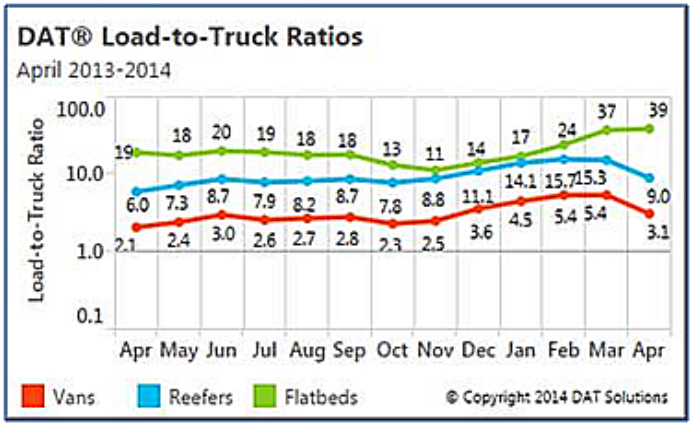
U.S. Transportation Industry Update – May 28, 2014

This is the second in an ongoing series of brief industry updates. We will continue to include quotes and charts from established industry analysts and researchers to ensure comprehensive coverage of current and expected conditions.

A quick look at the most recently available April 2014 **DAT Solutions** spot market index suggests that all but the flatbed sector has experienced a moderation in demand:



Source: DAT Solutions – www.datsolutions.com

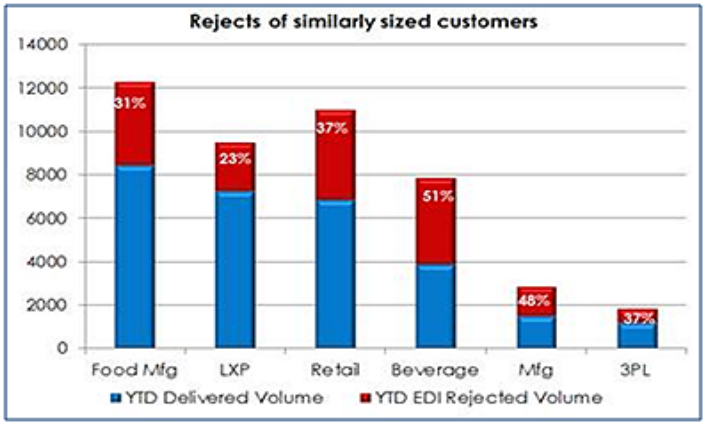
While this is good news in terms of suggesting a better balance of supply and demand, the lack of a significant supply improvement suggests that the market still continues to be experiencing tight capacity. A number of industry analysts believe that the capacity situation has recently improved, due in large part to the improvement in weather conditions. However, analysts are also cautioning shippers to refrain from becoming complacent because they believe the winter weather merely acted as a catalyst and triggered an impact reflective of an existing and growing capacity-constrained TL market.

A recent article in the **Journal of Commerce** (April 29, 2014) quoted a large national dry van carrier who said, "We're turning down more freight on a daily basis than we were in January and we're up twofold in the amount we turn down compared to last year." This same carrier reported that in late April they were turning down 600 loads a day and an informal survey of several of our carriers indicate a very similar situation. The good news for Armada's network is that our committed capacity tender acceptance rate continues to recover from the height of the winter storms in January and February and we are above our 95% minimum requirement:

January	88.7 %	**February**	93.5 %	**March**	99.6 %	**April**	98.8 %	**YTD**	95.5 %

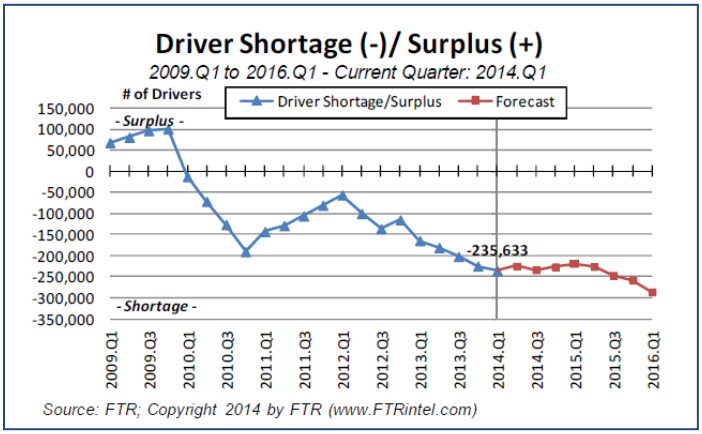
ARMADA
There's a better way.

We conducted a survey of our top 10 carriers by volume and determined that our carriers are providing us with more capacity, as reflected in our much lower turn down rates, when compared to their other customers of our size:



Source: Journal of Commerce – www.joc.com

As further follow up to our comments in the last update, we believe an area of continued concern is the driver shortage situation. **FTR Associates**, who routinely tracks and projects the driver shortage, recently reported the following:



Source: FTR Associates – www.ftrintel.com

On a related note, John Larkin of **Stifel** recently participated in the 29th Annual Trucking Profitability Strategies Conference and reported, "There is no silver bullet for the increasingly challenging driver shortage." The key areas of opportunity to improve upon attracting and retaining drivers focused on personalized treatment of drivers, well-maintained equipment, alignment with driver-friendly customers and increasing driver wages. Many attendees at the conference suggested a minimum of $10,000-$15,000 a year would be necessary to address the latter issue.

Another area that has been picking up a negative connotation is the issue of carrier bankruptcies. Donald Broughton of Avondale Partners has been tracking this aspect of the business for a number of years and his quarterly reports have been showing a steady increase in the number of trucks leaving the industry due to bankruptcies. The JOC recently reported that Avondale Partners' Q1 2014 update showed another 10,650 trucks left the market due to bankruptcies or termination of operations. Because the impact of this is the loss of additional truck capacity, it is unclear as to whether or not all of the drivers "freed up" from these bankruptcies will find gainful employment at other trucking companies, due to the increased carrier hiring scrutiny resulting from the new CSA and HOS regulations. The general industry consensus is that there will be a further net reduction in capacity.

These situations will warrant continued close observation in the coming weeks and months, especially as we head into summer (i.e. the produce season, the spring outdoor retail season and the vacation-related travel demand uptick), which typically increases demand on available capacity.

We continue to encourage our clients to work diligently towards being a carrier's "customer of choice" in order to help facilitate preferred access to needed capacity, as outlined in our last update. Loading/unloading within an hour and minimizing pick-up and delivery date changes will have considerable positive impacts in this regard. Taking full advantage of a truck's cube-adjusted weight capacity will serve to reduce the total number of shipments needed and is another positive action that will assist in total landed cost management. Minimizing extended transit requests and heavy Friday pick-up requirements will also be viewed as carrier-friendly behavior by the carriers.

Armada remains committed to helping our clients achieve efficient assured supply to their distribution companies and is working to minimize any negative impact these and other industry challenges pose to our client's supply chain. Armada's efforts include improving alignment of lane volumes to capacity commitments, adding a co-primary on high volume lanes, working with carriers to improve service and tender acceptance performance, conducting a pilot for scheduled transportation, adding additional carriers to our network and working with stakeholders to identify carrier productivity improvement opportunities.

For more information:
www.armada.net

Mike Vannatta
412-406-5836
mvannatta@armada.net

Paul Newbourne
412-406-5801
pnewbourne@armada.net

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