Transport Capital Partners
July 23, 2008

OBSERVATIONS MADE AT THE 25TH ANNUAL REFRIGERATED TRUCKLOAD CONFERENCE

We had the opportunity to attend the Truckload Carriers Association's annual Refrigerated Division Conference in Monterey, CA earlier this month. Listening to several presentations, participating in workshops, and visiting with many attendees provided some diverse insight into the direction of the refrigerated industry as it tries to adjust to an ever changing North American economy.

Overall, several themes emerged:

1) Fuel, fuel, fuel was the primary theme of many formal and informal conversations. This has contributed to the rise of U.S. logistics' costs to over 10% of GDP. (Our recent fuel survey was a proactive industry response to this pressure.);

2) Environmental dictates have also raised the costs through higher prices for equipment and the use of APUs;

3) CARB (California Air Resource Board) will have a continuing influence on refrigerated carriers and the industry in general through an ever expanding and complex set of rules; and

4) Freight capacity appears to be tightening with the drop in new class 8 demand (50%) coupled with fleet reductions and some carriers exiting the business.

These trends are having a significant impact on refrigerated carriers:

- Metrics are still under pressure even though the refrigerated segment has experienced improvements in supple/demand.
- According to John Larkin of Stifel Nicolaus, rate increases for reefers that are at least 4% greater than van carriers are considered necessary to achieve comparable returns on investment and business sustainability in the refrigerated industry.
- As larger carriers in the industry move into regional markets, smaller carriers are being forced into longer hauls with older equipment and dependence on broker returns that contributes to failures.
- EPA's Smartway certification is gaining participation and there are reports that shippers are beginning to favor Smartway carriers under the program.
- One favorable trend is that drivers are more available and more qualified, with lower turnover rates being experienced. However, TCA Chairman, Ray Haight warned that this is a temporary situation and as the freight improves, carriers will likely be facing the same old driver shortage. Carriers were advised to focus on driver retention and work to avoid the high cost of turnover.

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In order to survive, carriers are:

1. Emphasizing shorter regional business, dedicated freight and all around operational efficiency.
2. Initiating or expanded brokerage, intermodal and agent operations.
3. Pursuing compensatory fuel surcharges and seeking rate adjustments (predicted on accurate cost analysis) as aggressively as possible in order to achieve adequate return on investment.

We believe that carriers with strong balance sheets will continue to seek 'tuck-in situations' as well as larger opportunities with shippers offering the preferred commodities and length of haul. We also believe that private equity firms will be less aggressive, unless they can find the perfect situation of $50 million in revenues, 20% EBITDA, and non-asset based in niche markets. Finally, we see the financing of operations in the short and long term as a challenge as credit tightens.

In other words, while the present economic situation is presenting a daily dose of 'bad news,' freight volumes are rising and many are beginning to speculate on when a 'turn around'--the light at the end of the tunnel--will appear. The Ancient Mariner had a saying that is appropriate to transportation today, "It is not how the wind blows, but how the captain sets the sails." If you'd like to discuss how you can reset your sails, please feel free to call us or any of our colleagues at Transport Capital Partners or go to our website at www.TransportCap.com <http://www.TransportCap.com> .
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