

## CSA: Another Look With Similar Conclusions

## An Expanded Dataset And Another Look Highlights CSA Problems

Sector Rating: Airfreight &amp; Logistics, Market Weight

Sector Rating: Trucking &amp; Intermodal, Market Weight

Company Name	Rating	Price	FY EPS		FY P/E	
		07/02/12	2012E	2013E	2012	2013
<b>Airfreight &amp; Logistics</b>						
FedEx Corp. (FDX)	1	\$91.54	\$6.45 A	\$7.24	14.2x	12.6x
United Parcel Service, Inc. (UPS)	2	78.69	4.88	5.39	16.1x	14.6x
<b>Trucking &amp; Intermodal</b>						
Arkansas Best Corp. (ABFS)	3 V	12.31	(0.08)	0.53	NM	23.2x
C.H. Robinson Worldwide, Inc. (CHRW)	2	60.85	2.85	3.24	21.4x	18.8x
Con-way Inc. (CNW)	2 V	35.62	2.35	2.73	15.2x	13.1x
Heartland Express, Inc. (HTLD)	2	14.32	0.85	0.94	16.8x	15.2x
Hub Group, Inc. (HUBG)	2	35.74	1.92	2.28	18.6x	15.7x
J.B. Hunt Transport Services, Inc. (JBHT)	1	59.13	2.68	3.19	22.1x	18.5x
Knight Transportation, Inc. (KNX)	1	15.99	0.95	1.14	16.8x	14.0x
Landstar System, Inc. (LSTR)	2	51.85	2.78	3.10	18.7x	16.7x
Old Dominion Freight Line, Inc. (ODFL)	1	44.42	2.82	3.20	15.8x	13.9x
Ryder System, Inc. (R)	2	35.31	3.71	4.12	9.5x	8.6x
Swift Transportation Co. (SWFT)	1 V	9.71	0.82	1.10	11.8x	8.8x
Werner Enterprises, Inc. (WERN)	1	23.92	1.61	1.85	14.9x	12.9x

Source: Company data and Wells Fargo Securities, LLC estimates 1 = Outperform, 2 = Market Perform, 3 = Underperform, V = Volatile,   
 \* = Company is on the Priority Stock List NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

- We continue to find the FMCSA's Compliance, Safety, Accountability (CSA) safety program problematic. Based on our research, we do not believe stakeholders should rely on CSA BASIC scores as an indicator of carrier safety performance or future crash risk. Following our 11/4/11 report ("CSA: Good Intentions, Unclear Outcomes") and a formal response from the FMCSA (they disagree with many of our findings), we have expanded our carrier dataset to the 4,600 largest North American (NA) trucking companies from the 200 we used in our 11/4/11 report. This 4,600 carrier dataset includes companies with a minimum of 25 trucks and those that have received a minimum of 50 inspections. In our view, this dataset enables us to capture both large and smaller carriers as well as to ensure that the prescribed regulatory measures are represented and analyzed. In summary, the findings from the larger dataset strengthens our conviction in our earlier findings (i.e., there is no meaningful statistical relationship between "poor" BASIC scores and accident incidence) and also demonstrates even greater dispersion in the intended results and unintended consequences of the CSA methodology.
- While most of the carriers in our coverage universe are in compliance, in our analysis, we identified several important inconsistencies. We found a wide and somewhat unexplainable range of inspection frequency among carriers. In turn, because inspection frequency affects productivity and since only one-third of vehicle inspections are free of violations, a potential "negative feedback loop" may be created. Lastly, while surveys suggest that both large and small carriers have applied resources towards CSA compliance, it is difficult for us to assess how shippers, drivers, insurance providers, etc. are treating the vast number of carriers without a BASIC score. We are left to wonder if non-rated carriers will be "shunned" and thereby benefitting our universe, or will stakeholders seek to avoid the ambiguities of the prescribed ranking methodology and punish our carriers?

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**Please see page 18 for rating definitions, important disclosures and required analyst certifications**

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## Background

The Federal Motor Carrier Safety Association (FMCSA) introduced the nationwide CSA (Compliance, Safety, Accountability) safety program in December 2010. We believe the intent of the program was to reduce crashes, injuries and fatalities by utilizing a broader and more comprehensive data set to measure carrier and driver safety. In turn, this data could be used by FMCSA and carriers to take corrective action and to allow FMCSA to focus its resources on the more troublesome carriers and drivers. We believe the idea was to identify behaviors that were thought to lead to accidents and to proactively address those behaviors before accident occurrence.

The FMCSA collects data in order to assign a composite score in seven categories, five of which are made public. Each category has numerous subcategories that are each prescribed severity weights. The aggregate of these weights results in a BASIC (Behavior Analysis and Safety Improvement Categories) score for each category. Each BASIC has a corresponding "limit" threshold whereby, if a carrier breaches, corrective actions must be taken to remedy the violations. Serious or persistent violations can result in enforcement actions against either carriers or drivers. There are as many as 695 possible violations that CSA can capture.

In our 11/4/11 report, we examined the correlation between BASIC scores and accident incidence, which we measured on the basis of number of power units and million miles driven. We found no meaningful statistical correlation between BASIC scores and accident incidence. In that report we made several assertions as to why we believed BASIC scores may not be a good indicator of carrier safety and why there was little correlation between actual accident incidences. On 3/16/12, the FMCSA issued a report directly addressing the findings in our report. We believe the report can be accessed at <http://csa.fmcsa.dot.gov> and we encourage readers to understand FMCSA's position on these important matters. Further, now that the program has been implemented and running for some time, we would welcome a thorough independent statistical review of all the carriers in the FMCSA database that goes beyond our 4,600 carrier dataset.

## Another Look And Similar Conclusions

In an effort to ensure authenticity of our previous results and in light of some disagreement with our assessment, we felt it was important to broaden our dataset. Moreover, we increasingly find shippers, the legal and insurance professions, among others, struggling to understand how they should or could use CSA in their unique capacities. In our view, investors should understand the implications of this dynamic.

The FMCSA grants carriers regulatory authority to operate; there are no regulations that require shippers to utilize CSA in carrier selection. The FMCSA continues to publish Carrier Safety Ratings as "Satisfactory", "Conditional" or "Unsatisfactory". In theory, therefore, it should be simple enough for a shipper to make a carrier safety decision based on the three FMCSA categories. Nonetheless, we find that shippers are using CSA in their carrier assessments even as they struggle to understand the legal implications of this. We note that a Q2 2012 Quarterly Expectations Survey by Transport Capital Partners found that 72% of their survey respondents reported at least some of their customers were concerned about CSA scores, which seems to confirm our observations. However, we find shippers and brokers struggling with the legal implications of using a carrier with, for example, a "Satisfactory" Carrier Safety Rating but an "Above Threshold" "Unsafe Driving BASIC". What are the ramifications if that carrier is subsequently involved in an accident?

Overall, we find the CSA program and BASIC scoring methodology troubling for the following several reasons;

1. We do not find any meaningful statistical correlation between BASIC scores and actual accident incidence measured on the basis of miles driven or number of power units in our 4,600 carrier dataset,
2. We find several aspects of data collection and BASIC scoring flawed, or potentially misleading,
3. We find it rather ambiguous of the FMCSA to assign percentile rankings and threshold maximums to carriers in several BASIC categories but then leave open the interpretation of the carrier's overall safety performance to stakeholders (drivers, shippers, insurance providers, shareholders, employees),
4. Systems such as the Inspection Selection System (ISS) prompt more frequent inspections for carriers with high BASIC scores but two-thirds of inspections result in violations potentially creating a "negative feedback loop". More troubling, in our view, is the disparity between State enforcement protocols.

Given the above, and because a large number of carriers are not even scored in the BASIC system or are only scored in one BASIC category, we are left to wonder if non-rated carriers will be "shunned" thereby benefitting the larger carriers in our research universe, or will the reverse occur as stakeholders seek carriers with no BASIC scores and therefore less ambiguity?

**No Meaningful Statistical Relationship In Our Larger Dataset**

We increased our dataset from the 11/4/11 report to more closely align with regulatory agencies demonstrated sample sizes, although we wanted to remain cognizant of the nature of our analysis. We are trying to assess if the new regulatory methodologies are, in fact, indicative of crash/safety performance. We recognize that investors are interested in carrier safety as it relates to costs, reputation and market share implications. Smaller carriers tend to be heavily represented in our 4,600 carrier dataset, which reflects the fragmented nature of the trucking industry.

The FMCSA refers to attempts at identifying and resolving “systemic” safety problems, which we believe is most important considering our trucking coverage universe and investor profile. While there is a tremendous amount of individual driver data available because of the fragmented market, there is a much smaller set of data available for carriers with 50 or greater inspections and a minimum of 25 vehicles in the fleet. We chose these mitigating variables to first ensure that there were enough inspections to accurately represent a carrier’s safety and also to identify if “systemic” issues are identified (25 power units seems like a reasonable fleet size to incorporate “systemic” safety programs and also gave us a large enough sample set).

In our view, “too few” inspections (either favorable or unfavorable) attached to a single carrier represented insufficient data to accurately assess a methodology. Indeed, data with fewer than 20 observations is often not considered reliable for statistical analysis. Limiting our data to those mitigating variables yielded a 4,600 carrier dataset, which we feel is comprehensive enough to make broad-based market assertions, particularly as it pertains to our coverage universe and investor focus.

In the FMCSA dataset as of March 2012, there were roughly 326,000 carriers of which 90,000 carriers had an SMS percentile score. However, there were 235,000 carriers who had zero scores and only roughly 42,000 who had 20 or more inspections. In other words, only approximately 13% of the carriers had the number of inspections (at least 20) that provide a sufficient number of observations (statistically speaking). This is a certain problem that stakeholders may have with CSA; only a small portion of the carrier population is rated.

