

MARTEN TRANSPORT LTD
Form 10-Q
May 12, 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 March 31, 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)

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.

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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 definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

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 21,765,289 as of May 7, 2008.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

| (In thousands, except share information) | March 31, 2008 | December 31, 2007 |
|--|---------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 2,566 | \$ 3,618 |
| Marketable securities | 320 | 350 |
| Receivables: | | |
| Trade, net | 54,642 | 51,539 |
| Other | 6,637 | 6,175 |
| Prepaid expenses and other | 11,870 | 13,823 |
| Deferred income taxes | 5,395 | 4,653 |
| Total current assets | 81,430 | 80,158 |
| Property and equipment: | | |
| Revenue equipment, buildings and land, office equipment and other | 440,750 | 447,430 |
| Accumulated depreciation | (127,480) | (122,246) |
| Net property and equipment | 313,270 | 325,184 |
| Other assets | 1,544 | 2,048 |
| TOTAL ASSETS | \$ 396,244 | \$ 407,390 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 32,573 | \$ 32,384 |
| Insurance and claims accruals | 17,597 | 17,431 |
| Current maturities of long-term debt | 5,000 | 5,000 |
| Total current liabilities | 55,170 | 54,815 |
| Long-term debt, less current maturities | 25,386 | 39,643 |
| Deferred income taxes | 75,017 | 74,719 |
| Total liabilities | 155,573 | 169,177 |
| Minority interest | 1,639 | 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; 21,761,651 shares at March 31, 2008, and 21,811,837 shares at December 31, 2007, issued and outstanding | 218 | 218 |
| Additional paid-in capital | 74,019 | 74,570 |
| Retained earnings | 164,795 | 162,142 |
| Total stockholders' equity | 239,032 | 236,930 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 396,244 | \$ 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 March 31, | |
|--|---------------------------------|------------|
| | 2008 | 2007 |
| OPERATING REVENUE | \$ 143,374 | \$ 131,416 |
| OPERATING EXPENSES (INCOME): | | |
| Salaries, wages and benefits | 36,682 | 38,413 |
| Purchased transportation | 28,004 | 21,820 |
| Fuel and fuel taxes | 41,929 | 32,812 |
| Supplies and maintenance | 9,332 | 8,950 |
| Depreciation | 11,962 | 11,723 |
| Operating taxes and licenses | 1,712 | 1,699 |
| Insurance and claims | 5,565 | 5,470 |
| Communications and utilities | 961 | 940 |
| Gain on disposition of revenue equipment | (1,059) | (1,180) |
| Other | 2,804 | 2,379 |
| Total operating expenses | 137,892 | 123,026 |
| OPERATING INCOME | 5,482 | 8,390 |
| OTHER EXPENSES (INCOME): | | |
| Interest expense | 534 | 1,079 |
| Interest income and other | (77) | (219) |
| Minority interest | 380 | 150 |
| | 837 | 1,010 |
| INCOME BEFORE INCOME TAXES | 4,645 | 7,380 |
| PROVISION FOR INCOME TAXES | 1,992 | 2,786 |
| NET INCOME | \$ 2,653 | \$ 4,594 |
| BASIC EARNINGS PER COMMON SHARE | \$ 0.12 | \$ 0.21 |
| DILUTED EARNINGS PER COMMON SHARE | \$ 0.12 | \$ 0.21 |

