

MARTEN TRANSPORT LTD
Form 10-Q
November 10, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

**Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934**

For the Quarter ended September 30, 2008

Commission File Number 0-15010

MARTEN TRANSPORT, LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

39-1140809
(I.R.S. employer
identification no.)

129 Marten Street, Mondovi, Wisconsin 54755

(Address of principal executive offices)

715-926-4216

(Registrant's telephone number)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Smaller reporting company Non-accelerated filer (Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes No

The number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, was 21,830,071 as of November 5, 2008.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.**CONSOLIDATED CONDENSED BALANCE SHEETS****(Unaudited)**

| (In thousands, except share information) | September 30, 2008 | December 31, 2007 |
|--|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 2,411 | \$ 3,618 |
| Marketable securities | 65 | 350 |
| Receivables: | | |
| Trade, net | 63,193 | 51,539 |
| Other | 6,983 | 6,175 |
| Prepaid expenses and other | 11,719 | 13,823 |
| Deferred income taxes | 6,663 | 4,653 |
| Total current assets | 91,034 | 80,158 |
| Property and equipment: | | |
| Revenue equipment, buildings and land, office equipment and other | 441,375 | 447,430 |
| Accumulated depreciation | (133,206) | (122,246) |
| Net property and equipment | 308,169 | 325,184 |
| Other assets | 833 | 2,048 |
| TOTAL ASSETS | \$ 400,036 | \$ 407,390 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Checks issued in excess of cash balances | \$ 1,293 | \$ |
| Accounts payable and accrued liabilities | 40,829 | 32,384 |
| Insurance and claims accruals | 20,938 | 17,431 |
| Current maturities of long-term debt | 5,000 | 5,000 |
| Total current liabilities | 68,060 | 54,815 |
| Long-term debt, less current maturities | 2,342 | 39,643 |
| Deferred income taxes | 78,160 | 74,719 |
| Total liabilities | 148,562 | 169,177 |
| Minority interest | 1,702 | 1,283 |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value per share; 2,000,000 shares authorized; no shares issued and outstanding | | |
| Common stock, \$.01 par value per share; 48,000,000 shares authorized; 21,830,071 shares at September 30, 2008, and 21,811,837 shares at December 31, 2007, issued and outstanding | 218 | 218 |
| Additional paid-in capital | 75,163 | 74,570 |
| Retained earnings | 174,391 | 162,142 |
| Total stockholders' equity | 249,772 | 236,930 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 400,036 | \$ 407,390 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

| (In thousands, except per share information) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| OPERATING REVENUE | \$ 163,377 | \$ 144,969 | \$ 466,745 | \$ 415,206 |
| OPERATING EXPENSES (INCOME): | | | | |
| Salaries, wages and benefits | 39,885 | 38,808 | 114,322 | 115,786 |
| Purchased transportation | 29,125 | 27,891 | 88,414 | 74,390 |
| Fuel and fuel taxes | 51,215 | 39,586 | 144,929 | 109,524 |
| Supplies and maintenance | 9,588 | 10,448 | 28,298 | 28,364 |
| Depreciation | 12,396 | 11,867 | 36,704 | 35,317 |
| Operating taxes and licenses | 1,588 | 1,736 | 5,062 | 5,161 |
| Insurance and claims | 5,770 | 5,946 | 17,988 | 16,792 |
| Communications and utilities | 837 | 938 | 2,707 | 2,848 |
| Gain on disposition of revenue equipment | (453) | (435) | (2,439) | (2,883) |
| Other | 2,898 | 2,488 | 8,322 | 7,780 |
| Total operating expenses | 152,849 | 139,273 | 444,307 | 393,079 |
| OPERATING INCOME | 10,528 | 5,696 | 22,438 | 22,127 |
| OTHER EXPENSES (INCOME): | | | | |
| Interest expense | 196 | 943 | 1,032 | 3,064 |
| Interest income and other | (38) | (186) | (152) | (531) |
| Minority interest | 317 | 301 | 922 | 530 |
| | 475 | 1,058 | 1,802 | 3,063 |
| INCOME BEFORE INCOME TAXES | 10,053 | 4,638 | 20,636 | 19,064 |
| PROVISION FOR INCOME TAXES | 3,926 | 1,573 | 8,387 | 7,061 |
| NET INCOME | \$ 6,127 | \$ 3,065 | \$ 12,249 | \$ 12,003 |
| BASIC EARNINGS PER COMMON SHARE | \$ 0.28 | \$ 0.14 | \$ 0.56 | \$ 0.55 |
| DILUTED EARNINGS PER COMMON SHARE | \$ 0.28 | \$ 0.14 | \$ 0.56 | \$ 0.55 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

| (In thousands) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Total Stock- holders Equity |
|---|------------------------|------------------------|----------------------------------|----------------------|--------------------------------------|
| Balance at December 31, 2006 | 21,765 | \$ 218 | \$ 73,601 | \$ 147,174 | \$ 220,993 |
| Net income | | | | 12,003 | 12,003 |
| Issuance of common stock from share-based payment arrangement exercises | 47 | | 303 | | 303 |
| Tax benefits from share-based payment arrangement exercises | | | 205 | | 205 |
| Share-based payment arrangement compensation expense | | | 379 | | 379 |
| Balance at September 30, 2007 | 21,812 | 218 | 74,488 | 159,177 | 233,883 |
| Net income | | | | 2,965 | 2,965 |
| Tax benefits from share-based payment arrangement exercises | | | 1 | | 1 |
| Share-based payment arrangement compensation expense | | | 81 | | 81 |
| Balance at December 31, 2007 | 21,812 | 218 | 74,570 | 162,142 | 236,930 |
| Net income | | | | 12,249 | 12,249 |
| Repurchase and retirement of common stock | (67) | | (810) | | (810) |
| Issuance of common stock from share-based payment arrangement exercises | 85 | | 356 | | 356 |
| Tax benefits from share-based payment arrangement exercises | | | 496 | | 496 |
| Share-based payment arrangement compensation expense | | | 551 | | 551 |
| Balance at September 30, 2008 | 21,830 | \$ 218 | \$ 75,163 | \$ 174,391 | \$ 249,772 |

The accompanying notes are an integral part of these consolidated condensed financial statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

| (In thousands) | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2008 | 2007 |
| CASH FLOWS PROVIDED BY OPERATING ACTIVITIES: | | |
| Operations: | | |
| Net income | \$ 12,249 | \$ 12,003 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation | 36,704 | 35,317 |
| Gain on disposition of revenue equipment | (2,439) | (2,883) |
| Deferred income taxes | 1,431 | (850) |
| Tax benefits from share-based payment arrangement exercises | 496 | 205 |
| Excess tax benefits from share-based payment arrangement exercises | (432) | (166) |
| Share-based payment arrangement compensation expense | 551 | 379 |
| Minority interest in earnings of affiliate, net of distributions | 419 | 388 |
| Changes in other current operating items | 752 | 8 |
| Net cash provided by operating activities | 49,731 | 44,401 |
| CASH FLOWS USED FOR INVESTING ACTIVITIES: | | |
| Revenue equipment additions | (39,206) | (62,718) |
| Proceeds from revenue equipment dispositions | 24,573 | 20,282 |
| Buildings and land, office equipment and other additions | (1,777) | (2,160) |
| Proceeds from buildings and land, office equipment and other dispositions | 2 | 609 |
| Net change in other assets | 1,215 | 1,752 |
| Sales of marketable securities | 285 | |
| Net cash used for investing activities | (14,908) | (42,235) |
| CASH FLOWS USED FOR FINANCING ACTIVITIES: | | |
| Borrowings under credit facility and long-term debt | 130,209 | 102,491 |
| Repayment of borrowings under credit facility and long-term debt | (167,510) | (104,164) |
| Repurchase and retirement of common stock | (810) | |
| Issuance of common stock from share-based payment arrangement exercises | 356 | 303 |
| Excess tax benefits from share-based payment arrangement exercises | 432 | 166 |
| Change in net checks issued in excess of cash balances | 1,293 | (260) |
| Net cash used for financing activities | (36,030) | (1,464) |
| NET CHANGE IN CASH | (1,207) | 702 |
| CASH: | | |
| Beginning of period | 3,618 | 2,988 |
| End of period | \$ 2,411 | \$ 3,690 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Interest | \$ 1,081 | \$ 3,097 |
| Income taxes | \$ 5,948 | \$ 5,688 |
| Non-cash investing activities: | | |
| Change in revenue equipment not yet paid for | \$ 842 | \$ (8,221) |

The accompanying notes are an integral part of these consolidated condensed financial statements.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2008

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements, and therefore do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, such statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present our consolidated financial condition, results of operations and cash flows for the interim periods presented. The results of operations for any interim period do not necessarily indicate the results for the full year. The unaudited interim consolidated financial statements should be read with reference to the consolidated financial statements and notes to consolidated financial statements in our 2007 Annual Report on Form 10-K.