<b>Number of Carriers with Inspections and BASIC Scores for Nationwide Carrier Fleet, March 2012</b>				
<b>Inspections</b>	<b>Carriers</b>	<b># with Scores</b>	<b>% with Scores</b>	<b>No Scores</b>
1	79,713	96	0.1%	79,617
2	46,254	84	0.2%	46,170
3	32,190	815	2.5%	31,375
4	23,651	1,392	5.9%	22,259
5	18,254	2,734	15.0%	15,520
6	14,488	3,560	24.6%	10,928
7	11,761	3,963	33.7%	7,798
8	9,680	4,191	43.3%	5,489
9	8,010	4,108	51.3%	3,902
10	6,608	3,865	58.5%	2,743
11	5,714	3,638	63.7%	2,076
12	4,916	3,413	69.4%	1,503
13	4,416	3,249	73.6%	1,167
14	3,686	2,832	76.8%	854
15	3,396	2,695	79.4%	701
16	2,939	2,435	82.9%	504
17	2,570	2,143	83.4%	427
18	2,426	2,102	86.6%	324
19	2,113	1,868	88.4%	245
20+	43,555	41,991	96.4%	1,564
<b>Totals</b>	<b>326,340</b>	<b>91,174</b>	<b>27.9%</b>	<b>235,166</b>

Source: FMCSA

**Transportation**

In the 3/14/12 FMCSA, report a University of Michigan Transportation Research Institute (UMTRI) finding is cited showing a crash rate of 4.94x for carriers exceeding “any BASIC” compared to 2.09x for carriers exceeding “no BASIC”. However, based on the chart above we have a strong suspicion that the 428,966 carriers with “no BASIC” violation in the UMTRI study very likely had too few inspections to register a BASIC. In other words, they were not necessarily safer. It is more likely they had just not received enough inspections to register a BASIC score. A lack of inspection data and a statistically valid rate of inspections (i.e., at least 20) causes us to doubt the validity of the assertion that carriers above “Any BASIC Thresholds” were much more likely (4.94x vs. 2.09x) to have accidents as compared to carriers “Exceeding No BASICs”. While it may be easy to compare 4.94x to 2.09x, we think the conclusion is misleading unless there were statistically sufficient inspection rates across the observable BASIC behaviors.

If CSA BASIC scores were measuring the correct behaviors we would expect an identifiable relationship with crash rates and threshold CSA BASIC scores. We have not found those relationships. In the chart below we summarize the results of our carrier study. In the Unsafe Driving and Driver Fitness BASICs we observe only negligible differences between accident rates between “Above Threshold” and “Below Threshold” carriers. In the Vehicle Maintenance and Fatigued Driving BASICs we see a higher rate of accident incidences between “Above” and “Below” carriers. This suggests to us that the underlying components of Vehicle Maintenance and Fatigued Driving may have more relevance to safety than those in the Unsafe and Fitness categories. However, we do not believe they are meaningfully different as it relates to crash rate predictability.

CSA Summary Statistics		Accidents per Million Miles	Standard Deviation	Accidents per 100 Power Units	Standard Deviation
Unsafe Driver BASIC	Total	.98x	1.21x	7.26x	5.77x
Unsafe Driver BASIC	Above Threshold	1.00x	1.24x	7.89x	6.87x
Unsafe Driver BASIC	Below Threshold	.97x	1.21x	7.14x	5.44x
Fatigued Driver BASIC	Total	.98x	1.21x	7.26x	5.77x
Fatigued Driver BASIC	Above Threshold	1.16x	1.25x	9.84x	6.08x
Fatigued Driver BASIC	Below Threshold	.87x	1.18x	6.00x	5.05x
Driver Fitness BASIC	Total	.98x	1.21x	7.26x	5.77x
Driver Fitness BASIC	Above Threshold	.98x	1.22x	7.14x	5.91x
Driver Fitness BASIC	Below Threshold	.98x	1.20x	7.53x	5.19x
Vehicle Maint BASIC	Total	.98x	1.21x	7.26x	5.77x
Vehicle Maint BASIC	Above Threshold	1.21x	1.61x	8.89x	6.66x
Vehicle Maint BASIC	Below Threshold	.89x	.93x	6.59x	5.04x

Note: Values are statistical median

Source: FMCSA, Wells Fargo Securities, LLC

Inspections tend to be triggered by a number of events. First, there are post-accident inspections. Second, enforcement agencies use systems such as ISS and the Aspen roadside inspection programs to identify carriers that have a violation history. Alternatively, in States such as California and New York that do not use Aspen, inspections are often prompted by either “observable defects” or “probable cause”, such as speeding or following too close. As we discuss later in this report, “probable cause” restraints appear to prompt certain behaviors at the enforcement level.

We also ran a correlation analysis between the four BASIC categories and accident incidence on a mileage and per power unit basis. In the chart below we summarize our findings. We found the correlation between scores and crash rates to be weak or nonexistent in each of the categories. In other words, “above threshold” carrier rankings did not offer a statistically different view on crash rates when compared to “below threshold” carriers.

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CSA Correlation Comparison			Accidents per Million Miles	Accidents per 100 Power Units	Inspection per Power Unit
Total 4600 Carriers	Unsafe Driver BASIC	Correlation	0.019	0.116	0.301
	Unsafe Driver BASIC	R <sup>2</sup>	0.000	0.013	0.091
	Fatigued Driver BASIC	Correlation	0.031	0.122	0.290
	Fatigued Driver BASIC	R <sup>2</sup>	0.001	0.015	0.084
Above Threshold	Unsafe Driver BASIC	Correlation	0.024	0.104	0.258
	Unsafe Driver BASIC	R <sup>2</sup>	0.001	0.011	0.067
	Fatigued Driver BASIC	Correlation	0.199	0.082	0.073
	Fatigued Driver BASIC	R <sup>2</sup>	0.040	0.007	0.005
Below Threshold	Unsafe Driver BASIC	Correlation	0.062	-0.007	0.221
	Unsafe Driver BASIC	R <sup>2</sup>	0.004	0.000	0.049
	Fatigued Driver BASIC	Correlation	0.202	0.061	0.124
	Fatigued Driver BASIC	R <sup>2</sup>	0.041	0.004	0.015

Note: Values are statistical median

Source: FMCSA, Wells Fargo Securities, LLC

Data Collection And Scoring

In the 3/14/12 FMCSA report, a UMTRI analysis is cited as showing a high statistical relationship between crash rates (per 1,000 power units) and Unsafe Driving BASIC (R<sup>2</sup>=0.6609) and Fatigued Driving Basic (R<sup>2</sup>=0.8276). We do not have access to the underlying data and we note the data was from a larger dataset than ours although from years 2008 and earlier. Moreover, it appears the correlation analysis was run *after* a carrier was first grouped with other carriers who had similar percentile rankings. Accordingly, the UMTRI dataset of 42,595 carriers in the Fatigued Driver BASIC was reduced to a final dataset of 100. Simply, a carrier that was close to the 1% mark was put in the “1% grouping”, and so on. We could not find any statistical rationale for grouping carriers into percentiles. Indeed, the purpose of regression analysis is to explain variation. Conversely, we ran our analysis using each individual carrier’s BASIC scores against each individual carrier’s crash rates. We found very low R<sup>2</sup> results and no meaningful relationships. A study by Inam Iyob (PhD in Engineering; Director of Engineering at Transplace.com) based upon the underlying data (i.e., not the consolidated percentiles) from the UMTRI study obtained from FMCSA, was also not able to find a correlation. In the Transplace study, the UMTRI correlations did not hold when the carriers were ungrouped from percentile rankings.

We believe one of the main challenges is that CSA is a Federal program but violations and inspections are completed at the State level. We have found that States have a wide variety of enforcement and inspection protocols and an individual carrier’s exposure to particular States has the distinct possibility of influencing the BASIC scores, in our view. Moreover, the quality of State reporting on inspection data and crash reporting varies to such a degree that the FMCSA actually rates States as “Good”, “Fair” or “Poor” on the completeness, timeliness, accuracy and consistency of State-reported crash and roadside inspections. The UMTRI data was from the CSA Op-Test Model using 2008 and earlier data from four test States (Colorado, Georgia, Missouri, and New Jersey). Montana and Minnesota were added later. A February 2008 “snapshot” listed 26 States as “Good” (including the original test State of Colorado), 14 States as “Fair” (including the original test States of Georgia and Missouri) and 8 States “Poor” (including the original test State of New Jersey).

We find several aspects of the crash reporting particularly troubling. First, is the admission by FMCSA that States have varying degrees of “completeness, timeliness, accuracy and consistency” of crash reporting. Crash data seems like the most important piece of information in the entire CSA equation. Secondly, carrier crashes are recorded for purposes of CSA whether or not the carrier was at fault. We do not have access to the data that shows the large truck at-fault rate per se. However, looking at other data suggests that large trucks are often not at fault. According to a 2009 review of large truck crashes, the FMCSA notes that collisions with another transport vehicle was behind 75% of fatal crashes and 67% of nonfatal crashes involving large trucks. Notably, in rear-end fatalities passenger vehicles struck large trucks approximately four times more often than large trucks struck passenger vehicles. In head-on fatal crashes the passenger vehicle crossed the center line at nearly five times the rate that the large trucks did. We do not mean to imply that a passenger vehicle is necessarily at fault when they rear-end a large truck. Rather, we think it is at least plausible to assume that an

**Transportation**

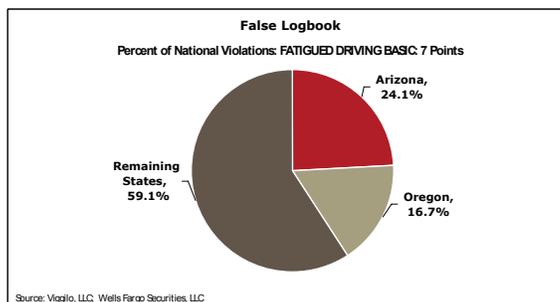
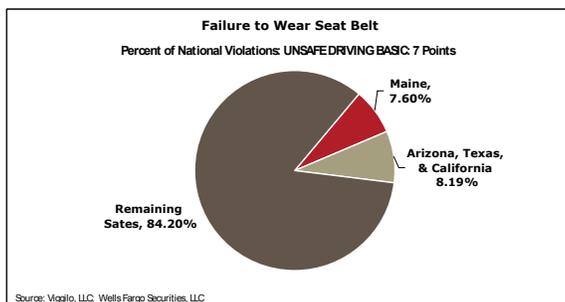
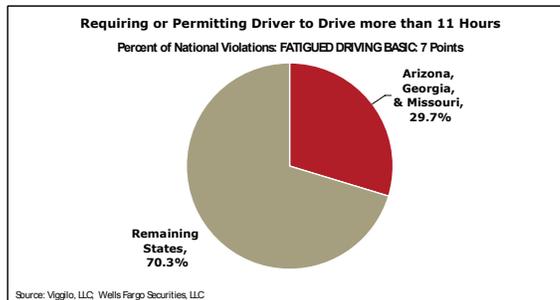
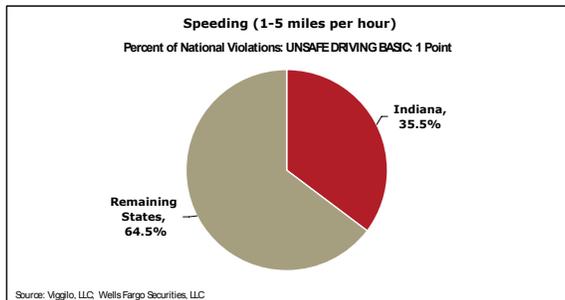
important percentage of the crash incidences captured in CSA are not the fault of the large truck. We note that the crash rates in the UMTRI study did not exclude no-fault accidents; thereby indirectly assigning 100% of the fault to the large truck.

