Consolidators international, Inc.

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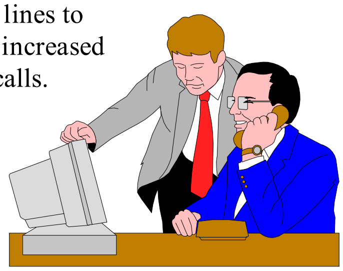
Fourteen Years Young & Still Growing Stronger:

It is hard to realize, but last month CII celebrated its fourteenth year in business. A lot of water has flowed over the dam during the past fourteen years, but the bottom line is that we keep growing stronger. We have expanded domestically from our original headquarters at LAX to offices in New York (JFK) and Atlanta. Internationally, CII now has facilities in Asia (Taiwan) and New Zealand (Auckland) in the South Pacific. Despite our expansion, however, the way we do business remains the same. Personal service and more personal service is our mission and has been the secret of CII's success. Our address has remained the same as have our phone and fax numbers. Even our phone system where a real live person, no machine, always answers the phone is the same although we have added new lines to handle our increased volume of calls.



Our preferred airlines hardly have changed. They were the prime carriers to our principal destinations then and remain so today. Sure, our technology has moved with the times and yes, our staff has grown more than ten times; from three to thirty five. With all this progress, however, Peter Lamy and I have kept to the same philosophies we adopted when CII first opened its doors. Some may think of us as anachronisms but many more will say there is nothing wrong in stressing old fashioned service and remaining true to our beliefs and principles.

Peter and I still possess the same passion about our jobs as when we first opened CII's doors back in 1993. While our company has grown physically, our mental attitude has been, hopefully, to change only for the better and to respect the culture of our company. We believe it is human input that makes the difference. We don't try and set rules by which our staff must abide. We consider it melancholy that an employee's manual has to be disseminated to our people. But in this litigious age, CII must protect the best interests of the company and protect our most valued asset; the CII family.

Announcements

Inside This Issue:

My fourteen year-old chair is starting to show wear. But as uncomfortable as it has become, I can't part with it. From that chair, too many decisions have been made that have kept our customer base growing and the company moving forward. Today, CII is the largest independent wholesaler in the U.S. We've also made some mistakes, but happily our right decisions have far outweighed our wrong ones. We look forward to serving our industry for at least fourteen more years.

Exquisite Timing By Chinese & American Governments:

Despite massive overcapacity and falling rates in the U.S.-China air cargo market, the Chinese and American governments, with exquisite timing, have proclaimed proudly a new air services agreement between the two nations. The new agreement will allow greater number of passenger flights leading to a doubling of these flights by 2012, and to quote the official statement, "enhanced commercial opportunities for air cargo."

As far as air freight is concerned, the deal is a lot of hot air. Although the two nations call the new agreement "historic," there is nothing historic about the deal for airlines flying freighters into China and for the forwarders who supply 90 per cent of the cargo on those airplanes. The depressing fact is that a whole group of new entries like Jade Cargo and Shenzen Cargo are adding lift capacity on top of the multitudes of "legacy" carriers who are buying and flying new oversized cargo aircraft like there is no tomorrow.

The new agreement, which supposedly will lead to an "Open Skies" arrangement a few years from now (with greater number of flights) is another sad example of how hopelessly behind the times government bureaucrats are in assessing the true picture of an industry that is going south while they open the door to greater capacity.

Whither China?

Just as the 20th Century was labeled the "American Century," so too are many prognosticators and futurists calling the 21st Century, the "Chinese Century." To place an enormously flawed social, political and economic society as China on the same level as the U.S.is absurd. Yes, China has become the world's manufacturing center and is the strongest military power in Asia. Moving beyond its cheap labor force, however, is a hollow core. Too many in our business community cannot look beyond thousands of factories grinding out millions of low cost products enhancing their balance sheets to see a nation with a rotten center. Our own transportation industry has become far too dependent on this market. A number of air and ocean carriers already are regretting their over dependence on China trade. Just ask Maersk who has pulled out huge containerships off the China market. Or Air Canada who is eliminating cargo flights out of Shanghai or Lufthansa who is reducing cargo lanes between China and Europe.

