Transport Capital Partners, LLC

Business Expectations Survey Results

Fourth Quarter 2010

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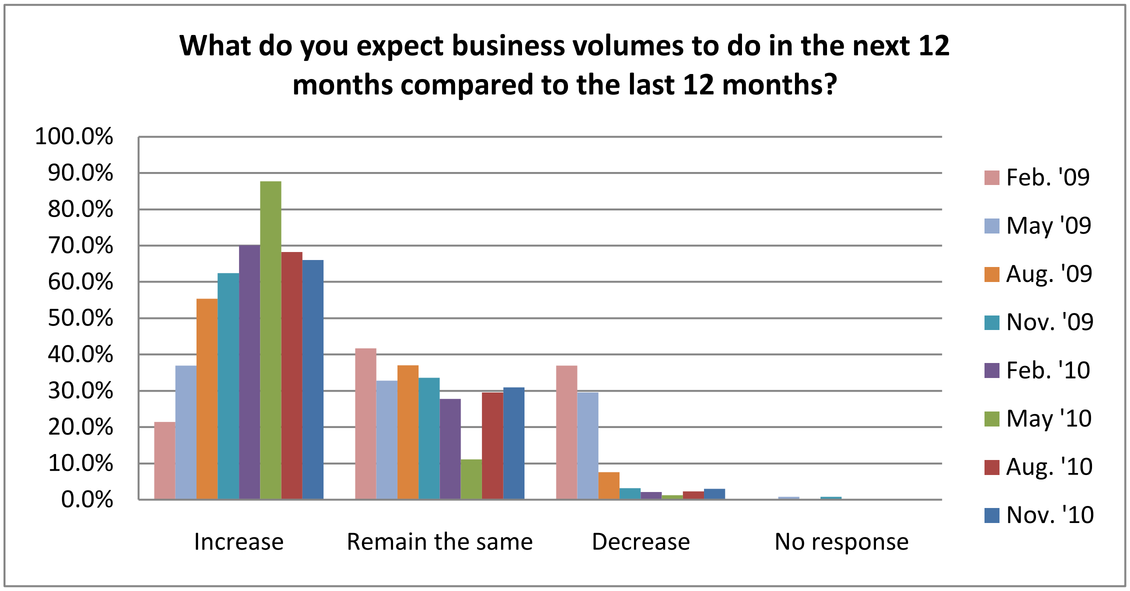
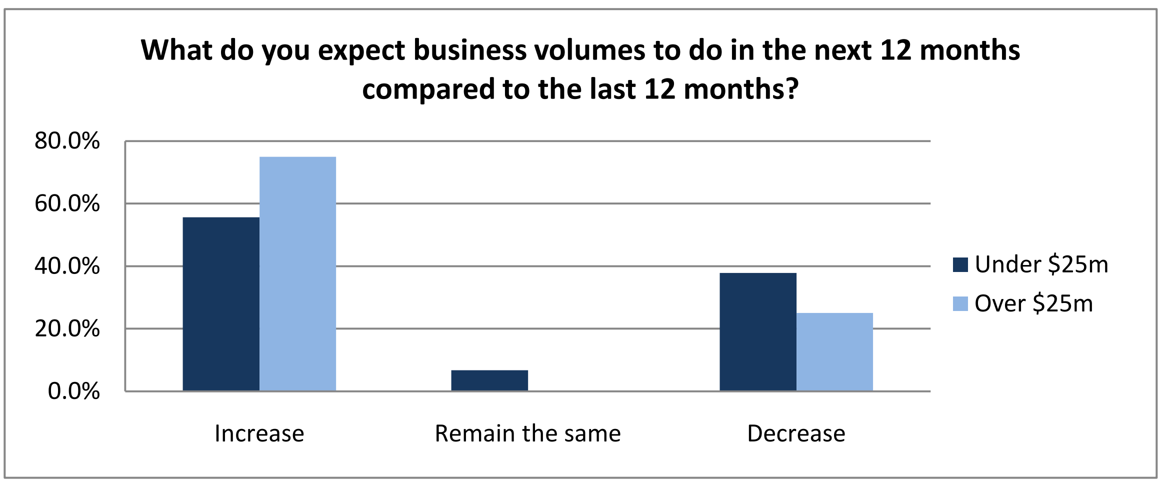
Started in the 2nd Quarter of 2008, the Transport Capital Partners quarterly Business Expectation Survey has become a frequently quoted bell weather indicator of the American trucking industry by taking the pulse of industry executives across the country. The survey asks trucking company executives core questions every quarter on recent rate trends, future volume and rate expectations, and interest in buying or selling their firms in the future. Topical questions are also incorporated in each survey with past topics including: credit and financing, equipment issues and plans, drivers, new regulations, trade cycles, and other fleet sentiment opportunities and concerns.

Graph 1a



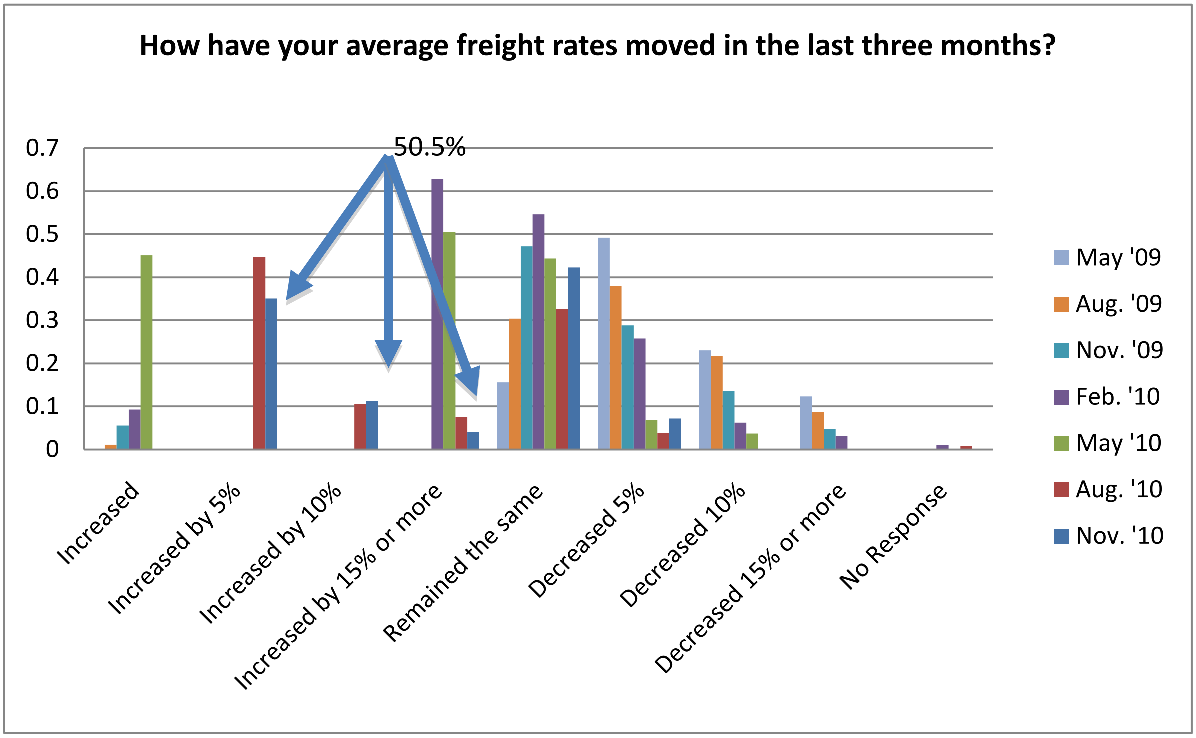
The spring 2010 optimism where 88% said they expected volume to increase over the next twelve months has dropped off to only 66% of respondents which indicates that a slower recovery is anticipated. However, for the last two quarters respondents' optimism has remained essentially the same.