Truck driver and carrier behaviors have been assigned certain severity weights that were derived by quantitative analysis based on historical crash and roadside data. But the crash data is surely not the fault of the carrier 100% of the time, and therefore, we have to question the validity of the weighting. This may be at the very heart of the problem. If trucking behaviors were modeled against crashes and not all of the crashes were the fault of the driver or the carrier, we wonder how the behavioral assessment can be accurate. This may explain why BASIC violations have not corresponded to crash rates, in our view.

Crash Type	Fatal Crashes	Crashes with Driver-Related Factors Recorded			
		For Large Truck		For Passenger Vehicle	
		Number	Percent	Number	Percent
Large Truck Rear-Ending Passenger Vehicle	73	36	49.3%	33	45.2%
Passenger Vehicle Rear-Ending Large Truck	290	49	16.9%	224	77.2%
Large Truck Crossing Center Median (Head-On)	50	29	58.0%	23	46.0%
Passenger Vehicle Crossing Center Median (Head-On)	288	18	6.3%	276	95.8%
Large Truck Striking Passenger Vehicle (Other)	504	123	24.4%	403	80.0%
Passenger Vehicle Striking Large Truck (Other)	419	99	23.6%	345	82.3%
Other Collision	85	22	25.9%	72	84.7%
<b>Total</b>	<b>1,709</b>	<b>376</b>	<b>22.0%</b>	<b>1,376</b>	<b>80.5%</b>

Source: National Highway Traffic Safety Administration, Fatality Analysis Reporting System (FARS)

As we discussed in our 11/4/11 report, we found disparity among inspection protocols and enforcement behaviors that vary by State and are unexplainable by measures such as traffic density or even carrier behaviors. For example, Vigillo LLC, a leading consulting firm in the field, found that Indiana accounts for 35.5% of all nationwide “Unsafe Driving BASIC” violations for exceeding the posted speed by 1-5 miles per hour. As we understand it, Indiana requires “probable cause” for an inspection. In another example, within the “Fatigued Driving BASIC” Arizona and Oregon captured 40.7% of the nationwide occurrences of “false logbook” violations. Other examples are highlighted below. We highlight the severity weights of each.



**Collateral Damage**

While we believe continuous safety improvements should remain a primary focus of the freight transportation industry, particularly highway safety, the unintended consequences of CSA should also be addressed. We find commercial relationships are being affected and direct and indirect costs are increasing. We have already concluded that increased inspections may lead to higher BASIC scores because only one-third of all inspections are violation free. We worry that shippers making carrier selection decisions based on publicly available BASIC

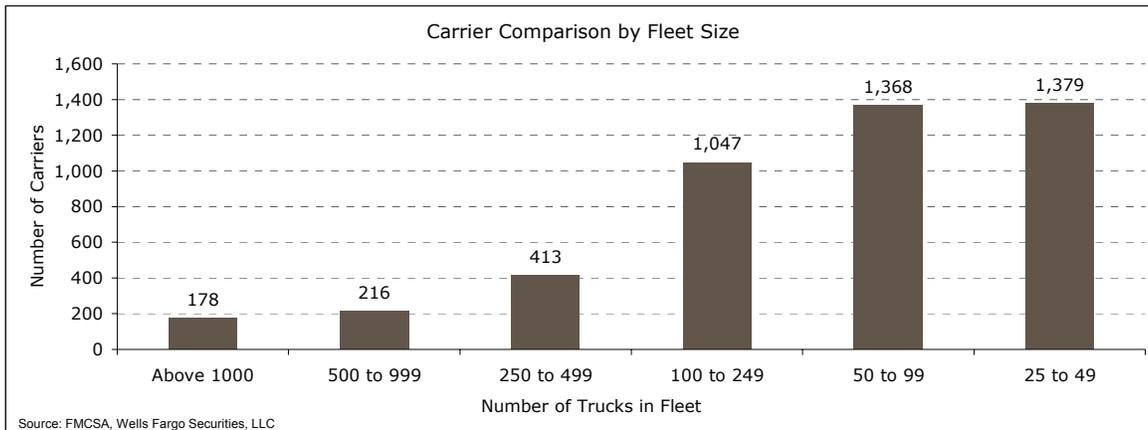
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scores could potentially discriminate against certain carriers due to that carrier BASIC scores. We note that States with sea ports tend to have higher inspection rates as compared to non-port States, such that a carrier operating in a port area may tend to have scores that are not directly comparable to a carrier operating in a less inspection intensive State.

Further, insurance companies are using BASICS as benchmarks for risk evaluation and assigning premiums based on scores. Fundamentally, we support a safety monitoring system and the insurance implications one would bring, unfortunately we feel the CSA methodology is problematic as it stands by inaccurately assigning poor scores to otherwise safe carriers.

Finally, the direct and indirect costs associated with compliance tend to favor larger more sophisticated carriers and appears to be somewhat inequitable to the smaller operators. We note that in our 4,600 carrier dataset “small” carriers (less than 100 power units) tended to be inspected at twice the rate as larger carriers. While we do believe safety and risk management are at the forefront of trucking manager’s focus, the introduction of Pre-Screening Programs and other regulatory initiatives have both a direct dollar cost and labor/hour commitment. Given the fixed cost nature of the programs and the much higher expense/employee characteristics of the smaller carrier, a distinct advantage is offered to the large carrier as the costs and labor/hours can be accrued to both a larger fleet and larger employee base.

Lastly, we believe that the FMCSA has put significant resources behind the CSA program and substantial efforts have been put forth to improve highway safety. However, our analysis of the data continues to suggest that CSA BASIC scores may not be a reliable indicator of carrier safety or future crash risk.



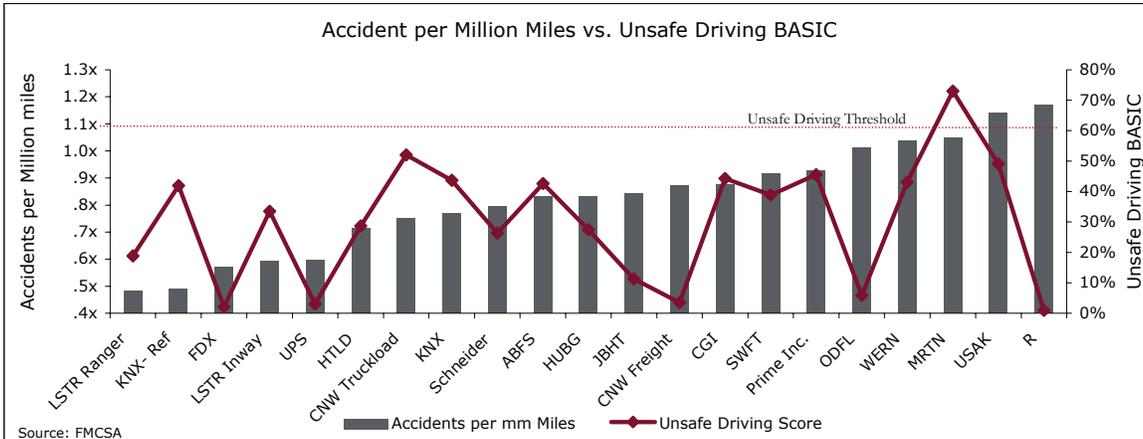
Fleet Size Comparison		Median		
	Number of Carriers	Number of Power Units	Inspection per mm miles	Inspection per Power Unit
18%	178	Above 1000	1.205x	.589x
	216	500 to 999	1.509x	.876x
	413	250 to 499	1.645x	1.026x
82%	1,047	100 to 249	1.892x	1.225x
	1,368	50 to 99	2.095x	1.529x
	1,379	25 to 49	2.930x	2.292x
<b>Total:</b>	<b>4,601</b>	<b>Median:</b>	<b>2.193x</b>	<b>1.587x</b>

Source: FMCSA, Wells Fargo Securities, LLC

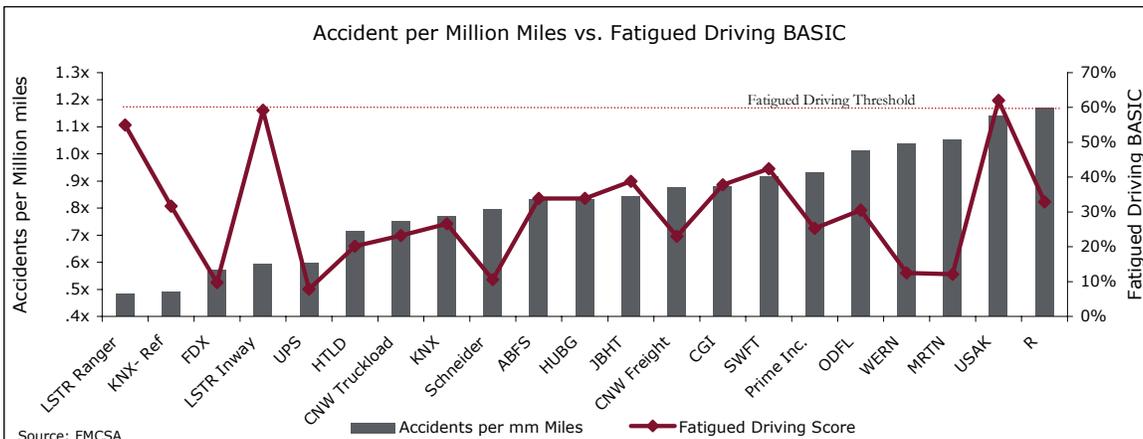
Transportation

Supporting Charts

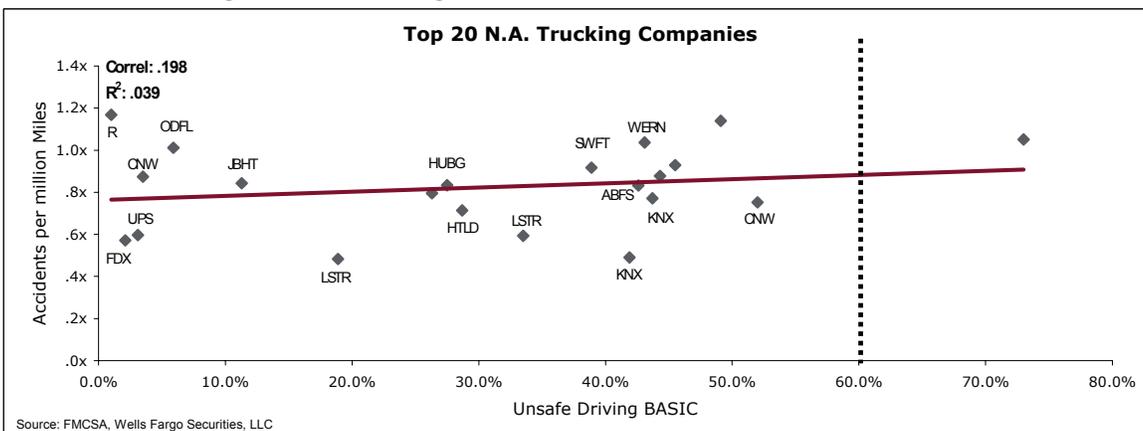
As an example of the problems that we found with CSA BASIC scores, in the chart below we note that ODFL, WERN and MRTN each of similar crash rates (accidents per million miles). However, the “Unsafe Driving BASIC” varies greatly by carrier.



