

REPORT OF FINANCIAL  
AND OPERATING STATISTICS FOR  
LARGE CERTIFICATED  
AIR CARRIERS

Period ended JUNE 30 ~~xxx~~ 2000

CHALLENGE AIR CARGO, INC.  
(Full name of reporting company)

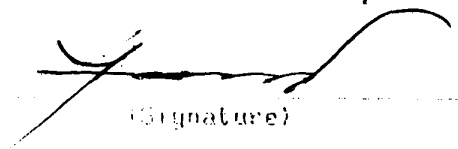
WE ✓

CERTIFICATION\*

I, the undersigned VICE PRESIDENT FINANCE  
(Title of officer in charge of accounts)

of the CHALLENGE AIR CARGO INC.  
(Full name of reporting company)

do certify that this report and all schedules, ADP-media submissions, Passenger Origin-Destination Survey submissions and supporting documents which are submitted herewith or have been submitted heretofore as parts of this report filed for the above indicated period have been prepared under my direction; that I have carefully examined them and declare that they correctly reflect the accounts and records of the company, and to the best of my knowledge and belief are a complete and accurate statement, after adjustments to reflect full accruals, of the operating revenues and expenses, income items, assets, liabilities, capital, retained earnings, and operating statistics for the periods reported in the several schedules, the Schedule T-100 ADP-media submissions, and the Passenger Origin-Destination Survey; that the various items herein reported were determined in accordance with the Uniform System of Accounts and Reports for Large Certificated Air Carriers prescribed by the Department of Transportation; and that the data contained herein are reported on a basis consistent with that of the preceding report except as specifically noted in the financial and statistical statements;

  
(Signature)

P.O. BOX 523979, Miami, FL 33152  
(Air Carrier Post Office Address)

Dated AUGUST 09 ~~xxx~~ 2000

\*Title 18 U.S.C. Sec. 1001, Crimes and Criminal Procedure, makes it a criminal offense subject to a maximum fine of \$10,000 or imprisonment for not more than 5 years, or both, to knowingly and willfully make or cause to be made any false or fraudulent statements or representations.

## BALANCE SHEET

As At: June 30, 2000  
 Schedule B-1  
 ACCT# DESCRIPTION

Air Carrier:  
 Operation : Domestic WED  
 AMOUNT

	ASSETS	
	CURRENT ASSETS	
1010	Cash	1,216,556
1100	Short-Term Investments	0
1200	Notes Receivable	0
1270	Accounts Receivable	18,765,809
1290	Less Allow. for Bad Debts	761,196
1299	Net Notes & Accounts Receivable	18,004,613
1399	Net Spare Parts & Supplies	1,498,414
1410	Prepaid Items	924,286
1420	Other Current Assets	188,265
1499	Total Current Assets	21,832,134
	INVESTMENTS IN SPECIAL FUNDS	
1510	Inv. in Associated Companies	0
1530	Other Investments & Receivables	0
1550	Special Funds	0
1599	Total Inv. & Special Funds	0
	OPERATING PROPERTY & EQUIPMENT	
1609	Flight Equipment	4,944,341
1649	Ground-Property and Equipment	13,744,546
1668	Less Allowance for Depreciation	11,932,428
1675	Property & Equipment - Net	6,756,459
1679	Land	0
1685	Purchase Dep. & Adv. Payments	0
1689	Construction Work-in-progress	350,000
1695	Leased Property - Cap. Leases	3,911,464
1696	Accum. Amort. Capital Leases	0
1699	Total Oper. Prop. & Equipment	11,017,923
	NONOPERATING PROP. & EQUIPMENT	
1791		0
1792	Less Allow. for Depr. - Nonop.	0
1799	Net Nonoperating Prop. & Eqmt.	0
	OTHER ASSETS	
1820	Long-term Prepayments	0
1830	Unamort. Dev. & Preop. Costs	0
1890	Other Assets and Def. Charges	4,227,330
1895	Total Other Assets	4,227,330
1899	TOTAL ASSETS	37,077,387

## BALANCE SHEET

As At: June 30, 2000

Schedule B-1

Air Carrier:

