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15 Things I Think I Think (Regarding Trucking in 2011)

Finally, a few new, or at least different, perspectives on what will happen in the truck transportation industry in 2011. The observations below are provided by BB&T Capital Markets. After reading the bullet points I touched on below, you will no doubt want to review BB&Ts full report detailing their 15 observations – the report can be found after my summary.

When will the banks pull the plug on weak, financially troubled carriers? We don't expect carrier foreclosures to accelerate. Unless a carrier faces a fresh cash crunch, which is conceivable given rising diesel fuel prices and actual and pending regulatory changes that may lead to safety and utilization issues, then we don't expect banks to accelerate carrier failures in 2011. **This is the first report I have seen by a financial analyst that does NOT think that lending institutions will crank down on carriers that are behind in payments once used equipment prices reach breakeven levels. I do agree that the continuing rise of diesel fuel will push some carriers over the edge and require viable carriers to consider shipper fuel surcharges just as heavily as line haul rates. With diesel already at $3.30, the historic prices experienced in late 2007 & early 2008 are, unfortunately, in sight.**

We see at least three stages of consequences coming out of CSA. The **FIRST** occurred during 2010 when many carriers purged their fleets of poor and mediocre drivers in anticipation of CSA. I think BB&T is overestimating the CSA "driver cleansing" that occurred in 2010. **As many as 70+ % of carriers have never checked their pro-forma CSA ratings - if this is true, it does not stand to reason that very many drivers were removed based on their CSA scores. I do agree that several of the larger, more stable and safety conscious carriers (Melton Truck Lines) have gradually replaced poor performers, but this encompasses a very small percentage of the carriers / drivers on the road today.** The **SECOND PHASE** should play out this year and beyond as carriers recognize that some of the drivers they targeted for additional training and education simply won't make it. As they purge their driver base again, this should tighten capacity. **This is certainly true. As we have identified "borderline" driver performers and conducted re-training and improvement sessions with them - many simply still wash out. The consequences of CSA violations & poor scores are simply too great for a carrier to take a risk on a poor driver - carriers are better off letting the truck sit empty than risking a violation or accident.** The **THIRD PHASE** (and maybe not the last) should be litigation. This includes litigation hitting carriers after accidents with the allegation that they should have known better who they hired. And ***litigation that moves up the food chain to target shippers more aggressively***. Ambulance chasing attorneys should be looking for additional parties to find liable for transgressions, and ***we believe the transparency of the new system suggests a number of shippers will be sued, perhaps like never before, regardless of indemnification laws.*** .....we are ***predicting more shippers being targeted by plaintiff attorneys*** in the coming years. **This is sad but true. Case law is already in progress in Florida and other states citing shipper responsibility of taking all reasonable precautions to ensure their carriers operate safely. The new CSA ratings are much more accessible, easier to understand, and very clear for shippers to verify and check on carriers they use. *Shippers who cut corners and use carriers with poor CSA scores will doubtless end up in court justifying their decisions.***

Hours of service (HOS) shouldn't impact capacity much in 2011, but should act as a tightening mechanism for 2012 capacity and beyond. We believe live adoption is most probably in early 2012. **BB&T timing is about 6 - 8 months later than most analyst predictions - hope they are right!**

Wage (driver pay) increases in 2011 and beyond. While conventional wisdom is that rates will rise 4% to 5% starting this spring or summer, our view is that is just a down payment of what is needed. With few miles under the proposed HOS changes, this means reduced wages for many drivers without other changes. ...it is conceivable that wages could rise at a double -digit clip in 2002. ... **Those of us who are asset-based carriers have absolutely no doubt that there will be compound driver wage increases. First, we will all compete for drivers with good CSA scores - and we will pay more for those drivers. Second, driver per-mile wages have not increased in over 2 ½ years - they are**

already overdue. <u>Third</u>, as HOS, CSA, and an improved economy all come together, the law of supply and demand will cause a driver shortage. If drivers are in short supply, they will command more money regardless of CSA, HOS, etc. Factor these three elements together and many are predicting driver wages to increase 8 - 11%. Carriers will have no choice but to pass these increases through to shippers in the form of rate increases. The forward-looking shippers are laying the groundwork to pass these cost increases through to their customers/consignees.

If you have any questions or need additional information, please don't hesitate to contact me or your Melton Regional Sales Representative

Best Regards,

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