Graph 1b



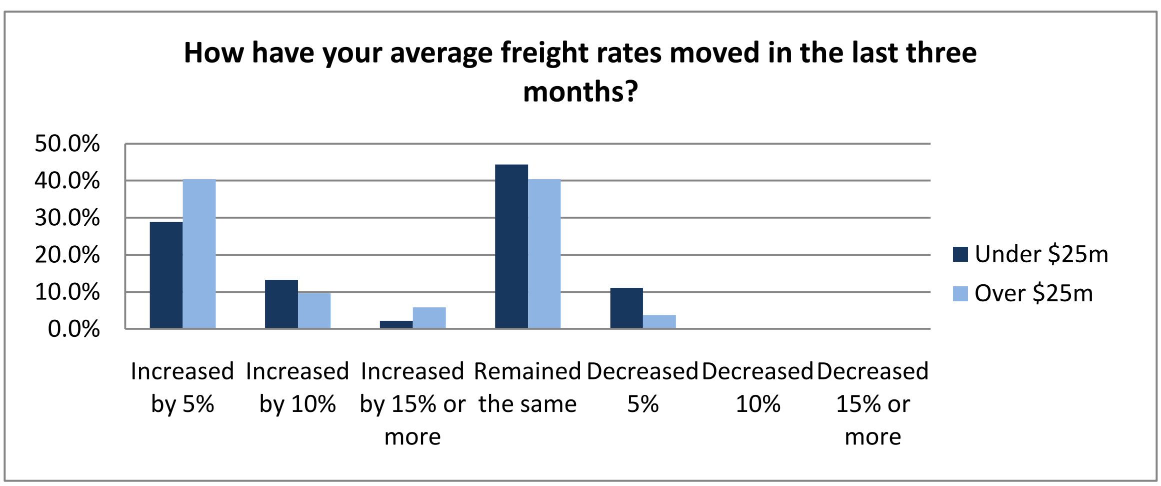
Seventy-five percent of the carriers over $25 million expect volumes to increase compared to 56% of the smaller carriers. Amazingly, thirty-eight percent of the smaller carriers expected volumes to decrease over the next 12 months.

Graph 2a



Fifty percent of respondents reported rates increasing, down from 63% last quarter while 42% experienced rates remaining the same, up from 33% last quarter. Thirty-five percent, however, did experience 5% rate increases, compared with 45% last quarter. This would indicate a slowing of rate increases from the spring and summer spikes, particularly reported in the spot markets.

Graph 2b

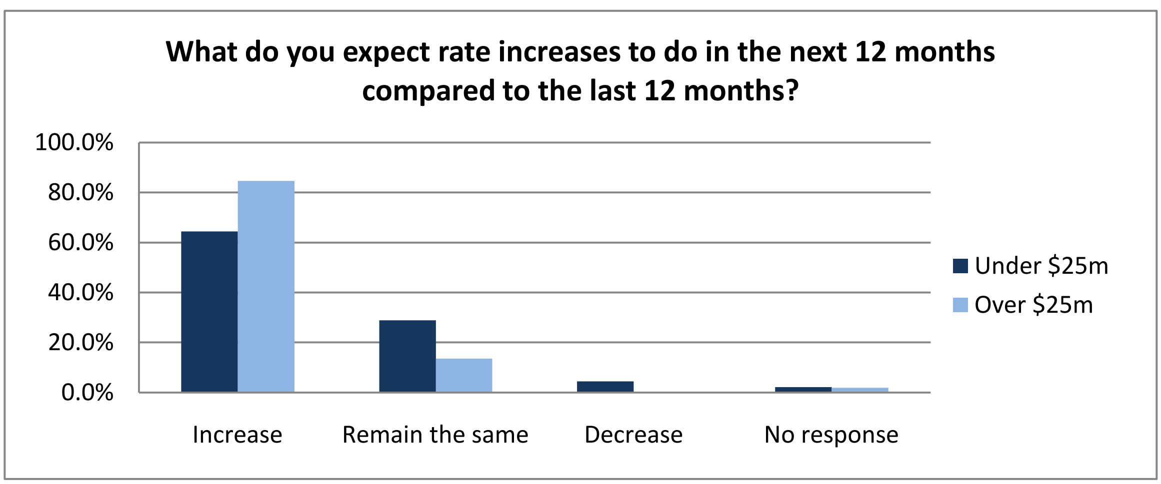


Fifty-six percent of the larger carriers have experienced rate increase compared to 44% of the smaller carriers. Eleven percent of the smaller carriers have even seen rate decreases in the last quarter.

Graph 3a

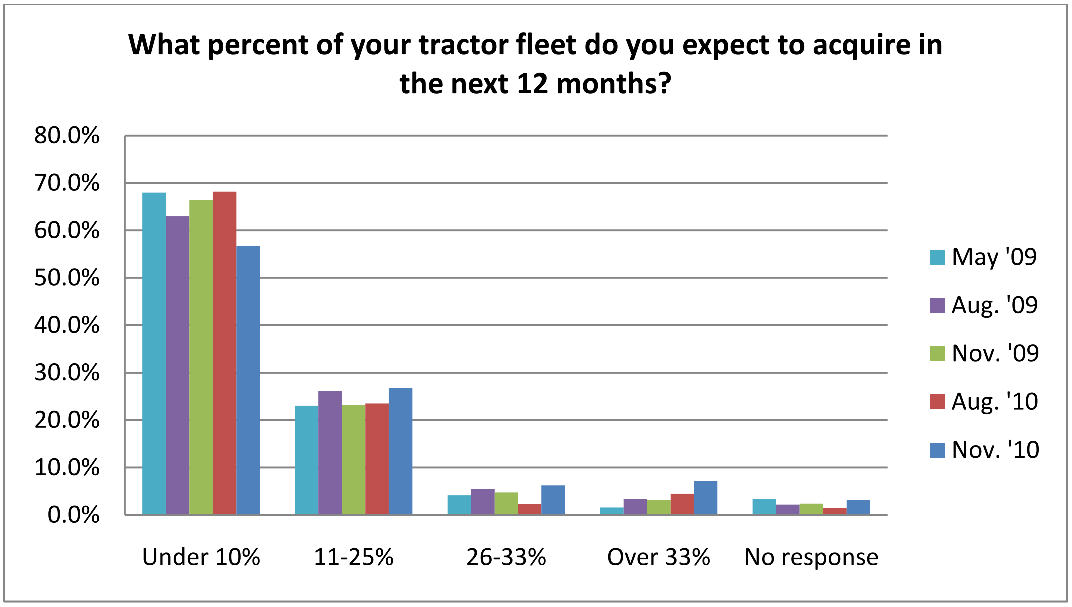
Carriers remain optimistic about the outlook for future rate increases. Three-quarters of carriers now anticipate future rate increases compared to 70% this in the late summer. Consistently over the last three quarters fewer than 3% have expected decreases. The combination of: (1) lagging equipment replacement sales, (2) CSA safety regulations limiting the driver pool, and (3) the potential for reduced hours of service have carriers anticipating a capacity crunch that can only result in increased rates.

Graph 3b



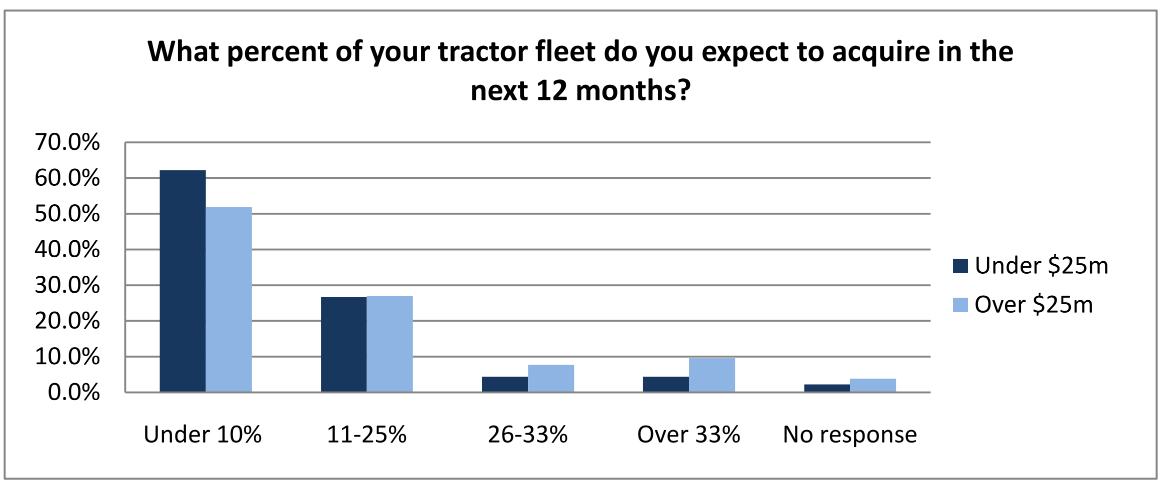
Eight-five percent of the larger carriers expect rate increases in the next 12 months compared to 65% of the smaller carriers. Twenty-nine percent of the smaller carriers expect rates to remain the same and 4 percent expect them to decrease. Clearly the smaller carriers are pessimistic about sharing in increased volumes and rates.

