply requires long hours if we are to successfully address the many challenges facing us. I should add that in the area of long hours, I have a good deal of company. There are many capable, dedicated people at Flying Tigers who are putting forth an exceptional effort both at headquarters and in the field. I cannot underscore enough the important role each employee plays in the success or failure of this Company. How one employee treats a customer, or completes his or her job, truly makes a difference.

Ned Wallace Recaps International Divisions/MAC & Charter Operations

Edwin H. "Ned" Wallace is senior vice president-international sales and service for Flying Tigers. He is responsible for all international sales and service activities in the Company's foreign divisions, including expansion into new foreign markets; and also manages Flying Tigers' charter, Military Airlift Command (MAC) and government contract programs. Mr. Wallace joined Flying Tigers in 1966 as a crew controller and subsequently has held a variety of management positions including general manager-charter programs and vice president-contract programs. Previously, he was senior vice president-contract programs/Atlantic/Latin America before named to his current position in December, 1986. Mr. Wallace is past president of the Animal Air Transportation Association and is a member of the National Defense Transportation Association. He received his formal education at California State Polytechnic College, Pomona, California. Mr. Wallace was interviewed by Flying Tigers Review *on March 9 and March 12.*

Ned Wallace

Q. Since the majority of the Company's revenues are generated from our Pacific Division, we will start the interview with a question about Asia. What do you see as major challenges in our most profitable region?

A. The two major obstacles we face in Asia are; 1.) increased competition and 2.) the market condition itself, primarily as a result of the deteriorating value of the dollar versus the yen. Competition continues to intensify due to increased capacity by carriers established in the market and by new carriers entering the Pacific marketplace. For example, Nippon Cargo Airlines is now up to nine frequencies a week across the Pacific and Korean Airlines will be adding capacity to the market. Northwest will also increase service when it accepts two more 747 freighters from Boeing mid-year. Additionally, you have the introduction of new carriers into the market, such as American, Delta and United. United Airlines' presence is substantial from the standpoint that they have additional frequencies above what Pan Am flew. American, Delta and United have the ability to penetrate interior markets in the United States because of their domestic network. Although these carriers are passenger/combination carriers, they are still introducing a considerable amount of cargo capacity into the marketplace. This year a carrier will be given authority to transport small packages in the U.S.-Japan market. While the authority will be for small package service, it is expected that the carrier receiving the designation will fly to either Hong Kong, Taiwan or Korea and other points in the Far East to fill up the aircraft. Federal Express is currently operating charters out of the Far East now in order to gain the necessary operating experience and we have every indication that they are not only going to be in the small package business, but will go out and market to the forwarder/agent customer base, so they will be in direct competition with us for business that we customarily carry on our aircraft. And Emery Air Freight is operating forwarder charters to Japan and again they are sending their aircraft on to Hong Kong and Taipei.

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Q. What can we do to ensure our market share?

A. One thing is improve schedule integrity. In light of the competition we have out there now it is absolutely essential that we have a reliable schedule operation. Another thing we can do is provide more capacity in the marketplace both in the off peak and peak season. In the first quarter of this year, we are operating approximately 27 to 28 frequencies a week, compared to 20 or 22 the previous year. This translates to 20 or 25 percent more capacity the first six months of this year which allows us to provide a better service offering from our various Asian countries. And of course we have the professional and knowledgeable staff necessary to get the job done.

Q. How does our hub help our service offering of Asian shippers?

A. The intent is to provide more rapid distribution of freight out of LCK to the majority of the interior points in the U.S. than we can serve through our major gateways. Asia is the first region that is using Columbus as a major distribution point. Columbus is not just a domestic hub. We have not yet exploited its potential for our international service. Our competition cannot offer the array of all-cargo service to the interior points that we can. We also intend to have in place our own Customs brokerage service which will expedite clearance of our customers' traffic compared to what they presently experience at some of our gateways, like JFK. Also, we have two full time U.S. Customs inspectors assigned to Flying Tigers exclusively at our hub, one of which will be a textile specialist.

