

MARTEN TRANSPORT LTD  
Form 10-K  
March 13, 2009  
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 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**  
(Address of principal executive offices)

**54755**  
(Zip Code)

**(715) 926-4216**  
(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

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COMMON STOCK, PAR VALUE \$.01 PER SHARE

THE NASDAQ STOCK MARKET LLC  
(NASDAQ GLOBAL SELECT MARKET)

Securities registered pursuant to Section 12(g) of the Act:

**NONE**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES  NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  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

As of June 30, 2008 (the last business day of the Registrant's most recently completed second fiscal quarter), the aggregate market value of the Common Stock of the Registrant (based upon the closing price of the Common Stock at that date as reported by the NASDAQ Global Select Market), excluding outstanding shares beneficially owned by directors and executive officers, was \$265,403,000.

As of February 27, 2009, 21,836,571 shares of Common Stock of the Registrant were outstanding.

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to in this Report) from the Registrant's Proxy Statement for the annual meeting to be held May 5, 2009, or 2009 Proxy Statement.



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**FORWARD-LOOKING INFORMATION**

*This Annual Report on Form 10-K contains certain forward-looking statements. Such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements not of historical fact may be considered forward-looking statements. Written words such as may, expect, believe, anticipate, plan, goal, or estimate, or other variations of these or similar words, identify such statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially from those expressed in such forward-looking statements. Important factors known to us that could cause such material differences are identified in this Annual Report on Form 10-K under the heading Risk Factors beginning on page 6. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future filings with the Securities and Exchange Commission.*

*References in this Annual Report to we, us, our, or the Company or similar terms refer to Marten Transport, Ltd. and its consolidated subsidiaries unless the context otherwise requires.*

**PART I**

**ITEM 1. BUSINESS**

**Overview**

We are one of the leading temperature-sensitive truckload carriers in the United States. We specialize in transporting and distributing food and other consumer packaged goods that require a temperature-controlled or insulated environment. In 2008, we generated \$607.1 million in operating revenue, which consists of revenue from both truckload and logistics operations. Approximately 85% of our truckload revenue resulted from hauling temperature-sensitive products and 15% from hauling dry freight. We operate throughout the United States and in parts of Canada and Mexico, with substantially all of our revenue generated from within the United States. Our primary long-haul traffic lanes are between the Midwest and the West Coast, Southwest, Southeast, and the East Coast, as well as from California to the Pacific Northwest. We provide regional truckload carrier services in the Southeast, West Coast, Midwest and South Central regions. In 2008, our average length of haul was 853 miles.

Our growth strategy is to expand our business internally by offering shippers a high level of service and significant freight capacity. We market primarily to large shippers that offer consistent volumes of freight in the lanes we prefer and are willing to compensate us for a high level of service. With our fleet of 2,376 company and independent contractor tractors, we are able to offer service levels that include up to 99% on-time performance and delivery within the narrow time windows often required when shipping perishable commodities.

We have two reportable segments Truckload and Logistics. Financial information regarding these segments can be found in the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K. The primary source of our operating revenue is truckload revenue, which we generate by transporting long-haul and regional freight for our customers and report within our Truckload segment. Generally, we are paid

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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 MW Logistics, LLC, or 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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Organized under Wisconsin law in 1970, we are a successor to a sole proprietorship Roger R. Marten founded in 1946. In 1988, we reincorporated under Delaware law. Our executive offices are located at 129 Marten Street, Mondovi, Wisconsin 54755. Our telephone number is (715) 926-4216.

We maintain a website at [www.marten.com](http://www.marten.com). We are not including the information contained on our website as a part of, nor incorporating it by reference into, this Annual Report on Form 10-K. We post on our website, free of charge, documents that we file with or furnish to the Securities and Exchange Commission, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. We also provide a link on our website to Forms 3, 4 and 5 that our officers, directors and 10% stockholders file with the Securities and Exchange Commission pursuant to Section 16(a) of the Securities Exchange Act of 1934.

**Marketing and Operations**

We approach our business as an integrated effort of marketing and operations. Our emphasis in marketing is directed to the temperature-sensitive truckload market, which is generally service-sensitive, as opposed to being solely price competitive. We target large food and consumer packaged goods companies whose products require temperature-sensitive services and who ship multiple truckloads per week. By emphasizing high-quality service, we seek to become a core carrier for our customers. In 2008, our two largest customers were General Mills and Kraft.

Our marketing efforts are conducted by a staff of approximately 125 sales, customer service and support personnel under the supervision of our senior management team. Marketing personnel travel within their regions to solicit new truckload and logistics customers and maintain contact with existing customers. Customer service managers regularly contact customers to solicit additional business on a load-by-load basis.

Our operations and sales personnel strive to improve our asset productivity by seeking freight that allows for rapid turnaround times, minimizes non-revenue miles between loads, and carries a favorable rate structure. Once we have established a customer relationship, customer service managers work closely with our fleet managers to match customer needs with our capacity and the location of revenue equipment. Fleet managers use our optimization system to assign loads to satisfy customer and operational requirements, as well as to meet the routing needs of our drivers. We attempt to route most of our trucks over selected operating lanes, which we believe assists us in meeting customer requirements, balancing traffic, reducing non-revenue miles, and improving the reliability of delivery schedules.

We employ technology in our operations when we believe that it will allow us to operate more efficiently and the investment is cost-justified. Examples of the technologies we employ include:

- Satellite-based tracking and messaging that allows us to communicate with our drivers, obtain load position updates, provide our customers with freight visibility, and download engine operating information such as fuel mileage and idling time.

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- Freight optimization software that assists us in selecting loads that match our overall criteria, including profitability, repositioning, identifying capacity for expedited loads, driver availability and home time, and other factors.
- Electronic data interchange and internet communication with customers concerning freight tendering, invoices, shipment status, and other information.
- Fuel-routing software that optimizes the fuel stops for each trip to take advantage of volume discounts available in our fuel network.



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- Auxiliary power units installed on approximately 96% of our company-owned tractors as of December 31, 2008 that allow us to decrease fuel costs associated with idling our tractors.

We believe this integrated approach to our marketing and operations, coupled with our use of technology, has allowed us to provide our customers with a high level of service and support our revenue growth in an efficient manner. For example, we had a non-revenue mile percentage of 8.1% during 2008, and a tractor to non-driver employee ratio of 4.5-to-1 as of December 31, 2008. Both of these statistics point to the efficiency of our operations and we believe compare favorably to other temperature-sensitive and dry van trucking companies.