Operation : Domestic WED

ACCT# DESCRIPTION

AMOUNT

	LIABILITIES & STOCKHOLDERS' EQ.	
	CURRENT LIABILITIES	
2000	Curr. Maturities of L-T Debt	15,208,174
2005	Notes Payable - Banks	0
2015	Notes Payable - Others	0
2021	Trade Accts. Payable	26,825,995
2025	Accts. Payable - Other	2,870,240
2080	Curr. Oblig. Under Cap. Leases	0
2110	Accrued Salaries & Wages	196,243
2120	Accrued Vacation Pay	0
2125	Accrued Interest	0
2130	Accrued Taxes	17,848
2140	Dividends Declared	0
2160	Air Traffic Liability	0
2190	Other Current Liabilities	25,367,971
2199	Total Current Liabilities	70,486,471
	NONCURRENT LIABILITIES	
2210	Long-term Debt	9,586,015
2240	Advances from Assoc. Companies	0
2250	Pension Liability	0
2280	Noncurrent Obgl.-Capital Leases	0
2290	Other Noncurrent Liabilities	0
2299	Total Noncurrent Liabilities	9,586,015
	DEFERRED CREDITS	
2340	Deferred Income Taxes	0
2345	Deferred Investment Tax Credits	0
2390	Other Deferred Credits	0
2399	Total Deferred Credits	0
	STOCKHOLDERS' EQUITY	
2820	Preferred Shares Issued	0
2840	Common Shares Issued	9,504,150
2860	Subscribed & Unissued	0
2869	Total Capital Stock	9,504,150
2890	Additional Capital Invested	0
2899	Total Paid in Capital	9,504,150
2900	Retained Earnings	-52,499,249
2959	Total Stockholders' Equity	-42,995,099
2990	Less Treasury Stock	0
2995	Net Stockholders' Equity	-42,995,099
2999	Total Liab. & Stockholders' Eq.	37,077,387
2820A	No. of Preferred Shares Issued	0
2840A	No. of Common Shares Issued	0



U.S. Department  
of Transportation  
Research and  
Special Programs  
Administration

**AIRFRAME AND AIRCRAFT ENGINE ACQUISITIONS  
AND RETIREMENTS**

Air Carrier CHALLENGE Air Cargo, Inc

Quarter Ended 06-30 2000

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Line #	Year of First Delivery (Airframe)	Airframe Manufacturer's Serial Number	Date Acquired or Retired	Acquisition or Retirement "A" or "R"	Airframe License Number	Number of Engines Acquired/ Retired	Type, Model and Cabin Design	Maximum Seating Capacity	Cost	Amortized/ Depreciated Cost	Realization	Acquired From/ Disposition
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
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B1.2

Challenge Air Cargo Inc.  
Statement of Cash Flow  
For the quarter ending June 30, 2000

Cash Flows from Operating Activities	
Net Profit or (Loss)	(15,757,397.55)
Adjustments to reconcile net Income to net cash provided in Operating Activities	
Depreciation and Amortization	424,412.83
Provision for losses in accounts receivable	139,759.45
Amortization of Overhauls-Function 52	0.00
Changes in Assets and Liabilities	
Decrease (Increase) in Accounts Receivable	(894,003.13)
Decrease (Increase) in spare parts and supplies	(997,596.41)
Decrease (Increase) in prepaid items	(286,580.16)
Decrease (Increase) in Long Term Prepayments	0.00
Decrease (Increase) in Unamortized Developmental Costs	0.00
Decrease (Increase) in Other Assets and Deferred Charges	226,043.45
Decrease (Increase) in Other Current Assets	0.00
Increase (Decrease) in accounts payable	11,759,459.15
Increase (Decrease) in accounts payable-Others	628,344.95
Increase (Decrease) in accrued expenses	(108,004.88)
Increase (Decrease) in accrued income taxes	(87,654.49)
Increase (Decrease) in other current liabilities	5,070,130.60
Increase (Decrease) in other liabilities	(332,593.07)
Total Adjustments	15,541,718.29
Net Cash Provided by Operating Activities	(215,679.26)
Cash Flows from Investment Activities	
Capital Expenditures	(464,954.60)
Decrease in Short Term Investments	0.00
Net Cash Used in Investing Activities	(464,954.60)
Cash Flows from Financing Activities	
Repayments of long-term debt	(123,593.07)
Net Cash Used in Financing Activities	(123,593.07)
Net Increase (Decrease) in Cash	(804,226.93)
Cash and Cash Equivalents Beginning of Period	2,020,782.96
Cash and Cash Equivalents end of Period	1,216,556.03