Graph 4a



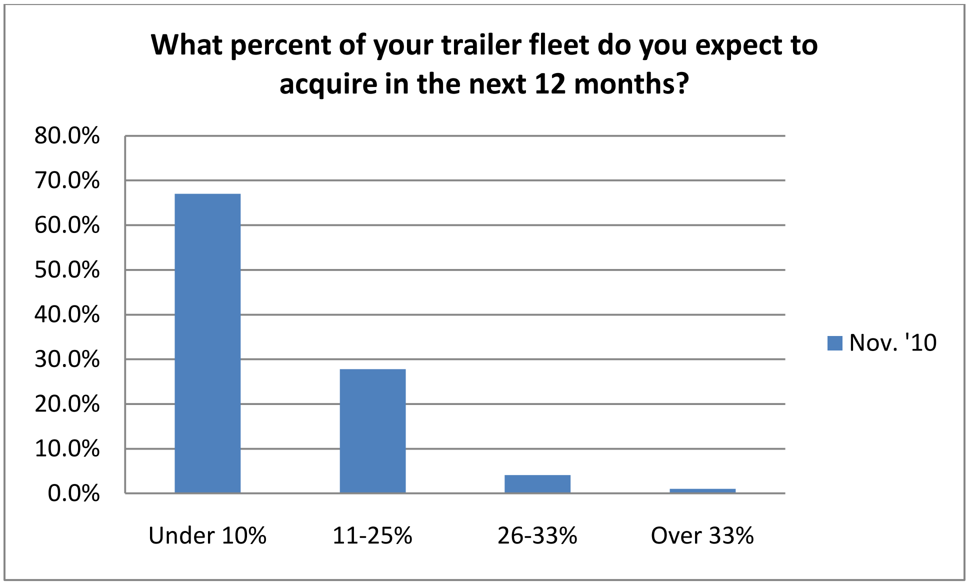
Some carriers have shifted to a more aggressive tractor replacement plan. There has been a drop from 68% to 57% of those planning to replace under 10% of tractors. Almost 27% of carriers plan to replace 11-25% of the fleet compared to 24% in the spring. More significantly 13% plan to replace over 26% or more of their fleet compared to only 7% last spring. Factors that have contributed to the shift include: an improved profitability outlook, the desire to replace the aging fleet, the lack of used equipment, and the rising value of trade-ins.

Graph 4b



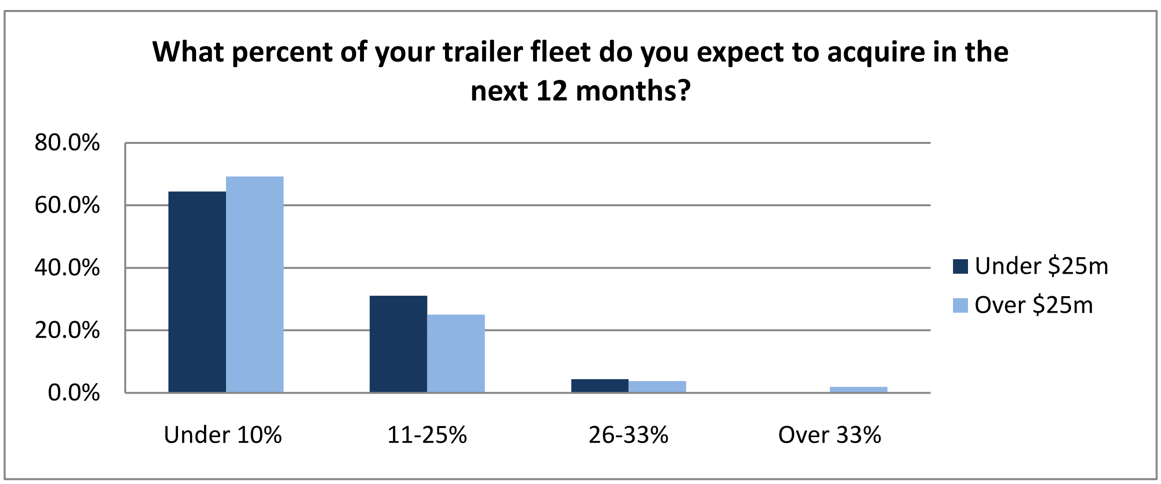
Smaller fleets are going to be less aggressive in replacing their older tractors, with 62% expecting to replace less than 10%. With smaller carriers expecting lower volume and slower rate increases, it's no wonder fewer are in the mood to replace tractors. As will be noted later, the lack of credit availability also weighs more on smaller carriers.

Graph 5a



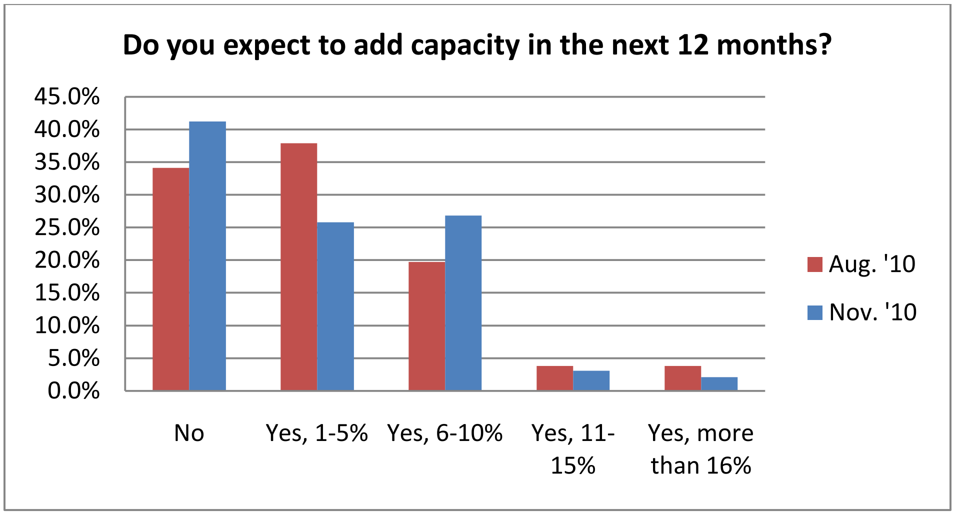
Carriers are more aggressive about replacing aging tractors than aging trailers. Plans to replace less than 10% of trailer fleets were reported by 2/3 of carriers compared to 57% of carriers planning to acquire less than 10% in tractors, equipment that typically has a shorter replacement cycle. Very few respondents indicated replacement plans for over 26%. Comments from carriers indicate that if hours of service regulations change there may have to be more trailers purchased as the economics of "drop and hook" may favor higher trailer/tractor ratios.

Graph 5b



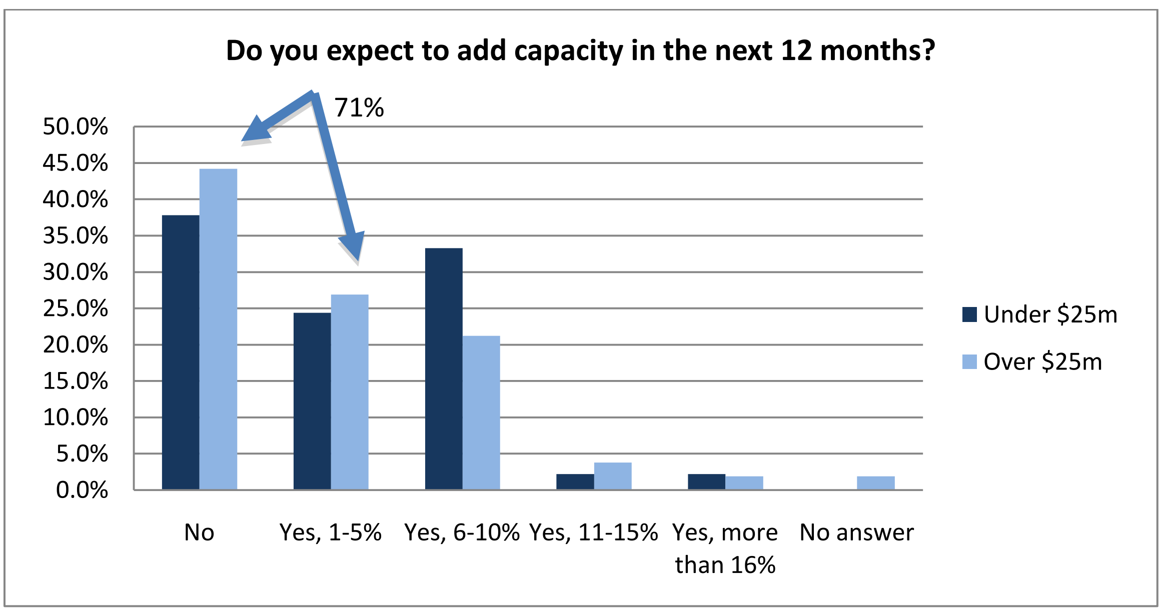
There is very little difference in the fleet size regarding replacing aging trailers; 69% of the larger carriers are expecting to replace at least 10% of their fleet compared to 64% of the smaller carriers. Twenty five percent of the larger carriers expect to replace between 11-25% compared to slightly more (31%) of the smaller carriers.

