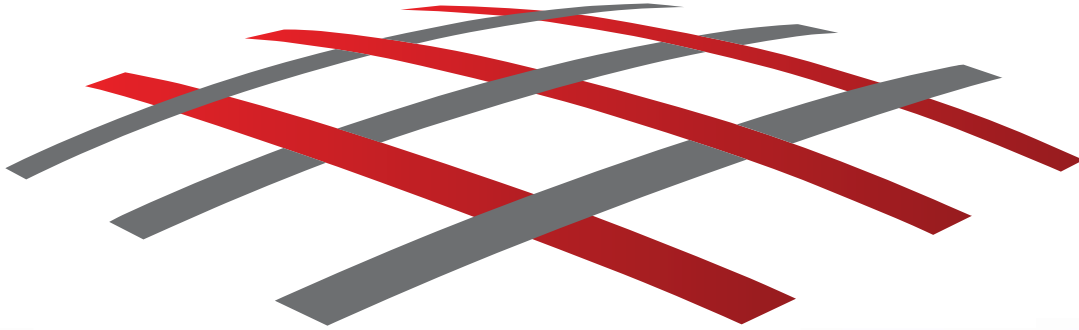


CargoNet™



The cargo theft prevention and recovery network



2010 United States Cargo Theft Report



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Across today's extended supply chains, spanning thousands of miles and connected by an increasingly unpredictable logistics system, an age-old risk continues to challenge U.S. businesses: cargo theft. This multi-billion dollar problem remains difficult to detail in scope and even more difficult to prevent.

Against this backdrop, all of us at CargoNet® are excited to introduce our first annual cargo theft summary report. Our data collection efforts have resulted in an expanding cargo theft-related database with a high level of incident detail. These efforts also have reinforced the realization that we have a long way to go before a comprehensive repository of cargo theft data in the United States becomes a reality. Poor reporting remains a major impediment.

The following report is designed to provide a summary snapshot of U.S. cargo theft based on details from more than 1,700 incidents that occurred in 2009 and 2010. From these details, we are able to present some conclusions about the nature of cargo crime. Our hope is that these conclusions open a dialogue that will improve communication among all parties involved in supply chain management and risk assessment across silos and organizations.

We believe that the single most important factor in deterring cargo theft is better information sharing—within companies, between companies, and with law enforcement. In this spirit, we sincerely hope that you find the report helpful. To the degree that this report helps to create a common language for discussion about the nature of cargo theft, we will measure our success.

I want to thank all of our associates for their hard work, and I would like to express my appreciation to our advisory board, whose guidance and support has been instrumental in developing this report.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Scrofani", with a long horizontal flourish extending to the right.

Maurizio P. Scrofani
President
CargoNet

Overview

About the 2010 United States Cargo Theft Report

CargoNet has aggregated and analyzed U.S. cargo theft incident data since January 2009. This data-collection effort has resulted in an expanding cargo theft-related database that contains a growing number of cargo theft incident reports including a high level of relevant detail. This 2010 United States Cargo Theft Report provides a snapshot of American cargo theft during the time period 2009 through 2010. You will find information on stolen commodity type; theft incident location, date, and time; cargo origin and destination; and additional analysis gleaned from 286 specific theft data fields.

The information in this report may be used to address supply chain risk concerns, especially with regards to ground transportation. The report helps transportation professionals mitigate risk by pinpointing areas of vulnerability surrounding the movement of goods, mapping patterns of theft from a “flow of goods” perspective, and providing guidance for future cargo theft challenges.

Although CargoNet has collected significant amounts of international cargo theft data, this report only focuses on theft data for domestic U.S. incidents occurring within all 50 states and the District of Columbia.

About CargoNet

A division of the ISO Crime Analytics unit of Verisk Analytics (Nasdaq: VRSK), CargoNet helps to prevent cargo theft and improve recovery rates through secure and controlled information sharing among theft victims, their business partners, and law enforcement. Crime analysts and subject-matter experts manage CargoNet’s database and information-sharing system.

CargoNet applies an integrated, layered approach that analyzes cargo crime from multiple perspectives and includes:

- Integrated databases
- Theft alert system
- Task force and investigations support
- Tractor/trailer theft deterrence program
- TruckStopWatch™ program
- Driver education incentives
- Secondary-market monitoring and interdictions
- Crime trend analysis and loss control services
- Training and education

Purpose and Use of the 2010 United States Cargo Theft Report

The 2010 United States Cargo Theft Report presents findings from our 2009-2010 investigations of cargo theft incidents and discusses the potential impacts on organizational success for U.S. businesses.

Our research addresses five fundamental topics:

1. What commodity categories have experienced the most theft?
2. Where did these cargo theft incidents occur?
3. When does cargo theft occur?
4. Why did cargo theft incidents occur at a particular location during a particular time?
5. What factors contribute to cargo theft, including economic indicators?

Highlights

- The total number of U.S. cargo theft incidents increased in 2010 compared with 2009.
- Locations containing a major port remain prime targets for cargo theft activities.
- Cargo theft crime has unique characteristics independent of other types of crime.
- The number of cargo theft incidents is positively correlated with a state's Gross Domestic Product (GDP).
- The "weekend trend" of cargo theft was not as evident in 2010 as it was in 2009.
- Retail trends can be leading indicators when predicting cargo theft patterns.
- The types and amounts of stolen commodities varied between 2009 and 2010 due to changing economic conditions.
- Loss value doesn't necessarily have a positive relationship with the number of theft incidents.
- Cargo theft trends are becoming more dynamic than ever before.