**Major Customers**

An important part of our growth strategy is to increase our business with large customers. Accordingly, a significant amount of our business is concentrated with a relatively small number of customers. In 2008, our top 30 customers accounted for approximately 77% of our revenue, and our top ten customers accounted for 55% of our revenue. Nine of our top ten customers have been significant customers of ours for over ten years. We believe we are the largest or second largest temperature-sensitive carrier for eight of our top ten customers. General Mills accounted for 19% and Kraft accounted for 10% of our revenue in 2008. We believe our relationships with these key customers are sound, but we are dependent upon them and the loss of some or all of their business could have a materially adverse effect on our results.

**Drivers and Other Personnel**

We believe that maintaining a safe and productive professional driver group is essential to providing excellent customer service and achieving profitability. Approximately 256 of our drivers as of December 31, 2008 have driven more than one million miles for us without a preventable accident, while approximately 90 of our drivers have driven more than two million miles and three have driven more than three million miles for us without a preventable accident.

We select drivers, including independent contractors, using our specific guidelines for safety records, driving experience, and personal evaluations. We maintain stringent screening, training, and testing procedures for our drivers to reduce the potential for accidents and the corresponding costs of insurance and claims. We train new drivers at our Wisconsin, California, Georgia, Oregon, Indiana and Texas terminals in all phases of our policies and operations, as well as in safety techniques and fuel-efficient operation of the equipment. All new drivers also must pass DOT required tests prior to assignment to a vehicle.

We primarily pay company-employed drivers a fixed rate per mile. The rate increases based on length of service. Drivers also are eligible for bonuses based upon safe, efficient driving. We pay independent contractors on a fixed rate per mile. Independent contractors pay for their own fuel, insurance, maintenance, and repairs.

Competition in the trucking industry for qualified drivers is normally intense. Our operations have been impacted, and from time-to-time we have experienced under-utilization and increased expense, as a result of a shortage of qualified drivers. We place a high priority on the recruitment and retention of an adequate supply of qualified drivers.

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As of December 31, 2008, we had approximately 2,775 employees. This total consists of approximately 2,248 drivers, 171 mechanics and maintenance personnel, and 356 support personnel, which includes management and administration. As of that date, we also contracted with 188 independent contractors. None of our employees are represented by a collective bargaining unit. We consider relations with our employees to be good.

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**Revenue Equipment**

Our revenue equipment programs are an important part of our overall goal of profitable growth. We evaluate our equipment decisions based on factors such as initial cost, useful life, warranty terms, expected maintenance costs, fuel economy, driver comfort, customer needs, manufacturer support, and resale value. We generally operate newer, well-maintained equipment with uniform specifications to minimize our spare parts inventory, streamline our maintenance program, and simplify driver training.

As of December 31, 2008, we operated a fleet of 2,376 tractors, including 2,188 company-owned tractors and 188 tractors supplied by independent contractors. The average age of our company-owned tractor fleet at December 31, 2008 was approximately 2.2 years. In 2008, we replaced most of our company-owned tractors within approximately 3.5 years after purchase.

Freightliner and Peterbilt manufacture most of our company-owned tractors. Maintaining a relatively new and standardized fleet allows us to operate most miles while the tractors are under warranty to minimize repair and maintenance costs. It also enhances our ability to attract drivers, increases fuel economy, and improves customer acceptance by minimizing service interruptions caused by breakdowns. We adhere to a comprehensive maintenance program during the life of our equipment. We perform most routine servicing and repairs at our terminal facilities to reduce costly on-road repairs and out-of-route trips. We do not have any agreements with tractor manufacturers pursuant to which they agree to repurchase the tractors or guarantee a residual value, and we therefore could incur losses upon disposition if resale values of used tractors decline.

We historically have contracted with independent contractors to provide and operate a portion of our tractor fleet. Independent contractors own their own tractors and are responsible for all associated expenses, including financing costs, fuel, maintenance, insurance, and taxes. We believe that a combined fleet complements our recruiting efforts. The percentage of our fleet provided by independent contractors was 8% as of December 31, 2008.

As of December 31, 2008, we operated a fleet of 4,218 trailers. Most of our trailers are equipped with Thermo-King refrigeration units, air ride suspensions, and anti-lock brakes. Most of our single van trailers are refrigerated, 53 feet long, and 102 inches wide. The average age of our trailer fleet at December 31, 2008 was approximately 3.1 years. In 2008, we replaced most of our company-owned trailers within approximately 5.5 years after purchase.

**Insurance and Claims**

We self-insure for a portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as employees' health insurance. We are responsible for our proportionate share of the legal expenses relating to such claims as well. We reserve currently for anticipated losses and expenses. We periodically evaluate and adjust our insurance and claims reserves to reflect our experience. 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 also 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. We maintain insurance coverage for per-incident and total losses in excess of the amounts for which we self-insure up to specified policy limits with licensed insurance carriers. Insurance carriers have raised premiums for many businesses,

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including trucking companies. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention when our policies are renewed. We believe that our policy of self-insuring up to set limits, together with our safety and loss prevention programs, are effective means of managing insurance costs.

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**Fuel**

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. Fuel prices fluctuated dramatically and quickly at various times during the last three years and they remain high based on historical standards. We actively manage our fuel costs by purchasing fuel in bulk in Mondovi and at our other maintenance facilities throughout the country and have volume purchasing arrangements with national fuel centers that allow our drivers to purchase fuel at a discount while in transit. During 2008, over 99% of our fuel purchases were made at these designated locations. To help further reduce fuel consumption, we began installing auxiliary power units in our tractors during 2007. These units reduce fuel consumption by providing quiet climate control and electrical power for our drivers without idling the tractor engine. These units were installed in approximately 96% of our company-owned fleet as of December 31, 2008.

We further manage our exposure to changes in fuel prices through fuel surcharge programs with our customers and other measures that we have implemented. We have historically been able to pass through most long-term increases in fuel prices and related taxes to customers in the form of fuel surcharges. These fuel surcharges, which adjust with the cost of fuel, enable us to recover a substantial portion of the higher cost of fuel as prices increase, except for non-revenue miles, out-of-route miles or fuel used while the tractor is idling. As of December 31, 2008, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

**Competition**

We operate primarily in the temperature-sensitive segment of the truckload market. This market is highly competitive and fragmented. We compete with many other truckload carriers that provide temperature-sensitive service of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads, and other transportation companies, many of which have more equipment, a wider range of services, and greater capital resources than we do or have other competitive advantages. In particular, several of the largest truckload carriers that offer primarily dry-van service also offer temperature-sensitive service, and these carriers could attempt to increase their business in the temperature-sensitive market. We also compete with other motor carriers for the services of drivers, independent contractors, and management employees. We believe that the principal competitive factors in our business are service, freight rates, capacity, and financial stability. As one of the largest and best-capitalized carriers focused on the temperature-sensitive segment, we believe we are well positioned to compete in that segment.