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 | | | | 4,594 | 4,594 |
| Issuance of common stock from share-based payment arrangement exercises | 6 | | 65 | | 65 |
| Tax benefits from share-based payment arrangement exercises | | | 14 | | 14 |
| Share-based payment arrangement compensation expense | | | 87 | | 87 |
| Balance at March 31, 2007 | 21,771 | 218 | 73,767 | 151,768 | 225,753 |
| Net income | | | | 10,374 | 10,374 |
| Issuance of common stock from share-based payment arrangement exercises | 41 | | 238 | | 238 |
| Tax benefits from share-based payment arrangement exercises | | | 192 | | 192 |
| Share-based payment arrangement compensation expense | | | 373 | | 373 |
| Balance at December 31, 2007 | 21,812 | 218 | 74,570 | 162,142 | 236,930 |
| Net income | | | | 2,653 | 2,653 |
| Repurchase and retirement of common stock | (67) | | (810) | | (810) |
| Issuance of common stock from share-based payment arrangement exercises | 17 | | 82 | | 82 |
| Tax benefits from share-based payment arrangement exercises | | | 76 | | 76 |
| Share-based payment arrangement compensation expense | | | 101 | | 101 |
| Balance at March 31, 2008 | 21,762 | \$ 218 | \$ 74,019 | \$ 164,795 | \$ 239,032 |

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) | Three Months Ended March 31, | |
|--|---------------------------------|-------------|
| | 2008 | 2007 |
| CASH FLOWS PROVIDED BY OPERATING ACTIVITIES: | | |
| Operations: | | |
| Net income | \$ 2,653 | \$ 4,594 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation | 11,962 | 11,723 |
| Gain on disposition of revenue equipment | (1,059) | (1,180) |
| Deferred income taxes | (444) | 1,223 |
| Tax benefits from share-based payment arrangement exercises | 76 | 14 |
| Excess tax benefits from share-based payment arrangement exercises | (61) | (4) |
| Share-based payment arrangement compensation expense | 101 | 87 |
| Minority interest in earnings of affiliate, net of distributions | 356 | 69 |
| Changes in other current operating items | 1,155 | 312 |
| Net cash provided by operating activities | 14,739 | 16,838 |
| CASH FLOWS USED FOR INVESTING ACTIVITIES: | | |
| Revenue equipment additions | (8,729) | (36,964) |
| Proceeds from revenue equipment dispositions | 7,763 | 8,801 |
| Buildings and land, office equipment and other additions | (437) | (246) |
| Proceeds from buildings and land, office equipment and other dispositions | 2 | 2 |
| Net change in other assets | 504 | 507 |
| Sales of marketable securities | 30 | |
| Net cash used for investing activities | (867) | (27,900) |
| CASH FLOWS (USED FOR) PROVIDED BY FINANCING ACTIVITIES: | | |
| Borrowings under credit facility and long-term debt | 37,209 | 42,558 |
| Repayment of borrowings under credit facility and long-term debt | (51,466) | (31,171) |
| Repurchase and retirement of common stock | (810) | |
| Issuance of common stock from share-based payment arrangement exercises | 82 | 65 |
| Excess tax benefits from share-based payment arrangement exercises | 61 | 4 |
| Change in net checks issued in excess of cash balances | | (454) |
| Net cash (used for) provided by financing activities | (14,924) | 11,002 |
| NET CHANGE IN CASH | (1,052) | (60) |
| CASH: | | |
| Beginning of period | 3,618 | 2,988 |
| End of period | \$ 2,566 | \$ 2,928 |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for: | | |
| Interest | \$ 544 | \$ 1,032 |
| Income taxes | \$ 2,669 | \$ 72 |
| Non-cash investing activities: | | |
| Change in revenue equipment not yet paid for | \$ (2,412) | \$ (11,618) |

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 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 months ended March 31, 2008, there was no significant activity with our share-based payment arrangements. Total share-based compensation expense recorded in the first quarter of 2008 was \$101,000 (\$68,000 net of income tax benefit) and in the first quarter of 2007 was \$87,000 (\$63,000 net of income tax benefit). 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 March 31, | |
|--|---------------------------------|----------|
| | 2008 | 2007 |
| Numerator: | | |
| Net income | \$ 2,653 | \$ 4,594 |