Availability of Additional Data

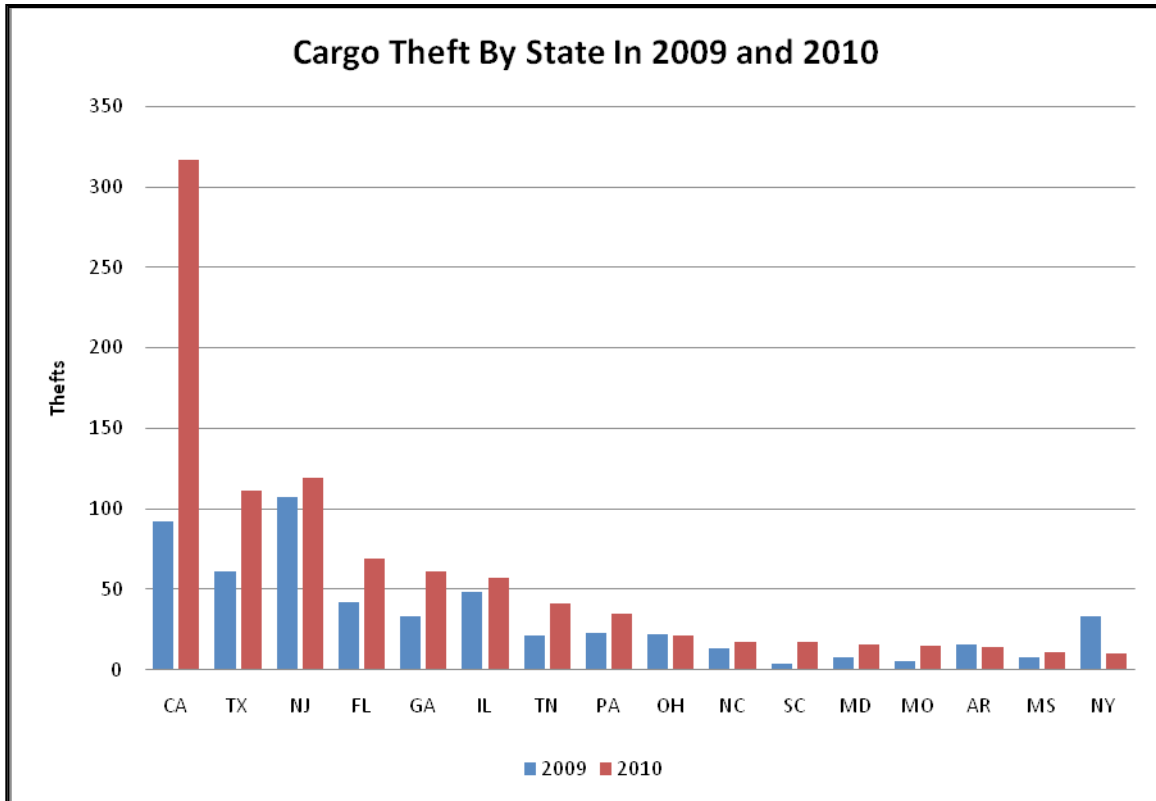
The 2010 United States Cargo Theft Report results were generated directly from our database. The information provided is proprietary and can only be accessed by CargoNet members and the law enforcement community.

For more information about CargoNet, please visit www.cargonet.com, or email info@cargonet.com, or call 1-888-595-CNET (2638).

Fact Statements and Analysis

Cargo Theft by State

Figure 1



In 2010 there were 1035 cargo theft incidents, a significant increase over 2009, when there were 700 thefts. In 2010 there was also a rise in cargo theft in certain coastal states. For example, California had 2.4 times more thefts in 2010 than 2009 due, in part, to increased foreign trade between the U.S. and Asia. Texas also had a significant increase in thefts in 2010, which can be attributed to an increase in logistics operations in the state.

In 2010 there were 1035 cargo theft incidents, a significant increase over 2009.

U.S. Gross Domestic Product and Cargo Theft

Figure 2

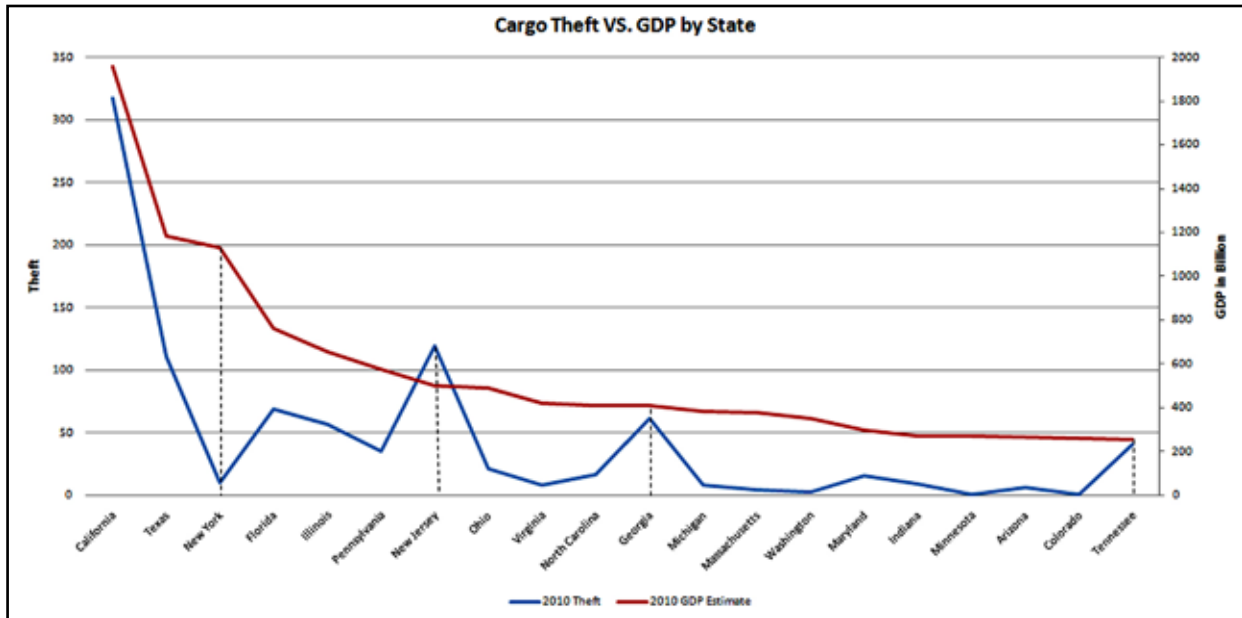
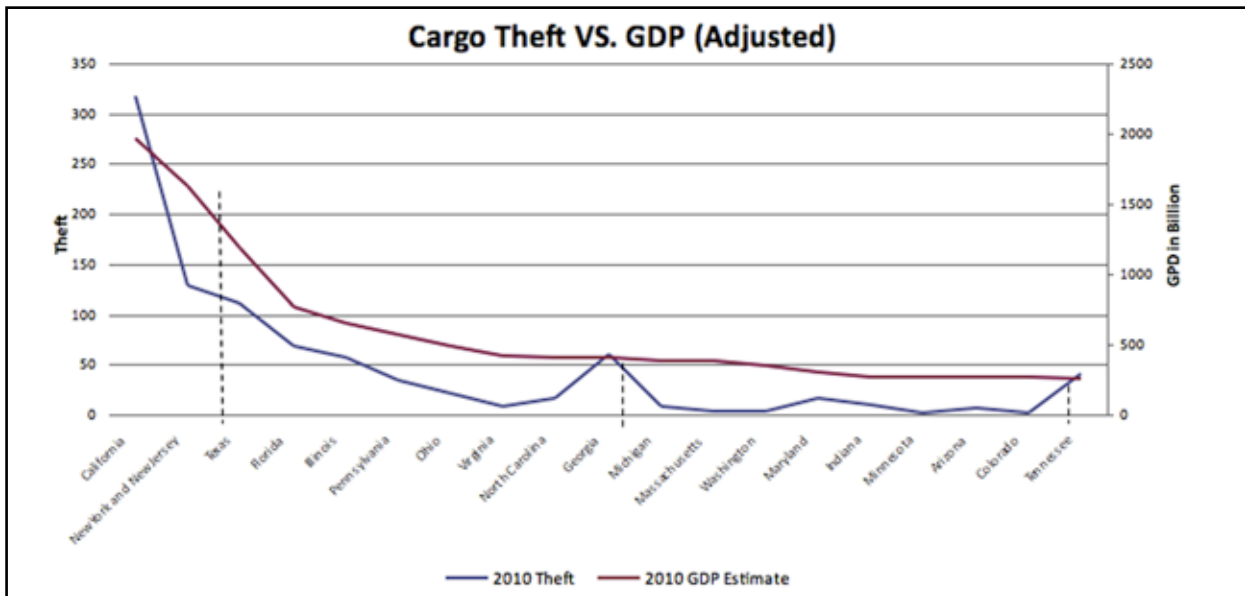