**Regulation**

The United States Department of Transportation, or DOT, and various state and local agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety and insurance requirements. Our company drivers and independent contractors also must comply with the safety and fitness regulations promulgated by the DOT, including those relating to drug and alcohol testing and hours-of-service. Revised rules that limit driver hours-of-service were adopted effective January 4, 2004, and then modified effective October 1, 2005. On July 24, 2007, a federal appeals court vacated portions of the October 2005 Rules; however, interim rules issued in December 2007 retained the vacated portions in effect. On November 19, 2008, final rules effective January 19, 2009 were issued which left the interim rules unchanged.

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We believe that we are well equipped to minimize the economic impact of the current hours-of-service rules on our business. We have negotiated delay time charges with the majority of our customers. Prior to the effectiveness of the current rules, we also initiated discussions with many of our customers regarding steps that they can take to assist us in managing our drivers' non-driving activities, such as loading, unloading, or waiting, and we plan to continue to actively communicate with our customers regarding these matters in the future. In situations where shippers are unable or unwilling to take these steps, we assess detention and other

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charges to offset losses in productivity resulting from the current hours-of-service regulations. The regulations did not have a significant impact on our operations or financial results in 2006 through 2008.

We are also subject to various environmental laws and regulations dealing with the handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, engine idling, and discharge and retention of storm water. These regulations did not have a significant impact on our operations or financial results in 2006 through 2008.

**ITEM 1A. RISK FACTORS**

The following factors are important and should be considered carefully in connection with any evaluation of our business, financial condition, results of operations, prospects, or an investment in our common stock. The risks and uncertainties described below are those that we currently believe may materially affect our company or our financial results. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations or affect our financial results.

*Our business is subject to general economic and business factors that are largely out of our control, any of which could have a materially adverse effect on our operating results.* Our business is dependent on a number of general economic and business factors that may have a materially adverse effect on our results of operations, many of which are beyond our control. These factors include excess capacity in the trucking industry, strikes or other work stoppages, and significant increases or fluctuations in interest rates, fuel taxes, and license and registration fees. We are affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries where we have a significant concentration of customers. Economic conditions may adversely affect our customers and their ability to pay for our services.

It is not possible to predict the effects of actual or threatened armed conflicts or terrorist attacks, efforts to combat terrorism, military action against any foreign state, heightened security requirements, or other related events and the subsequent effects on the economy or on consumer confidence in the United States, or the impact, if any, on our future results of operations.

*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. Although we think it is unlikely given our current cash position, we may need to incur indebtedness, which may include drawing on our Credit Facility, or issue debt securities in the future to fund working capital requirements, make investments, or for general corporate purposes. 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.

*We operate in a highly competitive and fragmented industry, and numerous competitive factors could impair our ability to maintain our current profitability.* We compete with many other truckload carriers that provide temperature-sensitive service of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads and other transportation companies, many of which have more equipment, a wider range of services and greater capital resources than we do or have other competitive advantages. In particular, several of the largest truckload carriers that offer primarily dry-van service also offer temperature-sensitive service, and these carriers could attempt to increase their business in the

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temperature-sensitive market. Many of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase freight rates or maintain significant growth in our business. In addition, many customers reduce the number of carriers they use by selecting so-called core



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carriers as approved service providers, or conduct bids from multiple carriers for their shipping needs, and in some instances we may not be selected as a core carrier or to provide service under such bids.

In addition, the trend toward consolidation in the trucking industry may create other large carriers with greater financial resources and other competitive advantages relating to their size. Competition from freight logistics and brokerage companies may negatively impact our customer relationships and freight rates. Furthermore, economies of scale that may be passed on to smaller carriers by procurement aggregation providers may improve such carriers' ability to compete with us.

*We derive a significant portion of our revenue from our major customers, the loss of one or more of which could have a materially adverse effect on our business.* A significant portion of our revenue is generated from our major customers. For 2008, our top 30 customers, based on revenue, accounted for approximately 77% of our revenue; our top ten customers accounted for approximately 55% of our revenue; our top five customers accounted for approximately 41% of our revenue; and our top two customers accounted for approximately 30% of our revenue. Generally, we enter into one-year contracts with our major customers, the majority of which do not contain any firm obligations to ship with us. We cannot assure you that, upon expiration of existing contracts, these customers will continue to use our services or that, if they do, they will continue at the same levels. Many of our customers periodically solicit bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in loss of business to our competitors. Some of our customers also operate their own private trucking fleets, and they may decide to transport more of their own freight. A reduction in or termination of our services by one or more of our major customers could have a materially adverse effect on our business and operating results.

*Increased prices, reduced productivity, and restricted availability of new revenue equipment could cause our financial condition, results of operations and cash flows to suffer.* We have experienced higher prices for new tractors over the past few years, primarily as a result of higher commodity prices, better pricing power among equipment manufacturers, and government regulations applicable to newly manufactured tractors and diesel engines. We expect to continue to pay increased prices for revenue equipment and incur additional expenses and related financing costs for the foreseeable future. Our business could be harmed if we are unable to continue to obtain an adequate supply of new tractors and trailers or if we have to pay increased prices for new revenue equipment.

The EPA adopted revised emissions control regulations, which require progressive reductions in exhaust emissions from diesel engines through 2010, for engines manufactured in October 2002, and thereafter. The revised regulations decrease the amount of emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. Compliance with these regulations has increased the cost of our new tractors, lowered fuel mileage and increased our operating expenses. Some manufacturers have significantly increased new equipment prices, in part to meet new engine design requirements imposed by the EPA. These adverse effects combined with the uncertainty as to the reliability of the vehicles equipped with the newly designed diesel engines and the residual values that will be realized from the disposition of these vehicles could increase our costs or otherwise adversely affect our business or operations.