Using the same three carriers in the example below, we note WERN and MRTN have relatively low “Fatigued Driving BASIC” scores but above-peer crash rates.

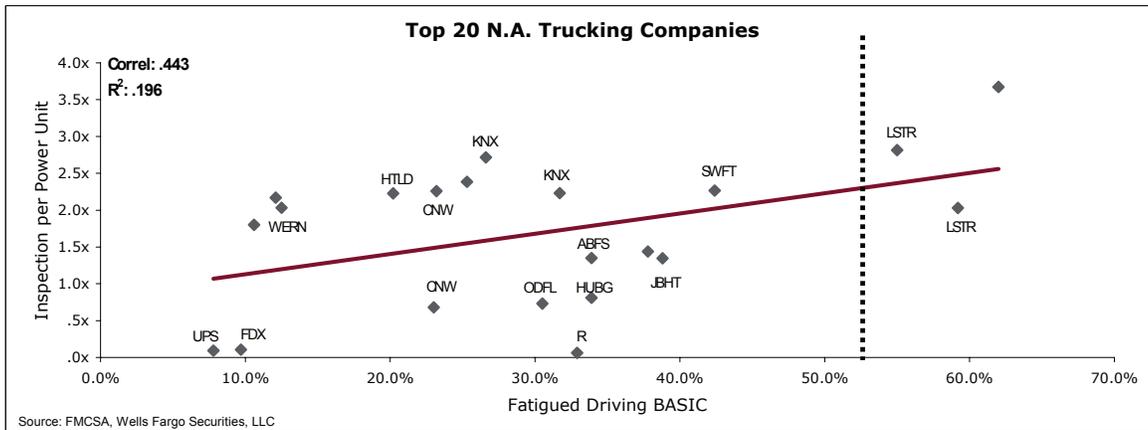
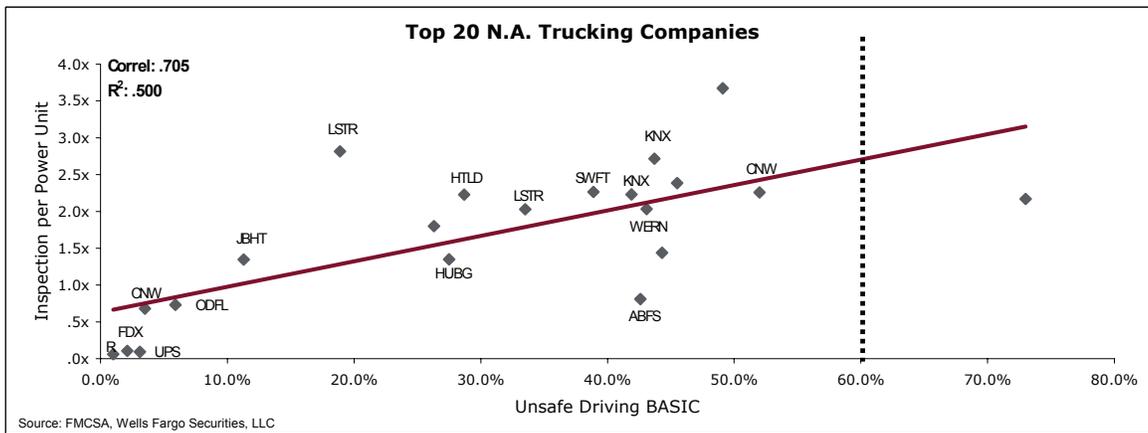
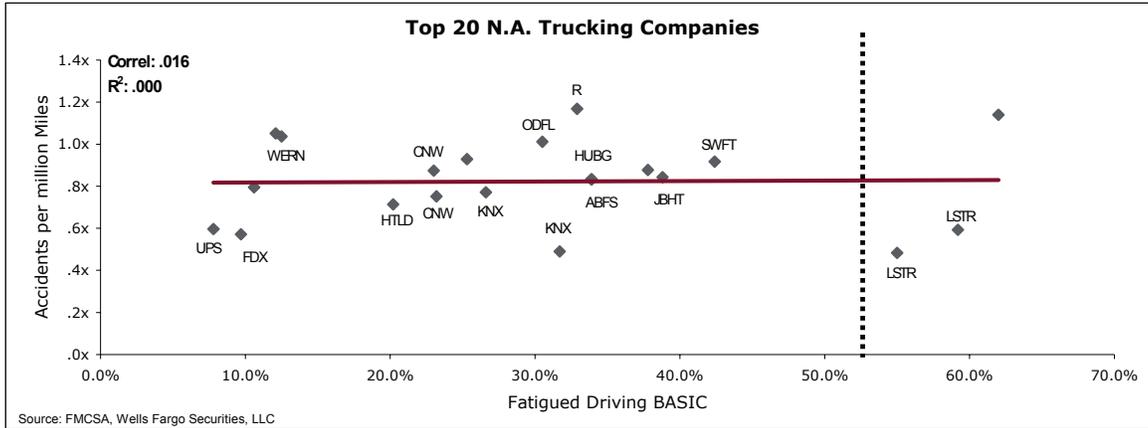


In the chart below we note that JBHT has a crash rate modestly above ABFS and KNX yet the latter two carriers have much higher “Unsafe Driving BASIC” scores.

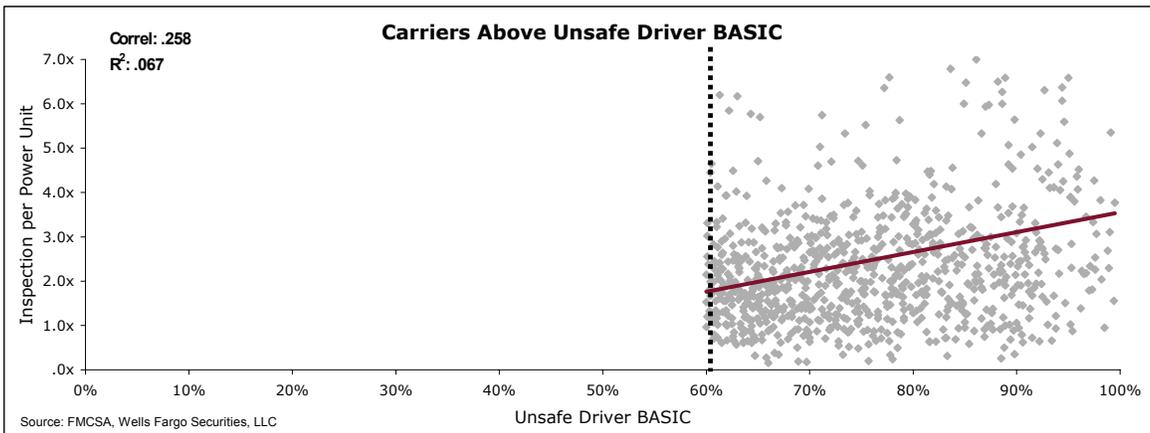
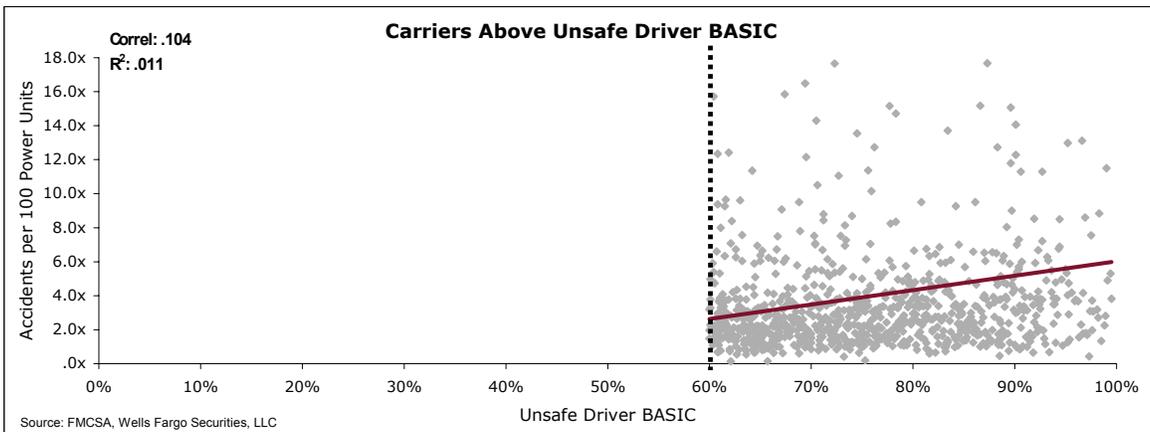
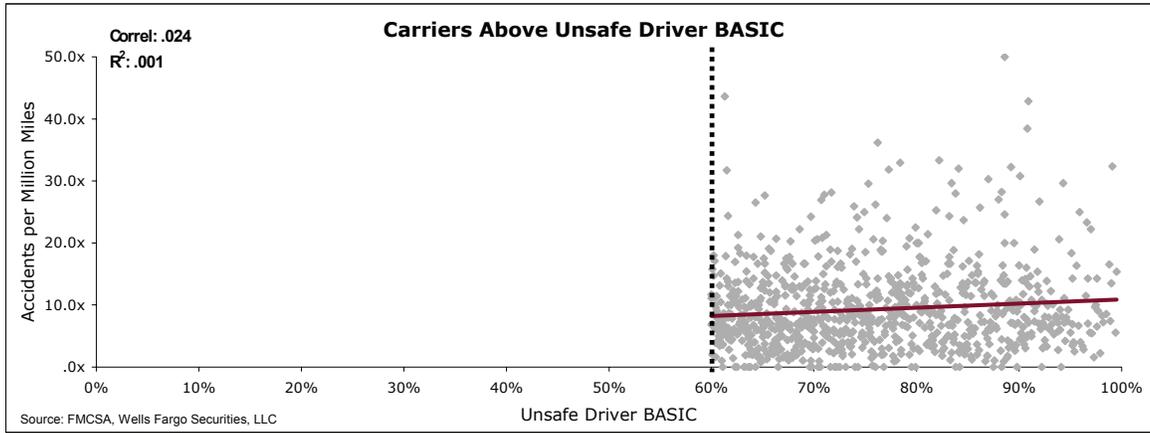