Figure 3



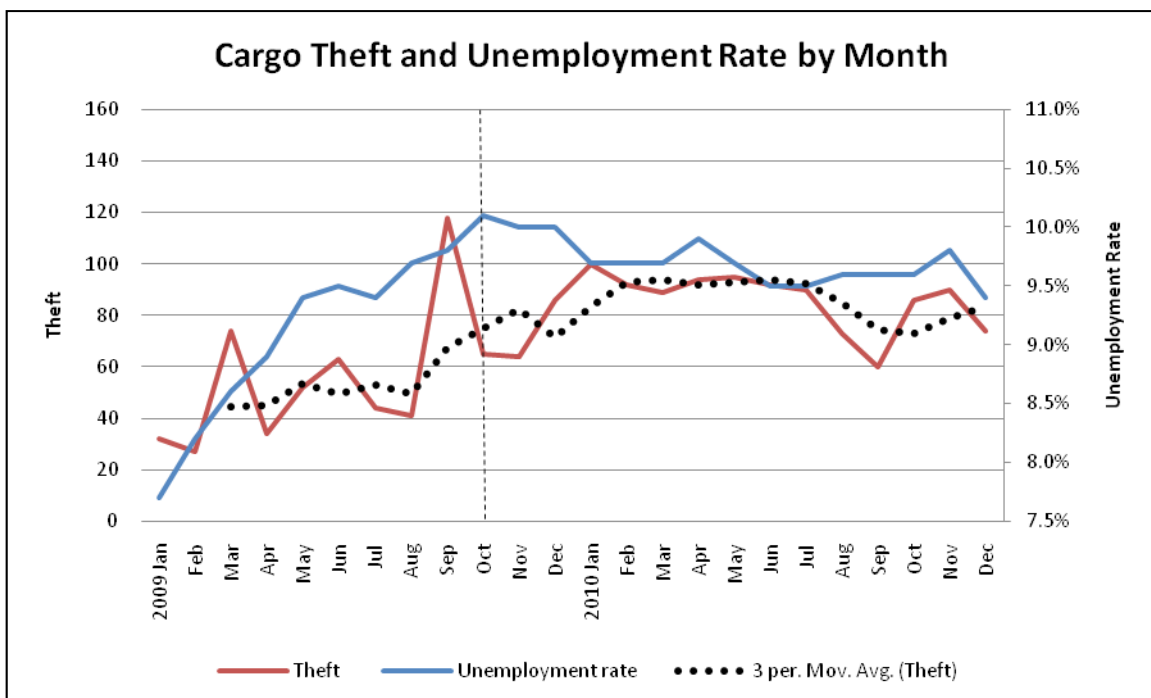
Cargo theft data shows a correlation to economic activity based on U.S. state GDP (gross domestic product): more cargo theft incidents occur in states with greater commerce activity. It is worth noting that in Figure 2 New Jersey and New York have GDP and cargo theft numbers that are negatively related.

However, these two states are located in the same metropolitan area and share strong economic ties. If we consider them as a single entity and add those numbers together (see Figure 3), the combined New York/New Jersey metropolitan area also supports the conclusion that cargo theft is more likely to happen in economically developed commerce areas. The discrepancies in Georgia and Tennessee can be explained by the presence of a major container port in the case of Savannah, GA, and a large number of distribution centers in Memphis, TN. Please see further explanation below in “Truck Freight Flow, Population Density and Cargo Theft” section.

Cargo theft is more likely to happen where there is a higher flow of goods and commerce.

Unemployment Rate

Figure 4



U.S. unemployment rates share a similar pattern with cargo theft. We noticed that as the U.S. unemployment rate increased from January to October 2009, the number of cargo thefts sharply increased. By September 2009, cargo thefts had quadrupled compared with January's figures. In the following 15 months, unemployment remained high, experiencing only a minor 0.5% decrease. During the same time, cargo thefts stayed at a high level, with the exception of a one-month negative variance during October, when thefts decreased by 50%.