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Q. How do we teach our Asian shippers—who have traditionally used major gateway cities—that it is to their advantage to focus on direct interior service that our hub location provides?

A. We have to re-educate the shipper. I recently had a conversation with a customer who manufactures contact lenses in Japan and used Flying Tigers between Osaka, Japan and Syracuse, New York. His complaint was that he had to wait four days in JFK after the flight arrived to get his goods cleared through Customs. I told him about our Columbus facility and our plans, and he was impressed. I got out a map, pointed to Columbus and explained that his cargo would clear the same day the aircraft arrived. His freight would then be put on a truck, and taken to Syracuse. If you really look at it, it isn't that much further to truck it from Columbus than from JFK. Our new flight to Columbus will enable him to get his freight to Syracuse three days faster than he is presently experiencing. It is a difficult and long process to re-educate the shipping community in Asia, but we must actively do so in light of the increased competition.

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Q. Do you see the DC-8s operating in Asia?

A. We will offer one DC-8 every weekend to Asia. The DC-8 will be used primarily to operate to Japan to provide increased capacity. We view this as being both a marketing tool and a competitive tool, since we currently have competition that operate DC-8 aircraft into Japan.

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Q. What is Flying Tigers' agreement with UPS in the Pacific market? Is UPS pleased with our service?

A. On February 9, we became the exclusive carrier for UPS' small package service between Japan and the United States. Every night, they feed traffic off one of their DC-8 flights in Anchorage to Flying Tigers, and we carry it to Tokyo. We also do the same thing eastbound for Japan-to-U.S. traffic. UPS is extremely pleased with our service. As long as we continue to perform and provide the service that they are demanding, we hope to expand to other points.

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Q. What impact does the yen devaluation have?

A. It had a dramatic impact in 1986 on the volume of freight being exported from Japan. It had less of an impact on revenue because we generated a higher yield as a result of the dollar/yen ratio. In 1987, we expect a further 8.3 percent in deterioration in the dollar versus the yen over 1986. But we are forecasting the same volume in 1987 as in 1986 which will produce about two percent more revenue, even though the volumes remain the same. In fact, we are able to hold our own and forecast no decrease in Japan export volumes this year, and forecast an increase in every other Asian market.

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Q. Have international employees participated in cost reduction efforts like Flying Tigers employees in the United States?

A. Yes. International employees have participated in the Company's cost reduction efforts in areas of compensation, benefits and productivity improvement. International employees are very sensitive to the need to reduce costs and have done their share to contribute to the Company's program.

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Q. Focusing next on the European Division, what are your major concerns this year with European operations?

A. Certainly one of the major concerns has to be rates. Due to the strengthening of European currency versus the U.S. dollar, there is currently a considerable amount of pressure on westbound rates. In anticipation of this we reduced our capacity between the U.S. and Europe on a round-trip basis. By doing so, we were able to be more selective about the cargo we carry. Also, we have the advantage that if one country's rates start to weaken as a result of competition, we can shift allocation of space to another country that is not experiencing that problem. At the present time, through our current service offering, we have been able to achieve higher yields than the competition. We currently operate westbound out of the United Kingdom and Germany, but we bring traffic to those countries not only from the U.K. and Germany but from France, Belgium, Switzerland, Italy and the northern countries like Scandinavia and Norway.

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Q. Does the new Asia-to-Europe weekly scheduled flight help?

A. Yes it does. Again, that new service helps to offset the imbalance in the marketplace. We are able to operate a westbound flight without having to operate a reciprocal eastbound flight.

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Q. What is the unique characteristic of the European marketplace?

A. The transatlantic is the largest airfreight market in the world. If you add up all the capacity of the national flag carriers, combination carriers, etc. you have the largest concentration of airfreight capacity in the world and therefore a very volatile marketplace. We have about seven times the competition on the North Atlantic than we do on the Pacific.

