



Trucking Executive Update

January 24, 2006

Two Thumbs Up

Jim Smith and his company – Fikes Truck Line – have scored a double. The Arkansas Business Publishing Group has announced that Fikes Truck Line in Hope, Arkansas, is one of five finalists for the '2006 Arkansas Business of the Year' award.

To top it off, Jim Smith, chairman and president of the company, was also named as a finalist for 'Arkansas Business Executive of the Year'. Winners will be announced on March 9 at an awards dinner at the Statehouse Convention Center in Little Rock.

Jim Smith is a member of the Arkansas Trucking Association Board of Directors where he serves as the State Vice President to the American Trucking Associations. He is also a former ATA chairman of the board.

J.B. Hunt and Arkansas Best Named 'Best of the Big Companies'

Forbes Magazine has named Arkansas Best Corporation and J.B. Hunt Transport as two of its platinum companies, part of the 'best 400 big companies' in the United States. The annual rankings are based on a number of factors including the company's financial performance and return on investment.

So Much for Physically Fit

An Oregon trucking company terminated a driver who weighs 550 pounds and in the company's opinion was not able to perform his job. The driver sued. An Oregon jury agreed with him and last week ordered the trucking company to rehire the person and pay him \$109,000 in back wages.

Like A Trampoline

Diesel fuel prices have settled in between \$2.40 and \$2.50 per gallon for the last 10 weeks, causing some analysts to say it could signal the new baseline price range. Few predict that diesel fuel prices will fall much below current levels. In fact, economic indicators point to increased pressure on crude prices. That could mean another round of retail price hikes.

For Sale: U.S. Interstate Highways

The recent federal highway bill cracked open the door on giving states more authority to enter into public/private partnerships to operate the U.S. interstate highways. States are not waiting around to take advantage. According to today's *Ft. Worth Star Telegram*, 17 states are actively

negotiating about \$35 billion of private toll-road projects. The worst so far occurred this week when Indiana Governor Mitch Daniels proudly announced that a Spanish/Australian consortium has submitted a bid of \$3.85 billion to lease the Indiana Toll Road, a 160-mile stretch of I-80 and I-90 along the Michigan border.

Under the terms of the agreement, the consortium will write a check for the entire \$3.85 billion on the front-end but would be permitted to operate the federal interstate highway as a private toll road and set fees for the next 70 years.

This announcement raises many questions: should foreign corporations own and operate U.S. interstate highways for private gain? Secondly, should states be permitted to turn existing interstate highways into private toll roads? Third, should a private consortium have the power to levy a 120 percent increase in truck toll fees as proposed, to \$32.00, equal to paying a \$1.10 per gallon fuel tax? Fourth, are other states watching?

Not every elected official in Indiana believes selling off interstate highways is a good idea. Rep. Patrick Bauer, (D-South Bend) said the proposal is “risky business” and added, “I don’t think Dwight Eisenhower, a Republican, would like this very much.”

ATA Health Plan Takes Off

ATA member trucking companies are reporting an overwhelmingly positive response from their leased drivers and other employees to the recently announced defined health benefits program offered exclusively by ATA.

This plan is not like a typical major medical plan in that it has no deductible and provides first dollar benefits for medical services. Secondly, a critical illness policy will provide additional first dollar coverage. Best of all, it is affordable.

This ATA endorsement program is available only to ATA member companies. For further information, contact Olin Wage at Stephens Insurance Services, the exclusive marketing agent, at 501.377.3487.

Best Workers’ Comp. Around

The Arkansas Trucking Association Self-Insurers Fund (ATA-SIF) for workers’ compensation insurance has completed its 12th year of operation. The long-haul rate is currently \$7.63 per hundred. The loss ratio for 2005 currently stands at 35.9% with some claims remaining open and possibly others not yet filed. However, a 35.9% loss ratio is outstanding for any self-insured company.

Unlike a typical insurance company, the ATA-SIF is an insurance trust that distributes net income back to enrolled carriers after all expenses, claims, and statutes have been paid or expired. Since 1993, the ATA-SIF has returned more than \$9 million in dividends to enrolled companies and has generated net income in 11 out of its 12 years of operation.

The ATA-SIF has 63 trucking companies enrolled. If your company is interested in obtaining your workers' compensation coverage, call ATA director of corporate services Shannon Samples Newton at 501.372.3462 and she will walk you through the enrollment process.