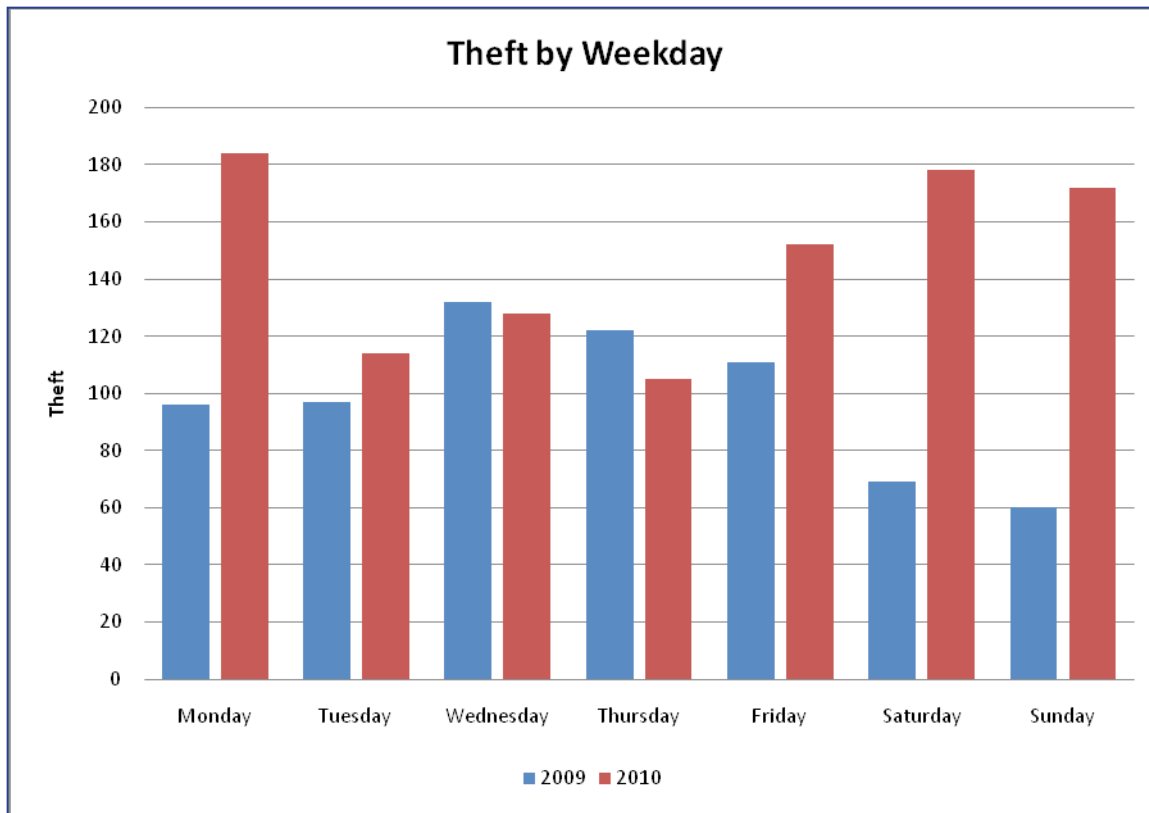
By examining 2009-2010 theft data, we can see that thefts tend to have large fluctuations during specific months, for instance March, September, December, and January. However, when we use a three-month moving average* (represented by the dotted line), we can see that these abrupt theft increases or decreases did not impact the overall direction of cargo theft over the long term. In fact, the moving average shows that thefts traveled in the same direction as unemployment, with a one-month variance. Under the assumption that "higher unemployment rates lead to more cargo theft," one might infer that under certain extreme economic conditions, unemployment rates could be an indicator to predict the trend of cargo theft on a yearly basis. However, unemployment should be viewed as secondary to other primary cargo theft indicators such as state GDP and commercial activity.

***Under certain extreme economic conditions,
a negative job market may be a secondary indicator
to predict the trend of cargo theft.***

*A moving average flattens out short-term data fluctuations and highlights longer-term trends or cycles by showing the average of data over a specified time period. By using moving averages, we can see where the numbers are moving in the long term without the distraction of short-term dips and spikes. Moving averages are commonly used to examine gross domestic product and employment trends.

Weekend Trend

Figure 5



CargoNet identified a "weekend pattern" to cargo theft incidents by days of the week in 2010. In 2010, significantly more cargo theft incidents happened over a weekend period (Friday, Saturday, Sunday and Monday) than during the week. We believe this may be due to common transportation industry booking behavior. In order to meet weekly performance targets, sales people tend to push their customers to place orders before Friday with a promise to ship loads as soon as possible. In order to ship early on Monday morning, trailers are often loaded and parked in terminal yards over the weekend with significant freight traffic occurring on Mondays. With hundreds of thousands of dollars worth of cargo sitting over the weekend and traveling on Mondays, the data highlights that cargo at rest is cargo at risk and that commercial activity is a primary indicator of theft risk.

Cargo at rest is cargo at risk.

Retail Sales Trends

Figure 6



CargoNet has discovered a strong relationship between cargo thefts and the retail cycle, which primarily runs from February 1st to January 31st. In Figure 6, the blue line depicts U.S. retail sales volume, and the red line depicts cargo theft incidents during the same time.

From April to August, retail sales increased due to several cycle milestones, including the spring fashions markdown in April; Mother's Day in May; Father's Day and graduation in June; and back-to-school in August. Cargo theft incidents increased during April, May and June, then crested during July, one month earlier than the peak of retail sales. We attribute this 30-day difference to the fact that retailers must ship goods to stores from overseas with varying lead times. More than 85% of U.S. retail products are imported from China and South East Asia.