The accompanying unaudited consolidated condensed financial statements include the accounts of Marten Transport, Ltd. and its 45% owned affiliate, MW Logistics, LLC (MWL). MWL is a third-party provider of logistics services to the transportation industry. We have applied the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as revised, to our investment in MWL. All material intercompany accounts and transactions have been eliminated in consolidation.

(2) Accounting for Share-based Payment Arrangement Compensation

We account for share-based payment arrangements in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment as interpreted by SEC Staff Accounting Bulletin No. 107. During the three-month and nine-month periods ended September 30, 2008, there were no significant changes to the structure of our share-based payment arrangements. Total pre-tax share-based compensation expense recorded in the three-month and nine-month periods ended September 30, 2008 was \$193,000 and \$551,000. Total pre-tax share-based compensation expense recorded in the three-month and nine-month periods ended September 30, 2007 was \$97,000 and \$379,000. See Note 9 to our consolidated financial statements in our 2007 Annual Report on Form 10-K for a detailed description of stock-based awards under our 2005 Stock Incentive Plan and 1995 Stock Incentive Plan.

(3) Earnings Per Common Share

Basic and diluted earnings per common share were computed as follows:

| (In thousands, except per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------|------------------------------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| Numerator: | | | | |

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| | | | | | | | | |
|---|----|--------|----|--------|----|--------|----|--------|
| Net income | \$ | 6,127 | \$ | 3,065 | \$ | 12,249 | \$ | 12,003 |
| Denominator: | | | | | | | | |
| Basic earnings per common share - weighted-average shares | | 21,798 | | 21,812 | | 21,773 | | 21,789 |
| Effect of dilutive stock options | | 154 | | 156 | | 153 | | 174 |
| Diluted earnings per common share - weighted-average shares and assumed conversions | | 21,952 | | 21,968 | | 21,926 | | 21,963 |
| Basic earnings per common share | \$ | 0.28 | \$ | 0.14 | \$ | 0.56 | \$ | 0.55 |
| Diluted earnings per common share | \$ | 0.28 | \$ | 0.14 | \$ | 0.56 | \$ | 0.55 |

Options totaling 400,100 and 410,100 shares for the three-month and nine-month periods ended September 30, 2008, respectively, and 280,000 shares for each of the three-month and nine-month periods ended September 30, 2007 were outstanding but were not included in the calculation of diluted earnings per share, primarily because their exercise prices were greater than the average market price of the common shares and, therefore, including the options in the denominator would be antidilutive, or decrease the number of weighted-average shares. The shares above include 99,500 shares for the 2008 periods and 90,000 shares for the 2007 periods of performance-based option awards for which the performance condition was not considered probable of achievement.

(4) Income Taxes

Our effective income tax rate increased to 40.6% for the first nine months of 2008 from 37.0% for the first nine months of 2007 primarily because of the nondeductible effect of a per diem pay structure for our drivers adopted in the first quarter of 2008.

Our reserves for unrecognized tax benefits were \$103,000 as of September 30, 2008 and \$69,000 as of December 31, 2007. The \$34,000 increase in the amount reserved in the first nine months of 2008 relates to current period tax positions. If recognized, \$67,000 of the unrecognized tax benefits as of September 30, 2008 would impact our effective tax rate. No potential interest or penalties related to unrecognized tax benefits were recognized in our financial statements as of September 30, 2008. We do not expect the reserves for unrecognized tax benefits to change significantly within the next twelve months.

The federal statute of limitations remains open for 2005 and forward. We file tax returns in numerous state jurisdictions with varying statutes of limitations.

(5) Share Repurchase Program

In December 2007, our Board of Directors approved a share repurchase program to repurchase up to one million shares of our common stock either through purchases on the open market or through private transactions. The timing and extent to which we will repurchase shares depends on market conditions and other corporate considerations. In the first quarter of 2008 we repurchased and retired 67,500 shares of our common stock for \$810,000. We made no purchases in 2007 or in the second or third quarters of 2008. The repurchase program does not have an expiration date.

(6) Business Segments

Our presentation includes two reportable segments Truckload and Logistics. The primary source of our operating revenue is truckload revenue, which we generate by transporting freight for our customers and report within our Truckload segment. Generally, we are paid by the mile for our services. We also derive truckload revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services.

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Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations, both launched in 2005, and through our 45% interest in MWL, a third-party provider of logistics services to the transportation industry. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the transport of our trailers on railroad flatcars for a portion of a trip, with the balance of the trip using our tractors or, to a lesser extent, contracted carriers.

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The following table sets forth for the periods indicated our operating revenue, operating income and operating ratio by segment. The table below presents truckload and logistics revenue, net of fuel surcharges. We provide this additional disclosure because management believes removing fuel surcharge revenue provides a more consistent basis for comparing results of operations from period to period. This financial measure in the table below has not been determined in accordance with U.S. generally accepted accounting principles (GAAP). Pursuant to Item 10(e) of Regulation S-K, we have included a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating revenue. We evaluate the performance of our business segments based on operating income and operating ratio. We do not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment.

| (Dollars in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Operating revenue: | | | | |
| Truckload revenue, net of fuel surcharge revenue | \$ 98,600 | \$ 103,831 | \$ 289,737 | \$ 308,462 |
| Truckload fuel surcharge revenue | 38,442 | 21,666 | 102,508 | 58,893 |
| Total Truckload revenue | 137,042 | 125,497 | 392,245 | 367,355 |
| Logistics revenue, net of intermodal fuel surcharge revenue(1) | | | | |
| | 23,472 | 18,580 | 67,583 | 45,680 |
| Intermodal fuel surcharge revenue | 2,863 | 892 | 6,917 | 2,171 |
| Total Logistics revenue | 26,335 | 19,472 | 74,500 | 47,851 |
| Total operating revenue | \$ 163,377 | \$ 144,969 | \$ 466,745 | \$ 415,206 |
| Operating income: | | | | |
| Truckload | \$ 8,619 | \$ 4,108 | \$ 16,980 | \$ 18,520 |
| Logistics | 1,909 | 1,588 | 5,458 | 3,607 |
| Total operating income | \$ 10,528 | \$ 5,696 | \$ 22,438 | \$ 22,127 |
| Operating ratio(2): | | | | |
| Truckload | 93.7% | 96.7% | 95.7% | 95.0% |
| Logistics | 92.8 | 91.8 | 92.7 | 92.5 |
| Consolidated operating ratio | 93.6% | 96.1% | 95.2% | 94.7% |

(1) Logistics revenue is net of \$4.5 million and \$13.1 million of inter-segment revenue in the three-month and nine-month periods ended September 30, 2008, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation. Inter-segment revenue was \$5.0 million and \$12.0 million for the three-month and nine-month periods ended September 30, 2007.

