



SEPTEMBER 2004



CII Expects Record Year:

2004 is the year in which everything CII has worked for is coming together after thirteen years in business. The people at our LAX headquarters and our offices in Atlanta and at JFK are providing the highest levels of service in our industry. A solid financial base allows CII to offer a greater range of services than ever before. When December 31 is marked on the calendar, CII expects to have its best year in revenues and shipment count since we first opened our doors in 1991. We finally have "all our ducks in a row." At the end of July, we surpassed all of 2003 revenues. Despite this rush of new business, our profit margins are keeping pace and our financial position has never been stronger. We have added more staff in 2004 than in all our previous years, to handle this increased business. All of our facilities are contributing to the operational and financial success of CII. LAX is performing above all expectations. Atlanta is an incredible success story. Shawn and De'Norgil are generating record volumes of freight. Even our JFK facility, in the heart of air freight's toughest market, is operating above our expectations, thanks to Ian and his new colleague, Lisa. They both are burning the midnight oil when necessary to ensure that freight moves off the dock and airborne as promised.

We owe our success primarily to two factors. First, you the customer who has placed so much faith in our ability to deliver what we promised. Second, our great staff whom I cannot praise too highly. Their commitment, and above all good spirit in meeting the challenges of a very tough business, do not go unnoticed. Examples of this spirit are almost too numerous to mention. Mike here at LAX taking it upon himself to work every Sunday. Shawn in Atlanta



waiting for that truck from the Carolinas to arrive at 10 PM so that transfer of freight for a midnight closeout can occur.

Ian, jumping in his car to pick up cargo that must go minimum for Sydney at 7:30 PM on a Friday night so that he can place it on a UPS pallet. These are examples of what we at CII do for our customers on a routine basis. Despite our growth, despite our broad range of services, CII never has "lost its roots," never forgets that old fashioned personal service remains the heart and soul of our business.

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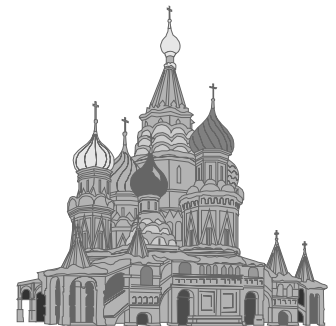
We Find A New Market In Russia:

CII's moving twelve helicopters from LAX to Russia is a perfect example of how our company is increasing business and has been able to expand services beyond our traditional South Pacific and China markets—both on an operational and financial level. The helicopters are a fascinating story. One of our customers, a Japanese forwarder, recently found that he had a conflict of interest in dealing with a certain Russian forwarder. Having full faith in CII's capabilities, the Japanese forwarder turned over this particular piece of business to us. The assignment was to move helicopters to Russia to help their oil companies' search for new sources of oil. During the past three months, CII has moved twelve Bell and Robinson helicopters via Cargolux



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and Finnair to Moscow through Helsinki. We believe this is just the start of new business. Our colleagues in Moscow tell us that based on our excellent work in delivering the helicopters, we should be prepared for an "avalanche" of orders. Our Russian business is expected to continue through the remainder of 2004 and all of 2005, with a number of different suppliers. When we first were approached to do this deal, I must admit I was very skeptical. My greatest fear, of course, was "will we be paid?" Dealing with the Russians in the past has

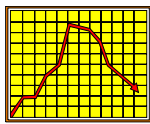


We Find A New Market In Russia cont.

been the downfall of many a forwarder. But our Russian customers had checked us out, liked what they saw and assured Mike Kelly, our CFO, that payment would be in two weeks. Twelve helicopters later, their word was their bond and payment now is safely in CII's bank account. Mike Castro was asked to supervise the shipments. His choices; Cargolux and Finnair have performed superbly. Bell and Robinson are amazed how smoothly everything has gone. From the very start, from the purchase of the copters by the oil companies to Mike coordinating the pick-ups, to the expediting of the cargo to Russia and the speed in which the "ships" were assembled and became operational has been little short of incredible!