Graph 6a



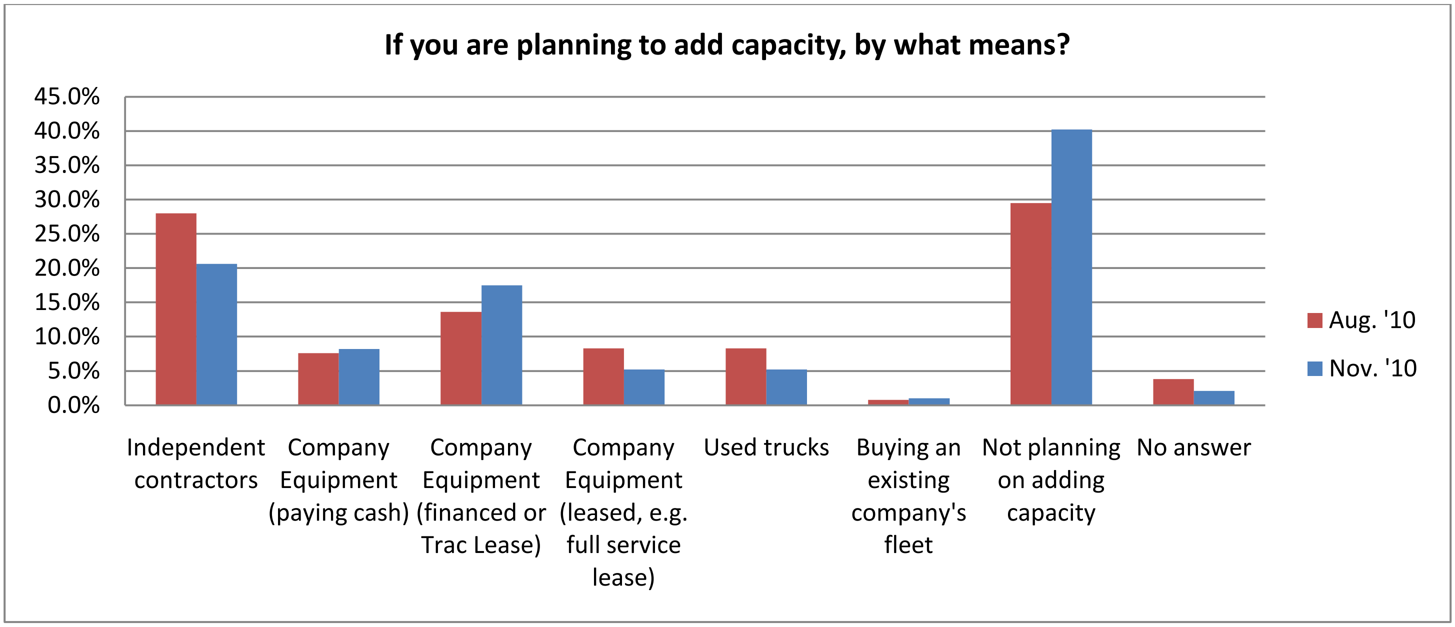
While carriers may be replacing an aging tractor fleet, fewer carriers expect to add capacity than planned a quarter ago. Forty-one percent of the carriers surveyed indicated that they will not add any capacity, compared to only 34% last quarter. However, 27% of the carriers do plan to increase their fleet size by 6-10 % compared to 20% last quarter. Carriers also have noted that increased equipment costs and poor returns have stifled their expansion appetites.

Graph 6b



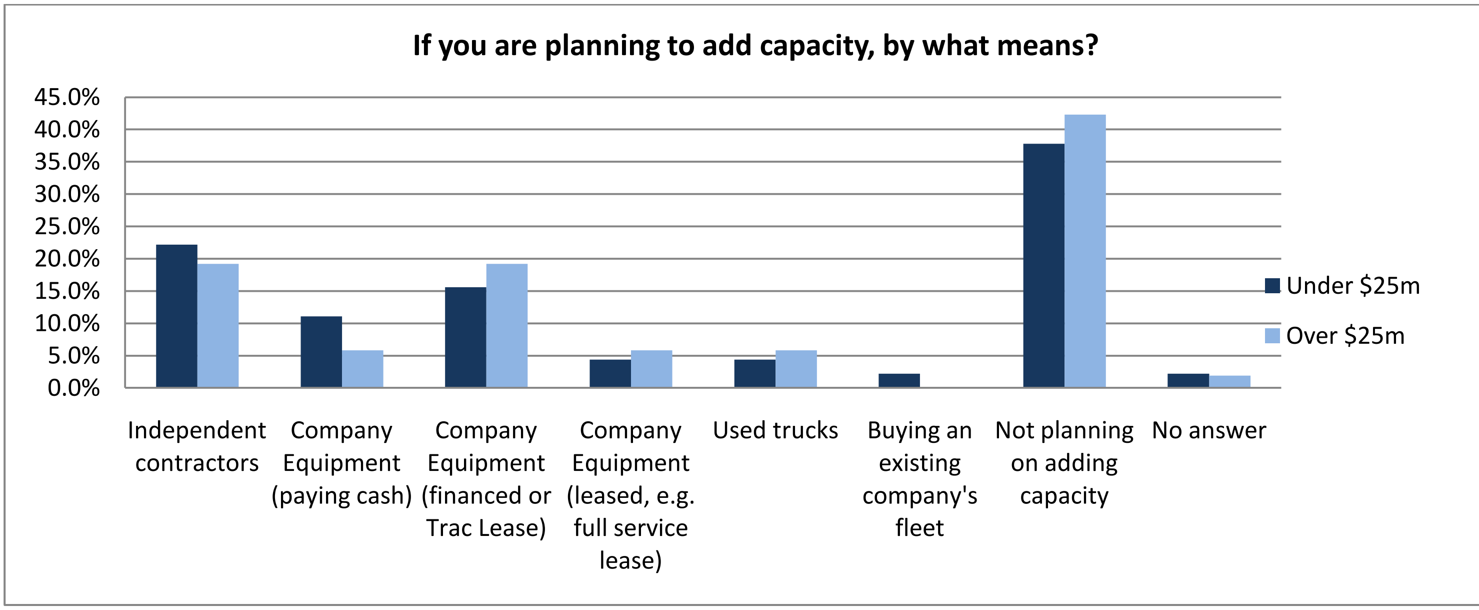
Seventy-one percent of the larger carriers expect to add no capacity or less than 5% while 62% of the smaller carriers expect to add no capacity or less than 5%.

Graph 7a



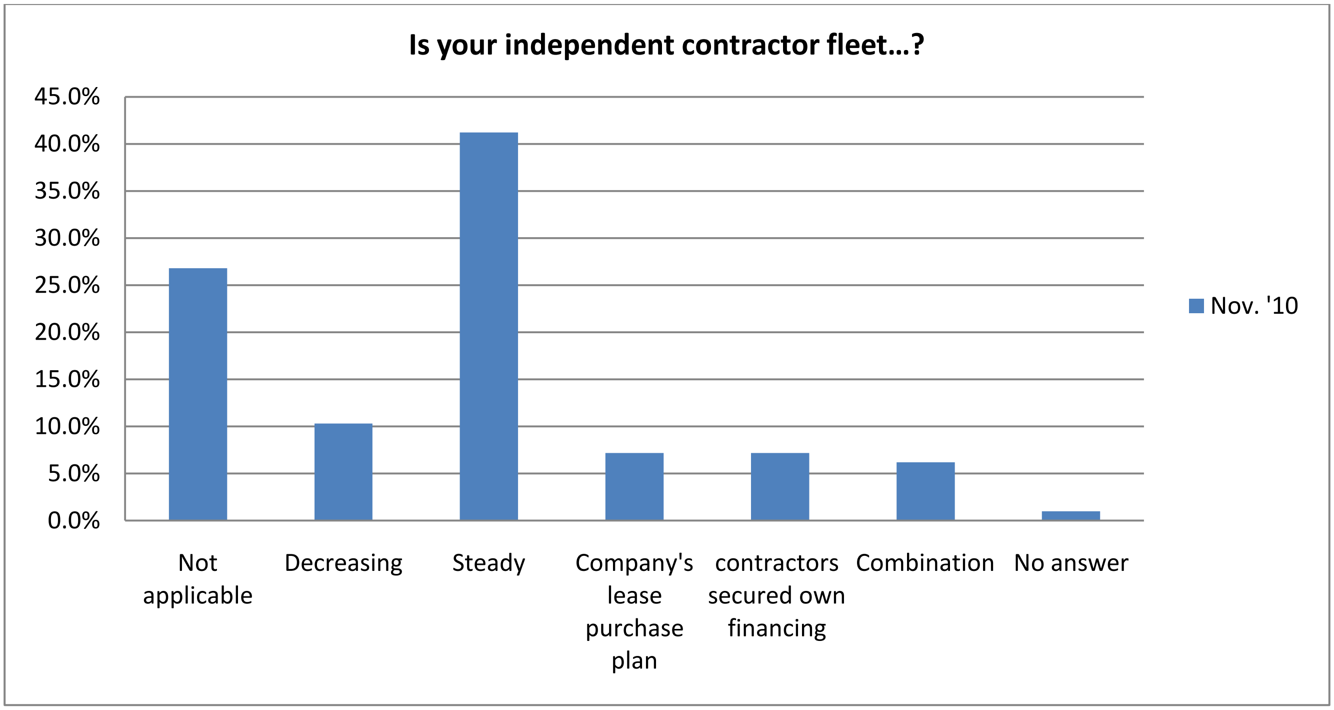
Over forty percent of respondents are not adding capacity, as the response to the prior question verified. For those who intend to add capacity, utilizing independent contractors is the most frequently indicated method at 21%, but down from 28% in the prior quarter. Scarcity of IC's and used equipment is reflected by the fact that only 5% plan to add capacity with used trucks compared to 8% historically. TRAC Leasing has become more popular because fleets are not able to use tax benefits due to lower earnings.