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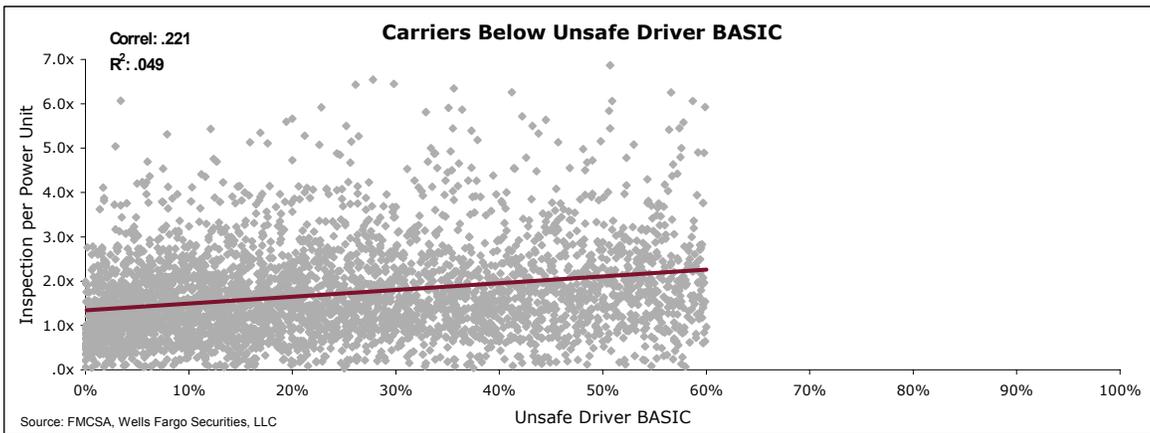
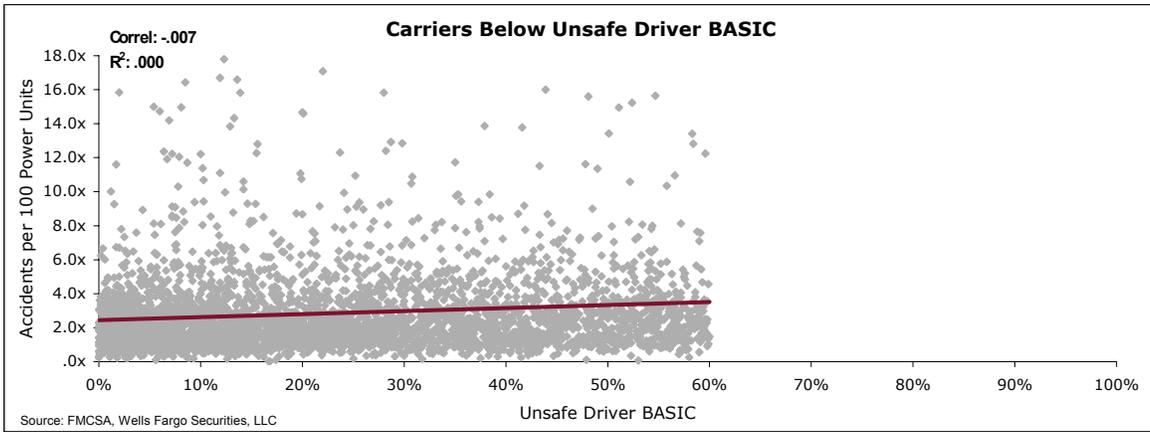
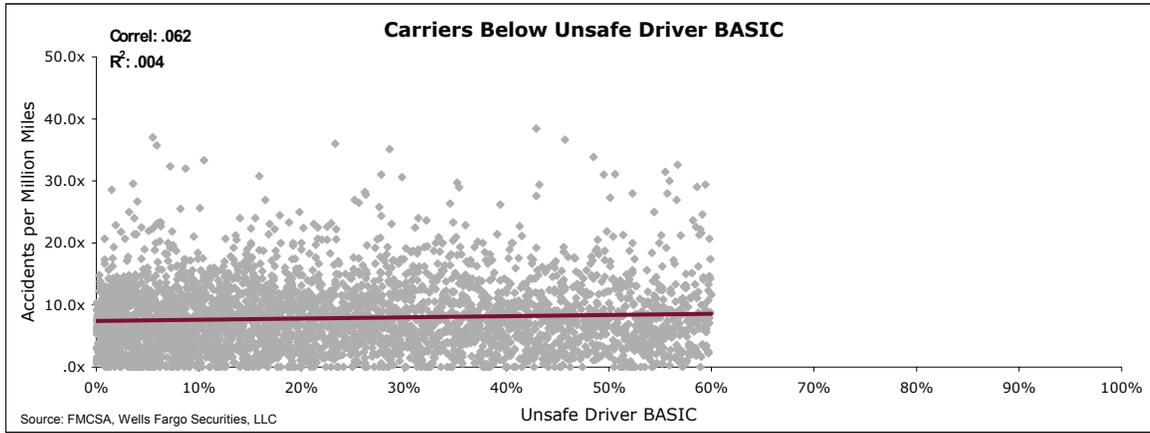
In the chart below we highlight that two of LSTR's operating companies were above the "Fatigued Driving BASIC" threshold but LSTR companies have among the lowest crash rates among peers.



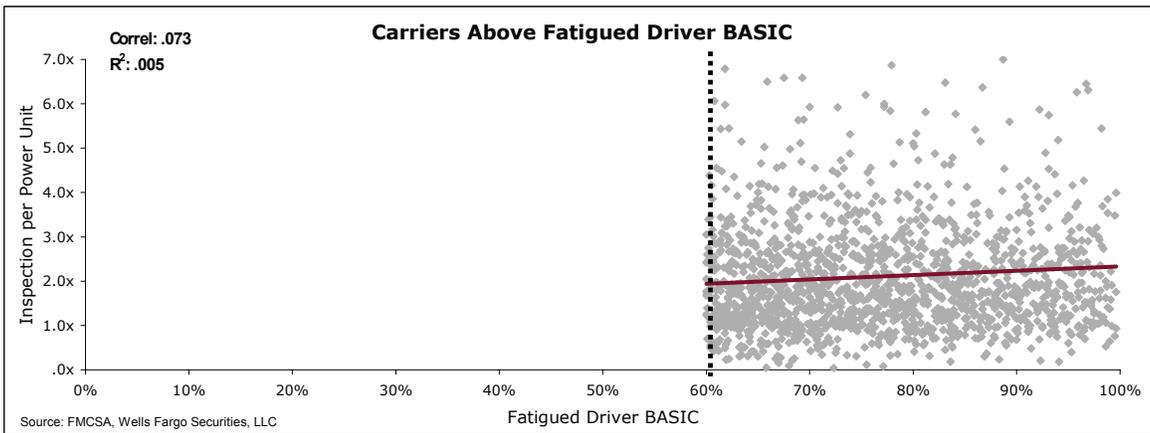
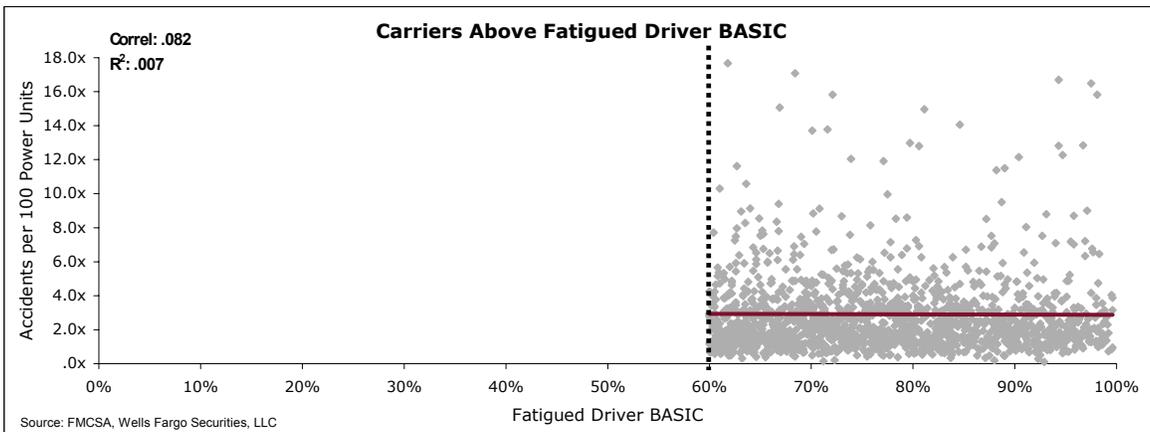
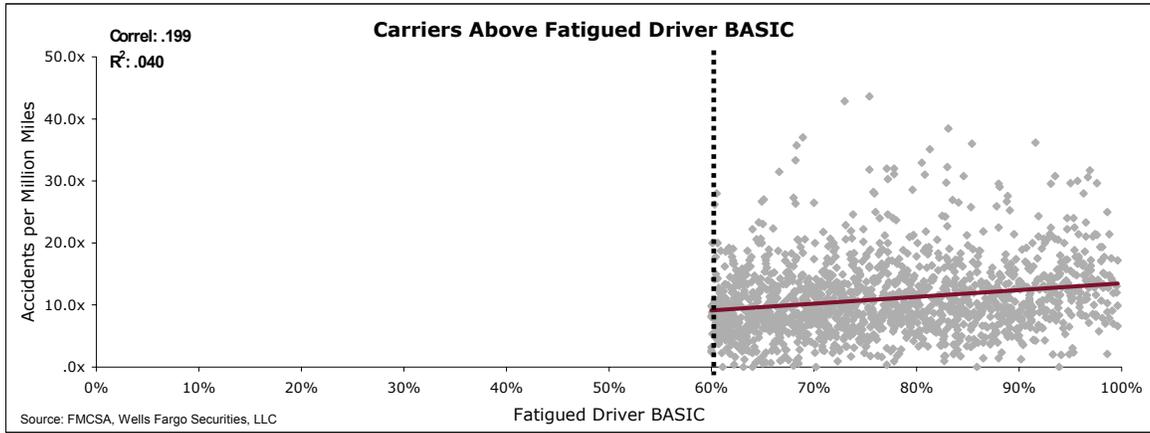
Transportation