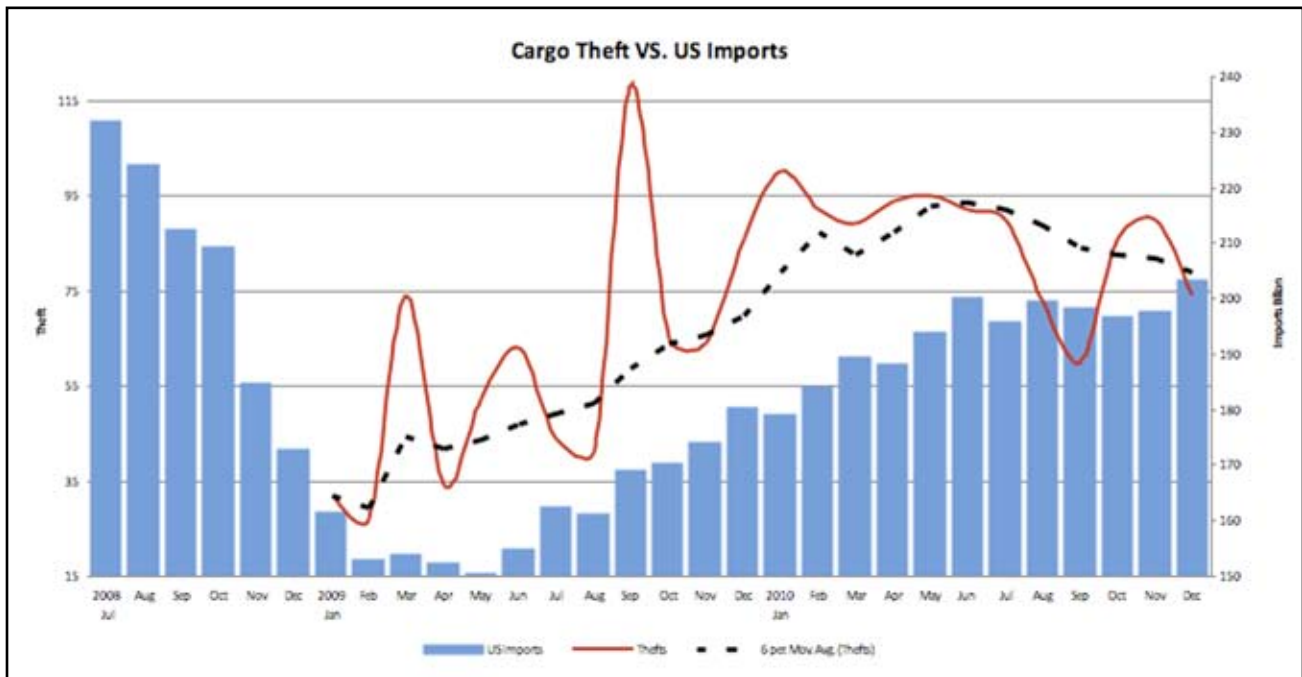
High retail sales at the turn of the year can be attributed to the "Black Friday" week following Thanksgiving in November, and the holiday season in December and January. In order to meet high demand for products during the holiday season, retailers build up inventory by increasing order volume in the early fall. We attribute the September/October rise in thefts to this increased volume and frequency of cargo flow.

Towards the end of the retail sales cycle, thefts respond to sales patterns in terms of both the decline after Christmas and again begin to climb post the beginning of the retail sales calendar from February forward with an increase for Easter in March. This data indicates that cargo theft trends follow U.S. national retail milestones closely.

Cargo theft trends follow U.S. national retail milestones closely.

Cargo Theft and U.S. Imports

Figure 7

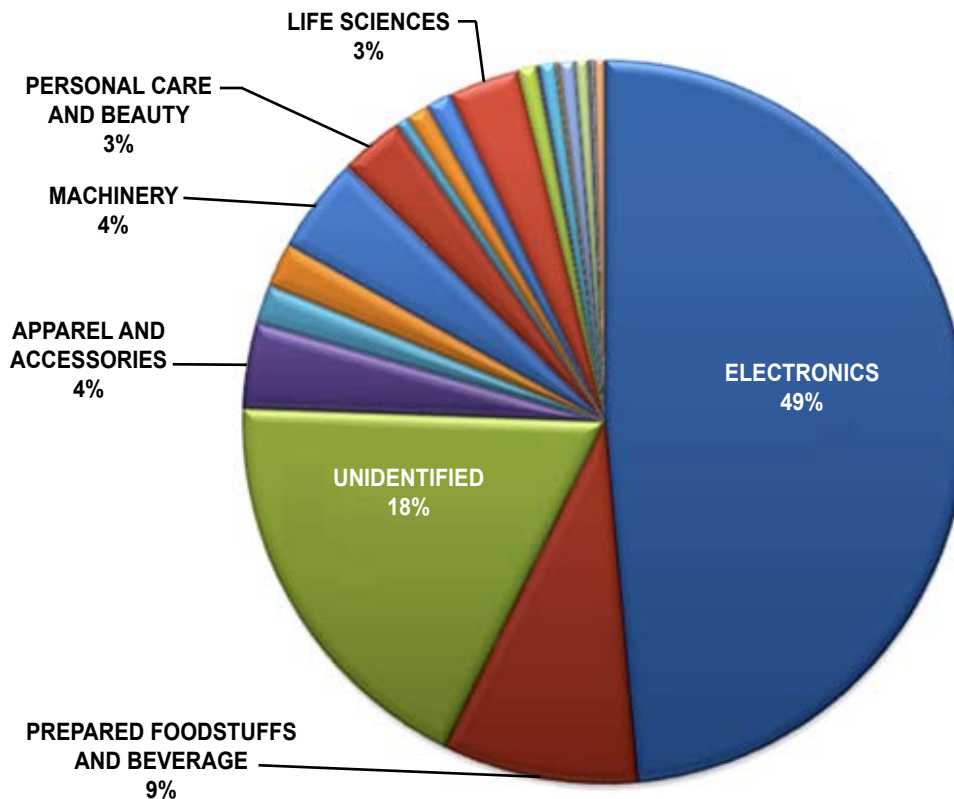


In Figure 7, the blue bars represent U.S. imports in billions of dollars. Imports bottomed out in the first half of 2009, averaging around \$150 billion. This represented a 35% decline from the peak in July 2008. During 2009, cargo theft activities were high in specific months such as March, June, September and December due to the correlation with retail milestones (see Figure 6). If we smooth out short-term variances, the black dotted line shows a six-month moving average of cargo theft that is closely aligned with import volume changes. This shows clearly that greater cargo availability increases thieves' success rate. Undoubtedly, import volume should be considered as one of the key indicators in assessing future cargo crime trends.

Import volume should be considered as one of the key indicators when assessing future cargo crime.