Graph 7b



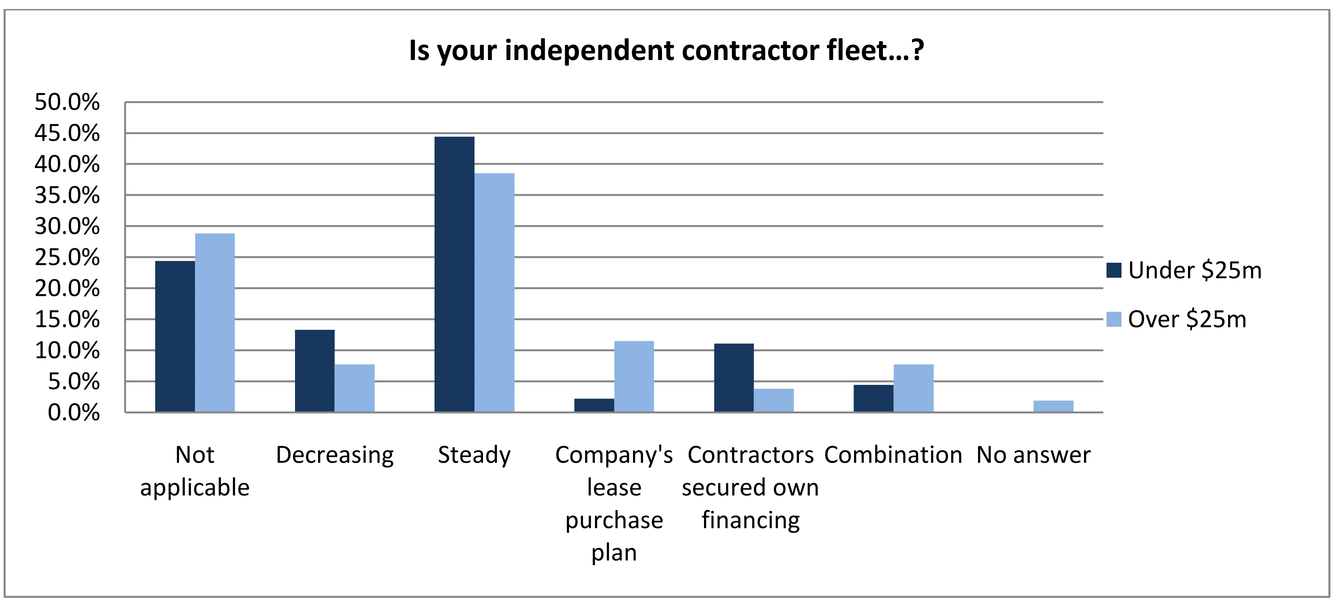
There is really very little difference in fleet size in how carriers expect to add capacity, except that twice as many small carriers (11%) expect to pay cash compared to larger carriers (6%).

Graph 8a



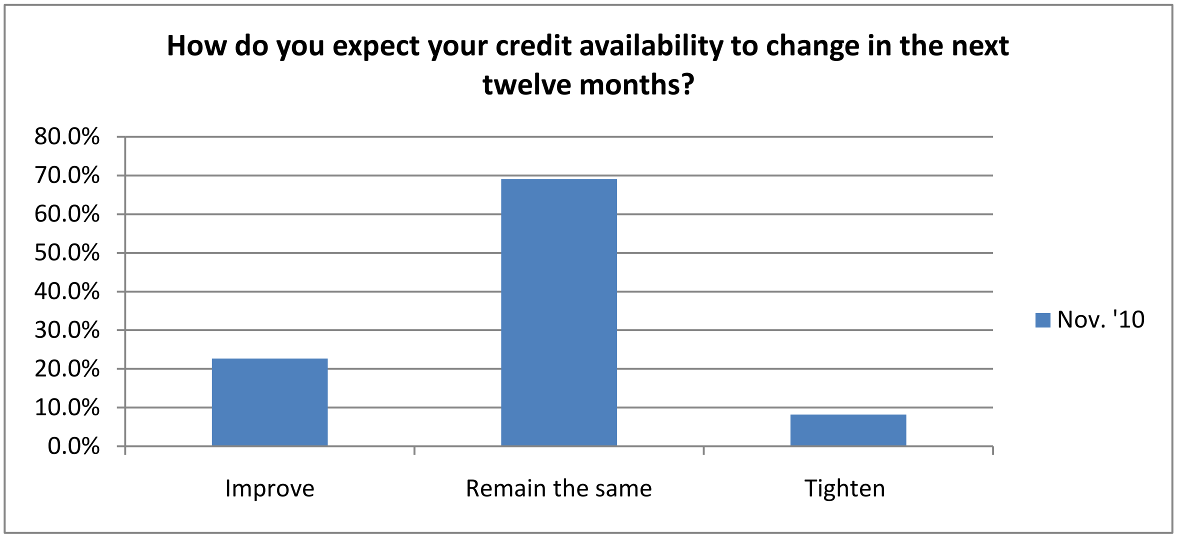
Independent contractors are not used by over a quarter of the responding fleets. Most (41%) report they don't expect to make any changes in their contractor fleet. There was not one source that stood out as to where the new contractors would come from. Dealers have reported a lack of sources for I/C financing with more turndowns and that rates are higher.

Graph 8b



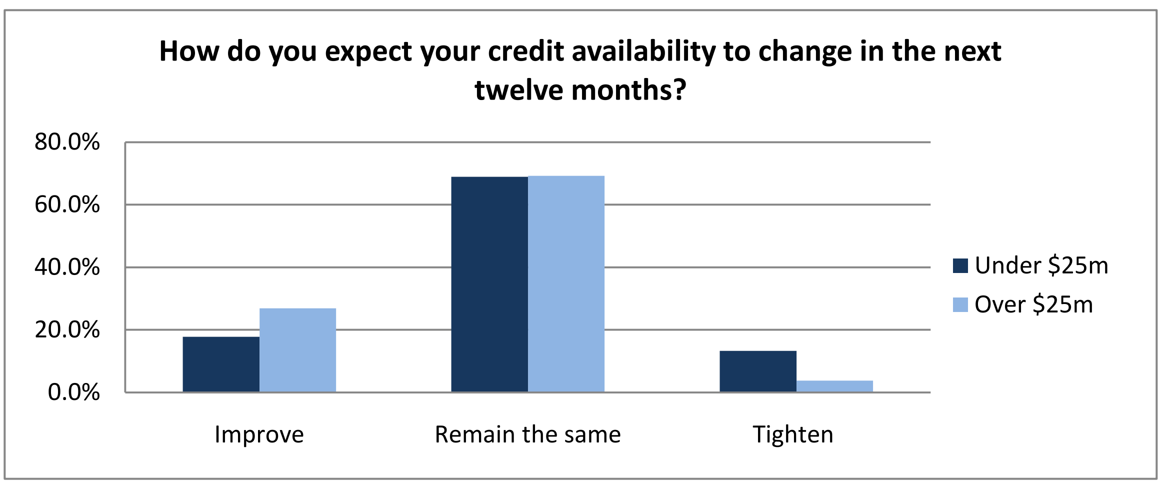
Forty-six percent of the larger carriers see their contractor fleets decreasing or holding steady compared to 58% of the smaller fleets. Larger fleets are more like to have lease purchase plans (11.5%) compared to smaller companies (2.2%).