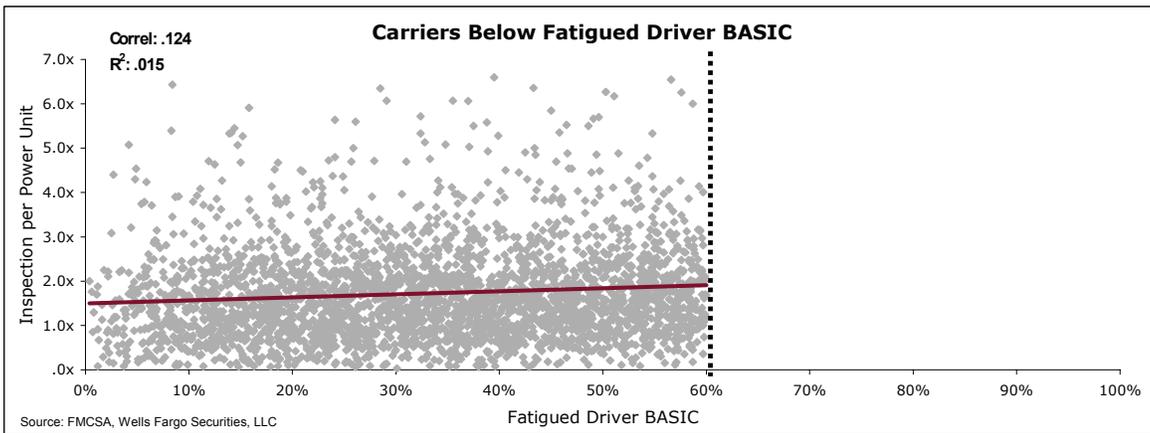
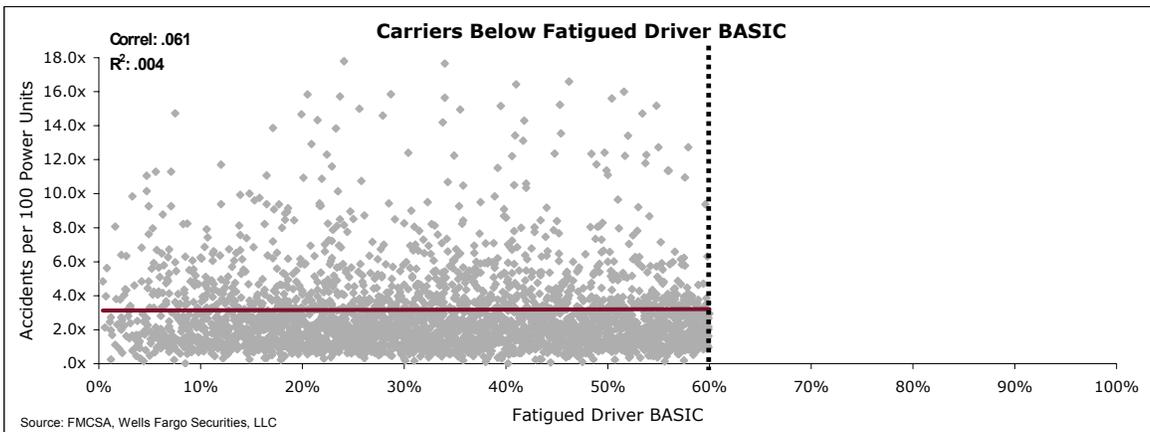
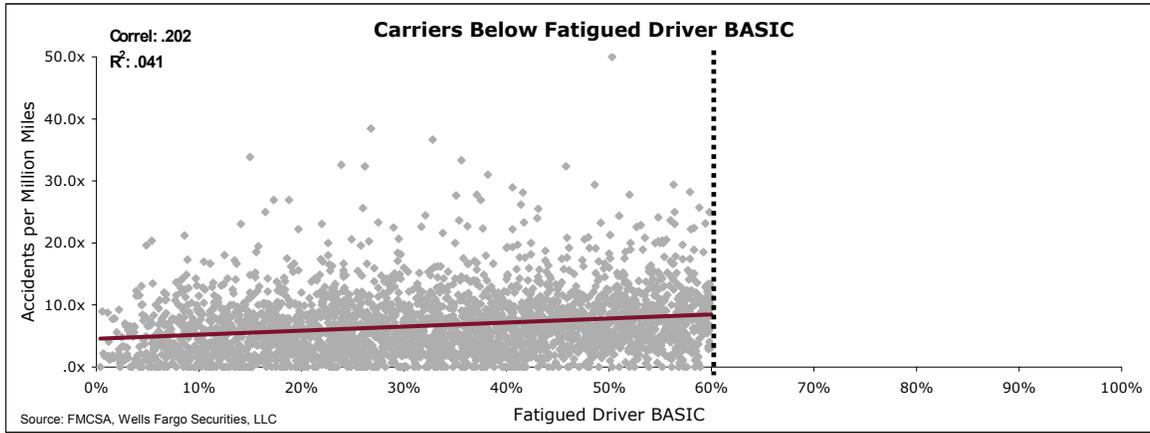
CSA: Another Look With Similar Conclusions



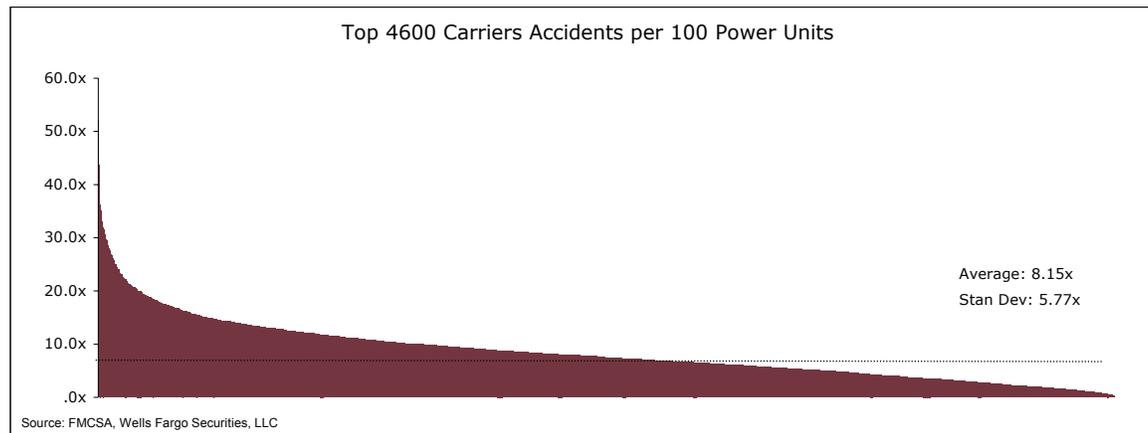
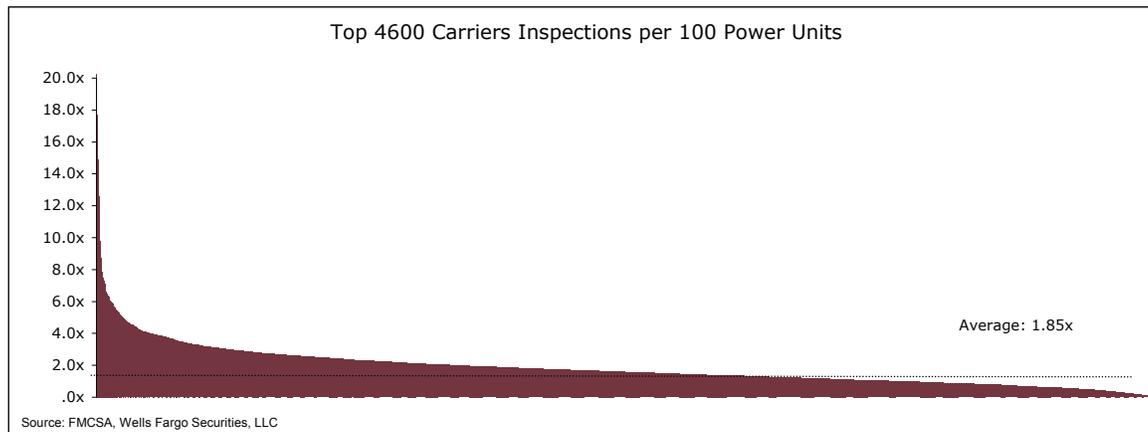
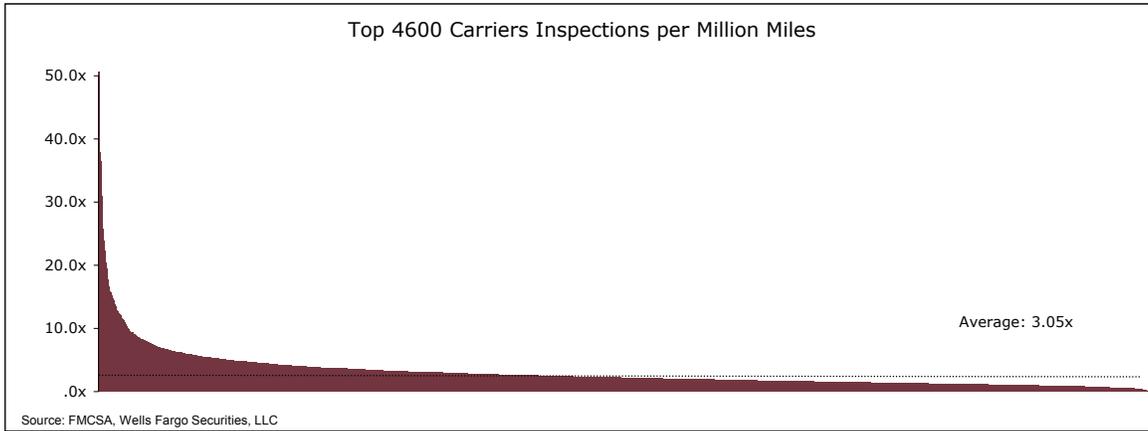
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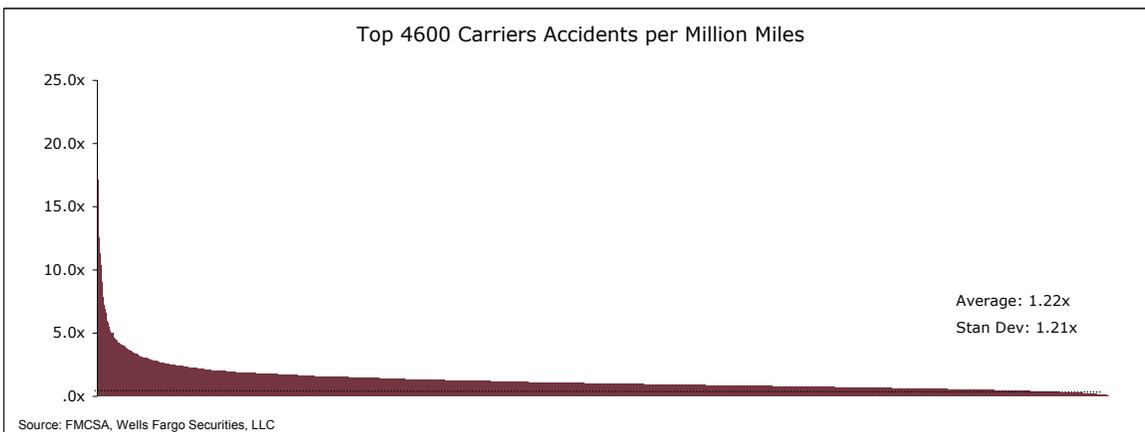
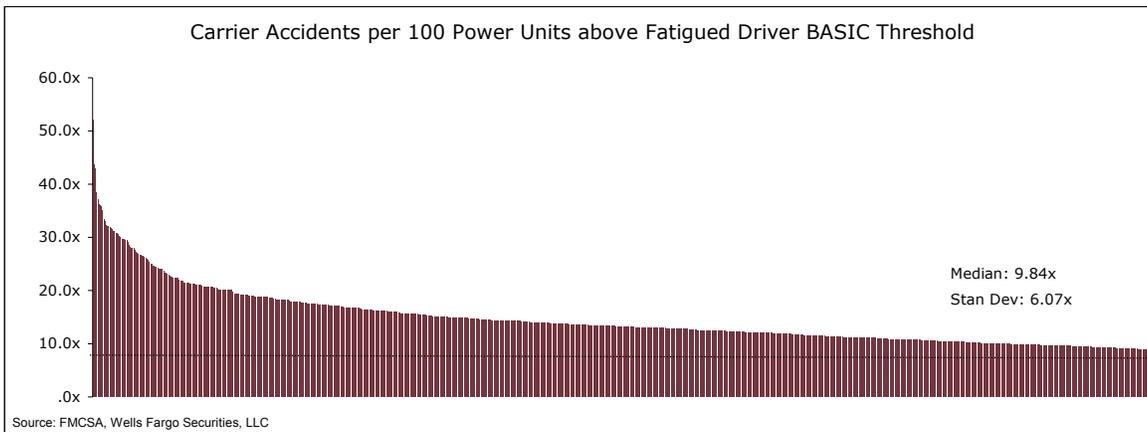
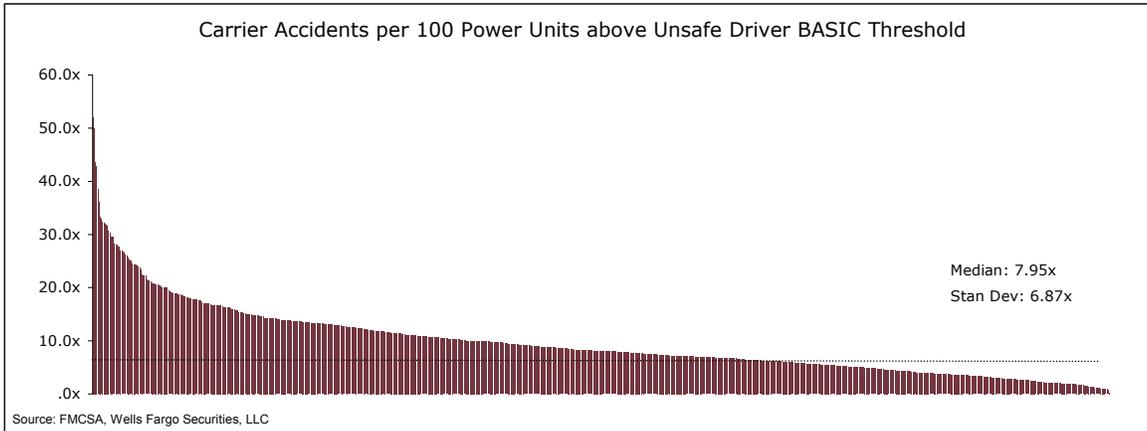
CSA: Another Look With Similar Conclusions