Schedule B12

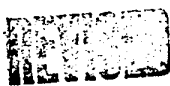
## STATEMENT OF OPERATIONS

Quarter Ended: June 30, 2000  
 Schedule P-1.2 Group II  
 ACCT# DESCRIPTION

Air Carrier: Challenge Air Cargo  
 Operation : Latin WEL

AMOUNT

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	OPERATING REVENUES	
3901	Transport Revenues - Passenger	0
3905	Mail	166,396
3906.1	Property - Freight	29,558,614
3906.2	Property - Excess Baggage	0
3907.1	Charter - Passenger	0
3907.2	Charter - Property	9,522
3919.1	Reserv. Cancellation Fees	0
3919.2	Misc. Operating Revenues	0
4808	Public Service Subsidy	0
4898	Transport Related	3,195,579
4999	Total Operating Revenue	32,930,111
	OPERATING EXPENSES	
5100	Flying Operations	24,790,385
5400	Maintenance	3,132,233
5500	Passenger Service	0
6400	Aircraft & Traffic Servicing	9,922,273
6700	Promotion & Sales	2,567,518
6800	General & Administrative	4,286,019
7000	Depreciation & Amortization	695,890
7100	Transport Related Expenses	0
7199	Total Operating Expenses	45,394,318
7999	Operating Profit or Loss	-12,464,207
	NONOPERATING EXPENSE (INCOME)	
8181	Int. Exp. (Inc.) on L-T-D & Cap. Leases	221,002
8182	Other Interest Expense (Income)	0
8185	Foreign Exchange (Gain) or Loss	0
8188.5	Capital (Gains)/Losses- Op.Prop.	13,573
	Capital (Gains)/Losses- Other	
8189	Other Expense (Income) - Net	-86,774
8199	Nonoperating Expense (Income)	147,801
8999	Income Before Income Taxes	-12,612,008
9100	Income Tax Expense	78,350
9199	Inc. Bf. Disc. Ops & Other Items	-12,690,358
9600	Discontinued Operations	0
9796	Extraordinary Items	0
9797	Inc. Tax Appl. To Extraord. Item	0
9799	Income Before Account. Changes	-12,690,358
9800	Accounting Changes	0
9899	Net Income	-12,690,358



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US Department  
of Transportation  
Research and  
Special Programs  
Administration

Air Carrier CHALLENGE AIR CARGO, INC

Operation LATIN AMERICA,

Period Ended JUNE 30, 2000

NOTES TO RSPA FORM 41 REPORT

This quarter continue to show a net operating loss.

The purchase agreement of Assets and air route transfers with UPS was approved by DOT in June 2000, but closing of this transaction is still pending.

The company is operating one aircraft DC-10 aircraft and leasing Boeing 757's aircraft form UPS.

Florentino Gonzalez  
Vice-president of Finance

AIRCRAFT OPERATING EXP. - Sch. P-5.2 Grp 11 & III Qtr: June 30, 2000  
Air Carrier: Operation: Latin WEL  
Total Eqp 8-757 DC-10-3 DC-10-4  
Code 9999 Code 6222 Code 7322 Code 7332