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| | | | |
|---|--------|------|---------|
| Denominator: | | | |
| Basic earnings per common share - weighted-average shares | 21,757 | | 21,766 |
| Effect of dilutive stock options | 146 | | 185 |
| Diluted earnings per common share - weighted-average shares and assumed conversions | 21,903 | | 21,951 |
| | | | |
| Basic earnings per common share | \$ | 0.12 | \$ 0.21 |
| Diluted earnings per common share | \$ | 0.12 | \$ 0.21 |

Options totaling 256,000 and 231,000 shares were outstanding but were not included in the calculation of diluted earnings per share for the three-month periods ended March 31, 2008 and March 31, 2007, respectively, 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 256,000 and 231,000 shares above each include 78,000 shares 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 42.9% for the first quarter of 2008 from 37.8% for the first quarter 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 \$83,000 as of March 31, 2008 and \$69,000 as of December 31, 2007. The \$14,000 increase in the amount reserved in the first quarter of 2008 relates to current period tax positions. If recognized, \$54,000 of the unrecognized tax benefits as of March 31, 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 March 31, 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 2004 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. This program is intended to be implemented through purchases made in either 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. We made no purchases in 2007. In the first quarter of 2008 we repurchased and retired 67,500 shares of our common stock for \$810,000. 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.

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

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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 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 March 31, | |
|--|---------------------------------|------------|
| | 2008 | 2007 |
| Operating revenue: | | |
| Truckload revenue, net of fuel surcharge revenue | \$ 94,631 | \$ 101,277 |
| Truckload fuel surcharge revenue | 26,498 | 16,870 |
| Total Truckload revenue | 121,129 | 118,147 |
| Logistics revenue, net of intermodal fuel surcharge revenue(1) | | |
| Intermodal fuel surcharge revenue | 1,500 | 557 |
| Total Logistics revenue | 22,245 | 13,269 |
| Total operating revenue | \$ 143,374 | \$ 131,416 |
| Operating income: | | |
| Truckload | \$ 3,727 | \$ 7,347 |
| Logistics | 1,755 | 1,043 |
| Total operating income | \$ 5,482 | \$ 8,390 |
| Operating ratio(2): | | |
| Truckload | 96.9% | 93.8% |
| Logistics | 92.1 | 92.1 |
| Consolidated operating ratio | 96.2% | 93.6% |

(1) Logistics revenue is net of \$4.3 million and \$3.5 million of inter-segment revenue in the first quarter of 2008 and the first quarter of 2007, 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.

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 1, 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. These factors relate, among other things, to the United States economy, inventory levels, the level of truck capacity in the temperature-sensitive market and specific customer demand. 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. These factors relate, among other things, to the United States economy, inventory levels, the level of truck and rail capacity in the transportation market and specific customer demand.

In the first quarter of 2008, we increased our operating revenue by \$12.0 million, or 9.1%. Our operating revenue, net of fuel surcharges, increased \$1.4 million, or 1.2%, compared with the first quarter of 2007. Fuel surcharges increased \$10.6 million, or 60.7%, in the first quarter of 2008 due to the significant increase in the average cost of fuel from the first quarter of 2007. Truckload segment revenue, net of fuel surcharges, decreased 6.6% due to an 8.3% decrease in our weighted average number of tractors, partially offset by a slight increase in tractor utilization. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.7% in the first quarter of 2008 due to increased average miles per tractor. Average truckload revenue, net of fuel surcharges, was \$1.479 per total mile for both the first quarter of 2008 and 2007. 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 213 tractors less in the first quarter of 2008 than in the 2007 quarter. However, we increased our fleet slightly from the end of 2007 to March 31, 2008. The slight improvement in tractor productivity was more than offset by an increase in our overall cost structure, which resulted in decreased profitability from the first quarter of 2007. Due to the difficult freight environment, we were not able to increase freight rates to cover higher costs. The 1.2% 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 MWL. Logistics revenue, which represented 15.5% of our operating revenue in the first quarter of 2008, increased \$9.0 million, or 67.6%, compared with the first quarter 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 \$3.38 per gallon in the first quarter of 2008 from \$2.43 per gallon in the 2007 quarter. 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. In order to control increases in insurance premiums, we have increased our self-insured retention levels periodically during the last several years. We are responsible for the first \$1.0 million on each auto liability claim and up to \$1.0 million in the aggregate for all auto liability claims between \$1.0 million and \$2.0 million. We are also responsible for the first \$750,000 on each workers compensation claim. 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 96.2% in the first quarter of 2008 compared with 93.6% in the first quarter of 2007. Our earnings per diluted share decreased to \$0.12 in the first quarter of 2008 from \$0.21 in the first quarter of 2007.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At March 31, 2008, we had approximately \$30.4 million of long-term debt, including current maturities, and \$239.0 million in stockholders equity. In the first quarter of 2008, we spent \$966,000 to purchase new revenue equipment, net of proceeds from dispositions, and to decrease our accounts payable and accrued liabilities relating to revenue equipment. 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, which would be significantly below the level of net capital expenditures during the last several years due to nearly 169 tractors paid-for but not placed in service as of March 31, 2008. Our projected net capital expenditures for the remainder of 2008 has increased since our year-end projection primarily due to new tractor and trailer purchases to update our fleet. Assuming net capital expenditures in that amount and operating margins similar to the margins in 2007, we expect to generate cash flows to retire a substantial amount of our debt in 2008 or provide flexibility for other purposes.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes discussions of 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 this report 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.