2009 Cargo Theft by Commodity

Figure 8

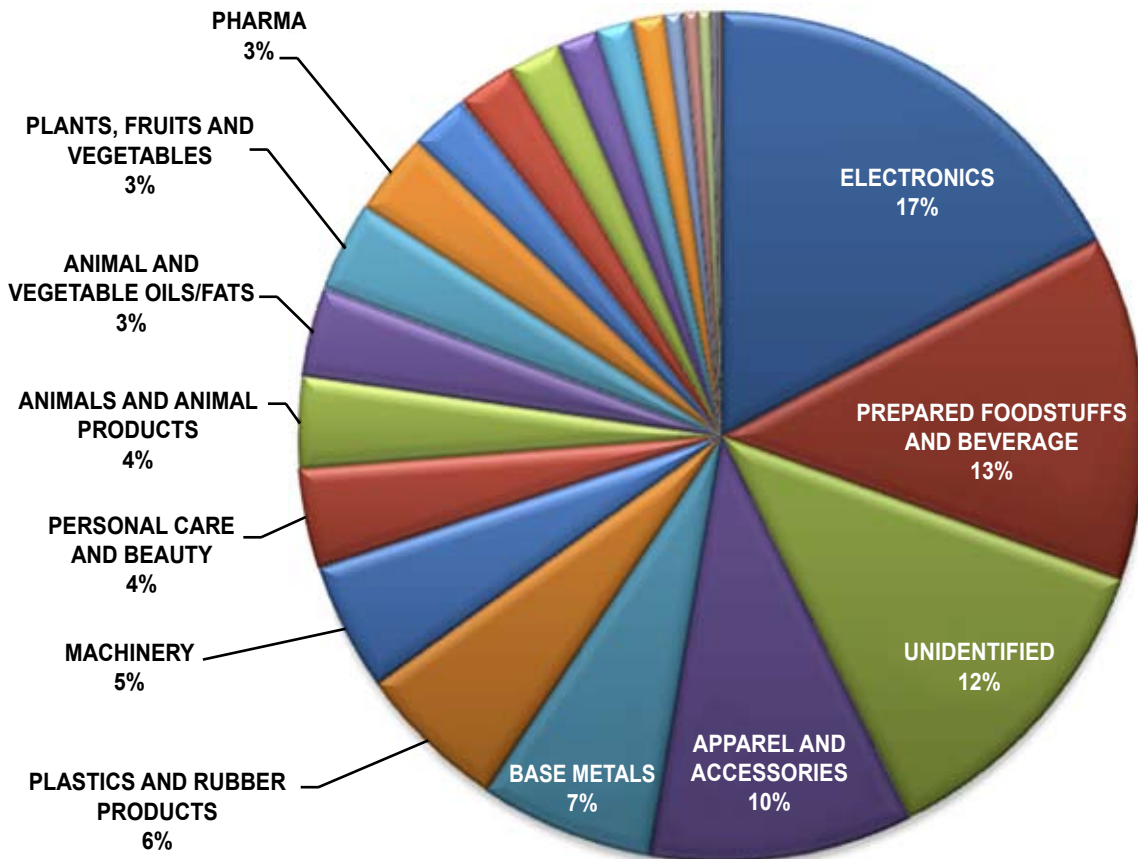


At the depth of the U.S. economic recession in 2009, less cargo was moving so cargo thieves had less to choose from. Figure 9 shows a concentration on six major commodity types as compared with 11 in 2010. Several commodities had a higher percentage of thefts in 2009 than in 2010. Electronics, which are easily resold, accounted for almost 50% of all cargo thefts—32% more than in 2010.

Prepared foodstuffs and beverages were the second most stolen group of commodities in 2009, accounting for 9% of all thefts. Apparel and accessories accounted for 4%. As the economy slowed and disposable income shrank, consumer spending focused on essentials more than discretionary items. The ability to resell cargo easily and market demand for any given commodity are two significant factors that drive cargo thieves to risk a theft.

2010 Cargo Theft by Commodity

Figure 9

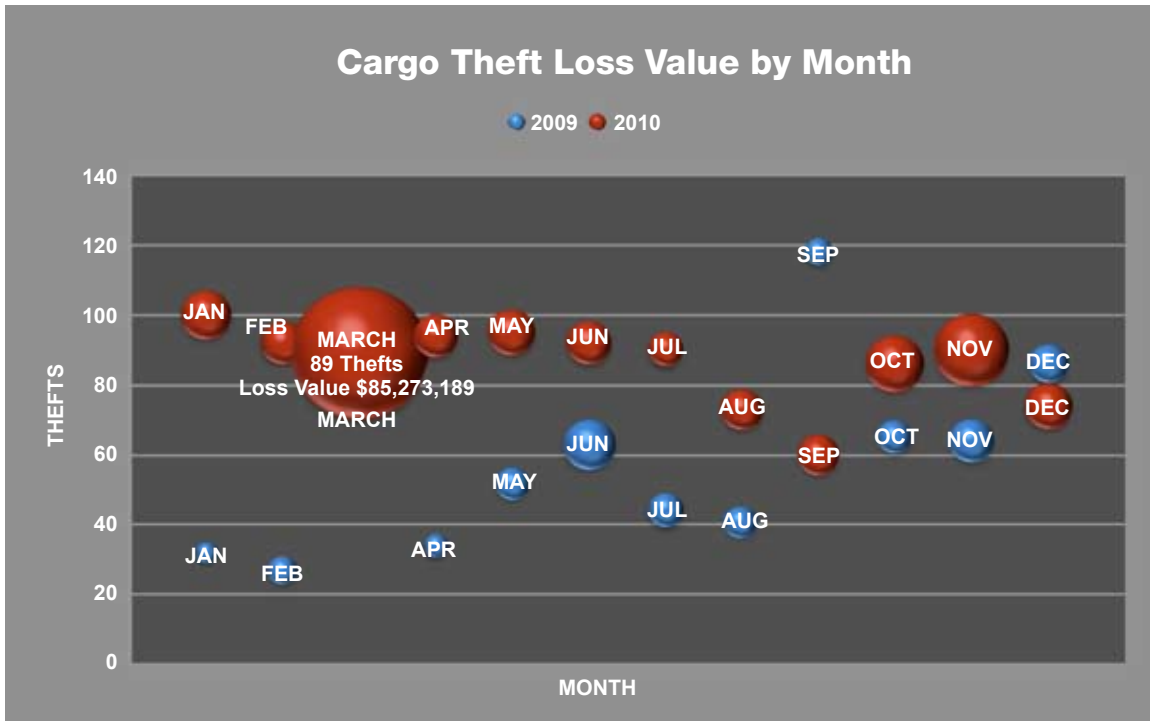


As the economy continued to recover in 2010, we saw a significant increase in retail activity, especially during late November. With greater amounts of shipments headed to stores, cargo thieves took advantage. During that year, a wide array of product types was targeted, and 11 major commodities suffered sizable loss. Five categories accounted for 53% of cargo thefts that year: electronics at 17%; apparel and accessories at 10%; prepared food and beverages at 13%; base metals at 7%; and plastics and rubber products at 6%.