What country is following the Chinese example of a mixed communist-capitalist society? None. It is not the Chinese example but radical Islam fundamentalism that I believe will have far more influence on world society than China.

Environmental degradation will be one of the most important challenges during this century. Who is the worst offender of global warming? Just ask any visitor to a major Chinese city who sees and breathes the worst polluted air on the planet. The Chinese never talk about their "hidden" unemployment. Yet, tens of millions of unemployed rural workers have flocked to the cities in search of jobs, however low the pay and however bad are the working conditions. Although the Chinese government refuses to issue unemployment statistics, I have seen with my own eyes when visiting large Chinese cities the huge amounts of homeless people sleeping on street corners and in alleyways.

The Chinese government continues to report huge trade surpluses, particularly with the U.S. Yet, overcapacity continues to plague both air and ocean trade with China. There is a disconnection here. Slightly rising exports to China from the U.S., primarily because of the weakened dollar, can't begin to explain this discrepancy. Does China have an Achilles heel? Yes, in the refusal by its government to allow even a slight loosening of the reins of power. That tight control ultimately will make the 21st Century, the "Un-Chinese" Century.

Has Forwarder Merger Mania Run Its Course?

A few years ago, hardly a month went by when a merger or acquisition by two mega forwarders wasn't announced. Today, years later, those surviving companies still are trying to sort out their personnel and operations. Mergers are out, but taking over poorly run forwarders by sharp, knowledgeable air freight veterans may be the next trend. Case in point; an unsuccessful forwarder known as Interjet was acquired recently for little more than pennies on the dollar by Dutch-born Hank Hartung and a group of former AEI executives. Hartung, who sold off AEI to Deutsche Post about eight years ago for big bucks, has renamed the forwarder IJS Logistics and is working hard to build a mid-sized operation with its own offices (not franchises) in key locations worldwide and with a professional, experienced staff.

Perhaps most importantly, Hartung is attempting to bring back "old fashioned" service as the hallmark of his company. In public and private announcements, Hartung has criticized his old boss, AEI, as "too big, too rigid, cumbersome and lacking in personal service." He believes the success of the Emery's, BAX Global's and MSAS' was based primarily in moving heaven and earth to satisfy a customer. I completely share his beliefs that a return to basics is necessary for the success of our industry. We no longer can depend on the giants of our industry to make positive changes. Smart executives of these companies are simply packing it in to either establish "IJS" of their own or join smaller companies. There, they can return to an environment where work is fun, not drudgery, and where they can spend the day actually contacting their customers, sitting in operations rooms watching their colleagues at work, actually walking on a loading dock to inspect freight and to make sales & service calls. These are the basic tenets of running a successful enterprise.

Not more than fifteen years ago, I was in partnership with a morally and fiscally bankrupt forwarder. Senior executives there worried far more about how many pieces of polished mahogany furniture they had in their offices, how many hundreds of square feet the offices were and was it a corner office—than about the well being of their customers. The DiMedicis had nothing on them for stabbing colleagues in the back and blowing their own horns. The company went bankrupt simply because their leaders were morally bankrupt. Profit-Lep was just a few years ahead of its time. Current shenanigans include Jim Crane's ill-fated attempt to buy back Eagle. What decent, hard working executive wants to report to a Jim Crane who secretly inserted a $30 million "break-up" fee to himself if the deal did not go through? Now, morally principled executives can break out and do their own thing; to succeed on their merits much to the chagrin of their former employers.

Hartung's operation is just the start of new beginnings in our industry.

FedEx Next Buy-Out Candidate?

Anyone who reads the financial pages of any big city newspaper from Los Angeles to London can't be ignorant of the huge amounts of private buy-outs of public companies by the big private equity firms like Blackstone & KKR. These companies, generally using borrowed money thrown at them by obliging banks, have taken public companies private by the barrelful, spending hundreds of billions of dollars in the process.

