

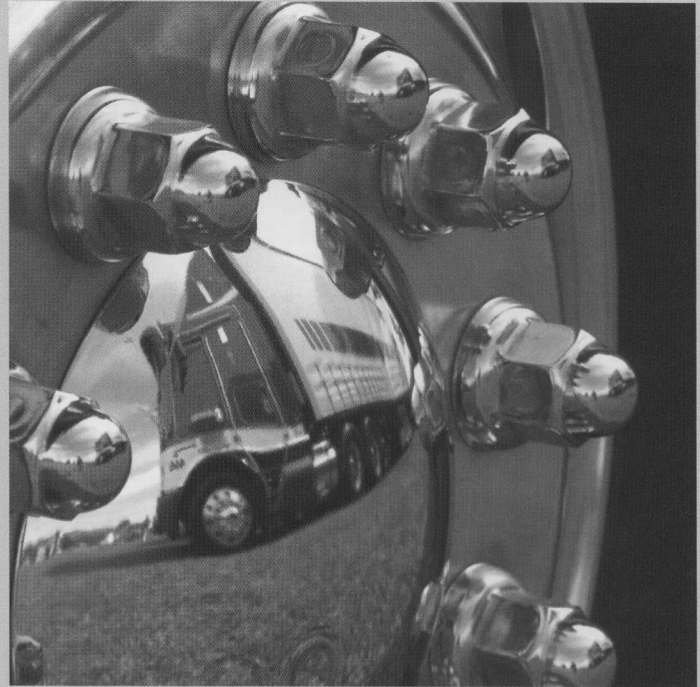
## Focus On: 2007 Engines

The introduction of new 2007 EPA compliant diesel engines has been an area of concern and uncertainty for almost all trucking industry participants. Much of this is driven by the fact that many have not yet tested or run 2007 equipment, rather delaying this process by pre-buying 2006 equipment, ahead of 2007. This wait and see approach to purchasing 2007 equipment has left many in the dark with respect to reasonable equipment price increases, engine performance, maintenance, and other important issues surrounding the new engines. While the OEMs have been able to offer varying degrees of information on their product, many would rather hear from the end user and their experiences. Looking to find answers to these important questions, we conducted a number of phone interviews with industry insiders, including equipment dealers, finance/lease companies and trucking providers. Our goal was to take an informal survey and gauge the "Consensus" view on 2007 engines at this point in time.

First, we are very much in the early stages of discovery with respect to 2007 engines. The vast majority of large trucking companies (predominately TL equipment providers and operators) took part in 2007 pre-buys. The pre-buys were driven in part by (1) purchasers deferring incremental equipment costs and (2) new engine performance uncertainty. Truck dealers have a surplus of 2006 equipment, as described to us by one truck dealer, the remaining of which will be sold off during the first half of 2006. The 2007 engines currently on the road are mostly pre-production engines being tested by large trucking and equipment finance/rental companies. Expectations are for a more material amount of 2007 trucks being incorporated into fleets for everyday use in the second half of 2007.

Two of our contacts, a large TL provider and large equipment finance/rental company, are currently running pre-production 2007 engines. Both companies are testing a wide sample of major OEM makes (CAT, Cummins, Detroit Diesel were cited). One of our contacts had already amassed 100K miles on four engines. The other had put differing amounts of mileage on 14 engines thus far. The general message – there have not been any major compliance or maintenance issues with their 2007 test engines across all sampled makes. Some minor issues did arise, but these were described as "expected glitches" with new/modified technology.

The major performance related issues was a decrease in fuel economy – 2% fuel degradation was cited by one of our contacts. This potentially confirms suspicions that the new engines are less fuel-efficient – which may be the result of engine design and the use of ultra low sulfur diesel fuel. The other issue was monitoring regeneration within the engine, given some trucks are being run on highway and some in metropolitan areas, and the ability to maintain



proper temperature levels. Incremental maintenance costs due to engine performance issues were not noted by our sample pool.

There are varying degrees of price increase dependent upon the type of equipment – generally the larger the truck the greater the increase. The Consensus and "fair" range for Class 8 trucks per our conversations seems to be in a range \$6,000 to \$9,000. We did not hear price increases over the \$9,000 mark. One dealer had a downward bias with respect to price increases going forward. We did learn OEMs are planning to stagger price increases going forward, with larger price increases as the year progresses. This action is to create more balanced orders and discourage pre-buys, to some degree, likely ahead of the 2010 emissions changes.

In summary, we offer this advice when approaching 2007 equipment purchases:

**(1) No major performance or compliance issues with 2007 engines.** Likely truck operators should maintain their current equipment brand specs. There were no major issues reported – this spanned all engine makes.

**(2) Price increases.** Cost increases for Class 8 trucks with 2007 engines are averaging in a tight range of \$6,000-\$9,000.

**(3) OEMs will enforce staggered price increases.** The degree of price increases will grow larger as the year progresses. Talk to your equipment dealer/ manufacturer well in advance to understand these pending changes.