Consumer demand drives supply in the black market. With the increase in theft incidents, loss value grows. However, the most-targeted commodity does not necessarily suffer the highest aggregate loss in terms of dollar value. For example, electronics were the number one stolen item in 2010, but the dollar value of pharmaceuticals stolen was greater.

Loss Value

Figure 10



This chart illustrates loss value, month and number of thefts during the month. The horizontal axis depicts the month, while the vertical axis shows the number of cargo thefts. The size of the bubble corresponds to the size of the loss in terms of dollars—in other words, the cumulative loss value for a specific month. The blue bubbles represent 2009, and the red bubbles represent 2010.

CargoNet analysts are able to collect about 60% of the loss-value data on average. We are unable to collect all the loss-value data due to the fact that the cargo owners can be reluctant to share this information with our analysts. The reason for this concern is that a high value cargo theft could potentially impact a brand's intrinsic value, causing a loss of customer demand, increased operating costs, and a negative impact on share price for publicly traded companies.

Because there were more theft incidents in 2010 than 2009, the red bubbles are positioned higher than the blue bubbles on the vertical axis (number of thefts). There was a tremendous amount of loss in March 2010, in stark contrast to March 2009,* which had a negligible amount of loss. Figure 9 suggests that loss-value is not positively related to the number of thefts, due to the wide variance in the value of a load. A truck full of pharmaceuticals could be 50 times the value of the same size load of apparel, for instance.

*March 2009 – while there were 70 thefts during this month, the loss value was so low as to be insignificant compared with every other month, therefore there is no bubble for that month.

Truck Freight Flow, Population Density and Cargo Theft

Figure 11 – Truck Freight Flow All Commodities



Figure 12 – U.S. Population Density Map

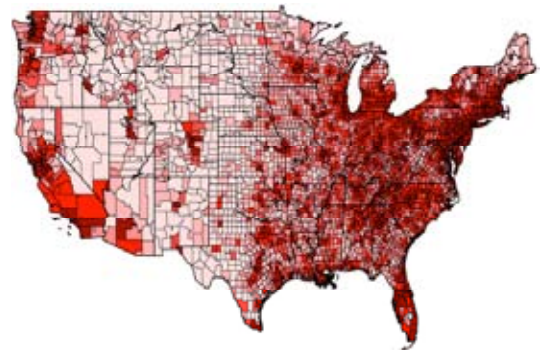


Figure 13 – Cargo Theft



Figures 11, 12 and 13 provide an overview of 2010 U.S. cargo theft incidents, truck freight flow and population. When comparing all three maps, you will notice that cargo theft tends to occur in highly populated areas where entry and egress for commerce is established. Figure 13 highlights the top 10 U.S. container ports based on import and export volume. Three of the top five west coast ports are located in California. In the south, the port of Houston focuses on South America imports, bulk and breakbulk business. The east coast has four primary import/export ports.

By comparing figures 11, 12 & 13, we can see:

- Cargo theft is more likely to happen in high cargo concentration areas such as California, the northeast, Florida and Texas. The number of theft incidents decreases as cargo flows inland along interstate thoroughfares, although highway rest stops are frequently high-risk areas for cargo (see Figure 14). High concentration indicates high value and tonnage. For example, three California container ports account for 50% of cargo volume moving through the top 10 ports in the country. Looking at Figure 13, you will notice that there are more cargo theft incidents in California than any other U.S. state annually.
- Cargo thieves are more likely to use our nation's complex highway network to avoid possible pursuit. According to a 2007 commodity flow survey conducted by the Department of Transportation, an average truck load of cargo travels within a 206-mile radius outside container ports. Thieves tend to target commercial logistics facilities adjacent to highways within this 206-mile radius, as highlighted by the incident location data.
- Cargo thefts are more likely to occur inside a highly populated area where thieves can enter the local market quickly and offload the stolen cargo immediately to avoid unnecessary exposure.

Opportunistic cargo theft is more likely to happen in high cargo concentration areas, close to port facilities and near highly populated areas.