Graph 9a



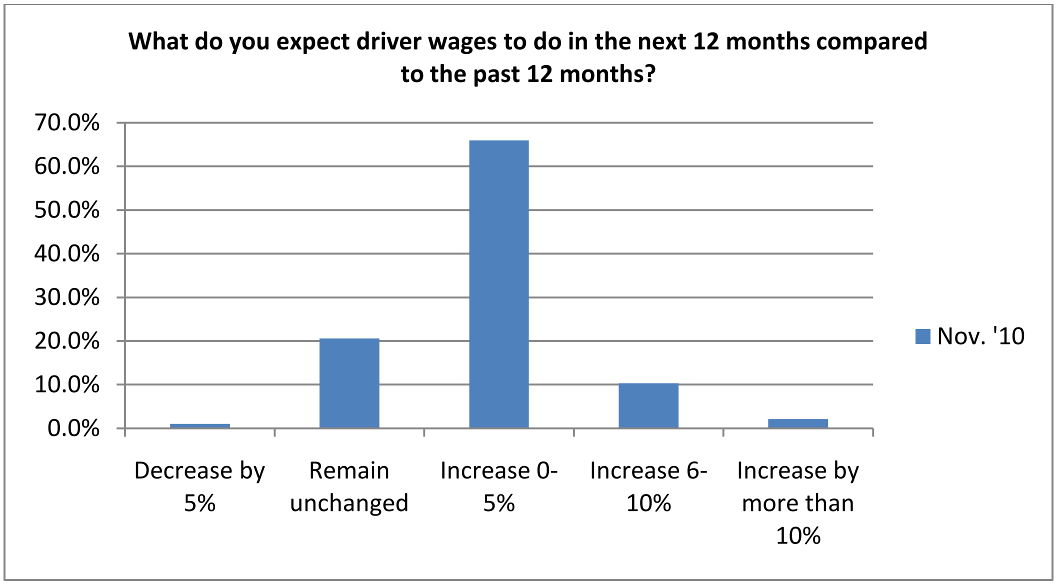
Improving credit availability is expected by about a quarter of the carriers with almost 7 in 10 expecting it to remain the same and about 8% expecting tightening in the next twelve months. Given the comments from carriers and situations known by TCP this could be a continuing underlying restraint for the replacement of and/or adding equipment in particular. Low interest rates are good for carriers who can qualify, but this is truly the key issue.

Graph 9b



Twenty-seven percent of the larger fleets expect credit availability to improve compared to only 18% of the smaller carriers. Thirteen percent of the smaller carriers expect credit to tighten compared to just 4% of the larger carriers. Most (about 69% in both categories) expect credit availability to remain the same.

Graph 10a

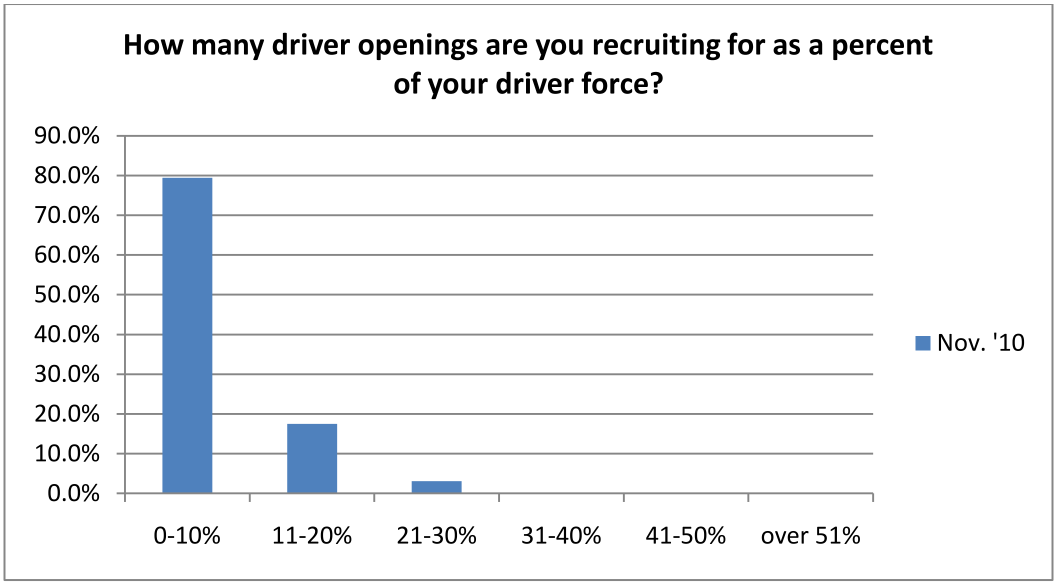


Only a fifth of respondents expect driver wages will remain the same while 2/3 expect drivers' wages to increase less than 5% over the next year. One in twelve expects increases over 5%. The contributing factors to increased wages are: (1) increased rates, (2) the concern for fewer drivers from CSA, and (3) fewer effective miles per driver because of anticipated restrictions on Hours of Service. The offsetting factor may be high unemployment rates and a slow economic recovery.

Graph 10b

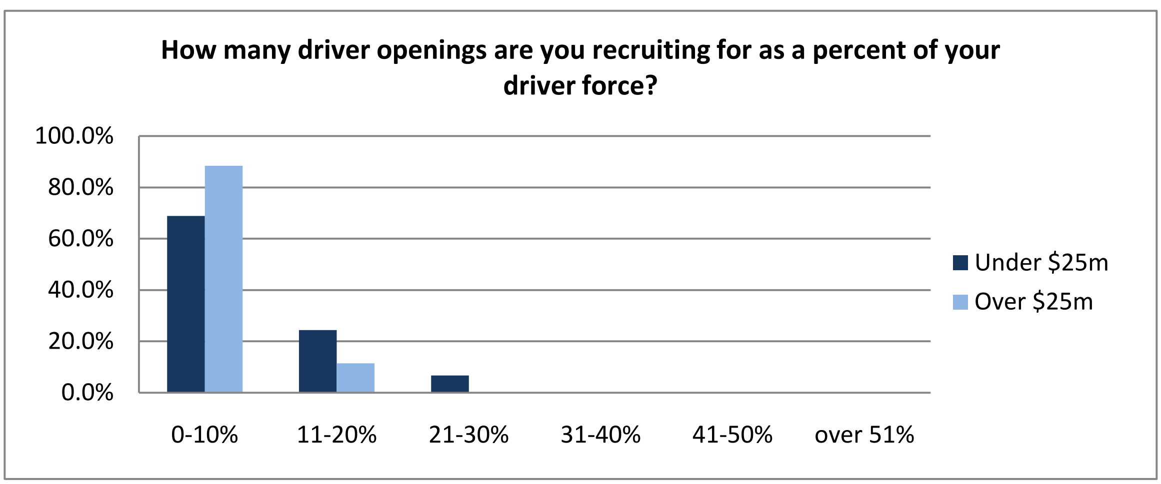
Ninety-two percent of the larger carriers expect rates to increase, compared with 62% of the smaller carriers. Thirty six percent of the smaller carriers expect rates to remain the same compared with just 8% of the larger carriers.

Graph 11a



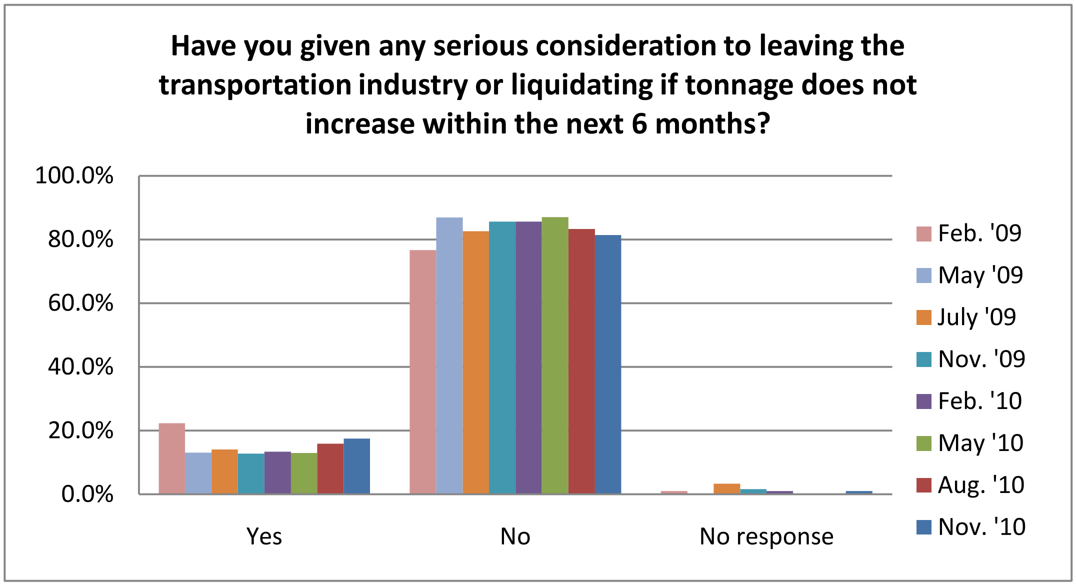
Almost 80% of carriers are recruiting for less than 10% of their driver force, and are having a difficult time finding qualified drivers because of the new performance scores for individual drivers as well as high unemployment compensation rates in some states.