(2) Operating expenses as a percentage of operating revenue.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our consolidated condensed financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those included in our Form 10-K, Part I, Item 1A for the year ended December 31, 2007. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this report.

Overview

The primary source of our operating revenue is truckload revenue, which we generate by transporting freight for our customers and report within our Truckload segment. Generally, we are paid by the mile for our services. We also derive truckload revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services. The main factors that affect our truckload revenue are the rate per mile we receive from our customers, the percentage of miles for which we are compensated and the number of miles we generate with our equipment. We monitor our revenue production primarily through average truckload revenue, net of fuel surcharges, per tractor per week. We also analyze our average truckload revenue, net of fuel surcharges, per total mile, non-revenue miles percentage, the miles per tractor we generate, our accessorial revenue and our other sources of operating revenue.

Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations, both launched in 2005, and through our 45% interest in MWL, a third-party provider of logistics services to the transportation industry. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the transport of our trailers on railroad flatcars for a portion of a trip, with the balance of the trip using our tractors or, to a lesser extent, contracted carriers. The main factors that affect our logistics revenue are the rate per mile and other charges we receive from our customers and the rates charged by third-party providers.

In addition to the factors discussed above, our operating revenue is also affected by, among other things, the United States economy, inventory levels, the level of truck and rail capacity in the transportation market and specific customer demand.

In the first nine months of 2008, we increased our operating revenue by \$51.5 million, or 12.4%. Our operating revenue, net of fuel surcharges, increased \$3.2 million, or 0.9%, compared with the first nine months of 2007. Fuel surcharges increased \$48.4 million, or 79.2%, in the first nine months of 2008 due to the significant increase in the average cost of fuel from the first nine months of 2007. Truckload segment revenue, net of fuel surcharges, decreased 6.1% due to a 7.7% decrease in our weighted average number of tractors, partially offset by a 1.7% increase in average truckload revenue, net of fuel surcharges, per total mile. The increase in average truckload revenue, net of fuel surcharges, per total mile was the result of an improved freight mix, reduced average length of haul and an apparent reduction in overall truckload industry capacity. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 1.4% in the first nine months of 2008 primarily due to the increase in revenue per total mile. The changes in our operating statistics are consistent with the growth of our regional temperature-controlled operations in the first nine months of 2008. By focusing on shorter lengths of haul in certain defined areas, we are addressing customer trends toward regional distribution to lower their transportation expense, furthering our own objectives of reducing fuel consumption per load, and matching some of our drivers' desires to stay closer to home. The concentration of a portion of our fleet in these markets is evident in a 5.9% reduction from the first nine months of 2007 in average length of haul to 863 miles. In response to a challenging freight environment with industry-wide capacity exceeding freight demand, we decreased our fleet throughout 2007. As a result, our average fleet size was 196 tractors less in the first nine months of 2008 than in the same period of 2007. The 0.9% increase in our operating revenue, net of fuel surcharges, was entirely driven by continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by

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MWL. Logistics revenue, which represented 16.0% of our operating revenue in the first nine months of 2008, increased \$26.6 million, or 55.7%, compared with the first nine months of 2007.

Our profitability on the expense side is impacted by variable costs of transporting freight for our customers, fixed costs and expenses containing both fixed and variable components. The variable costs include fuel expense, driver-related expenses, such as wages, benefits, training, and recruitment, and independent contractor costs, which are recorded under purchased transportation. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency and other factors. Our main fixed costs relate to the acquisition and financing of long-term assets, such as revenue equipment and operating terminals. We expect our annual cost of tractor and trailer ownership will increase in future periods as a result of higher prices of new equipment. Although certain factors affecting our expenses are beyond our control, we monitor them closely and attempt to anticipate changes in these factors in managing our business. For example, fuel prices fluctuated dramatically at various times during the last several years, with the average cost of fuel increasing to \$3.86 per gallon in the first nine months of 2008 from \$2.66 per gallon in the first nine months of 2007. We manage our exposure to changes in fuel prices primarily through fuel surcharge programs with our customers, as well as through volume fuel purchasing arrangements with national fuel centers and bulk purchases of fuel at our terminals. To help further reduce fuel expense, we began installing auxiliary power units in our tractors in 2007 to provide climate control and electrical power for our drivers without idling the tractor engine. For our Logistics segment, our profitability on the expense side is impacted by the percentage of logistics revenue we pay to providers for the transportation services we arrange.

Our operating expenses as a percentage of operating revenue, or operating ratio, was 95.2% in the first nine months of 2008 compared with 94.7% in the first nine months of 2007. Our earnings per diluted share increased to \$0.56 in the first nine months of 2008 from \$0.55 in the first nine months of 2007.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At September 30, 2008, we had approximately \$7.3 million of long-term debt, including current maturities, and \$249.8 million in stockholders' equity. In the first nine months of 2008, we spent \$14.6 million to purchase new revenue equipment, net of proceeds from dispositions. These expenditures were funded with cash flows from operations. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$20 million for the remainder of 2008. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, current borrowing availability and sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes discussions of truckload and logistics revenue, net of fuel surcharges, and net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors, outside drayage carriers and railroads). We provide these additional disclosures because management believes these measures provide a more consistent basis for comparing results of operations from period to period. These financial measures in this report have not been determined in accordance with U.S. generally accepted accounting principles (GAAP). Pursuant to Item 10(e) of Regulation S-K, we have included the amounts necessary to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures, operating revenue and fuel and fuel taxes.

Results of Operations

The following table sets forth for the periods indicated certain operating statistics regarding our revenue and operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Truckload Segment: | | | | |
| Average truckload revenue, net of fuel surcharges, per total mile | \$ 1,531 | \$ 1,482 | \$ 1,502 | \$ 1,477 |
| Average miles per tractor(1) | 27,736 | 27,874 | 81,977 | 81,956 |
| Average truckload revenue, net of fuel surcharges, per tractor per week(1) | \$ 3,231 | \$ 3,142 | \$ 3,146 | \$ 3,103 |
| Average tractors (1) | 2,322 | 2,514 | 2,353 | 2,549 |
| Average miles per trip | 835 | 900 | 863 | 917 |
| Total miles company-employed drivers (in thousands) | 56,897 | 58,188 | 166,794 | 173,717 |
| Total miles independent contractors (in thousands) | 7,510 | 11,891 | 26,058 | 35,188 |
| Logistics Segment: | | | | |
| Brokerage: | | | | |
| Revenue (in thousands) | \$ 15,902 | \$ 13,887 | \$ 47,613 | \$ 33,312 |
| Loads | 7,485 | 7,253 | 23,076 | 17,658 |
| Intermodal: | | | | |
| Revenue (in thousands) | \$ 10,433 | \$ 5,585 | \$ 26,887 | \$ 14,539 |
| Loads | 3,237 | 1,848 | 8,163 | 4,762 |
| Average tractors | 61 | 34 | 51 | 28 |

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 209 and 358 tractors as of September 30, 2008, and 2007, respectively.