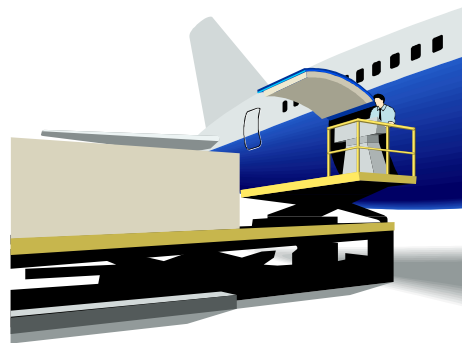
Air Cargo May Be The Beneficiary Of Passenger Fare Battles:

When the new, low cost carriers (LCCs) began making serious inroads into the major airlines' business a few years ago, the cries of "foul" emanating from the old "legacy" carriers could be heard all the way from their lobbyists in Washington to the board rooms in Dallas and Houston. Airlines like Jet Blue, AirTrans, Spirit, American Trans Air were transforming the domestic passenger business. Now, the majors are fighting back with incredibly low fares like one way \$99 LAX-EWR. The newcomers are matching these fares and it's become one big bloodbath for all of them. Profits at the newcomers have plummeted right alongside their stock prices.

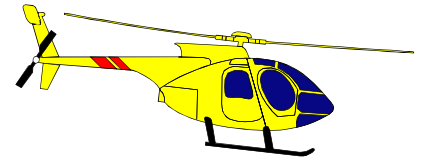
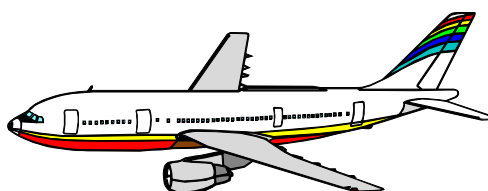


What's cargo go to do with all this passenger mayhem? Plenty. For the first time since the LCCs have started flying, they are prompted to rethink the use of belly hold capacity. Initially dismissed as unprofitable and even some kind of joke by LCC management, it now looks as if cargo could become a meaningful extra revenue earner for their highly cost conscious operators. Management at these new carriers here in the U.S. as well as in Europe and Asia are considering seriously greater restrictions on checked passenger baggage to allow additional room for cargo. The "bad boy" airline of Europe, Ryanair, even is thinking of eliminating checked baggage entirely to

As an "old timer," I was well aware of the pitfalls in dealing with our former foes. The horror stories from other forwarders in dealing with former "Iron Curtain" countries where payment was in worthless local bank notes rather than dollars still rang in my ears. Either CII was lucky, or smart, or both. Our short three month relationship with our now Russian friends flies in the face of experience of most other forwarders. We have struck a winner! Perhaps this old skeptic is wrong. Perhaps the world is changing for the better. Perhaps a handshake on a deal is not hollow, nor meaningless. This all has happened so fast, we didn't even have time for a handshake. But look at the results!



provide greater space for cargo. Running a cargo operation is expensive, however. The LCCs are turning over their freight activities to third parties such as general sales agents, or more interestingly, to the cargo departments of major airlines. In this way, they can feed cargo into regional hubs like Dallas, JFK, LAX and Miami where the majors operate overseas flights. A nice new chunk of international business could be generated, with carriers and forwarders benefiting. Cargo is getting more respect today from a segment of the airline business that never gave freight the right time of day before.



Congress Occasionally Does Something Right:

The House of Representatives listened to the arguments about the lack of technology and threat of airline bankruptcies, in regard to air cargo inspections. They then sensibly voted against requiring inspections of all cargo shipped on passenger airlines.

Forbidding airlines to carry uninspected freight would have caused financial catastrophe to an industry that already has major airlines in bankruptcy and other carriers threatening to declare Chapter 11. If such a ruling went into effect, estimates are that it would take \$700 million and the hiring of 9,000 additional inspectors to examine cargo thoroughly on passenger flights at the largest U.S.' airports. Aside from the huge amounts of money required under such a regulation, inspecting cargo on passenger aircraft would play havoc with flight schedules. The very attributes that air freight offers to the shipper; speed and precision of delivery, would be annulled if cargo examinations were required. Actually, a small percentage of cargo on passenger airlines is inspected but this uninspected cargo is supposed to take place when airlines and forwarders "don't know their customers."

At least members of Congress realize the value of air freight. Said one in voting down the amendment, "you shut off air cargo, you close down the airlines."

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How Good Is FedEx?

On the surface, FedEx is in Fat City. Revenue is up, profit is substantially higher and for the first time in its 33-year history, the company's return on investment is greater than its capital costs. It has understandably happy shareholders, with the company's stock at or near its all-time high. Quite an achievement for a company that started as a business plan for a class project at Yale back in 1971.