*We have significant ongoing capital requirements that could harm our financial condition, results of operations and cash flows if we are unable to generate sufficient cash from our operations.* The truckload industry is capital intensive, and our policy of operating newer equipment requires us to expend significant amounts annually. If we elect to expand our fleet in future periods, our capital needs would increase. We expect to pay for projected capital expenditures with cash flows from operations and borrowings under our revolving credit facility. If we are unable to generate sufficient cash from operations and obtain financing on favorable terms in the future, we may have to limit our growth, enter into less favorable financing arrangements, or operate our revenue equipment for longer periods, any of which could have a materially adverse effect on our profitability.



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*Ongoing insurance and claims expenses could significantly affect our earnings.* Our future insurance and claims expense might exceed historical levels, which could reduce our earnings. We self-insure for a portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as employees' health insurance. We also are responsible for our legal expenses relating to such claims. We reserve currently for anticipated losses and expenses. We periodically evaluate and adjust our claims reserves to reflect our experience. However, ultimate results may differ from our estimates, which could result in losses over our reserved amounts.

We maintain insurance above the amounts for which we self-insure with licensed insurance carriers. Although we believe the aggregate insurance limits should be sufficient to cover reasonably expected claims, it is possible that one or more claims could exceed our aggregate coverage limits. Insurance carriers have raised premiums for many businesses, including trucking companies. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention when our policies are renewed. If these expenses increase, or if we experience a claim in excess of our coverage limits, or we experience a claim for which coverage is not provided, results of our operations and financial condition could be materially and adversely affected.

*Increases in compensation or difficulty in attracting drivers could affect our profitability and ability to grow.* In recent years the transportation industry has experienced substantial difficulty in attracting and retaining qualified drivers, including independent contractors. With increased competition for drivers, we could experience greater difficulty in attracting sufficient numbers of qualified drivers. In addition, due in part to current economic conditions, including the cost of fuel and insurance, the available pool of independent contractor drivers is smaller than it has been historically. Accordingly, we may face difficulty in attracting and retaining drivers for all of our current tractors and for those we may add. Additionally, we may face difficulty in increasing the number of our independent contractor drivers. In addition, our industry suffers from high turnover rates of drivers. Our turnover rate requires us to recruit a substantial number of drivers. Moreover, our turnover rate could increase. If we are unable to continue to attract drivers and contract with independent contractors, we could be required to continue adjusting our driver compensation package beyond the norm or let trucks sit idle. An increase in our expenses or in the number of tractors without drivers could materially and adversely affect our growth and profitability.

*Fluctuations in the price or availability of fuel may increase our cost of operation, which could materially and adversely affect our profitability.* We require large amounts of diesel fuel to operate our tractors and to power the temperature-control units on our trailers. Fuel is one of our largest operating expenses. Fuel prices tend to fluctuate, and prices and availability of all petroleum products are subject to political, economic and market factors that are beyond our control. We depend primarily on fuel surcharges, auxiliary power units for our tractors, volume purchasing arrangements with truck stop chains and bulk purchases of fuel at our terminals to control and recover our fuel expenses. There can be no assurance that we will be able to collect fuel surcharges, enter into volume purchase agreements, or execute successful hedges in the future. Additionally, we may encounter decreases in productivity that may offset or eliminate savings from auxiliary power units, or may incur unexpected maintenance or other costs associated with such units. The absence of meaningful fuel price protection through these measures, fluctuations in fuel prices, or a shortage of diesel fuel, could materially and adversely affect our results of operations.

*Seasonality and the impact of weather can affect our profitability.* 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. We can also suffer short-term impacts from weather-related events such as hurricanes, blizzards, ice-storms, and floods that could harm our results or make our results more volatile.

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*We operate in a highly regulated industry and increased costs of compliance with, or liability for violation of, existing or future regulations could have a materially adverse effect on our business.* The DOT and various state and local agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety and insurance requirements. Our company drivers and independent contractors also must comply with the safety and fitness regulations promulgated by the DOT, including those relating to drug and alcohol testing and hours-of-service. We also may become subject to new or more restrictive regulations relating to fuel emissions, drivers' hours-of-service, ergonomics, or other matters affecting safety or operating methods. Other agencies, such as the EPA and the Department of Homeland Security, or DHS, also regulate our equipment, operations, and drivers. Future laws and regulations may be more stringent and require changes in our operating practices, influence the demand for transportation services, or require us to incur significant additional costs. Higher costs incurred by us or by our suppliers who pass the costs onto us through higher prices could adversely affect our results of operations.

The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. Revised rules that limit driver hours-of-service were adopted effective January 4, 2004, and then modified effective October 1, 2005. On July 24, 2007, a federal appeals court vacated portions of these rules. Two of the key portions that were vacated include the expansion of the driving day from 10 hours to 11 hours, and the 34-hour restart, which allows drivers to reset their maximum allowable hours in a week. The court indicated that, in addition to other reasons, it vacated these two portions of the rules because FMCSA failed to provide adequate data supporting its decision to increase the driving day and provide for the 34-hour restart. Following a request by FMCSA for a 12-month extension of the vacated rules, the court, in an order filed on September 28, 2007, granted a 90-day stay of the mandate and directed that issuance of its ruling be withheld until December 27, 2007, to allow FMCSA time to prepare its response. On December 17, 2007, FMCSA submitted interim final rules, which became effective December 27, 2007. The interim rules retained the 11 hour driving day and the 34-hour restart, but provided greater statistical support and analysis regarding the increased driving time and the 34-hour restart. The FMCSA published final rules effective January 19, 2009 on November 19, 2008 which left the interim rules unchanged. As advocacy groups may continue to challenge the final rules, a court's decision to strike down the final rules could have varying effects, as reducing driving time to 10 hours daily may reduce productivity in some lanes. A court's decision to strike down the final rules could decrease productivity and cause some loss of efficiency, as drivers and shippers may need to be retrained, computer programming may require modifications, additional drivers may need to be employed or engaged, additional equipment may need to be acquired, and some shipping lanes may need to be reconfigured. We are also unable to predict the effect of any new rules that might be proposed, but any such proposed rules could increase costs in our industry or decrease productivity.

In the aftermath of the September 11, 2001 terrorist attacks, federal, state, and municipal authorities have implemented and continue to implement various security measures, including checkpoints and travel restrictions on large trucks. As a result, it is possible we may fail to meet the needs of our customers or may incur increased expenses to do so. These security measures could negatively impact our operating results.