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Comparison of Three Months Ended September 30, 2008 to Three Months Ended September 30, 2007

The following table sets forth for the periods indicated our operating revenue, operating income and operating ratio by segment, along with the change for each component:

| (Dollars in thousands) | 2008 | Three Months Ended September 30, 2007 | Dollar Change Three Months Ended September 30, 2008 vs. 2007 | Percentage Change Three Months Ended September 30, 2008 vs. 2007 |
|---|-------------------|---|---|---|
| Operating revenue: | | | | |
| Truckload revenue, net of fuel surcharge revenue | \$ 98,600 | \$ 103,831 | \$ (5,231) | (5.0)% |
| Truckload fuel surcharge revenue | 38,442 | 21,666 | 16,776 | 77.4 |
| Total Truckload revenue | 137,042 | 125,497 | 11,545 | 9.2 |
| Logistics revenue, net of intermodal fuel surcharge revenue(1) | | | | |
| Logistics revenue, net of intermodal fuel surcharge revenue(1) | 23,472 | 18,580 | 4,892 | 26.3 |
| Intermodal fuel surcharge revenue | 2,863 | 892 | 1,971 | 221.0 |
| Total Logistics revenue | 26,335 | 19,472 | 6,863 | 35.2 |
| Total operating revenue | \$ 163,377 | \$ 144,969 | \$ 18,408 | 12.7% |
| Operating income: | | | | |
| Truckload | \$ 8,619 | \$ 4,108 | \$ 4,511 | 109.8% |
| Logistics | 1,909 | 1,588 | 321 | 20.2 |
| Total operating income | \$ 10,528 | \$ 5,696 | \$ 4,832 | 84.8% |
| Operating ratio(2): | | | | |
| Truckload | 93.7% | 96.7% | | 3.1% |
| Logistics | 92.8 | 91.8 | | (1.1) |
| Consolidated operating ratio | 93.6% | 96.1% | | 2.6% |

(1) Logistics revenue is net of \$4.5 million and \$5.0 million of inter-segment revenue in the 2008 and 2007 periods, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation.

(2) Operating expenses as a percentage of operating revenue.

Our operating revenue increased \$18.4 million, or 12.7%, to \$163.4 million in the 2008 period from \$145.0 million in the 2007 period. Our operating revenue, net of fuel surcharges, decreased \$339,000, or 0.3%, to \$122.1 million in the 2008 period from \$122.4 million in the 2007 period. Fuel surcharges increased \$18.7 million, or 83.1%, in the 2008 period due to the significant increase in the average cost of fuel from the 2007 period.

Truckload segment revenue increased \$11.5 million, or 9.2%, to \$137.0 million in the 2008 period from \$125.5 million in the 2007 period. Truckload segment revenue, net of fuel surcharges, decreased 5.0% due to a 7.6% decrease in our weighted average number of tractors, partially

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offset by a 3.3% increase in average truckload revenue, net of fuel surcharges, per total mile. The increase in average truckload revenue, net of fuel surcharges, per total mile was the result of an improved freight mix, reduced average length of haul and an apparent reduction in overall truckload industry capacity. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 2.8% in the 2008 period from the 2007 period due to the increase in revenue per total mile, partially offset by a 0.5% decrease in average miles per tractor. The changes in our operating statistics are consistent with the continued growth of our regional temperature-controlled operations in the 2008 period. By focusing on shorter lengths of haul in certain defined areas, we are addressing

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customer trends toward regional distribution to lower their transportation expense, furthering our own objectives of reducing fuel consumption per load, and matching some of our drivers' desires to stay closer to home. The concentration of a portion of our fleet in these markets is evident in a 7.2% reduction from the 2007 period in average length of haul to 835 miles. In response to a challenging freight environment with industry-wide capacity exceeding freight demand, we decreased our fleet throughout 2007. As a result, our average fleet size was 192 tractors less in the 2008 period than in the 2007 period. The improvement in both tractor productivity and control of expenses resulted in increased profitability from the 2007 period.

Logistics segment revenue increased \$6.9 million, or 35.2%, to \$26.3 million in the 2008 period from \$19.5 million in the 2007 period. Logistics segment revenue, net of intermodal fuel surcharges, increased 26.3%. The increase in logistics revenue primarily resulted from continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL. The operating ratio increase in the 2008 period was attributable to decreased margins in both our intermodal and brokerage services.

The following table sets forth for the periods indicated the dollar and percentage increase or decrease of the items in our unaudited consolidated condensed statements of operations, and those items as a percentage of operating revenue:

| (Dollars in thousands) | Dollar Change Three Months Ended September 30, 2008 vs. 2007 | Percentage Change Three Months Ended September 30, 2008 vs. 2007 | Percentage of Operating Revenue Three Months Ended September 30, 2008 | 2007 |
|--|---|---|--|--------|
| Operating revenue | \$ 18,408 | 12.7% | 100.0% | 100.0% |
| Operating expenses (income): | | | | |
| Salaries, wages and benefits | 1,077 | 2.8 | 24.4 | 26.8 |
| Purchased transportation | 1,234 | 4.4 | 17.8 | 19.2 |
| Fuel and fuel taxes | 11,629 | 29.4 | 31.3 | 27.3 |
| Supplies and maintenance | (860) | (8.2) | 5.9 | 7.2 |
| Depreciation | 529 | 4.5 | 7.6 | 8.2 |
| Operating taxes and licenses | (148) | (8.5) | 1.0 | 1.2 |
| Insurance and claims | (176) | (3.0) | 3.5 | 4.1 |
| Communications and utilities | (101) | (10.8) | 0.5 | 0.6 |
| Gain on disposition of revenue equipment | (18) | (4.1) | (0.3) | (0.3) |
| Other | 410 | 16.5 | 1.8 | 1.7 |
| Total operating expenses | 13,576 | 9.7 | 93.6 | 96.1 |
| Operating income | 4,832 | 84.8 | 6.4 | 3.9 |
| Other expenses (income): | | | | |
| Interest expense | (747) | (79.2) | 0.1 | 0.7 |
| Interest income and other | 148 | 79.6 | | (0.1) |
| Minority interest | 16 | 5.3 | 0.2 | 0.2 |
| | (583) | (55.1) | 0.3 | 0.7 |
| Income before income taxes | 5,415 | 116.8 | 6.2 | 3.2 |
| Provision for income taxes | 2,353 | 149.6 | 2.4 | 1.1 |
| Net income | \$ 3,062 | 99.9% | 3.8% | 2.1% |

Salaries, wages and benefits consist of compensation for our employees, including both driver and non-driver employees, employees' health insurance, 401(k) plan contributions and other fringe benefits. These expenses vary depending upon the ratio of company drivers to independent contractors, our efficiency, our experience with employees' health insurance claims, changes in health care premiums and other factors. The increase in salaries, wages and benefits resulted primarily from a \$1.3 million increase in our self-insured medical claims, which increased our employees' health insurance expense, and a \$1.0 million increase in bonus compensation expensed for our non-driver employees, which was partially offset by a 2.2% decrease in the total miles driven by company drivers and the adoption in the first quarter of 2008 of a per diem expense reimbursement program for our drivers.

Purchased transportation consists of payments to independent contractor providers of revenue equipment and to carriers for transportation services we arrange in connection with brokerage and intermodal activities. This category will vary depending upon the ratio of company drivers versus independent contractors, the amount of fuel surcharges passed through to independent contractors and the amount and rates we pay to third-party railroad and motor carriers. Purchased transportation expense increased \$1.2 million in total, or 4.4%, in the 2008 period from the 2007 period. Payments to carriers for transportation services we arranged in our brokerage and intermodal operations increased \$4.7 million to \$19.4 million in the 2008 period from \$14.7 million in the 2007 period, as our Logistics operations significantly increased in size and scope. The portion of purchased transportation expense related to our independent contractors, including fuel surcharges, decreased \$3.4 million in the 2008 period, primarily due to a decrease in the number of independent contractor-owned tractors in our fleet. We expect that purchased transportation expense will continue to increase as we grow our Logistics segment, but this increase will be partially offset by an expected continuing decline in the number of independent contractor-owned tractors in our fleet due to difficult operating conditions.