Driver Shortage on Fed Radar Screen

The U.S. Federal Reserve is the recognized barometer of the nation's economic activity. The Fed has taken notice of a worsening shortage of truck drivers in its latest 'The Beige Book' in which information from each of the Fed's eight regions is disseminated. This reference could signal heightened attention by the Federal Reserve on the ramifications that a worsening driver shortage could have on the economy.

Each Federal Reserve region includes several states, referred to by a city name within the region. Included in the report is the following summary:

"Trucking and shipping demand remained strong across the country, but companies were constrained by continuing driver shortages in the Atlanta, Cleveland, Chicago, and Philadelphia Districts. In addition, despite the ongoing use of fuel surcharges, contracts in Cleveland, Dallas, and Atlanta, noted that margins tightened because of fuel-cost increases. Cleveland and Dallas reported plans for increased capital spending in the trucking industry. Dallas also reported that both railroads and airlines saw rising demand." (The Beige Book, Federal Reserve Board

Turnover

A stagnant employment pool of truck drivers continues to plague the industry. Large truckload carriers, whose operations require drivers to be 'on the road' for as long as two weeks at a time, incurred a 136% turnover rate in the third quarter of 2005, according to an index kept by the American Trucking Associations.

Conversely, the turnover rate in the less-than-truckload sector was just 12 percent, the lowest turnover rate in that type of operation since 2002. Of course, there are considerable differences in the work environment between these two types of trucking operations with the LTL sector requiring drivers to spend no more than one or two days on the road, if that.

However, a recent review of three industry magazines featured ads by LTL carriers seeking new hires. If LTL carriers cannot fill trucks, the prospects are bleak for driver capacity. The industry must address its marketing strategy to the work force. The current one is not working.

Mixed Blessing

Driver shortages mean carriers cannot expand fleets and increase top-line revenue. Stiffer federal hours-of-service regulations in the long-haul sector are cutting driver productivity and further tightening capacity.

However, there is a positive aspect. Most carriers are being paid more for the freight they are currently hauling. This trend should continue in 2006, according to most industry analysts.

“Trucking and shipping executives alike believe that the business has changed permanently,” wrote Peter Bradley, chief editor of *DC Velocity* magazine, recently. “The days of plentiful trucks and 70% discounts, it seems, are gone forever.”

Shippers are paying 20-25% more to ship products by truck today than two years ago. General revenue in the trucking industry increased 13.8 percent in 2005, from the year before and shippers paid about 10% more in 2004 than in 2003. While fuel surcharges accounted for a portion of the increase, most came from freight rates.

According to the American Trucking Associations, a slowly growing economy in late 2005, was not necessarily a bad thing, writing in a recent economic report that ‘for one, with capacity so tight, it is hard to imagine demand for trucking services growing much faster without some supply-chain disruptions.’

Adjusting Rates against Surcharges

Fitch Ratings, a global rating agency, predicts in a “Fitch Outlook” report on the trucking industry a ‘strong showing from the industry again in 2006.’ The report observes that ‘the heavy demand for freight shipping has given railroads and truckers alike a level of pricing power not seen for years.’

The report concurs with ATA’s observation that ‘heavy demand and restrained capacity growth have driven price increases that have grown significantly faster than corresponding volumes.’ Morgan Keegan, the investment banking firm, predicts a 4% -6% increases in freight rates in 2006.

If the baseline averages for fuel prices settle above \$2.00 per gallon, trucking companies will likely raise base freight rates while saving their shippers on fuel surcharges by increasing the threshold above which fuel surcharges trigger. Many carriers have fuel surcharges that begin when fuel prices exceed a certain level, as low as \$1.25 per gallon in some cases. Few analysts believe diesel prices will ever again reach that level with Morgan Keegan citing the advent of low-sulfur diesel fuel in mid-October 2006, as a factor that could force fuel prices even higher than were experienced in 2005.

For that reason, base rates may increase while adjusting fuel surcharge triggers. This will enable the trucking company to increase its revenue while enabling the shipper to absorb the difference into an on-going cost of business rather than as a fluctuating and hard-to-predict expense as surcharges are. Fitch predicts that ‘the distinction between base rates and surcharges may begin to blur’ as carriers adjust both.

Fitch also predicts that real gross domestic product (GDOP) in the U.S. will grow by 2.8% in 2006, down from a full-year forecast of 3.6% for 2005 and actual growth of 4.2% in 2004.

Second Time Around Should Be Tougher

It should be more difficult for a driver or other employee who left a company only to return to regain his job. Unfortunately, many trucking companies simply hire them back without properly requiring the person to meet the same requirements as a new hire.

