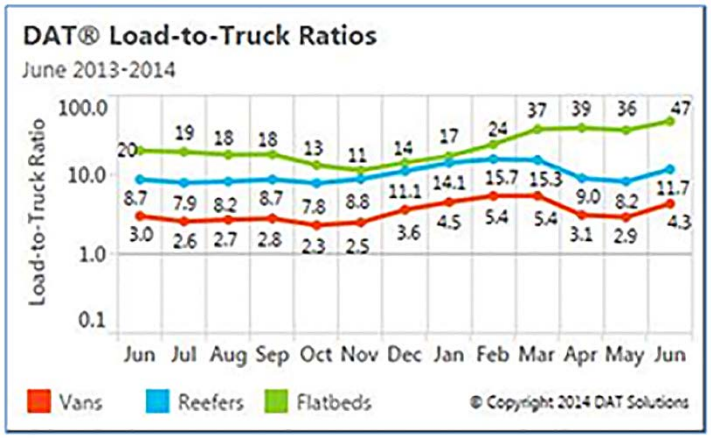
U.S. Transportation Industry Update – August 2014

This is the third 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 look at the most recently available **DAT Solutions** spot market index from July 21st (Thornton, 2014) suggests that all key truck market segments are experiencing an uptick in demand:



Source: DAT Solutions – www.datsolutions.com

June 2014 Load-to-Truck Ratios, by Equipment Type

Load-to-truck ratios increased significantly for all three equipment types in June, on both a month-over-month and year-over-year basis.

The other indices that we monitor indicate similar trends and reinforce what industry analysts are saying in terms of an increasingly tighter capacity situation for the U.S. that will likely continue through 2016.

During Q1, U.S. and Canadian rail operations were significantly hampered by the severe weather, resulting in a degradation of carload and intermodal service. Armada (and other shippers) moved a portion of our intermodal (IM) volume to over the road (OTR) in order to minimize the IM service related disruptions that put further strain on truckload capacity demands. While there has been some improvement in rail IM service since April, the railroads continue to be challenged by heavy carload and IM volumes that have negatively impacted their ability to effectively balance crew and locomotive resources. However, we expect that IM service levels will continue to make a gradual recovery throughout the rest of the year, with priority service lanes seeing the benefit of initial improvement efforts.

We are seeing a direct impact on market rate levels as a result of the tightening capacity situation. Transportation industry analyst **Stifel** recently released a report (Larkin, 2014) that indicated YTD rate inflation is up considerably from 2013 estimates. Stifel reported the following:

	Dry Van	Reefer
Contract Rates	+ 6.9 %	+ 9.6 %
Spot Market Rates	+14.4 %	+14.4 %

ASCS is experiencing lane rate increase pressures and is working with carriers and the network's supply chain partners to minimize the impact of any such increases.

There is a growing sentiment among industry analysts and carriers that as capacity tightens, carriers will increasingly sharpen their focus to identify the least efficient shippers and receivers from their networks. A number of Armada's carriers have told us that they have already started this process and are utilizing several approaches to accomplish the end game of a more efficient network. The approaches being used include:

- Rate increases to more accurately reflect the cost to serve a lane
- Implementation of mandatory accessorial rules such as one hour free time
- Termination of contract agreements covering particularly inefficient customers

A July 15th **Journal of Commerce** article (Egan, 2014) reported that Joel Clum, co-founder and president of Carrier Direct, commented during a recent Stifel industry conference call (Clum, 2014) that, "As regulations sap truckload capacity, the carriers best able to cope will be most able to proactively select the customers they wish to do business with, focus on their balanced power lanes and maximize their margins." Weighing in with a similar sentiment, Rosalyn Wilson reported in the 25th Annual State of Logistics Report (CSCMP, 2014), that "trucking capacity is becoming a more severe issue for shippers and the truck driver shortage is currently the top concern for trucking executives who are coping with higher costs for drivers, as well as compliance with tougher government regulations."

The state of the foreseeable future warrants continued collaborative efforts to work towards becoming a carrier's "customer of choice" in order to help facilitate preferred access to needed capacity. To this end we are pleased to report positive progress by our client's network in regard to improvements in the following areas:

	Q1	Q2	% Chg
Shipment volume	65,158	68,883	**+ 5.7 %**
Order date changes	15.9 %	11.4 %	**- 4.5 %**
Rush date changes	6.4 %	4.5 %	**- 1.9 %**
Rush orders	1.8 %	1.7 %	**- 0.1 %**
Shipper Dwell time (minutes)	64.7	61.3	**- 5.3 %**
DC Dwell time (minutes)	52.0	50.5	**- 2.9 %**

Armada will continue efforts to further facilitate improvements in these areas. Additional areas of focus include reduction of extended transit lanes, expansion of weekend shipping hours, day of the week volume leveling, improved truckload utilization and additional pilots for scheduled transportation lanes. Improvements in these areas will enhance the attractiveness of the client's network to carriers.

Armada remains committed to helping our client achieve an efficient assured supply to their distribution companies and is working to minimize any negative impact these and other industry challenges pose to their supply chain.

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