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Q. Since the market has so much capacity, why do we continue to fly to Europe?

A. We feel Europe fits into our long-term, international integrated system. Last year we embarked on a program to rationalize the North Atlantic operations on a stand alone basis. It is very difficult to rationalize because of the competition. As part of a system, Europe makes sense; stand alone, it does not. That is when we started putting additional emphasis on Europe as a means to positioning flights to Asia.

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Q. How does that work?

A. We operate flights from the U.S. to Europe and from Europe into the Middle East and on to Asia. This routing has worked out extremely well. Our European sales personnel not only concentrate on sales westbound from Europe to the U.S., but they are also able to market our services on an around-the-world basis from Europe through the Middle East to Asia.

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Q. We started flying this month to Milan, Italy. Do you see the addition of direct aircraft flights into other European cities?

A. With our new DC-8 fleet, we have been able to re-establish service in certain markets in Europe that would not support 747 operations, such as the case in Milan. We have also replaced 747 service that operated via Frankfurt, Zurich to Charlotte, where we now operate a DC-8 directly from Zurich to Charlotte and out of Frankfurt to Charlotte enabling us to utilize that 747 in our Asia operations to satisfy increased demand. In total, we currently operate three DC-8s to Europe every weekend.

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Q. Employees are probably wondering if the vice president-Europe position which is currently vacant will be filled in the near future?

A. Yes. We plan to fill the vice president Atlantic vacancy. As I have said, we consider Europe to be important to our global integrated system and filling that officer position reaffirms that fact. We hope to be able to announce the individual to be based at our European headquarters in that position sometime in the second quarter.

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Q. How is our Latin American operation doing?

A. Latin America is doing extremely well. We streamlined the operation last year, and eliminated a number of unprofitable operations. We also had a reduction in headcount so we feel we now have variable operating costs in reasonably good order now. Some costs, however, we cannot control. For example, our fuel costs in Latin America are the highest in our system at the present time.

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Q. What is our service offering to Latin America now?

A. We are operating to Brazil and Argentina—three 747 flights a week. We are operating with very good load factors in both directions now and are cautiously optimistic about this continuing through the balance of the year. There is a certain amount of apprehension in the marketplace pending the final outcome of Brazil's debt repayment. Brazil has opened up exports, which are strong, but our concern is on the import side. It does appear, however, that Brazil's financial woes will not affect the traffic we currently transport.

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Q. How are the yields in Latin America?

A. Latin America has the highest yield per ton mile in the system—even over Asia. The reason we have not been profitable previously has been the limited number of frequencies relative to the operating costs. We had a net operating profit in October which was a first, so I have reason to be optimistic. In conjunction with our marketing group, we are evaluating markets where DC-8 economics would be more appropriate than maybe what we have provided in the past with a 747.

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Q. You also have responsibility for our Military Airlift Command (MAC) operations. What is so important about that?

A. MAC continues to be our largest single customer. This year is the largest single contract ever awarded to Flying Tigers. We have 40 percent of the total award made by MAC to all carriers, which is far and away the majority.

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Q. How is our relationship with MAC?

A. The military is extremely pleased with our service. We have continually maintained higher reliability than MAC requires and we routinely receive very favorable comments about our flight attendants. We are operating two 747 passenger airplanes that are dedicated to MAC, in addition to equivalent of two airplanes for cargo. Our military program complements our Asian and European business very well because it allows us to fly our airplanes out full with MAC revenue and return the aircraft to the U.S. as a scheduled flight.

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Q. Moving from the military charter operations to our charter department, what is the role of our charter group?

A. The primary role of the charter group is the utilization of idle resources during non-peak seasons in

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Wallace Interview . . .