ACCT #	DESCRIPTION	Total Eqp Code 9999	8-757 Code 6222	DC-10-3 Code 7322	DC-10-4 Code 7332
	FLYING OPERATIONS				
5123	Pilots and Copilots	513,438	0	0	513,438
5124	Other Flight Personnel	89,215	0	0	89,215
5128.1	Trainees and Instructors	20,286	0	0	20,286
5136	Personnel Expenses	45,373	0	0	45,373
5141	Prof. & Tech. Fees & Exp.	0	0	0	0
5143.7	Aircraft Interch. -Outside	0	0	0	0
5145.1	Aircraft Fuel	6,923,295	3,910,645	840,968	2,171,682
5145.2	Aircraft Oil	2,209	0	0	2,209
5147	Aircraft Rentals	16,820,693	12,921,916	1,134,456	2,764,321
5153	Other Supplies	159	0	0	159
5155.1	Insur. Purch. - General	274,034	0	0	274,034
5157	Empl. Benefits and Pensions	59,438	0	0	59,438
5158	Injuries, Loss and Damage	0	0	0	0
5168	Taxes-Payroll	42,245	0	0	42,245
5169	Taxes-Other Than Payroll	0	0	0	0
5171	Other Expense	0	0	0	0
5199	Total Flying Operations	24,790,385	16,832,561	1,975,424	5,982,400
	DIRECT MAINTENANCE-FLIGHT EQUIP				
5225.1	Maint Airf. Labor	241,572	0	0	241,572
5225.2	Maint Eng. Labor	127,229	0	0	127,229
5243.1	Maint Airf. Outside Rep.	816,127	24,970	0	791,157
5243.2	Maint Eng. Outside Rep.	838,118	8,466	0	829,652
5243.7	Maint AC Interch. Chrgs-O/S	0	0	0	0
5246.1	Maint Materials - Airframe	32,863	26,892	0	5,971
5246.2	Maint Materials - Engines	117,742	110,625	0	7,117
5272.1	Maint Airfrm Airworth. Provs.	0	0	0	0
5272.3	Maint Airfrm O/H Deferred	0	0	0	0
5272.6	Maint AC Eng. Airworth. Prov	0	0	0	0
5272.8	Maint AC Eng. O/H Def. (cr.)	0	0	0	0
5278	Total Dir Maint-Flt.Eqpt	2,173,651	170,953	0	2,002,698
5279.6	APPL. MAINT BURDEN FLT. EQ.	0	0	0	0
5299	Total Flt. Eq. Maint. (Memo)	2,173,651	170,953	0	2,002,698
7073.9	NET OBSL & DETER.- EXP. PARTS	0	0	0	0
	DEPRECIATION - FLIGHT EQUIPMENT				
7075.1	Depr. Airframes	0	0	0	0
7075.2	Depr. Aircraft Engines	0	0	0	0
7075.3	Depr. Airframe Parts	30,941	0	0	30,941
7075.4	Depr. Engine Parts	0	0	0	0
7075.5	Depr. Other Flt Eqpt.	4,209	0	0	4,209
7076.1	Amort. Cap. Leases Flt.Eqpt.	101,221	0	0	101,221
	EXPENSE OF INTERCHANGE AIRCRAFT				
7098.1	Exp. of Interch. AC- Flt. Ops	0	0	0	0
7098.2	Exp. of Interch. AC- Maint.	0	0	0	0
7098.9	Total Aircraft Operating Expens	27,100,407	17,003,514	1,975,424	8,121,469
	OTHER DEPRECIATION & AMORTIZATI				
7074.1	Amortization Developmental &Pre	0			
7074.2	Amortization Other Intangibles	0			
7075.8	Depreciation Hangar & Maint. Eq	0			
7075.9	Depreciation Ground Property	559,519			
7076.2	Amort. Capital Leases Other	0			



# OPERATING EXPENSES BY OBJECTIVE GROUPING

Quarter Ended: June 30, 2000

Schedule P-6

Air Carrier:

Operation : Latin WEL

LINE#	DESCRIPTION	AMOUNT
	SALARIES & REL. FRINGE BENEFIT	
	SALARIES:	
Line 3	General Mgmt. Per.	1,246,693
Line 4	Flight Personnel	0
Line 5	Maintenance Labor	71,970
Line 6	Aircr. & Traffic Hndl. Per.	2,451,502
Line 7	Other Personnel	0
Line 8	Total Salaries	3,770,165
	RELATED FRINGE BENEFITS	
Line 10	Personnel Expense	19,175
Line 11	Empl. Benefits & Pensions	870,858
Line 12	Payroll Taxes	544,508
Line 13	Total Fringe Benefits	1,434,541
Line 14	Total Salaries & Benefits	5,204,706
	MATERIALS PURCHASED	
Line 16	Aircraft Fuel & Oil	6,925,504
Line 17	Maintenance Materials	5,123
Line 18	Passenger Food	0
Line 19	Other Materials	454,209
Line 20	Total Materials	7,384,836
	SERVICES PURCHASED	
Line 22	Advertising & Other Promotion	32,828
Line 23	Communications	2,014,800
Line 24	Insurance	372,667
Line 25	Outside Flight Eqpt. Maint.	213,114
Line 26	Traffic Commissions - Passenger	0
Line 27	Traffic Commissions - Cargo	1,454,337
Line 28	Other Services	4,554,706
Line 29	Total Services	8,642,452
Line 30	LANDING FEES	951,190
Line 31	RENTALS	17,895,746
Line 32	DEPRECIATION	636,252
Line 33	AMORTIZATION	59,638
Line 34	OTHER	4,619,497
Line 35	TRANSPORT RELATED EXPENSES	0
Line 36	TOTAL OPERATING EXPENSES	45,394,317