Results of Operations

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

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2008 | 2007 |
| Truckload Segment: | | |
| Average truckload revenue, net of fuel surcharges, per total mile | \$ 1,479 | \$ 1,479 |
| Average miles per tractor(1) | 27,082 | 26,601 |
| Average truckload revenue, net of fuel surcharges, per tractor per week(1) | \$ 3,081 | \$ 3,059 |
| Average tractors (1) | 2,362 | 2,575 |
| Total miles company-employed drivers (in thousands) | 54,310 | 57,168 |
| Total miles independent contractors (in thousands) | 9,671 | 11,329 |
| Logistics Segment: | | |
| Brokerage: | | |
| Revenue (in thousands) | \$ 15,224 | \$ 9,049 |
| Loads | 7,613 | 4,748 |
| Intermodal: | | |
| Revenue (in thousands) | \$ 7,021 | \$ 4,220 |
| Loads | 2,153 | 1,386 |
| Average tractors | 40 | 24 |

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 295 and 367 tractors as of March 31, 2008, and 2007, respectively.

Comparison of Three Months Ended March 31, 2008 to Three Months Ended March 31, 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) | Three Months Ended March 31, | | Dollar Change Three Months Ended March 31, 2008 vs. 2007 | | Percentage Change Three Months Ended March 31, 2008 vs. 2007 |
|--|------------------------------|------------|--|--|--|
| | 2008 | 2007 | | | |
| Operating revenue: | | | | | |
| Truckload revenue, net of fuel surcharge revenue | \$ 94,631 | \$ 101,277 | \$ (6,646) | | (6.6)% |
| Truckload fuel surcharge revenue | 26,498 | 16,870 | 9,628 | | 57.1 |
| Total Truckload revenue | 121,129 | 118,147 | 2,982 | | 2.5 |
| Logistics revenue, net of intermodal fuel surcharge revenue(1) | 20,745 | 12,712 | 8,033 | | 63.2 |
| Intermodal fuel surcharge revenue | 1,500 | 557 | 943 | | 169.3 |
| Total Logistics revenue | 22,245 | 13,269 | 8,976 | | 67.6 |
| Total operating revenue | \$ 143,374 | \$ 131,416 | \$ 11,958 | | 9.1% |
| Operating income: | | | | | |
| Truckload | \$ 3,727 | \$ 7,347 | \$ (3,620) | | (49.3)% |
| Logistics | 1,755 | 1,043 | 712 | | 68.3 |
| Total operating income | \$ 5,482 | \$ 8,390 | \$ (2,908) | | (34.7)% |
| Operating ratio(2): | | | | | |
| Truckload | 96.9% | 93.8% | | | (3.3)% |
| Logistics | 92.1 | 92.1 | | | |
| Consolidated operating ratio | 96.2% | 93.6% | | | (2.8)% |