Graph 11b



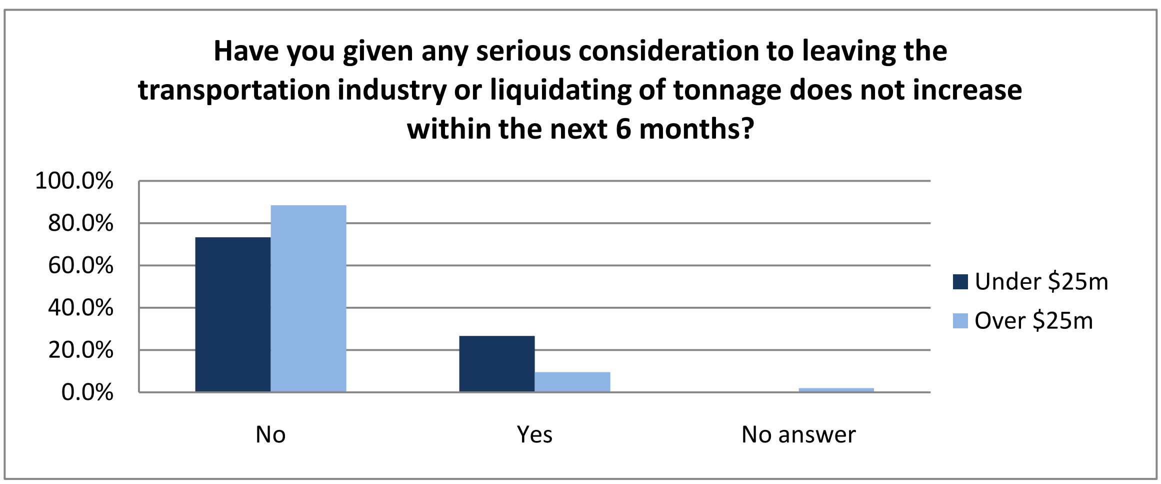
Almost 90% of the larger carriers are looking to fill 10% of their driving needs. Smaller carriers appear to have more open seats with almost 25% looking to fill between 11-20% of their seats and 7% are looking to fill 21-30% of the seats. As noted earlier, smaller carries haven't experienced the volume and rate increase of the larger carriers. As a result, it probably can't match either the miles needed or the pay scales of the larger carriers.

Graph 12a



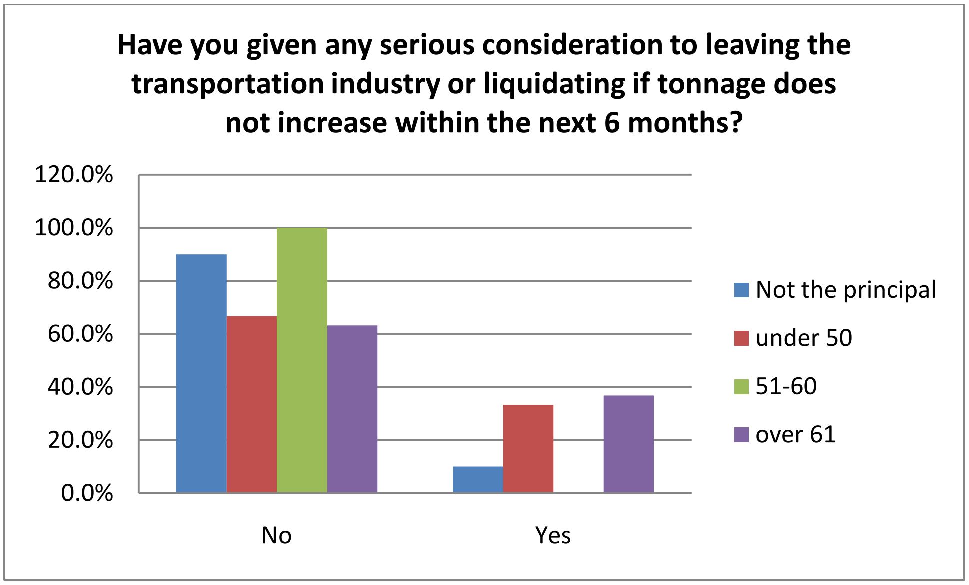
The response of this question is key to judging the health of the industry. There has been a gradual trend upward from a year ago where 12.8% said yes compared to 17.5% in this quarter. This maybe in response to the economic forecasts that predict slow growth.

Graph 12b



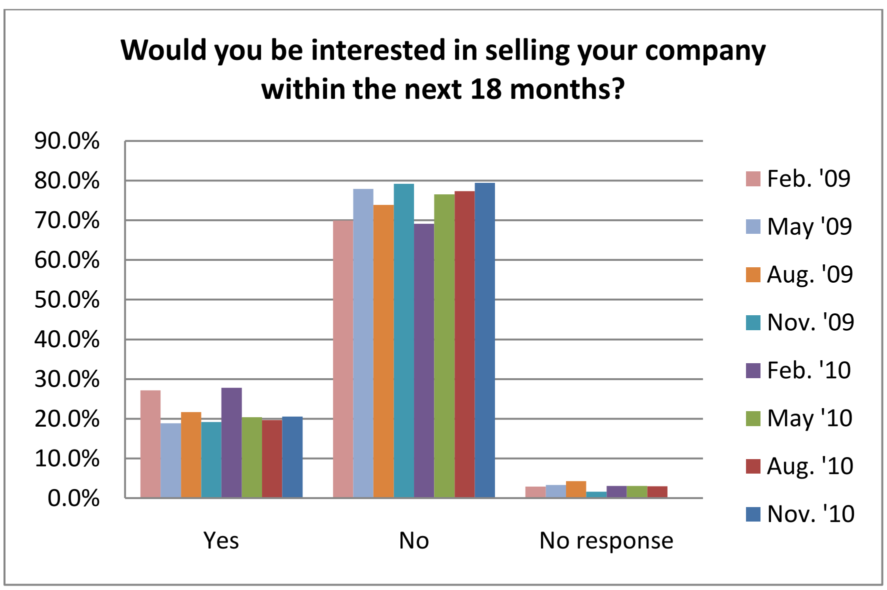
Over 25% of the smaller fleet owners have given serious consideration to leaving the industry or liquidating their companies compared to only 10% of the larger fleet owners. Smaller carriers tend to be less optimistic given that smaller fleets are not expecting increased volumes, do not foresee increased rates, expect credit availability to deteriorate, and are having difficulty finding drivers.

Graph 12c



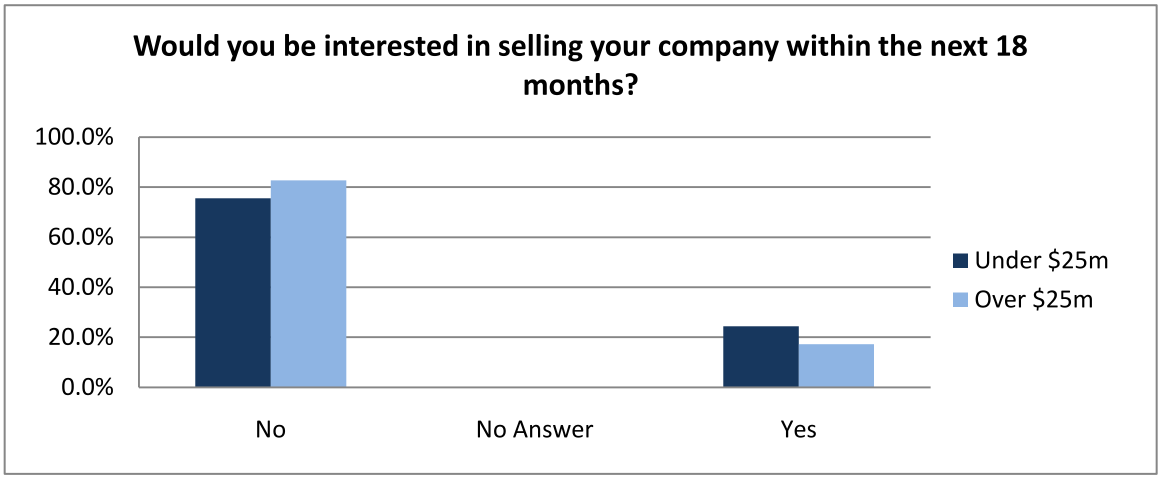
None of the owners in the 51-60 age range is thinking about leaving the industry. Is this because they think they are too invested to find a new profession or too young retire? A very troubling factor is that almost one third of the younger owners are thinking about getting out in the next six month. Not surprisingly the over 61 age group are looking to retire, cash out equity, or don't want to go through another economic cycle.