Continued from Page 3.

scheduled service where otherwise the aircraft would be parked, and positioning of aircraft to counter imbalances in the marketplace. We presently charter two flights a week from the U.S. to Asia on a planned basis which are predominantly cattle to Japan. And every week we offer a charter off our triangular routing from Australia into Asia. Charters allows us to pioneer new markets for scheduled service. Charter flights gives us visibility or exposure in the marketplace and they give us operating experience in the country with the ultimate objective of providing scheduled service into that country. Good examples of this have been the Middle East, Australia, Ireland and other countries in Europe which initially were charter programs and were converted into scheduled service markets.

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Q. What is our operation with respect to the People's Republic of China?

A. Because we are not the designated U.S. carrier to provide scheduled service into China, we are limited to charter operations. We have recently launched a joint charter venture with CAAC, the Chinese national flag carrier, which gives us certain advantages other carriers do not enjoy. We are currently endeavoring to finalize a joint venture for scheduled service between China and the United States which we would operate in conjunction with CAAC.

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Q. Is the charter department profitable?

A. The charter department is profitable. It is profitable primarily as a result of our being able to retain higher prices for our product than the competition, due to the extremely high service levels we provide. This can be specifically attributed to the efficient planning and support by a very small but dedicated group of charter operations and sales and service employees as well as excellent support over the years by the pilot and maintenance group. It is an understatement when I say that our charter flights represent non-routine operations. Success requires absolute teamwork on the part of the pilot group, charter operations and the maintenance representatives.

* * *

Q. You have been with Flying Tigers for over 20 years. How do you feel at this point in time?

A. I am more optimistic and excited about Flying Tigers' future than ever before. We have clear direction, the organizational structure, the fleet mix, and the market opportunities to create a tremendous future, which we all justly deserve. From an international standpoint, we are going to be extremely aggressive. All employees will be able to recognize that as we go forward.

DOT Agrees with FT on Heathrow Rule

In response to a complaint filed by Flying Tigers, the Department of Transportation (DOT) sent an order to the President of the United States establishing the legal framework for retaliatory action against new British regulations affecting cargo operations at London's Heathrow airport, while British Airways could still sell and fly cargo on its passenger/combi aircraft.

The order states that the DOT will restrict the cargo activities of British Airways at U.S. airports to the same degree British officials act to restrict Flying Tigers' operations at Heathrow International airport in London.

The order, which was issued in response to a complaint from Flying Tigers, received Presidential concurrence on March 3.

Last August, Flying Tigers filed the complaint upon learning that the British Airports Authority was reserving itself the right to ban all-cargo flights during peak hours at Heathrow and Gatwick airports. The policy was adopted as a means to alleviate some of the congestion at the two busy airports, and the decision to impose the restriction was left in the hands of the airline scheduling committees.

DOT agreed with Flying Tigers that the regulation was discriminatory and thus a violation of equal access guarantees under current U.S.-U.K. aviation agreements.

CEO Wolf Appointed to DOT Commission

On March 6, Stephen M. Wolf, Flying Tigers' chairman, president and chief executive officer, was named by U.S. Department of Transportation Secretary Elizabeth Hanford Dole to serve as a member of a commission which has been formed to study the possible privatization of Amtrak.

The 11-member commission will explore ways in which the federal government can eliminate subsidies to the National Railroad Passenger Corporation (Amtrak) while preserving economically feasible rail service. The commission will present a report to Secretary Dole in six to eight months.

In an announcement, Secretary Dole said, "The new commission will be chaired by Richard Ogilvie, former governor of Illinois, and will be comprised of individuals like Governor Ogilvie who have had distinguished careers in both the public and the private sector. Together, they will provide needed expertise in everything from the economics of the rail industry to the fine technicalities of law, finance and marketing strategy."

Secretary Dole has asked the commission to consider what type of entity is best suited to own and manage intercity rail passenger service in a manner responsive to market forces, what route structures might result from such a proposal, and what financial arrangements would be necessary. The commission will study a wide range of options, including proposals for private investment in some or all of the Amtrak system, defining the possibility of state subsidies for portions of the system, and also considering an employee stock ownership plan.