(1) Logistics revenue is net of \$4.3 million and \$3.5 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 \$12.0 million, or 9.1%, to \$143.4 million in the 2008 period from \$131.4 million in the 2007 period. Our operating revenue, net of fuel surcharges, increased \$1.4 million, or 1.2%, to \$115.4 million in the 2008 period from \$114.0 million in the 2007 period. Fuel surcharges increased \$10.6 million, or 60.7%, in the 2008 period due to the significant increase in the average cost of fuel from the 2007 period.

Truckload segment revenue increased \$3.0 million, or 2.5%, to \$121.1 million in the 2008 period from \$118.1 million in the 2007 period. Truckload segment revenue, net of fuel surcharges, decreased 6.6% due to an 8.3% decrease in our weighted average number of tractors, partially offset by a slight increase in tractor utilization. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.7% in the 2008 period from the 2007 period due to increased average miles per tractor. Average truckload revenue, net of fuel surcharges, was \$1.479 per total mile for both periods. 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 213 tractors less in the 2008 period than in the 2007 period. However, we increased our fleet slightly from the end of 2007 to March 31, 2008. The slight 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. Due to the difficult freight environment, we were not able to increase freight rates to cover higher costs.

Logistics segment revenue increased \$9.0 million, or 67.6%, to \$22.2 million in the 2008 period from \$13.3 million in the 2007 period. Logistics segment revenue, net of intermodal fuel surcharges, increased 63.2%. 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 consistent with 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:

| | Dollar Change Three Months Ended March 31, 2008 vs. 2007 | Percentage Change Three Months Ended March 31, 2008 vs. 2007 | Percentage of Operating Revenue Three Months Ended March 31, 2008 | 2007 |
|--|---|---|--|--------|
| (Dollars in thousands) | | | | |
| Operating revenue | \$ 11,958 | 9.1% | 100.0% | 100.0% |
| Operating expenses (income): | | | | |
| Salaries, wages and benefits | (1,731) | (4.5) | 25.6 | 29.2 |
| Purchased transportation | 6,184 | 28.3 | 19.5 | 16.6 |
| Fuel and fuel taxes | 9,117 | 27.8 | 29.2 | 25.0 |
| Supplies and maintenance | 382 | 4.3 | 6.5 | 6.8 |
| Depreciation | 239 | 2.0 | 8.3 | 8.9 |
| Operating taxes and licenses | 13 | 0.8 | 1.2 | 1.3 |
| Insurance and claims | 95 | 1.7 | 3.9 | 4.2 |
| Communications and utilities | 21 | 2.2 | 0.7 | 0.7 |
| Gain on disposition of revenue equipment | 121 | 10.3 | (0.7) | (0.9) |
| Other | 425 | 17.9 | 2.0 | 1.8 |
| Total operating expenses | 14,866 | 12.1 | 96.2 | 93.6 |
| Operating income | (2,908) | (34.7) | 3.8 | 6.4 |
| Other expenses (income): | | | | |
| Interest expense | (545) | (50.5) | 0.4 | 0.8 |
| Interest income and other | 142 | 64.8 | (0.1) | (0.2) |
| Minority interest | 230 | 153.3 | 0.3 | 0.1 |
| | (173) | (17.1) | 0.6 | 0.8 |
| Income before income taxes | (2,735) | (37.1) | 3.2 | 5.6 |
| Provision for income taxes | (794) | (28.5) | 1.4 | 2.1 |
| Net income | \$ (1,941) | (42.3)% | 1.9% | 3.5% |

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 decrease in salaries, wages and benefits resulted primarily from a 5.0% decrease in the total miles driven by company drivers and the adoption of a per diem expense reimbursement program for our drivers, which was partially offset by a \$309,000 increase in our self-insured medical claims, which increased our employees' health insurance expense.