Some states and municipalities have begun to restrict the locations and amount of time where diesel-powered tractors, such as ours, may idle, in order to reduce exhaust emissions. The State of California has recently enacted legislation which requires tractors weighing more than 10,000 pounds to use alternative sources, such as auxiliary power units, when powering their cabs at idle for more than five minutes. The State of California has also enacted legislation requiring compliance with exhaust emissions standards for refrigeration units on trailers. Compliance is being phased in by the state, beginning with 2001 and earlier models. Given our investment in auxiliary power units for our tractors and the average age of our trailer fleet, we do not expect these regulations will have a significant impact on our operations or financial results.

From time to time, various federal, state, or local taxes are increased, including taxes on fuels. We cannot predict whether, or in what form, any such increase applicable to us will be enacted, but such an increase could adversely affect our profitability.

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*Service instability in the railroad industry could increase our operating costs and reduce our ability to offer intermodal services, which could adversely affect our revenue, results of operations, and customer relationships.* In the future, our dependence on railroads will increase if we continue to expand our intermodal services. In most markets, rail service is limited to a few railroads or even a single railroad. Any reduction in service by the railroads with which we have, or in the future may have, relationships is likely to increase the cost of the rail-based services we provide and reduce the reliability, timeliness, and overall attractiveness of our rail-based services. Furthermore, railroads are relatively free to adjust shipping rates up or down as market conditions permit. Price increases could result in higher costs to our customers and reduce or eliminate our ability to offer intermodal services. In addition, we cannot assure you that we will be able to negotiate additional contracts with railroads to expand our capacity, add additional routes, or obtain multiple providers, which could limit our ability to provide this service.

*Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.* We are subject to various environmental laws and regulations dealing with the handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, engine idling, and discharge and retention of storm water. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination have occurred. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. Although we have instituted programs to monitor and control environmental risks and promote compliance with applicable environmental laws and regulations, if we are involved in a spill or other accident involving hazardous substances or if we are found to be in violation of applicable laws or regulations, we could be subject to liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business and operating results.

*Our management information systems may prove inadequate.* We depend upon our management information systems for many aspects of our business. Some of our key software has been developed internally by our programmers or by adapting purchased software to our needs and this software may not be easily modified or integrated with other software and systems. Our business will be materially and adversely affected if our management information systems are disrupted or if we are unable to improve, upgrade, integrate or expand our systems as we continue to execute our growth strategy, including our logistics services.

Table of Contents**ITEM 1B.** *UNRESOLVED STAFF COMMENTS*

None.

**ITEM 2.** *PROPERTIES*

Our executive offices and principal terminal are located on approximately seven acres in Mondovi, Wisconsin. This facility consists of 39,000 square feet of office space and 21,000 square feet of equipment repair and maintenance space. We added an additional facility in 2007 in Mondovi, Wisconsin which consists of 15,000 square feet of equipment repair and maintenance space located on approximately 11 acres. We operate facilities in or near the following cities at which we perform the following designated operating activities:

<b>Company Locations</b>	<b>Owned or Leased</b>	<b>Fueling and Maintenance</b>	<b>Driver Recruitment</b>	<b>Driver Training</b>	<b>Dispatch</b>	<b>Sales</b>
Mondovi, Wisconsin	Owned	X	X	X	X	X
Ontario, California	Owned	X		X		
Atlanta, Georgia	Owned	X		X	X	
Portland, Oregon	Owned	X		X	X	
Indianapolis, Indiana	Owned	X	X	X	X	
Irving, Texas	Leased	X		X	X	
Richmond, Virginia	Leased				X	
Laredo, Texas	Leased				X	

**ITEM 3.** *LEGAL PROCEEDINGS*

We are involved in litigation incidental to our operations. These lawsuits primarily involve claims for workers compensation, personal injury, or property damage incurred in the transportation of freight.

**ITEM 4.** *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2008.

**ITEM 4A.** *EXECUTIVE OFFICERS OF THE REGISTRANT*

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Our executive officers, with their ages and the offices held as of February 27, 2009, are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Randolph L. Marten	56	Chairman of the Board, Chief Executive Officer and Director
Timothy M. Kohl	61	President
Robert G. Smith	65	Chief Operating Officer
Timothy P. Nash	57	Executive Vice President of Sales and Marketing
James J. Hinnendael	45	Chief Financial Officer
John H. Turner	47	Vice President of Sales

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**Randolph L. Marten** has been a full-time employee of ours since 1974. Mr. Marten has been a Director since October 1980, our Chairman of the Board since August 1993 and our Chief Executive Officer since January 2005. Mr. Marten also served as our President from June 1986 until June 2008, our Chief Operating Officer from June 1986 until August 1998 and as a Vice President from October 1980 to June 1986.

**Timothy M. Kohl** has been our President since June 2008. Mr. Kohl joined the company in November 2007, and has over 20 years' experience in the transportation services industry. Mr. Kohl served as Knight Transportation Inc.'s President from 2004 to 2007 and as its Secretary from 2000 to 2007. Mr. Kohl served as a director on Knight's Board of Directors from 2001 to 2006, and he served as its Chief Financial Officer from 2000 to 2004. Mr. Kohl also served as Knight's Vice President of Human Resources from 1996 through 1999. From 1999 through 2000, Mr. Kohl served as Vice President of Knight's southeast region. Prior to his employment with Knight, Mr. Kohl was employed by Burlington Motor Carriers as Vice President of Human Resources. Prior to his employment with Burlington Motor Carriers, Mr. Kohl served as Vice President of Human Resources for J.B. Hunt.

**Robert G. Smith** has been our Chief Operating Officer since August 1998. Mr. Smith also served as our Vice President of Operations from June 1993 until May 1999 and as our Director of Operations from September 1989 to June 1993. Mr. Smith served as director of operations for Transport Corporation of America, an irregular-route truckload carrier, from 1985 to 1989.

**Timothy P. Nash** has been our Executive Vice President of Sales and Marketing since November 2000. Mr. Nash also served as our Vice President of Sales from November 1990 to November 2000 and as a Regional Sales Manager from July 1987 to November 1990. Mr. Nash served as a regional sales manager for Overland Express, Inc., a long-haul truckload carrier, from 1986 to 1987.

**James J. Hinnendael** has been our Chief Financial Officer since January 2006 and served as our Controller from January 1992 to December 2005. Mr. Hinnendael served in various professional capacities with Ernst & Young LLP, a public accounting firm, from 1987 to 1991. Mr. Hinnendael is a certified public accountant.