Hub Marks First Anniversary

Flying Tigers' air cargo hub in Columbus, Ohio marked its first anniversary of service this month—having operated over 4,320 jetfreighter flights and handled an average of 1 million pounds of domestic and international cargo a night during its first 12 months.

Flight operations commenced at the airline's hub at Rickenbacker Air National Guard Base outside Columbus, Ohio on March 3, 1986. The hub serves as the center of Flying Tigers' global route system that stretches throughout Asia, Australia, North and Latin America, Europe and the Middle East.

"We are proud of our hub's performance in its first year of operation," said Flying Tigers' Chairman Stephen Wolf. "Within a five-hour time frame each night, cargo is unloaded from 17 jetfreighter aircraft, sorted according to destination, and then loaded onboard the same number of aircraft for departure to markets throughout the United States and abroad. In addition, we maintain an extensive truck hub at the site, which supplements our air operations.

"The hub is an essential component of the service we offer to our customers around the world and will play an expanded role in our marketing strategy as we go forward," Mr. Wolf said.

Chairman Wolf sent a message to hub employees in recognition of their contribution to the facility's successful operation. It read, in part, *"On this first anniversary of the opening of our hub facility in Columbus, it is appropriate to look back at the tremendous demands that have been placed upon you and the unusual effort you have put forth. Our Columbus hub today is one of the best cargo service operations in the world, and it became so only as a result of your effort.*

"With the re-introduction of DC-8s, introduction of U.S. Customs services, creation of a Free Trade Zone and our own international clearance capability, we anticipate a far broader range of cargo handling activity in Columbus in the near future."

The hub staff celebrated the first anniversary with cake and other refreshments. Local terminal management personnel presented all employees who had been at the facility since its opening with a certificate "in appreciation for one year of service."

Located on a 107-acre site, Flying Tigers' state-of-the-art complex features a 196,000-square-foot cargo sort facility which has the ability to handle bulk, containerized or small package freight. Last year, the approximately 350 hub personnel reached a 99.6 percent reliability rate for cargo processed through the facility. Additionally, the hub has been open continuously, without any closure due to weather or operational malfunction.

New International Flights Launched . . .

Continued from Page 2.

air cargo markets in the world and complements Flying Tigers' existing capability in providing air cargo service from the U.S. back to Asia.

There is a tremendous demand for air cargo service from Asia to Europe. Asian exporters are focusing on new markets in Europe for electronics, fashions and perishables and this B-747 flight will support that growing export economy.

On March 9, flight #5 began service from Milan, transporting wearing apparel, fabrics, footwear and leather articles to JFK on its inaugural flight.

The launching of weekly DC-8 jetfreighter service to Milan assists the time sensitive garment, textile and electronics industries that require expedited service into and out of Italy's largest industrial city. Previously, the airline provided dedicated truck service to Milan from its European hub in Frankfurt, West Germany.

The addition of six DC-8 aircraft to the airline's fleet this year has allowed Flying Tigers to provide more product—such as the service to Milan—while freeing up B-747 lift to take advantage of opportunities, especially in the Asian market where demand for Flying Tigers' services continues to increase.

Profit Sharing/Stock Ownership . . .

Continued from Page 1.

Wolf said. "Recognizing competition remains intense, and that if we are truly to be successful, it will take a significant effort by all. The Employee Partnership Program will benefit participating Flying Tigers employees in the form of both profit sharing and stock ownership."

FLYING TIGERS **review**

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Flying Tigers is a Tiger International Company

A marketing and sales program designed to enhance Flying Tigers' position in the domestic door-to-door market has been launched this month with a series of one-half page advertisements scheduled to appear in USA TODAY, the national daily newspaper, on Mondays and Wednesdays through April 1. In conjunction with completion of the first year of service at the airline's Columbus hub, similar advertisements will appear in select newspapers throughout the Ohio Valley during the same time period. This marketing and sales program is an important element in the Company's plan to re-establish its market position—the third phase in the three-step strategic plan following completion of the cost reduction and debt restructuring elements.