No company, no matter how large or well run, is considered safe anymore. Not even the poster boy of the transportation industry, FedEx. FedEx indubitably is one of the greatest of American brands and could lure a private buyer at 20 per cent or more above its current per share price. Too big, you say? Not these days. FedEx' $35 billion dollar value puts it squarely in the bullseye of big deals favored by cash rich LBOs. Too cyclical? Not really, given FedEx' steady growth rate and strong international and ground business. Too tough to finance? LBOs and their banks seeminly can finance anything these days and don't forget FedEx' hard assets in the form of nearly 700 aircraft and 44,000 trucks.

The only weak sister in FedEx' operations is Kinko's (a rare mistake by Fred Smith) but the private equity folks never saw a business they couldn't turn around. The only major obstacle is Mr. Smith himself, who never has given any indication that he would be amenable to going private. But money talks. Put enough dollars on the table and even Fred might sign over his pride and joy. Smith still is relatively young. He could emulate Bill Gates and spend the rest of his days as a munificent philanthropist scattering largesse to many needy charities.

It's Tough To Make A Buck In Domestic Cargo:

Last month, domestic air cargo carrier Kitty Hawk announced that it was "exploring strategic alternatives to determine the best course of action for its shareholders." In plain English, Kitty Hawk was putting out a "for sale" sign. The possible fire sale of this all-cargo airline is but another indication of how tough it is to make a buck in domestic air cargo. As a matter of fact, Kitty Hawk's stock is selling for only a buck a share while its two top executives; Robert Zoller, CEO, and Board Chairman Gerald Gitner, were given the old heave-ho by an irate Board.

Many have tried, but no one ever has made money flying domestic cargo. When the old CAB allowed freight forwarders to fly their own airplanes, the big consolidators like Burlington Northern Air Freight and Emery Air Freight rushed in with fleets of ageing DC-8 aircraft. Burlington corrected its mistake quickly; de-emphasizing air service and creating a strong network of truck operations. Emery was slower to react, not realizing that running an airline was a far different proposition than acting as a middleman. Emery paid the consequences. The company that started the modern air freight business became a hapless pawn in take-overs by various transport firms little stronger than they.

While Kitty Hawk was touting its overnight capabilities by air, the company's forwarder customers increasingly were turning to less costly time definite and deferred deliveries by truck. The airline was much too slow to establish a viable surface network to complement its air fleet. Kitty Hawk is paying the consequences for its tardiness with a near bankrupt airline.

Not only are forwarders abandoning domestic air, what little cargo remains is primarily handled by the combination carriers. It's almost impossible for an all-cargo airline to charge compensatory rates when passenger carriers still consider freight an incremental income and price it less than moving by truck. Even mighty FedEx is not immune to this trend. The company's ground operations are growing like gangbusters while its heavyweight domestic air division is going nowhere.

In Memorial:

In April of this year, John C. Emery, Jr., died at the age of 82 at his home in Connecticut. Emery, Jr., a giant in the air freight industry, was the son of another giant, John C. Emery, Sr. who founded the eponymous company after World War II and almost single handedly created the modern air freight industry. Starting as a truck driver for Emery after serving in the U.S. Navy during World War II, Emery, Jr. rapidly rose through the ranks to become President. Hardly just the scion of a very successful executive, Emery, Jr. brought fresh ideas and methods to the Wilton, CT- forwarder.

Upon his retirement, Emery was operating 180 offices with 10,000 employees. It had grown from an $80 million company to a company with $1.2 billion in revenues and was part of the "nifty fifty" group of growth stocks on the New York Stock Exchange. Emery, Jr's principal regret was that his "no" vote to start the company's own air fleet after the CAB gave permission to forwarders to do so, was overidden by the Company Board of Directors who voted to go ahead. Emery, Jr. wanted to remain a "pure" forwarder and history has proven him correct. Its air fleet started a long, slow slide of once the greatest name in air freight.

Sincerely,

Julian A. Keeling