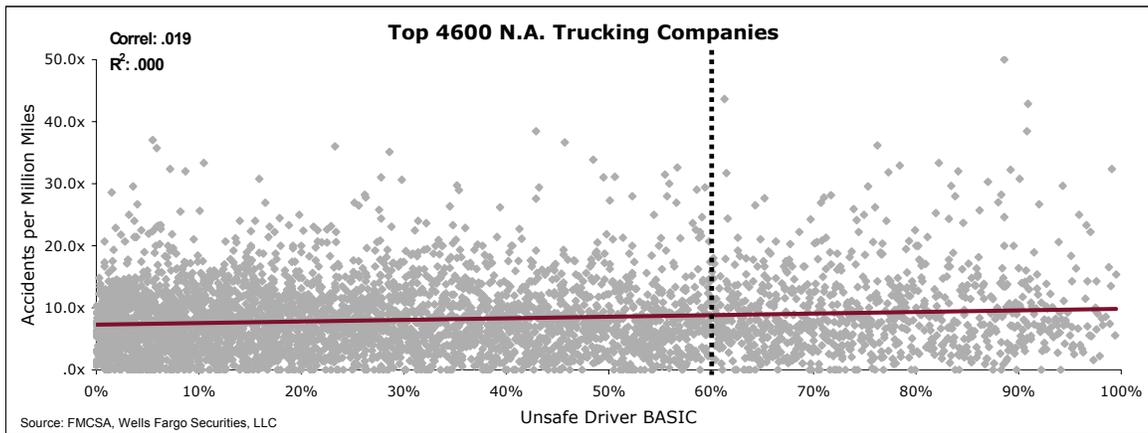
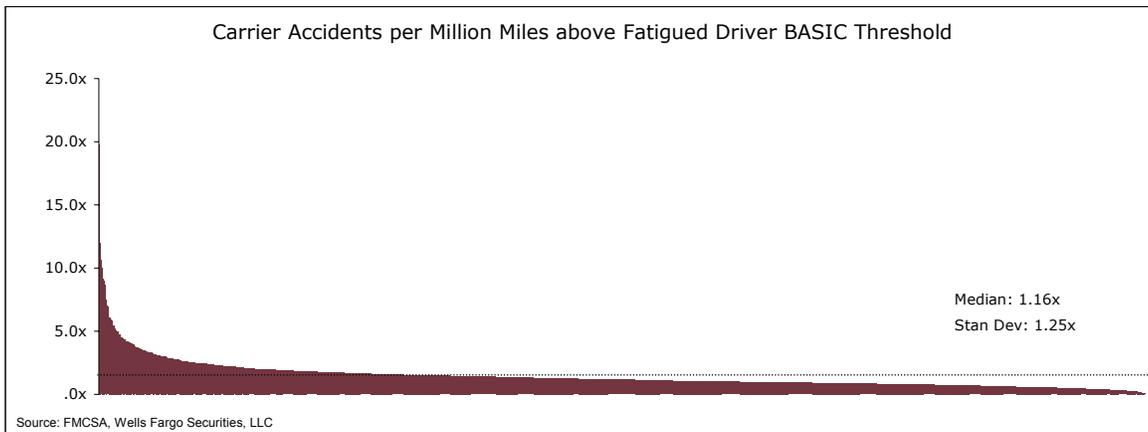
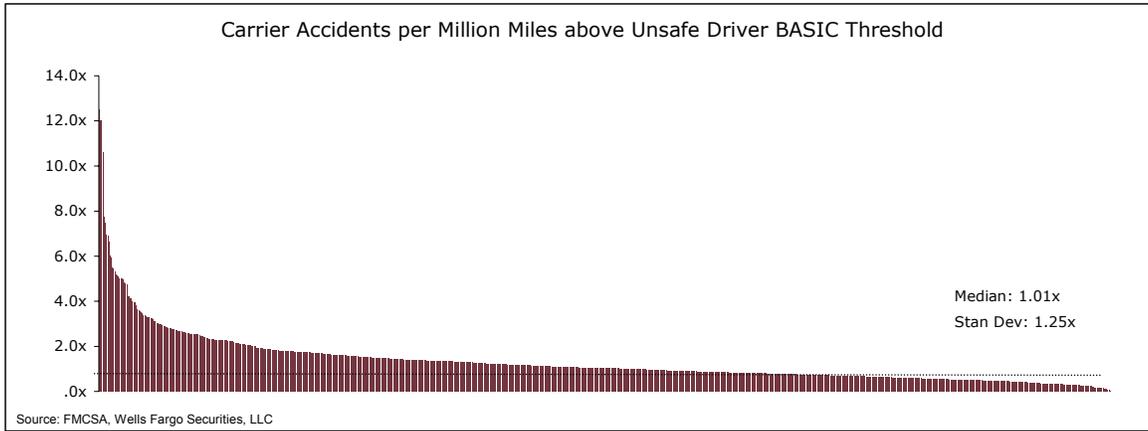
Transportation