**John H. Turner** has been our Vice President of Sales since January 2007 and an executive officer since August 2007. He also served as our Vice President of Sales from October 2000 to February 2005, and as an executive officer from January 2002 to February 2005. Mr. Turner also served as our Director of Sales from July 1999 to October 2000 and in various professional capacities in our sales and marketing area from August 1991 to July 1999 and as our Operations Manager-West from October 1990 to August 1991. Previously, Mr. Turner served as a vice president for Naterra Land, Inc., a recreational land developer, from 2005 to 2006 and as the western fleet general manager and area sales manager for Munson Transportation, Inc., a long-haul truckload carrier, from 1986 to 1990.



Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is listed on the NASDAQ Global Select Market under the symbol MRTN. The table below shows the range of high and low bid prices for the quarters indicated on the NASDAQ Global Select Market. Such quotations reflect inter-dealer prices, without retail markups, markdowns or commissions and, therefore, may not necessarily represent actual transactions.

	Common Stock Price	
	High	Low
<b>Year ended December 31, 2008</b>		
Fourth Quarter	\$ 20.61	\$ 14.98
Third Quarter	22.59	15.00
Second Quarter	18.32	15.00
First Quarter	17.85	11.50
<b>Year ended December 31, 2007</b>		
Fourth Quarter	\$ 16.60	\$ 10.60
Third Quarter	18.46	13.54
Second Quarter	19.80	15.70
First Quarter	19.28	14.30

The prices do not include adjustments for retail mark-ups, mark-downs or commissions. On February 27, 2009, we had 233 record stockholders, and approximately 1,528 beneficial stockholders of our common stock.

We have not paid a cash dividend on our common stock since we became publicly traded in September 1986. Our ability to pay cash dividends is currently limited by restrictions contained in our revolving credit facility. Our revolving credit facility prohibits us from paying, in any fiscal year, dividends in excess of 25% of our net income from the prior fiscal year. Future payments of cash dividends will depend on our financial condition, results of operations, capital commitments, restrictions under then-existing agreements, and other factors our Board of Directors deems relevant.

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 remainder of 2008.



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**Comparative Stock Performance**

The graph below compares the cumulative total stockholder return on our common stock with the NASDAQ Market index and the SIC code 4213 (trucking, except local) line-of-business index for the last five years. Morningstar, Inc. prepared the line-of-business index. The graph assumes \$100 is invested in our common stock, the NASDAQ Stock Market index and the line-of-business index on January 1, 2004, with reinvestment of dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock. The information in the graph below shall be deemed furnished and not filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN

AMONG MARTEN TRANSPORT, LTD.,

NASDAQ MARKET INDEX AND SIC CODE INDEX

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ASSUMES \$100 INVESTED ON  
JAN. 1, 2004

ASSUMES DIVIDEND  
REINVESTED

FISCAL YEAR ENDING  
DEC. 31, 2008

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The following selected financial data should be read in conjunction with the consolidated financial statements and notes under Item 8 of this Form 10-K.

(Dollars in thousands, except per share amounts)	2008	2007	2006	2005	2004
<b>FOR THE YEAR</b>					
Operating revenue	\$ 607,099	\$ 560,017	\$ 518,890	\$ 460,202	\$ 380,048
Operating income	32,705	27,801	41,169	42,867	31,345
Net income	18,071	14,968	24,518	25,061	17,536
Operating ratio	94.6%	95.0%	92.1%	90.7%	91.8%
<b>PER-SHARE DATA</b>					
Basic earnings per common share	\$ 0.83	\$ 0.69	\$ 1.13	\$ 1.16	\$ 0.83
Diluted earnings per common share	0.82	0.68	1.12	1.14	0.81
Book value	11.71	10.86	10.15	8.99	7.82
<b>AT YEAR END</b>					
Total assets	\$ 397,443	\$ 407,390	\$ 410,822	\$ 349,733	\$ 288,929
Long-term debt	2,857	44,643	58,659	48,300	30,257
Stockholders' equity	255,736	236,930	220,993	193,917	167,921

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**ITEM 7. 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 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 under the heading "Risk Factors" beginning on page 6. 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 long-haul and regional 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 2008, we increased our operating revenue by \$47.1 million, or 8.4%. Our operating revenue, net of fuel surcharges, increased \$1.5 million, or 0.3%, compared with 2007. Fuel surcharges increased \$45.5 million, or 52.3%, in 2008 due to the significant increase in the average cost of fuel from 2007. Truckload segment revenue, net of fuel surcharges, decreased 5.5% due to a 6.5% decrease in our weighted average number of tractors, partially offset by a 2.2% 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 and a reduced average length of haul. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.7% in 2008 primarily due to the increase in revenue per total mile, partially offset by a 1.1% decrease in average miles per tractor. The changes in our operating statistics are consistent with the growth of our regional temperature-controlled operations in 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 6.4% reduction from 2007 in average length of haul to 853 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 164 tractors less in 2008 than in 2007. The 0.3% increase in our operating revenue, net of fuel surcharges, was driven by continued volume growth in each of



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our internal brokerage and intermodal services and in the logistics services provided by MWL, partially offset by the decrease in truckload revenue, net of fuel surcharges. Logistics revenue, which represented 16.3% of our operating revenue in 2008, increased \$29.4 million, or 42.4%, compared with 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 D.O.E. national average cost of fuel increasing to \$3.80 per gallon in 2008 from \$2.89 per gallon in 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 94.6% in 2008 compared with 95.0% in 2007. Our earnings per diluted share increased to \$0.82 in 2008 from \$0.68 in 2007.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At December 31, 2008, we had approximately \$2.9 million of long-term debt, including current maturities, and \$255.7 million in stockholders' equity. In 2008, we spent \$32.6 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 \$40 million to \$60 million in 2009, which we will adjust throughout the year as we size our fleet to existing customer demand. 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.



Table of Contents**Share-based Payment Arrangement Compensation**

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, Share-Based Payment ( SFAS 123R ) using the modified prospective transition method, and therefore have not restated prior periods' results. All share-based compensation expense is recorded in salaries, wages and benefits expense. Total share-based compensation expense recorded in 2008 was \$666,000 (\$432,000 net of income tax benefit), in 2007 was \$460,000 (\$321,000 net of income tax benefit) and in 2006 was \$447,000 (\$318,000 net of income tax benefit), which entirely represents additional share-based compensation expense recorded as a result of adopting SFAS 123R. Unrecognized compensation expense from unvested service-based stock option awards was \$1.5 million as of December 31, 2008 and is expected to be recorded over a weighted-average period of 3.6 years. Unrecognized compensation expense from unvested performance-based stock option awards was \$911,000 as of December 31, 2008 and will be recorded in the periods in which the performance condition is probable of achievement through 2010.