Trucking Experts, Inc. write in our current newsletter to enrolled ATA carriers in our Self-Insurers Fund that returning employees frequently file time loss or injury claims soon after getting their job back. “These claims most often are for real injuries or problems, but also for those chronic in nature or for conditions that could have occurred before the rehiring of the employee.” They observe that the majority of these ‘suspect’ claims occur among drivers who have returned to the employer after having worked as an owner-operator or for a small business that did not provide workers’ compensation coverage or health benefits.

The bottom line – treat a returning former employee as a new hire and require all of the same background checks, including consideration of an ‘essential functions’ test.

A Major Victory

On December 13, 2005, the people of Arkansas considered Ballot Question No. 1 in a special statewide election. This question proposed to give the state highway commission permanent bonding authority to continually issue up to \$575 million in bonds for interstate highway maintenance without a further vote of the people.

The Arkansas Trucking Association was the first and only business organization to announce its opposition. However, other citizen based groups followed. Several statewide candidates for public office announced their opposition. They recognized that the ballot measure would take away the people’s right to vote on highway bonds, the government debt it would create, that it would divert highway taxes away from roads to pay debt service and transfer permanent bonding authority to five appointed highway commissioners.

The governor spearheaded a campaign and raised more than \$500,000 to persuade voters to pass the proposal. Your companies became the only source of financial support to educate the people on reasons to oppose the measure. Citizens Against No. 1 was formed to launch a campaign. It received just over \$100,000 in contributions, about \$81,000 from ATA members and \$27,000 from ATA.

As you know, on December 13, the people of Arkansas agreed with us – they overwhelmingly rejected Ballot Question No. 1 by a margin of 60 to 40 percent.

Thanks to the following individuals, elected officials, and businesses that wrote ‘letters to the editor’, gave radio and TV interviews, financially supported a media campaign with checks that ranged from \$100 to more than \$8,000, and all those that took a stand on principle (despite political risks) to educate the public about the negative effects of Ballot Question No. 1:

ABF Freight System
 AFL-CIO
 State Senator Denny Altes
 American Trucking Associations
 Arkansas Best Corporation
 Arkansas Trucking Assoc. Board of Directors
 Jerome Atchley (our ‘Ads Voice’)
 Ralph Bradbury

Continental Express
 Fikes Truck Line
 C.C. Jones Trucking
 C.C. Jones Produce
 David Colbert
 Dowell Transport
 Glory Transportation
 Three Way Transfer, Inc.
 Fairfield Trucking, Inc.

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| Family Council | Rep. and House Majority Leader Jay Martin |
| Distribution Solutions, Inc. | Maverick Transportation |
| Stallion Transportation Group | McConnell & Son |
| Freight Systems, Inc. | OK Industries |
| Carman, Inc. | Oakley Trucking, Inc. |
| Cal-Ark International | P & P Trucking, Inc. |
| Central States Manufacturing | PRT, Inc. |
| Former State Senator Gunner Delay | Pacific East Transportation |
| Delp, Inc. | P.A.M. Transport Services |
| Eagle Forum | Debbie Pelley |
| England Transport | Plant Truck Line |
| FedEx Freight | Drew Pritt |
| Freelance Company (Jon Kennedy) | Republican Assembly |
| Frederick Freeman | Retention Management Services |
| Heather Greenwood | Rich Transport |
| Heather Griffiths | State Rep. Susan Schulte |
| Bill Halter | Sarah Sheets |
| Robert Herzfeld | Jeff Smith |
| Darrell Hicks | Source Logistics, Inc. |
| J.D. & Billy Hines Trucking | Southern Refrigerated Transport |
| State Senator Jim Holt | Stallion Transportation (the first contributor) |
| Howard Trucking | Vicki Jones Stephens |
| Hurricane Express | State Representative Bill Stovall |
| Image Works (Tim Moore) | Twin City Transportation |
| Former Senator Peggy Jeffries | USA Truck |
| KP Carriers, Inc. | Wayne Smith Trucking |
| MAGS Trucking, Inc. | Bill Vickery |
| Marrlin Transit, Inc. | Former State Senator Joe Yates |
| Matthews Publishing Group (Jennifer Matthews Kidd) | |

This election, once again, clearly showed what is achieved when companies unite around a particular cause in which they have a collective interest. This was a great victory for the Arkansas Trucking Association, the trucking industry, and especially the people of Arkansas.



Lane Kidd
President