Net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors, outside drayage carriers and railroads) decreased \$5.7 million, or 27.4%, to \$15.1 million in the 2008 period from \$20.7 million in the 2007 period. Fuel surcharges passed through to independent contractors, outside drayage carriers and railroads were \$5.1 million in the 2008 period and \$3.7 million in the 2007 period. Over the past year, we have worked diligently to control fuel costs and usage by improving our volume purchasing arrangements with national fuel centers, focusing on shorter lengths of haul, managing the miles for which we do not receive fuel surcharges, and installing and tightly managing the use of auxiliary power units in our tractors. The decrease in net fuel expense was primarily due to a 2.2% decrease in the total miles driven by our company-owned fleet and to reduced idling fuel consumption resulting from the installation of auxiliary power units for our tractors that provide climate control and electrical power for our drivers without idling the tractor engine. Auxiliary power units were installed in approximately 94% of our company-owned tractors as of September 30, 2008. The impact of decreased miles and reduced idling time was partially offset by a significant increase in the average cost of fuel during the 2008 period to \$4.01 per gallon from \$2.83 per gallon in the 2007 period. Net fuel expense represented 14.2% of truckload and intermodal revenue, net of fuel surcharges, in the 2008 period, compared with 19.1% in the 2007 period. We have fuel surcharge provisions in substantially all of our transportation contracts and attempt to recover a portion of increasing fuel prices through fuel surcharges and higher rates; however, we receive fuel surcharges on a delayed basis which can cause our results to improve or degrade disproportionately to the change in fuel prices, as they did in the 2008 period.

Supplies and maintenance consist of repairs, maintenance, tires, parts, oil and engine fluids, along with load-specific expenses including loading/unloading, tolls, pallets and trailer hostling. The decrease in supplies and maintenance in the 2008 period primarily resulted from decreased parts, tires, loading/unloading and other supplies and maintenance expenses despite a higher percentage of company-owned tractors in our fleet, for which we bear all maintenance expenses, and an increase in the average age of our tractor and trailer fleets. Our maintenance practices were consistent with the 2007 period.

Depreciation relates to owned tractors, trailers, auxiliary power units, communications units, terminal facilities and other assets. The increase in depreciation was due to our investment in auxiliary power units since mid-2007 and to an increase in the relative percentage of company-owned tractors to independent contractor-owned tractors in the 2008 period. We expect our annual cost of tractor and trailer ownership will increase in future

periods as a result of higher prices of new equipment, which is expected to result in greater depreciation over the useful life.

As a result of the foregoing factors, our operating expenses as a percentage of operating revenue, or operating ratio, was 93.6% in the 2008 period compared with 96.1% in the 2007 period.

Interest expense primarily consists of interest on our unsecured committed credit facility and senior unsecured notes. The decrease in interest expense of \$747,000, or 79.2%, in the 2008 period from the 2007 period was primarily the result of lower average debt balances outstanding.

Our effective income tax rate increased to 39.1% in the 2008 period from 33.9% in the 2007 period, primarily because we decreased our deferred income tax liability in the 2007 period by 4.4% of income before income taxes. This decrease was primarily due to state income tax law changes and a change in income apportionment for several states which produced a lower effective state income tax rate, net of federal impact. The effective income tax rate in the 2008 period also increased primarily because of the nondeductible effect of a per diem pay structure for our drivers adopted in the first quarter of 2008.

As a result of the factors described above, net income increased to \$6.1 million in the 2008 period from \$3.1 million in the 2007 period. Net earnings increased to \$0.28 per diluted share in the 2008 period from \$0.14 per diluted share in the 2007 period.

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Comparison of Nine Months Ended September 30, 2008 to Nine Months Ended September 30, 2007

The following table sets forth for the periods indicated our operating revenue, operating income and operating ratio by segment, along with the change for each component:

| (Dollars in thousands) | 2008 | Nine Months Ended September 30, 2007 | 2007 | Dollar Change Nine Months Ended September 30, 2008 vs. 2007 | Percentage Change Nine Months Ended September 30, 2008 vs. 2007 |
|---|------------|--------------------------------------|-------------|--|--|
| Operating revenue: | | | | | |
| Truckload revenue, net of fuel surcharge revenue | \$ 289,737 | \$ 308,462 | \$ (18,725) | (6.1)% | |
| Truckload fuel surcharge revenue | 102,508 | 58,893 | 43,615 | 74.1 | |
| Total Truckload revenue | 392,245 | 367,355 | 24,890 | 6.8 | |
| Logistics revenue, net of intermodal fuel surcharge revenue(1) | | | | | |
| Intermodal fuel surcharge revenue | 67,583 | 45,680 | 21,903 | 47.9 | |
| Total Logistics revenue | 6,917 | 2,171 | 4,746 | 218.6 | |
| Total operating revenue | 74,500 | 47,851 | 26,649 | 55.7 | |
| Total operating revenue | \$ 466,745 | \$ 415,206 | \$ 51,539 | 12.4% | |
| Operating income: | | | | | |
| Truckload | \$ 16,980 | \$ 18,520 | \$ (1,540) | (8.3)% | |
| Logistics | 5,458 | 3,607 | 1,851 | 51.3 | |
| Total operating income | \$ 22,438 | \$ 22,127 | \$ 311 | 1.4% | |
| Operating ratio(2): | | | | | |
| Truckload | 95.7% | 95.0% | (0.7)% | | |
| Logistics | 92.7 | 92.5 | (0.2) | | |
| Consolidated operating ratio | 95.2% | 94.7% | (0.5)% | | |

(1) Logistics revenue is net of \$13.1 million and \$12.0 million of inter-segment revenue in the 2008 and 2007 periods, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation.

(2) Operating expenses as a percentage of operating revenue.

Our operating revenue increased \$51.5 million, or 12.4%, to \$466.7 million in the 2008 period from \$415.2 million in the 2007 period. Our operating revenue, net of fuel surcharges, increased \$3.2 million, or 0.9%, to \$357.3 million in the 2008 period from \$354.1 million in the 2007 period. The increase in operating revenue, net of fuel surcharges, was entirely driven by continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL. Fuel surcharges increased \$48.4 million, or 79.2%, in the 2008 period due to the significant increase in the average cost of fuel from the 2007 period.

Truckload segment revenue increased \$24.9 million, or 6.8%, to \$392.2 million in the 2008 period from \$367.4 million in the 2007 period. Truckload segment revenue, net of fuel surcharges, decreased 6.1% due to a 7.7% decrease in our weighted average number of tractors, partially offset by a 1.7% increase in average truckload revenue, net of fuel surcharges, per total mile. The increase in average truckload revenue, net of fuel surcharges, per total mile was the result of an improved freight mix, reduced average length of haul and an apparent reduction in overall truckload industry capacity. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 1.4% in the 2008 period from

the 2007 period primarily due to the increase in revenue per total mile. The changes in our operating statistics are consistent with the growth of our regional temperature-controlled operations in the 2008 period. By focusing on shorter lengths of haul in

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certain defined areas, we are addressing customer trends toward regional distribution to lower their transportation expense, furthering our own objectives of reducing fuel consumption per load, and matching some of our drivers' desires to stay closer to home. The concentration of a portion of our fleet in these markets is evident in a 5.9% reduction from the 2007 period in average length of haul to 863 miles. In response to a challenging freight environment with industry-wide capacity exceeding freight demand, we decreased our fleet throughout 2007. As a result, our average fleet size was 196 tractors less in the 2008 period than in the 2007 period. The improvement in tractor productivity was more than offset by an increase in our overall cost structure, which resulted in decreased profitability from the 2007 period.

Logistics segment revenue increased \$26.6 million, or 55.7%, to \$74.5 million in the 2008 period from \$47.9 million in the 2007 period. Logistics segment revenue, net of intermodal fuel surcharges, increased 47.9%. The increase in logistics revenue primarily resulted from continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL. The operating ratio for our Logistics segment in the 2008 period was approximately the same as in the 2007 period.