**Results of Operations**

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

	2008	2007	2006
<b>Truckload Segment:</b>			
Average truckload revenue, net of fuel surcharges, per total mile	\$ 1,512	\$ 1,480	\$ 1,477
Average miles per tractor(1)	108,026	109,269	108,781
Average truckload revenue, net of fuel surcharges, per tractor per week(1)	\$ 3,124	\$ 3,101	\$ 3,081
Average tractors(1)	2,352	2,516	2,504
Average miles per trip	853	911	937
Total miles company-employed drivers (in thousands)	222,043	228,776	222,579
Total miles independent contractors (in thousands)	32,081	46,096	49,810
<b>Logistics Segment:</b>			
<b>Brokerage:</b>			
Revenue (in thousands)	\$ 62,315	\$ 48,640	\$ 28,636
Loads	30,410	25,246	16,083
<b>Intermodal:</b>			
Revenue (in thousands)	\$ 36,598	\$ 20,837	\$ 12,604
Loads	11,513	6,793	4,073
Average tractors	53	31	19

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 188, 339 and 365 tractors as of December 31, 2008, 2007 and 2006, respectively.

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

(Dollars in thousands)	2008	2007	Dollar Change 2008 vs. 2007	Percentage Change 2008 vs. 2007
<b>Operating revenue:</b>				
Truckload revenue, net of fuel surcharge revenue	\$ 384,264	\$ 406,754	\$ (22,490)	(5.5)%
Truckload fuel surcharge revenue	123,922	83,786	40,136	47.9
Total Truckload revenue	508,186	490,540	17,646	3.6
<b>Logistics revenue, net of intermodal fuel surcharge revenue(1)</b>				
Logistics revenue, net of intermodal fuel surcharge revenue(1)	90,194	66,163	24,031	36.3
Intermodal fuel surcharge revenue	8,719	3,314	5,405	163.1
Total Logistics revenue	98,913	69,477	29,436	42.4
Total operating revenue	\$ 607,099	\$ 560,017	\$ 47,082	8.4%
<b>Operating income:</b>				
Truckload	\$ 26,055	\$ 22,689	\$ 3,366	14.8%
Logistics	6,650	5,112	1,538	30.1
Total operating income	\$ 32,705	\$ 27,801	\$ 4,904	17.6%
<b>Operating ratio(2):</b>				
Truckload	94.9%	95.4%		0.5%
Logistics	93.3	92.6		(0.8)
Consolidated operating ratio	94.6%	95.0%		0.4%

(1) Logistics revenue is net of \$16.8 million and \$17.1 million of inter-segment revenue in 2008 and 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.

Our operating revenue increased \$47.1 million, or 8.4%, to \$607.1 million in 2008 from \$560.0 million in 2007. Our operating revenue, net of fuel surcharges, increased \$1.5 million, or 0.3%, to \$474.5 million in 2008 from \$472.9 million in 2007. The increase in operating revenue, net of fuel surcharges, was driven by continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL, partially offset by a decrease in truckload revenue, net of fuel surcharges. Fuel surcharges increased \$45.5 million, or 52.3%, in 2008 due to the significant increase in the average cost of fuel from 2007.

Truckload segment revenue increased \$17.6 million, or 3.6%, to \$508.2 million in 2008 from \$490.5 million in 2007. Truckload segment revenue, net of fuel surcharges, decreased 5.5% due to a 6.5% decrease in our weighted average number of tractors, partially offset by a 2.2%

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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 and a reduced average length of haul. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.7% in 2008 from 2007 due to the increase in revenue per total mile, partially offset by a 1.1% decrease in average miles per tractor. The changes in our

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operating statistics are consistent with the growth of our regional temperature-controlled operations in 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 6.4% reduction from 2007 in average length of haul to 853 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 164 tractors less in 2008 than in 2007. The improvement in tractor productivity and in our overall cost structure resulted in increased profitability from 2007.

Logistics segment revenue increased \$29.4 million, or 42.4%, to \$98.9 million in 2008 from \$69.5 million in 2007. Logistics segment revenue, net of intermodal fuel surcharges, increased 36.3%. 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 increase in the operating ratio for our Logistics segment in 2008 was primarily due to an increase as a percentage of logistics revenue of the payments to carriers for transportation services which we arranged.

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

(Dollars in thousands)	Dollar Change 2008 vs. 2007	Percentage Change 2008 vs. 2007	Percentage of Operating Revenue	
			2008	2007
Operating revenue:	\$ 47,082	8.4%	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	(1,158)	(0.8)	25.1	27.5
Purchased transportation	9,399	9.1	18.6	18.5
Fuel and fuel taxes	26,871	18.0	29.0	26.6
Supplies and maintenance	(243)	(0.6)	6.3	6.9
Depreciation	2,696	5.7	8.2	8.4
Operating taxes and licenses	(94)	(1.4)	1.1	1.2
Insurance and claims	3,056	13.7	4.2	4.0
Communications and utilities	(129)	(3.3)	0.6	0.7
Gain on disposition of revenue equipment	722	21.3	(0.4)	(0.6)
Other	1,058	10.2	1.9	1.8
Total operating expenses	42,178	7.9	94.6	95.0
Operating income	4,904	17.6	5.4	5.0
Other expenses (income):				
Interest expense	(2,681)	(70.1)	0.2	0.7
Interest income and other	509	73.4		(0.1)
Minority interest	318	39.7	0.2	0.1
	(1,854)	(47.2)	0.3	0.7
Income before income taxes	6,758	28.3	5.0	4.3
Provision for income taxes	3,655	41.1	2.1	1.6
Net income	\$ 3,103	20.7%	3.0%	2.7%

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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 2.9% 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 \$2.3 million increase in our self-insured medical claims, which increased our employees' health insurance expense, and a \$1.3 million increase in bonus compensation expensed for our non-driver employees.