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 \$6.2 million in total, or 28.3%, in the 2008 period from the 2007 period. Payments to carriers for transportation services we arranged in our brokerage and intermodal operations increased \$6.9 million to \$16.7 million in the 2008 period from \$9.8 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 \$704,000 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.

Fuel and fuel taxes, which we refer to as fuel expense, net of fuel surcharge revenue and surcharges passed through to independent contractors, decreased \$538,000, or 3.1%, to \$17.1 million in the 2008 period from \$17.6 million in the 2007 period. The decrease was primarily due to a 5.0% 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 80% of our company-owned tractors as of March 31, 2008, and we expect to have auxiliary power units installed in approximately 90% of our company-owned fleet by early in the third quarter of 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 \$3.38 per gallon from \$2.43 per gallon in the 2007 period. Net fuel expense represented 17.1% of truckload and intermodal revenue, net of fuel surcharges, in the 2008 period, compared with 16.8% 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. We expect our fuel expense to increase in the future because we believe that government-mandated emissions standards that took effect in 2007 will result in further declines in engine efficiency.

Other operating expenses increased \$425,000, or 17.9%, in the 2008 period from the 2007 period primarily due to a decrease in our allowance for doubtful accounts of \$524,000 in the 2007 period.

As a result of the foregoing factors, our operating expenses as a percentage of operating revenue, or operating ratio, was 96.2% in the 2008 period compared with 93.6% 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 \$545,000, or 50.5%, 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 42.9% in the 2008 period from 37.8% in the 2007 period, primarily because of the nondeductible effect of a per diem pay structure for our drivers adopted in the 2008 period.

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As a result of the factors described above, net income decreased to \$2.7 million in the 2008 period from \$4.6 million in the 2007 period. Net earnings decreased to \$0.12 per diluted share in the 2008 period from \$0.21 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) provided by financing activities for the periods indicated.

| (In thousands) | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2008 | 2007 |
| Net cash flows provided by operating activities | \$ 14,739 | \$ 16,838 |
| Net cash flows used for investing activities | (867) | (27,900) |
| Net cash flows (used for) provided by financing activities | (14,924) | 11,002 |

In December 2007, our Board of Directors approved a share repurchase program to repurchase up to one million shares of our common stock. This program is intended to be implemented through purchases made in either 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. We made no purchases in 2007. In the first quarter of 2008 we repurchased and retired 67,500 shares of our common stock for \$810,000. The repurchase program does not have an expiration date.

In the first quarter of 2008, we spent \$966,000 to purchase new revenue equipment, net of proceeds from dispositions, and to decrease our accounts payable and accrued liabilities relating to revenue equipment. These expenditures were funded with cash flows from operations. 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 estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$20 million for the remainder of 2008, which would be significantly below the level of capital expenditures during the last several years due to nearly 169 tractors paid-for but not placed in service as of March 31, 2008. Our projected net capital expenditures for the remainder of 2008 has increased since our year-end projection primarily due to new tractor and trailer purchases to update our fleet. Assuming net capital expenditures in that amount and operating margins similar to the margins in 2007, we expect to generate cash flows to retire a substantial amount of our debt in 2008 or provide flexibility for other purposes.

We have outstanding Series A Senior Unsecured Notes with an aggregate principal balance of \$3.6 million at March 31, 2008. These notes mature in October 2008, require annual principal payments of \$3.57 million and bear interest at a fixed annual rate of 6.78%. We also have outstanding Series B Senior Unsecured Notes with an aggregate principal balance of \$4.3 million at March 31, 2008. These notes mature in April 2010, require annual principal payments of \$1.43 million and bear interest at a fixed annual rate of 8.57%.

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 March 31, 2008, the credit facility had an outstanding principal balance of \$22.5 million, outstanding standby letters of credit of \$5.2 million and remaining borrowing availability of \$47.2 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 3.70% per annum at March 31, 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 March 31, 2008.