The following table sets forth for the periods indicated the dollar and percentage increase or decrease of the items in our unaudited consolidated condensed statements of operations, and those items as a percentage of operating revenue:

| (Dollars in thousands) | Dollar Change Nine Months Ended September 30, 2008 vs. 2007 | Percentage Change Nine Months Ended September 30, 2008 vs. 2007 | Percentage of Operating Revenue Nine Months Ended September 30, 2008 | 2007 |
|--|--|--|---|--------|
| Operating revenue | \$ 51,539 | 12.4% | 100.0% | 100.0% |
| Operating expenses (income): | | | | |
| Salaries, wages and benefits | (1,464) | (1.3) | 24.5 | 27.9 |
| Purchased transportation | 14,024 | 18.9 | 18.9 | 17.9 |
| Fuel and fuel taxes | 35,405 | 32.3 | 31.1 | 26.4 |
| Supplies and maintenance | (66) | (0.2) | 6.1 | 6.8 |
| Depreciation | 1,387 | 3.9 | 7.9 | 8.5 |
| Operating taxes and licenses | (99) | (1.9) | 1.1 | 1.2 |
| Insurance and claims | 1,196 | 7.1 | 3.9 | 4.0 |
| Communications and utilities | (141) | (5.0) | 0.6 | 0.7 |
| Gain on disposition of revenue equipment | 444 | 15.4 | (0.5) | (0.7) |
| Other | 542 | 7.0 | 1.8 | 1.9 |
| Total operating expenses | 51,228 | 13.0 | 95.2 | 94.7 |
| Operating income | 311 | 1.4 | 4.8 | 5.3 |
| Other expenses (income): | | | | |
| Interest expense | (2,032) | (66.3) | 0.2 | 0.7 |
| Interest income and other | 379 | 71.4 | (0.1) | (0.1) |
| Minority interest | 392 | 74.0 | 0.2 | 0.1 |
| | (1,261) | (41.2) | 0.4 | 0.7 |
| Income before income taxes | 1,572 | 8.2 | 4.4 | 4.6 |
| Provision for income taxes | 1,326 | 18.8 | 1.8 | 1.7 |
| Net income | \$ 246 | 2.0% | 2.6% | 2.9% |

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The decrease in salaries, wages and benefits resulted primarily from a 4.0% decrease in the total miles driven by company drivers and the adoption in the first quarter of 2008 of a per diem expense reimbursement program for our drivers, which was partially offset by a \$2.4 million increase in our self-insured medical claims, which increased our employees' health insurance expense, and a \$1.0 million increase in bonus compensation expensed for our non-driver employees.

Purchased transportation expense increased \$14.0 million in total, or 18.9%, in the 2008 period from the 2007 period. Payments to carriers for transportation services we arranged in our brokerage and intermodal operations increased \$19.7 million to \$55.7 million in the 2008 period from \$35.9 million in the 2007 period, as our Logistics operations significantly increased in size and scope. The portion of purchased transportation expense related to our independent contractors, including fuel surcharges, decreased \$5.7 million in the 2008 period, primarily due to a decrease in the number of independent contractor-owned tractors in our fleet.

Net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors, outside drayage carriers and railroads) decreased \$7.7 million, or 13.1%, to \$50.7 million in the 2008 period from \$58.3 million in the 2007 period. Fuel surcharges passed through to independent contractors, outside drayage carriers and railroads were \$15.2 million in the 2008 period and \$9.9 million in the 2007 period. Over the past year, we have worked diligently to control fuel costs and usage by improving our volume purchasing arrangements with national fuel centers, focusing on shorter lengths of haul, managing the miles for which we do not receive fuel surcharges, and installing and tightly managing the use of auxiliary power units in our tractors. The decrease in net fuel expense was primarily due to a 4.0% decrease in the total miles driven by our company-owned fleet and to reduced idling fuel consumption resulting from the installation of auxiliary power units for our tractors that provide climate control and electrical power for our drivers without idling the tractor engine. Auxiliary power units were installed in approximately 94% of our company-owned tractors as of September 30, 2008. The impact of decreased miles and reduced idling time was partially offset by a significant increase in the average cost of fuel during the 2008 period to \$3.86 per gallon from \$2.66 per gallon in the 2007 period. Net fuel expense represented 16.4% of truckload and intermodal revenue, net of fuel surcharges, in the 2008 period, compared with 18.2% in the 2007 period.

The increase in depreciation was due to our investment in auxiliary power units since mid-2007 and to an increase in the relative percentage of company-owned tractors to independent contractor-owned tractors in the 2008 period.

The increase in insurance and claims in the 2008 period was primarily the result of an increase in the cost of self-insured accident claims.

A decrease in the market value for used revenue equipment, which we believe was driven by capacity reductions in the industry, caused our gain on disposition of revenue equipment to decrease to \$2.4 million in the 2008 period from \$2.9 million in the 2007 period, despite an increase in the number of tractors sold. Future gains or losses on disposition of revenue equipment will be impacted by the market for used revenue equipment, which is beyond our control. We do not expect our gain on disposition to improve in the near future as we believe that there are few buyers with adequate financing in comparison with available inventory, and the expectation of additional trucking company failures this winter is likely to keep used truck inventories high.

As a result of the foregoing factors, our operating expenses as a percentage of operating revenue, or operating ratio, was 95.2% in the 2008 period compared with 94.7% in the 2007 period.

The decrease in interest expense of \$2.0 million, or 66.3%, in the 2008 period from the 2007 period was primarily the result of lower average debt balances outstanding.

Our effective income tax rate increased to 40.6% in the 2008 period from 37.0% in the 2007 period, primarily because of the nondeductible effect of a per diem pay structure for our drivers adopted in the first quarter of 2008.

As a result of the factors described above, net income increased to \$12.2 million in the 2008 period from \$12.0 million in the 2007 period. Net earnings increased to \$0.56 per diluted share in the 2008 period from \$0.55 per diluted share in the 2007 period.

Liquidity and Capital Resources

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. Our primary sources of liquidity are funds provided by operations, our unsecured senior notes and our revolving credit facility. A portion of our tractor fleet is provided by independent contractors who own and operate their own equipment. We have no capital expenditure requirements relating to those drivers who own their tractors or obtain financing through third parties. However, to the extent we purchase tractors and extend financing to the independent contractors through our tractor purchase program, we have an associated capital expenditure requirement.

The table below reflects our net cash flows provided by operating activities, net cash flows used for investing activities and net cash flows used for financing activities for the periods indicated.

| (In thousands) | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2008 | 2007 |
| Net cash flows provided by operating activities | \$ 49,731 | \$ 44,401 |
| Net cash flows used for investing activities | 14,908 | 42,235 |
| Net cash flows used for financing activities | 36,030 | 1,464 |

In December 2007, our Board of Directors approved a share repurchase program to repurchase up to one million shares of our common stock either through purchases on the open market or through private transactions. The timing and extent to which we will repurchase shares depends on market conditions and other corporate considerations. In the first quarter of 2008 we repurchased and retired 67,500 shares of our common stock for \$810,000. We made no purchases in 2007 or in the second or third quarters of 2008. The repurchase program does not have an expiration date.

In the first nine months of 2008, we spent \$14.6 million to purchase new revenue equipment, net of proceeds from dispositions. These expenditures were funded with cash flows from operations. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$20 million for the remainder of 2008. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, current borrowing availability and sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

We had outstanding Series A Senior Unsecured Notes with an aggregate principal balance of \$3.6 million at September 30, 2008. These notes matured in October 2008 and bore interest at a fixed annual rate of 6.78%. We also have outstanding Series B Senior Unsecured Notes with an aggregate principal balance of \$2.9 million at September 30, 2008. These notes mature in April 2010, require annual principal payments of \$1.4 million and bear interest at a fixed annual rate of 8.57%.

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We maintain a credit agreement that provides for a five-year unsecured committed credit facility maturing in September 2011 in an aggregate principal amount of up to \$75 million. The aggregate principal amount of the credit facility may be increased at our option up to a maximum aggregate principal amount of \$100 million. At September 30, 2008, the credit facility had an outstanding principal balance of \$914,000, outstanding standby letters of credit of \$6.8 million and remaining borrowing availability of \$67.3 million. This facility bears interest at a variable rate based on the London Interbank Offered Rate or the agent bank's Prime Rate, in each case plus/minus applicable margins. The weighted average interest rate for the credit facility was 4.5% per annum at September 30, 2008.