Graph 13a



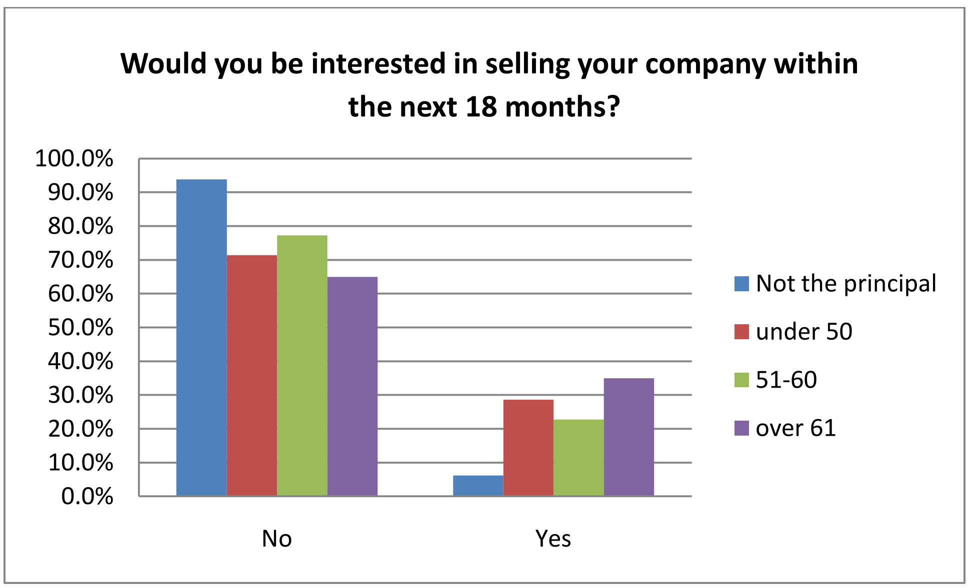
Carriers interested in selling, as opposed to liquidating in the earlier question(see graph 12a) , has been level with about 1 in 5 carriers for the last three quarters. This is likely a reflection of similar expectations in volumes, rates, and, to some extent, seeing that financing by buyers may be restrained by credit availability.

Graph 13b



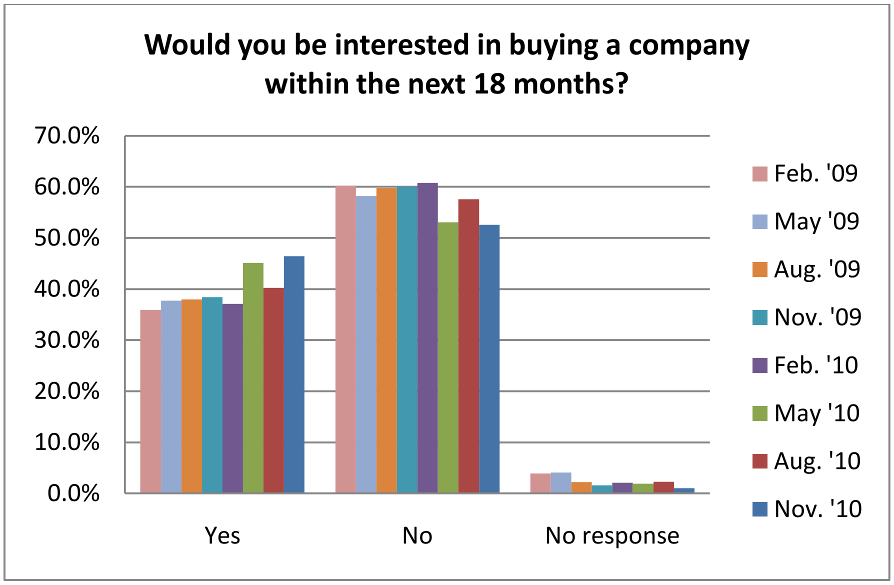
Even when carriers take a more long-term view, the number of smaller carriers interested in selling their companies (as opposed to liquidating) is about 24%, compared to 17% for the larger carriers.

Graph 13c



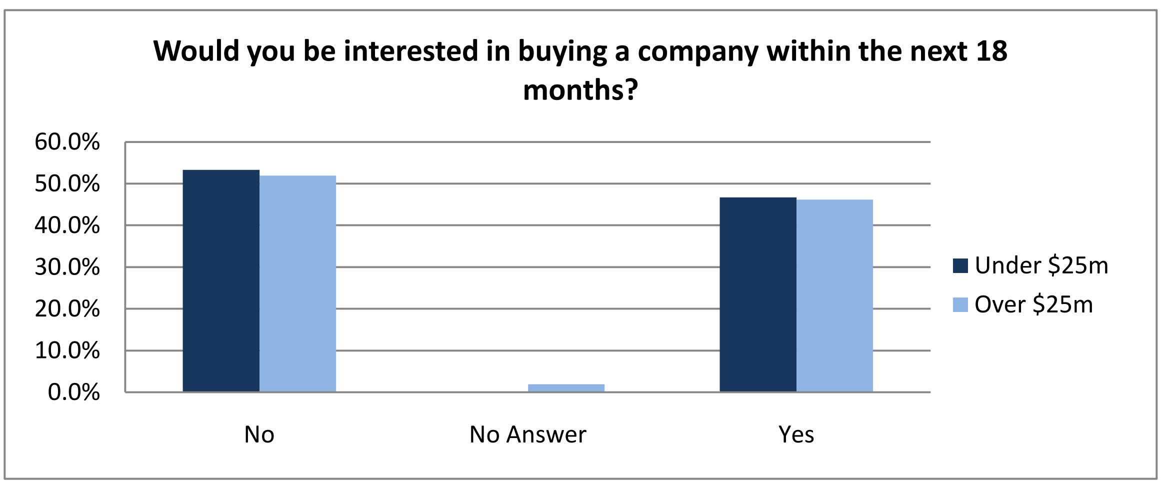
When they take longer-term view, 23% of the owners between 51-60 years of age are more willing to consider selling in 18 months versus, compared with none who were considering liquidating in 6 months (see graph12c). But they were still outnumbered by the younger owners where 27% were interested in selling in the next 18 months. Not surprisingly, 35% of the owners who were willing to sell were owners over 61 years of age.

Graph 14a



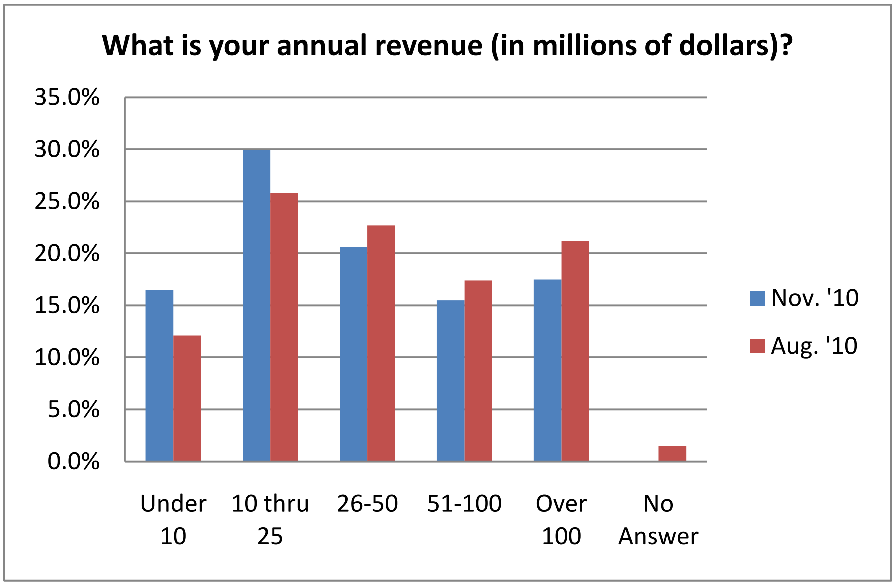
Buyer interest increased from 40% to 46% over the last quarter. In some cases, buyers are seeing a combination of potentially easier credit, increased volume, and increased rates, as reasons to buy. Carrier profitability levels clearly must be in the profit zone to build any organization value above liquidation pricing in most carriers eyes with loads and drivers still in good supply.

Graph 15b



While there is a distinct difference in who is interested in selling by company size, no such difference exists in companies interested in buying.

Graph 15



Graph 16