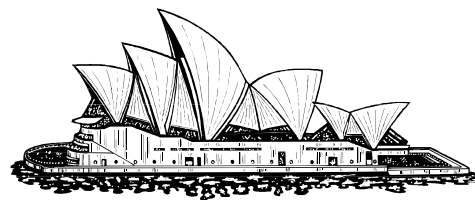
Looking beyond the optimistic reports of the "sell side" Wall Street analysts, however, one can't help but notice cracks in the supposedly solid FedEx facade. The recent gains in profitability and productivity did not result from any of Fred Smith's revolutionary management techniques but old fashioned cost cutting. Some 14,000 employees are being cut from FedEx' express services, an amount larger than the entire working force of many transportation companies. Also, its signature business, overnight delivery of packages and documents, which was the original reason for the company starting up in Memphis, has remained flat for the past few years. FedEx continues to lose market share to UPS in the extremely profitable overnight express sector and now also must contend with DHL's ambitious push into the U.S. market backed by the deep pockets of Deutsche Post. Despite all the optimism about FedEx' ground business, which is an unquestioned bright spot in company operations, domestic air express still accounts for 42 per cent of corporate revenue. Its \$2.2 billion purchase of Kinko's in the fiercely competitive small business printing business also is causing head scratching by most FedEx watchers. So far, the expected "synergies" of the two companies do not exist and perhaps never will.

We at CII give full credit to Fred Smith for his brilliant innovations in the air cargo business. He single handily fashioned a new industry, perhaps the most difficult achievement in all of business. Every experienced air freight executive thought Smith had lost his mind when he declared it was faster and cheaper to run packages through a hub in Memphis than point to point. But Smith was proven right and the skeptics wrong. But all industries mature and change. FedEx, <cont>

Virgin Eyes SYD-LAX

Route:

While the new, and not yet financed domestic airlines, Virgin America, generates all the media attention, its Australian counterpart, Virgin Blue, quietly is moving ahead steadily and successfully. Started just a few years ago when domestic Australian carrier Ansett went into liquidation, the airline has come on like gangbusters with its share of the Aussie market approaching 50 per cent. Qantas, who took over this route from Ansett, never knew what hit them. Now, Virgin Blue seriously is considering moving into the international arena against its old rival, Qantas. By Christmas time, Virgin Blue may be flying the Sydney-Los Angeles route, now Qantas' single most profitable international lane segment. From a cargo perspective, a new airline flying across the South Pacific is good news. Virgin Blue probably will utilize Boeing 747-400s with substantial cargo capacity and with sufficient range to fly non-stop in each direction. The Australian cargo market is the strongest in years, with record high volume and shipment count. CII can testify to the strength of this market as we never have been busier across the Pacific. The new U.S.-Australian trade agreement which takes effect January 1, 2005 and slices Aussie import tariffs almost to zero, also should generate even greater export business. With the Australian market so strong, any new capacity is welcome.



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which had no meaningful competition in its early days, now faces formidable challenges from UPS and DHL in the air and smart, sophisticated LTL truckers on the ground who literally are giving him a run for his money. The next few years, not the next few quarters, will tell the story.

Mixed Signs On U.S.

Economy:

The Federal Reserve has a genius for doing the wrong thing at the wrong time. It is determined to raise interest rates each quarter for the remainder of this year and into 2005 even though signs are unmistakable that a slowdown of the economy is taking place. The job market remains weak, retail sales are in the pits with autos leading the way, the stock market has gone nowhere since the first of the year with NASDAQ being particularly weak. Although the Fed never would admit it is wrong, the most sensible action would be to reduce interest rates going forward—not raise them. From a freight perspective, perhaps the most disquieting news is that in industries where air cargo plays an important role, most specifically the technology sector, inventories are piling up well beyond demand. Reports from such bellwether companies as Dell and Intel indicate a worrisome build-up in inventory, raising concern that production and shipping are getting too far ahead of the economy.

"If inventories continue to grow, despite the traditionally heavy buying Holiday season, batten down the hatches. We might have to ride out a slowdown in shipping volume."

It is indeed ironic that inventories are growing despite all the supply chain management propaganda that inventories would be reduced using the just-in-time systems. Another case of reality trumping theory. Currently, air freight revenues and shipment count, particularly from Asia and the South Pacific, remain solid. It is not too early, however, to keep a weather eye on the economy to spot signs of growing weakness.

Sincerely,

Julian A. Keeling