Our credit facility prohibits us from paying, in any fiscal year, dividends in excess of 25% of our net income from the prior fiscal year. The debt agreements discussed above also contain restrictive covenants which, among other matters, require us to maintain certain financial ratios, including debt-to-equity, cash flow leverage, interest coverage and fixed charge coverage. We were in compliance with all of these covenants at September 30, 2008.

We had \$1.0 million in direct financing receivables from independent contractors under our tractor purchase program as of September 30, 2008, compared with \$3.0 million in receivables as of December 31, 2007. These receivables, which are collateralized by the financed tractors, are used to attract and retain qualified independent contractors. We deduct payments from the independent contractors' settlements weekly and, as a result, have experienced minimal collection issues for these receivables.

The following is a summary of our contractual obligations as of September 30, 2008.

| (In thousands) | Payments Due by Period | | | | | Total |
|---|-------------------------|---------------------|--------|------------|----|--------|
| | Remainder of 2008 | 2009 and 2010 | 2011 | Thereafter | | |
| Long-term debt obligations | \$ 3,571 | \$ 2,857 | \$ 914 | \$ | \$ | 7,342 |
| Purchase obligations for revenue equipment | 4,211 | | | | | 4,211 |
| Operating lease obligations | 54 | 284 | 71 | | | 409 |
| Total | \$ 7,836 | \$ 3,141 | \$ 985 | \$ | \$ | 11,962 |

Related Parties

We purchase fuel and obtain tires and related services from Bauer Built, Inc., or BBI. Jerry M. Bauer, one of our directors, is the president and a stockholder of BBI. We paid BBI \$1.2 million in the first nine months of 2008 and \$851,000 in the first nine months of 2007 for fuel and tire services. In addition, we paid \$1.8 million in the first nine months of 2008 and \$1.8 million in the first nine months of 2007 to tire manufacturers for tires that we purchased from the tire manufacturers which were provided by BBI. BBI received commissions from the tire manufacturers related to these purchases. Other than any benefit received from his ownership interest, Mr. Bauer receives no compensation or other benefits from our business with BBI.

We paid Durand Builders Service, Inc. \$299,000 in the first nine months of 2008 and \$389,000 in the first nine months of 2007 for various construction projects. Larry B. Hagness, one of our directors, is the president and owner of Durand Builders Service, Inc. Other than any benefit received from his ownership interest, Mr. Hagness receives no compensation or other benefits from these transactions.

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In August 2008, we acquired a building adjacent to our headquarters which will be used for maintenance and storage from Randolph L. Marten, our Chairman of the Board and Chief Executive Officer, in a like-kind exchange for a building of equal value owned by Marten Transport. Each of the buildings were valued at \$291,000 at the time of the exchange.

Off-balance Sheet Arrangements

Other than standby letters of credit maintained in connection with our self-insurance programs in the amount of \$6.8 million and operating leases summarized above in our summary of contractual obligations, we did not have any other material off-balance sheet arrangements at September 30, 2008.

Inflation and Fuel Costs

Most of our operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. During the last two years, the most significant effects of inflation have been on revenue equipment prices, accident claims, health insurance and employee compensation. We attempt to limit the effects of inflation through increases in freight rates and cost control efforts.

In addition to inflation, fluctuations in fuel prices can affect our profitability. We require substantial amounts of fuel to operate our tractors and power the temperature-control units on our trailers. Substantially all of our contracts with customers contain fuel surcharge provisions. Although we historically have been able to pass through most increases in fuel prices and related taxes to customers in the form of surcharges and higher rates, such increases usually are not fully recovered. Fuel prices were high throughout the last two years, which has increased our cost of operating.

Seasonality

Our tractor productivity generally decreases during the winter season because inclement weather impedes operations and some shippers reduce their shipments. At the same time, operating expenses generally increase, with harsh weather creating higher accident frequency, increased claims and more equipment repairs.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue and expenses in our consolidated condensed financial statements and related notes. We base our estimates, assumptions and judgments on historical experience, current trends and other factors believed to be relevant at the time our consolidated condensed financial statements are prepared. However, because future events and their effects cannot be determined with certainty, actual results could differ from our estimates and assumptions, and such differences could be material. We believe that the following critical accounting policies affect our more significant estimates, assumptions and judgments used in the preparation of our consolidated condensed financial statements.

Revenue Recognition. We recognize revenue, including fuel surcharges, at the time shipment of freight is completed.

Accounts Receivable. We are dependent on a limited number of customers, and as a result, our trade accounts receivable are highly concentrated. Trade accounts receivable are recorded at the invoiced amounts, net of an allowance for doubtful accounts. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. In order to assess the collectibility of these receivables, we perform ongoing credit evaluations of our customers' financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The allowance for doubtful accounts is based on the best information available to us and is reevaluated and adjusted as additional information is received. We evaluate the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts and the overall national economy. We review the adequacy of our allowance for doubtful accounts monthly.

Property and Equipment. The transportation industry requires significant capital investments. Our net property and equipment was \$308.2 million as of September 30, 2008 and \$325.2 million as of December 31, 2007. Our depreciation expense was \$36.7 million for the first nine months of 2008 and \$35.3 million for the first nine months of 2007. We compute depreciation of our property and equipment for financial reporting purposes based on the cost of each asset, reduced by its estimated salvage value, using the straight-line method over its estimated useful life. We determine and periodically evaluate our estimate of the projected salvage values and useful lives primarily by considering the market for used equipment, prior useful lives and changes in technology. We have not changed our policy regarding salvage values as a percentage of initial cost or useful lives of tractors and trailers within the last ten years. We believe that our policies and past estimates have been reasonable. Actual results could differ from these estimates. A 5% decrease in estimated salvage values would have decreased our net property and equipment as of September 30, 2008 by approximately \$8.1 million, or 2.6%.

In the first nine months of 2008, we replaced most of our company-owned tractors within approximately 3.5 years and our trailers within approximately 5.5 years after purchase. Our useful lives for depreciating tractors is five years and trailers is seven years, with a 25% salvage value for tractors and a 35% salvage value for trailers. These salvage values are based upon the expected market values of the equipment after five years for tractors and seven years for trailers. Depreciation expense calculated in this manner approximates the continuing declining value of the revenue equipment, and continues at a consistent straight-line rate for units held beyond the normal replacement cycle. Calculating tractor depreciation expense with a five-year useful life and a 25% salvage value results in the same depreciation rate of 15% of cost per year and the same net book value of 47.5% of cost at the 3.5-year replacement date as using a 3.5-year useful life and 47.5% salvage value. As a result, there is no difference in recorded depreciation expense on a quarterly or annual basis with our five-year useful life and 25% salvage value compared with a 3.5-year useful life and 47.5% salvage value. Similarly, calculating trailer depreciation expense with seven-year useful life and a 35% salvage value results in the same depreciation rate of 9.3% of cost per year and the same net book value of 48.9% of cost at the 5.5-year replacement date as using a 5.5-year useful life and 48.9% salvage value. As a result, there is no difference in recorded depreciation expense on a quarterly or annual basis with our seven-year useful life and 35% salvage value compared with a 5.5-year useful life and 48.9% salvage value.

Impairment of Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell.