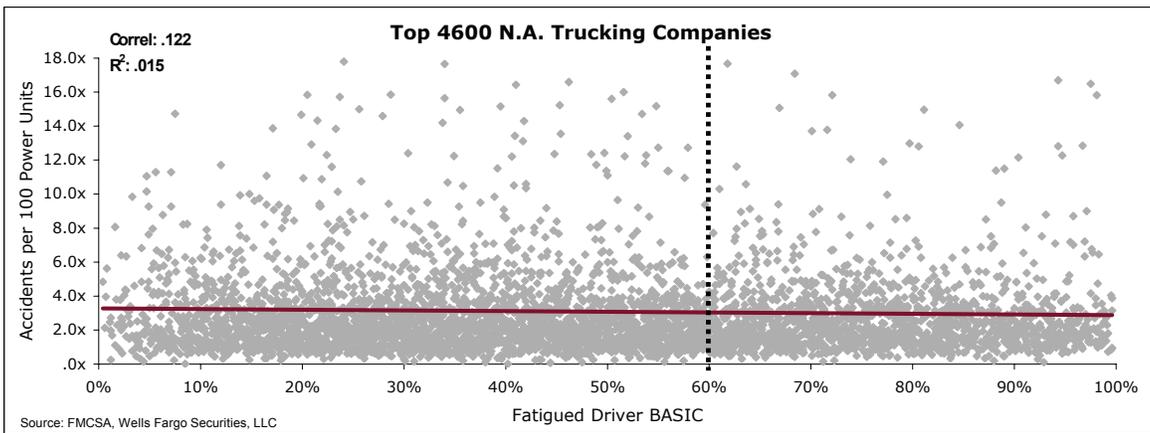
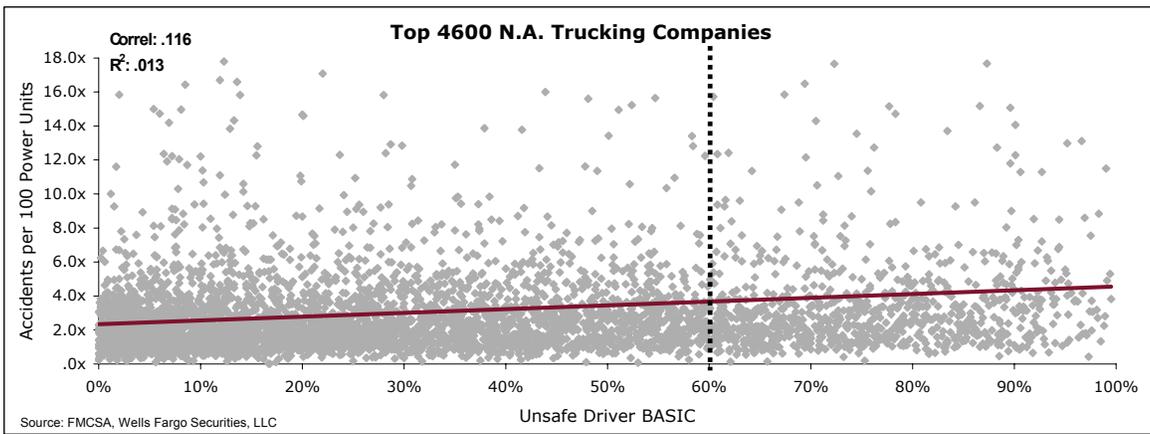
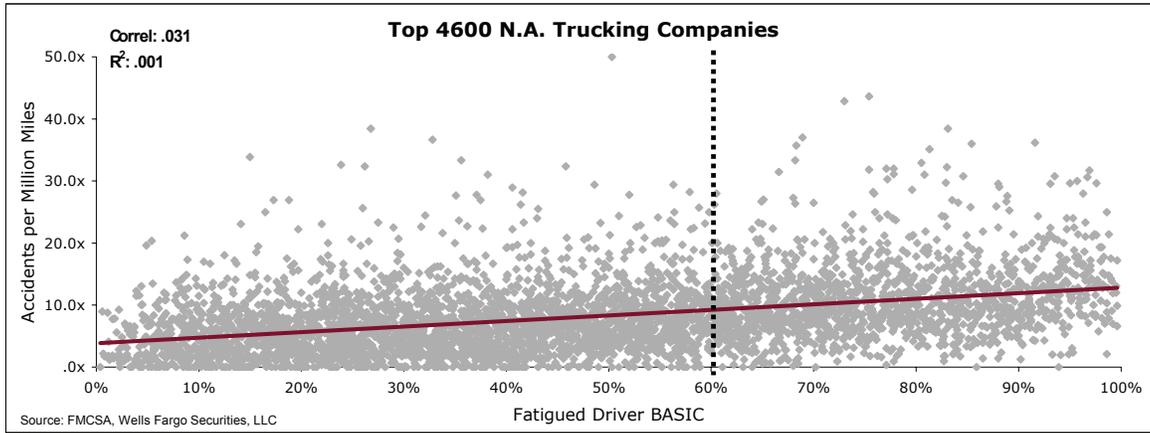
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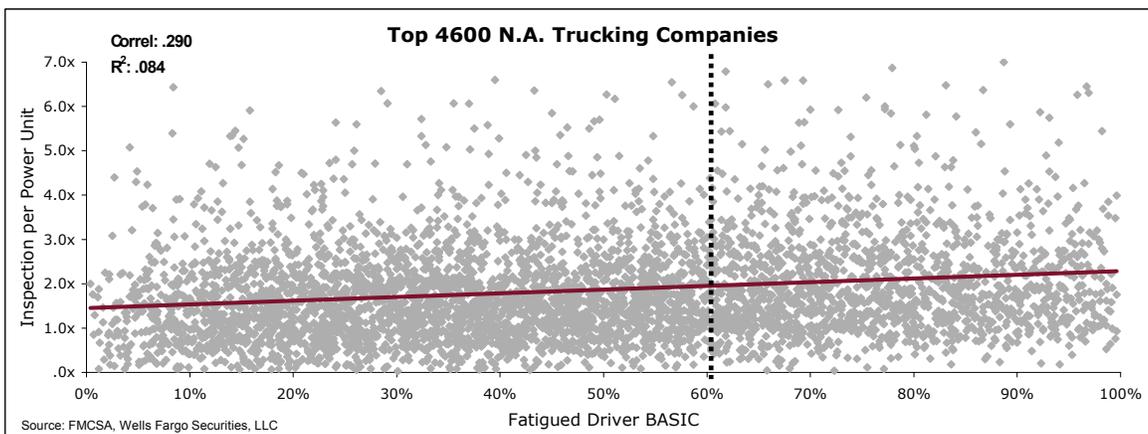
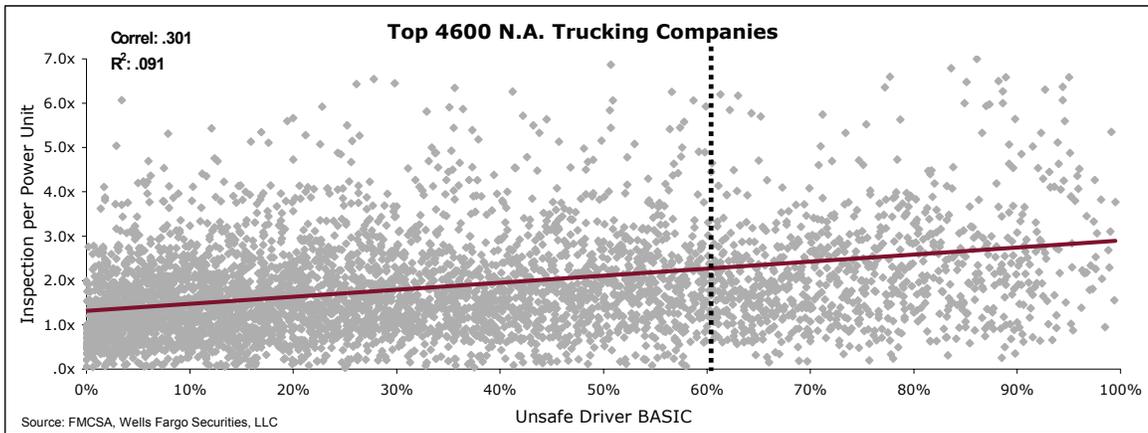


Transportation



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**Transportation**

**ABFS:** Our estimates are premised on a recovery in pricing in 2012. Absent an improvement in pricing our estimates will not likely be achieved. ABFS has a higher cost structure than union and non-union peers, which could keep the company at a competitive disadvantage.

**CHRW:** Our outlook suggests that truckload pricing will continue to increase into 2012 due to persistent capacity constraints. Periods of tighter capacity can create challenge for brokers like CHRW in the event they can not pass along higher costs to their customers in a timely manner. We believe CHRW valuation reflects above-cycle growth expectations that may not be realized.

**CNW:** Our estimates are premised on a recovery in pricing in 2012. If pricing does not improve as we expect, our earnings estimates would not likely be achieved. CNW appears to be at the early stages of a turnaround but further productivity improvements are needed to achieve our estimates.

**FDX:** Our estimates are premised on yield improvement in Express and Freight, which have historically been cyclical. FDX volumes are susceptible to global trade and international airfreight activity. Further, broad fuel prices swings can have a material effect on earnings.

**HTLD:** Our estimates are premised on improved in pricing in 2012 and modest fleet expansion. HTLD's customer concentration may create hurdles to achieve pricing gains. If pricing does not improve as we expect, our earnings estimates would not likely be achieved.

**HUBG:** Our estimates are premised on a recovery in pricing in 2012. If pricing does not improve as we expect, our earnings estimates would likely not be achieved. HUBG's truck brokerage margins tend to be adversely affected during periods of tightening capacity, which the industry appears to be now facing. HUBG's recent brokerage acquisition entails various integration risks.

**JBHT:** Our estimates are premised on a pricing recovery in 2012. If pricing does not improve as expected, our estimates and valuation range would not likely be achieved. Our estimates are also reliant on operational progress and intermodal margins stabilizing, which may not occur.

**KNX:** Our estimates are premised on continued price recovery in 2012. If pricing recovery does not continue, our earnings estimates would not likely be achieved. KNX has been making strategic investments in related business which may or may not achieve desired results.

**LSTR:** LSTR's relatively high exposure to the industrial sector can present a risk or an opportunity depending upon the rate of recovery. LSTR must continue to recruit and retain high-production agents in order to achieve our revenue and earnings growth forecasts.

**ODFL:** Our estimates are premised on continued pricing gains in 2012. If pricing does not improve as we expect, our earnings estimates would not likely be achieved, placing downward pressure on the shares. ODFL faces encroachment in its core market by a variety of competitors who often use price as a means to capture market share.

**R:** Despite the contractual nature of the business, Ryder is still subject to cyclical swings in customer volumes. As such, Ryder would not likely achieve our estimates if customer volumes turn down. Ryder must renew 16-20% of its lease fleet annually, which is subject to cyclical market conditions.

**SWFT:** Our estimates are dependent on improved pricing in 2012. If industry capacity constraints ease or if shipment demand were to contract our estimates would not likely be achieved. SWFT maintains above-peer financial leverage, which may place limitations on expansion opportunities.

**UPS:** Our estimates are premised on continued yield improvement above cost inflation, modest volume growth, and relatively stable fuel prices. The proposed TNT acquisition is subject to regulatory approval and various integration risks.

**WERN:** Our estimates are premised on a recovery in pricing in 2012. Further, recent cost-cutting efforts appear to have reduced cyclical exposure. If these cost-cutting efforts turn out to be unsustainable, our estimates would not likely be achieved.

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**2=Market Perform:** The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

**3=Underperform:** The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

**SECTOR RATING**

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**M=Market Weight:** Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

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