We had \$2.2 million in direct financing receivables from independent contractors under our tractor purchase program as of March 31, 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 March 31, 2008.

| (In thousands) | Payments Due by Period | | | | |
|---|-------------------------|---------------------|-----------|------------|-----------|
| | Remainder of 2008 | 2009 and 2010 | 2011 | Thereafter | Total |
| Long-term debt obligations | \$ 5,000 | \$ 2,857 | \$ 22,529 | \$ | \$ 30,386 |
| Purchase obligations for revenue equipment | 10,496 | | | | 10,496 |
| Operating lease obligations | 166 | 284 | 71 | | 521 |
| Total | \$ 15,662 | \$ 3,141 | \$ 22,600 | \$ | \$ 41,403 |

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 \$372,000 in the first quarter of 2008 and \$267,000 in the first quarter of 2007 for fuel and tire services. In addition, we paid \$606,000 in the first quarter of 2008 and \$311,000 in the first quarter 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.

Off-balance Sheet Arrangements

Other than standby letters of credit maintained in connection with our self-insurance programs in the amount of \$5.2 million and operating leases summarized above in our summary of contractual obligations, we did not have any other material off-balance sheet arrangements at March 31, 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 long-term 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 \$313.3 million as of March 31, 2008 and \$325.2 million as of December 31, 2007. Our depreciation expense was \$12.0 million for the first quarter of 2008 and \$11.7 million for the first quarter 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

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results could differ from these estimates. A 5% decrease in estimated salvage values would have decreased our net property and equipment as of March 31, 2008 by approximately \$7.6 million, or 2.4%.

In the first quarter of 2008, we replaced most of our company-owned tractors within approximately 3.5 years and our trailers within approximately seven 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, for tractors, 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.

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 up to \$1.0 million in the aggregate for all auto liability claims between \$1.0 million and \$2.0 million. We are also responsible for the first \$750,000 on each workers compensation claim. We have \$5.2 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 \$17.6 million as of March 31, 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 March 31, 2008 would have needed to increase by approximately \$2.7 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 \$1.6 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.

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 March 31, 2008 under our Series A Senior Notes bears interest at a fixed annual rate of 6.78%. The \$4.3 million outstanding at March 31, 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 \$79,000 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 3.70% per annum at March 31, 2008. As of March 31, 2008, we had borrowed \$22.5 million under the credit facility. Based on such outstanding amount, a one percentage point increase in market interest rates would cost us \$225,000 in additional gross interest cost on an annual basis.

Item 4. Controls and Procedures.

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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 President and Chief Executive Officer and our Chief Financial Officer. Based upon that evaluation, our President and Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 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.**

We do not believe there are any material changes from the risk factors previously disclosed in Item 1A. to Part 1 of our Form 10-K for the year ended December 31, 2007.

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

The following table shows our stock repurchase activity during the first quarter of 2008:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of a Publicly Announced Program | Maximum Number of Shares that may yet be Purchased Under the Program |
|--------------------------------------|--|---------------------------------|---|---|
| January 1, 2008 - January 31, 2008 | 67,500 | \$ 12.00 | 67,500 | 932,500 |
| February 1, 2008 - February 29, 2008 | | | | 932,500 |
| March 1, 2008 - March 31, 2008 | | | | 932,500 |
| Total | 67,500 | \$ 12.00 | 67,500 | 932,500 |

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. This program is intended to be implemented through purchases made in either 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.

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 President and 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, by James J. Hinnendael, the Registrant's Chief Financial Officer (Principal Financial Officer) | Filed with this Report. |
| 32.1 | | Filed with this Report. |

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

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: May 12, 2008

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

Dated: May 12, 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 March 31, 2008

| 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 President and 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, by James J. Hinnendael, the Registrant's Chief Financial Officer (Principal Financial Officer) | Filed with this Report. |
| 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. |