Insurance and Claims. We self-insure, in part, for losses relating to workers' compensation, auto liability, general liability, cargo and property damage claims, along with employees' health insurance with varying risk retention levels. We maintain insurance coverage for per-incident and total losses in excess of these risk retention levels in amounts we consider adequate based upon historical experience and our ongoing review. However, we could suffer a series of losses within our self-insured retention limits or losses over our policy limits, which could negatively affect our financial condition and operating results. We are responsible for the first \$1.0 million on each auto liability claim and also responsible for up to \$1.0 million in the aggregate for 33% of all auto liability claim amounts in excess of \$1.0 million. We are responsible for the first \$750,000 on each workers' compensation claim. We have \$6.8 million in standby letters of credit to guarantee settlement of claims under agreements with our insurance carriers and regulatory authorities. The insurance and claims accruals in our consolidated condensed balance sheets were \$20.9 million as of September 30, 2008, and \$17.4 million as of December 31, 2007. We reserve currently for the estimated cost of the uninsured portion of pending claims. We periodically evaluate and adjust these reserves based on our evaluation of the nature and severity of outstanding individual claims and our estimate of future claims development based on historical claims development factors. We believe that our claims development factors have historically been reasonable, as indicated by the adequacy of our insurance and claims accruals compared to settled claims. Actual results could differ from these current estimates. In addition, to the extent that claims are litigated and not settled, jury awards are difficult to predict. If our claims settlement experience worsened causing our historical claims

development factors to increase by 5%, our estimated outstanding loss reserves as of September 30, 2008 would have needed to increase by approximately \$2.4 million.

Share-based Payment Arrangement Compensation. We have granted stock options to certain employees and non-employee directors. We recognize compensation expense for all share-based payment arrangements granted after December 31, 2005 and prior to but not yet vested as of December 31, 2005, in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R). Under the fair value recognition provisions of SFAS 123R, we record share-based compensation expense net of an estimated forfeiture rate and only record compensation expense for those shares expected to vest on a straight-line basis over the requisite service period for service-based awards (normally the vesting period). Compensation expense will be recorded for performance-based awards in the periods in which the performance condition is probable of achievement. Determining the appropriate fair value model and calculating the fair value of share-based payment arrangements require the input of highly subjective assumptions, including the expected life of the share-based payment arrangements and stock price volatility. We use the Black-Scholes model to value our stock option awards. We believe that future volatility will not materially differ from our historical volatility. Thus, we use the historical volatility of our common stock over the expected life of the award. The assumptions used in calculating the fair value of share-based payment awards represent our best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and we use different assumptions, share-based compensation expense could be materially different in the future. In addition, we are required to estimate the expected forfeiture rate and only recognize expense for those shares expected to vest. If the actual forfeiture rate is materially different from the estimate, share-based compensation expense could be significantly different from what has been recorded in the current period.

Income Taxes. We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. As part of the process of preparing our consolidated condensed financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and financial reporting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in our accompanying consolidated condensed balance sheets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. To the extent it is determined that it is not likely that our deferred tax assets will be recovered from future taxable income, a valuation allowance must be established for the amount of the deferred tax assets determined not to be realizable. A valuation allowance for deferred tax assets has not been deemed necessary due to our profitable operations. However, if the facts or our financial results were to change, thereby impacting the likelihood of realizing the deferred tax assets, judgment would have to be applied to determine the amount of any valuation allowance required in any given period.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (SFAS 157). SFAS 157 provides enhanced guidance for using fair value to measure assets and liabilities. The statement provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. SFAS 157 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. However, SFAS 157 as it relates to fair value measurement requirements for non-financial assets and liabilities that are not remeasured at fair value on a recurring basis is effective for fiscal years beginning after November 15, 2008. The adoption of SFAS 157 did not and is not expected to have a significant impact on our financial condition, results of operations or cash flows.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008. We continue to evaluate the impact of this new pronouncement, but currently believe the only impact of adopting SFAS 160 would be to reclassify \$1.7 million in minority interest to a separate component of stockholders' equity.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (SFAS 141R), which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. The statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008. The adoption of SFAS 141R could have a significant impact on our financial condition, results of operations and cash flows if we should enter into a business combination after that date.

Item 3. Quantitative And Qualitative Disclosures About Market Risk.

We are exposed to a variety of market risks, most importantly the effects of the price and availability of diesel fuel and changes in interest rates. While we do not currently have any outstanding hedging or swap instruments to mitigate our market risks, we may enter into derivatives or other financial instruments for trading or speculative purposes in the future.

Commodity Price Risk

Our operations are heavily dependent upon the use of diesel fuel. The price and availability of diesel fuel can vary and are subject to political, economic and market factors that are beyond our control. Significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition. Historically, we have been able to recover a portion of diesel fuel price increases from customers in the form of fuel surcharges.

We presently use fuel surcharges to address the risk of high fuel prices. Fuel surcharge programs are widely accepted among our customers, though they can vary somewhat from customer-to-customer. We believe fuel surcharges are effective at mitigating the risk of high fuel prices, although we do not recover the full amount of fuel price increases.

Interest Rate Risk

Our market risk is also affected by changes in interest rates. We have historically maintained a combination of fixed rate and variable rate obligations to manage our interest rate exposure. Fixed rate obligations expose us to the risk that interest rates might fall. Variable rate obligations expose us to the risk that interest rates might rise.

Our fixed rate obligations consist of amounts outstanding under our unsecured senior notes. The \$3.6 million outstanding at September 30, 2008 under our Series A Senior Notes, which matured in October 2008, bore interest at a fixed annual rate of 6.78%. The \$2.9 million outstanding at September 30, 2008 under our Series B Senior Notes bears interest at a fixed annual rate of 8.57%. Based on such outstanding amounts, a one percentage point decline in market interest rates would have the effect of increasing the premium we pay over market interest rates by approximately \$65,000 annually.

Our variable rate obligations consist of borrowings under our revolving credit facility. Our revolving credit facility carries a variable interest rate based on the London Interbank Offered Rate or the agent bank's Prime Rate, in each case plus/minus applicable margins. The weighted average interest rate for the facility was 4.5% per annum at September 30, 2008. As of September 30, 2008, we had borrowed \$914,000 under the credit facility. Based on such outstanding amount, a one percentage point increase in market interest rates would cost us \$9,000 in additional gross interest cost on an annual basis.

Item 4. Controls and Procedures.

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the Exchange Act), we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2008. There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting. We intend to periodically evaluate our disclosure controls and procedures as required by the Exchange Act Rules.

PART II. OTHER INFORMATION

Item 1A. Risk Factors.

Certain risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2007, under the heading "Risk Factors" in Item 1A of that report. Except as set forth below, we do not believe there have been any material changes in these risks during the nine months ended September 30, 2008.

The recent instability of the credit markets and the resulting effects on the economy could have a material adverse effect on our operating results.

Recently, there has been widespread concern over the instability of the credit markets and the current credit market effects on the economy. If the economy and credit markets continue to weaken, our business, financial results, and results of operations could be materially and adversely affected, especially if consumer confidence declines and domestic spending decreases. Additionally, the stresses in the credit market have caused uncertainty in the equity markets, which may result in volatility of the market price for our securities.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On December 4, 2007, our Board of Directors approved and we announced a share repurchase program to repurchase up to one million shares of our common stock either through purchases on the open market or through private transactions and in accordance with Rule 10b-18 of the Exchange Act. The timing and extent to which we will repurchase shares depends on market conditions and other corporate considerations. The repurchase program does not have an expiration date.

In the first quarter of 2008 we repurchased and retired 67,500 shares of our common stock for \$810,000. We made no purchases in 2007 or in the second or third quarters of 2008.

Item 6. Exhibits.

| Item No. | Item | Method of Filing |
|-----------------|--|-------------------------|
| 31.1 | Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Randolph L. Marten, the Registrant's Chief Executive Officer (Principal Executive Officer) | Filed with this Report. |
| 31.2 | Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, | Filed with this Report. |

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by James J. Hinnendael, the Registrant's Chief Financial Officer
(Principal Financial Officer)

32.1

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant
to Section 906 of the Sarbanes-Oxley Act of 2002

Filed with this Report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

MARTEN TRANSPORT, LTD.

Dated: November 10, 2008

By: */s/ Randolph L. Marten*
Randolph L. Marten
Chief Executive Officer
(Principal Executive Officer)

Dated: November 10, 2008

By: */s/ James J. Hinnendael*
James J. Hinnendael
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT INDEX TO FORM 10-Q

For the Quarter Ended September 30, 2008

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| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Filed with this Report. |