Miles per Ton Hauled

Figure 14

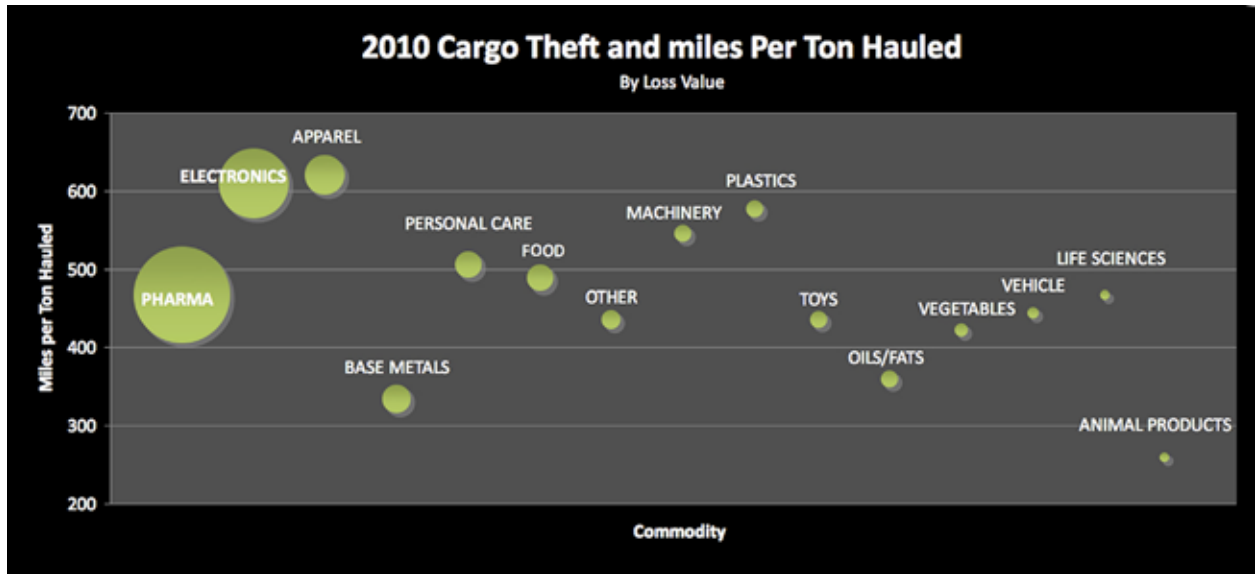
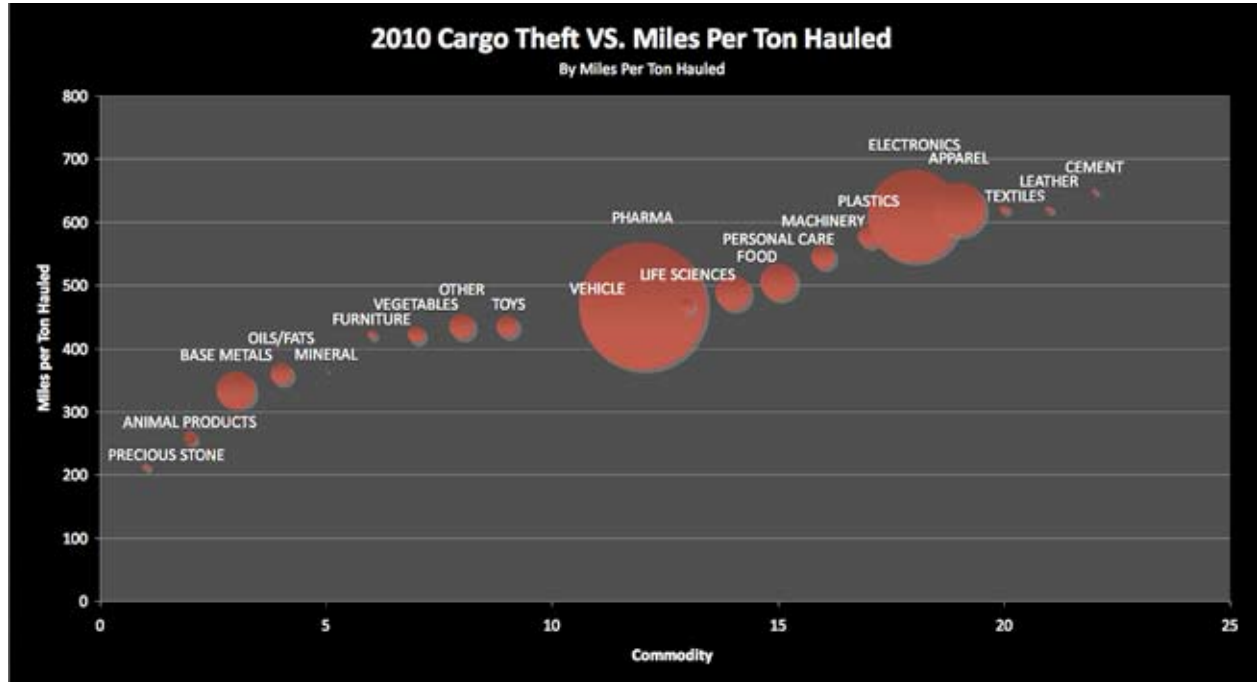


Figure 15



There is another factor to consider when assessing cargo vulnerability. The average truck load of cargo travels within a 206-mile radius from container ports (see Figures 11, 12 & 13), but some cargo travels much further.

In Figure 14, the vertical axis represents the average travel distance of one metric ton of a commodity. The types of stolen commodities are shown along the horizontal axis. The size of the bubble represents the loss value of that commodity type.

Looking at the vertical axis of miles hauled in Figure 15, one can see that during 2010 the distance per ton of individual commodities hauled varied by commodity type. If you take Apparel for example, the miles per ton hauled on average is 620 miles. These products, which are primarily imported from China and South East Asia, are unloaded at West Coast ports and loaded on trucks that head inland over major interstate highways. In most cases, trucks will travel 55 miles per hour and drive consistently for 8 hours per day, for an average of 440 miles (red dash line) per day. For any trip over 440 miles, drivers need to take a break at truck stops or other locations off the highway for safety reasons.

Long haul shipments that travel more than the 206-mile average have a higher probability of risk exposure. Driver hours-of-service rules require stops at commercial logistics areas, where cargo may be exposed to unplanned risk.

Cargo at rest is cargo at risk.

Summary

Conclusions

CargoNet's continued focus on expanding cargo crime data collection and analysis exposes new characteristics that connect cargo theft with external economic and commercial factors. The following conclusions can be drawn from the data:

1. Cargo thefts most often happen in cargo rich environments, such as commerce-mature areas around ports with clustered commercial logistics locations.
2. Cargo theft patterns follow and are positively-related to some primary trends, including economic climate, income level and job availability. Some indicators are sensitive in the short term, while the others are notable in the long term.
3. We concluded that long distance cargo deliveries (more than 450 miles) are more vulnerable to cargo theft because of the increased number of driver rest and refueling stops at unsecured truck stops or other locations along U.S. highways.
4. Truck stops experience a constant flow of drivers and cargo. If a theft takes place at a truck stop, any witnesses are likely to leave in a matter of hours, making theft investigations at truck stops extremely difficult.
5. Weather may also impact the number of times a truck stops. Cargo thieves will take advantage of certain weather conditions to commit crimes.

Closing Statements

CargoNet encourages transportation, manufacturing and retail professionals to continue to provide information about cargo theft incidents as quickly as possible to law enforcement. Information sharing needs to be front and center for all industries in order to define, measure and analyze cargo theft incidents, thus enabling the delivery and implementation of viable solutions to prevent cargo theft and related supply chain disruptions.