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 \$9.4 million in total, or 9.1%, in 2008 from 2007. Payments to carriers for transportation services we arranged in our brokerage and intermodal operations increased \$21.3 million to \$73.8 million in 2008 from \$52.5 million in 2007, 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 \$11.9 million in 2008, 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 \$14.6 million, or 19.2%, to \$61.4 million in 2008 from \$76.1 million in 2007. Fuel surcharges passed through to independent contractors, outside drayage carriers and railroads were \$18.2 million in 2008 and \$14.2 million in 2007. Over the past year, we have worked diligently to control fuel costs and usage by improving our volume purchasing arrangements and optimizing our drivers' fuel purchases with national fuel centers, focusing on shorter lengths of haul, installing and tightly managing the use of auxiliary power units in our tractors to minimize engine idling and improving fuel usage in our trailers' refrigeration units. The decrease in net fuel expense was primarily due to a 2.9% decrease in the total miles driven by our company-owned fleet and to the cost control measures stated above, principally the use of auxiliary power units. Auxiliary power units, which were installed in 96% of our company-owned tractors as of December 31, 2008, provide climate control and electrical power for our drivers without idling the tractor engine. The impact of decreased miles and the cost control measures were partially offset by a significant increase in the D.O.E. national average cost of fuel during 2008 to \$3.80 per gallon from \$2.89 per gallon in 2007. Net fuel expense represented 14.9% of truckload and intermodal revenue, net of fuel surcharges, in 2008, compared with 17.9% in 2007.

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 2008. 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.

Insurance and claims consist of the costs of insurance premiums and the accruals we make for claims within our self-insured retention amounts, primarily for personal injury, property damage, physical damage to our equipment, cargo claims and workers' compensation claims. These expenses will vary primarily based upon the frequency and severity of our accident experience, our self-insured retention levels and the market for insurance. The increase in insurance and claims in 2008 was primarily the result of an increase in the cost of self-insured auto liability and workers' compensation accident claims. We are responsible for the first \$1.0



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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. Our significant self-insured retention exposes us to the possibility of significant fluctuations in claims expense between periods depending on the frequency, severity and timing of claims and to adverse financial results if we incur large or numerous losses. In the event of an uninsured claim above our insurance coverage, or an increase in the frequency or severity of claims within our self-insured retention, our financial condition and results of operations could be materially and adversely affected.

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 \$2.7 million in 2008 from \$3.4 million in 2007, 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 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 94.6% in 2008 compared with 95.0% in 2007.

Interest expense primarily consists of interest on our unsecured committed credit facility and senior unsecured notes. The decrease in interest expense of \$2.7 million, or 70.1%, in 2008 from 2007 was primarily the result of lower average debt balances outstanding.

Our effective income tax rate increased to 41.0% in 2008 from 37.3% in 2007, 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 \$18.1 million in 2008 from \$15.0 million in 2007. Net earnings increased to \$0.82 per diluted share in 2008 from \$0.68 per diluted share in 2007.

Table of Contents*Comparison of Year Ended December 31, 2007 to Year Ended December 31, 2006*

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

(Dollars in thousands)	2007	2006	Dollar Change 2007 vs. 2006	Percentage Change 2007 vs. 2006
<b>Operating revenue:</b>				
Truckload revenue, net of fuel surcharge revenue	\$ 406,754	\$ 402,327	\$ 4,427	1.1%
Truckload fuel surcharge revenue	83,786	75,323	8,463	11.2
Total Truckload revenue	490,540	477,650	12,890	2.7
<b>Logistics revenue, net of intermodal fuel surcharge revenue(1)</b>				
Logistics revenue, net of intermodal fuel surcharge revenue(1)	66,163	39,298	26,865	68.4
Intermodal fuel surcharge revenue	3,314	1,942	1,372	70.6
Total Logistics revenue	69,477	41,240	28,237	68.5
<b>Total operating revenue</b>	<b>\$ 560,017</b>	<b>\$ 518,890</b>	<b>\$ 41,127</b>	<b>7.9%</b>
<b>Operating income:</b>				
Truckload	\$ 22,689	\$ 37,500	\$ (14,811)	(39.5)%
Logistics	5,112	3,669	1,443	39.3
Total operating income	\$ 27,801	\$ 41,169	\$ (13,368)	(32.5)%
<b>Operating ratio(2):</b>				
Truckload	95.4%	92.1%		(3.6)%
Logistics	92.6	91.1		(1.6)
Consolidated operating ratio	95.0%	92.1%		(3.1)%

(1) Logistics revenue is net of \$17.1 million and \$16.5 million of inter-segment revenue in 2007 and 2006, 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 \$41.1 million, or 7.9%, to \$560.0 million in 2007 from \$518.9 million in 2006. Our operating revenue, net of fuel surcharges, increased \$31.3 million, or 7.1%, to \$472.9 million in 2007 from \$441.6 million in 2006. The increase in operating revenue, net of fuel surcharges, was primarily due to continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL. Fuel surcharges increased \$9.8 million, or 12.7%, in 2007 due to an increase in the average cost of fuel from 2006.

Truckload segment revenue increased \$12.9 million, or 2.7%, to \$490.5 million in 2007 from \$477.7 million in 2006. Truckload segment revenue, net of fuel surcharges, increased 1.1%. We were able to increase our truckload revenue by increasing the size of our fleet and our business with existing and new customers. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.6% in 2007



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from 2006, due to a 0.4% increase in average miles per tractor and a 0.2% increase in average truckload revenue, net of fuel surcharges, per total mile. Our weighted average number of tractors increased 0.5% in 2007 from 2006. The slight improvement in tractor productivity was more than offset by an increase in our overall cost

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structure, which resulted in decreased profitability from 2006. Due to a challenging freight environment, we were not able to increase freight rates to cover higher costs.

Logistics segment revenue increased \$28.2 million, or 68.5%, to \$69.5 million in 2007 from \$41.2 million in 2006. Logistics segment revenue, net of intermodal fuel surcharges, increased 68.4%. 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 increase in the operating ratio for our Logistics segment in 2007 was primarily due to an increase as a percentage of logistics revenue of the payments to carriers for transportation services which we arranged.

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

(Dollars in thousands)	Dollar	Percentage	Percentage of	
	Change	Change	2007	2006
	2007 vs. 2006	2007 vs. 2006	2007	2006
Operating revenue:	\$ 41,127	7.9%	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	9,401	6.5	27.5	27.8
Purchased transportation	19,367	22.9	18.5	16.3
Fuel and fuel taxes	13,942	10.3	26.6	26.0
Supplies and maintenance	5,466	16.5	6.9	6.4
Depreciation	2,649	6.0	8.4	8.5
Operating taxes and licenses	(691)	(9.2)	1.2	1.4
Insurance and claims	1,170	5.5	4.0	4.1
Communications and utilities	234	6.4	0.7	0.7
Gain on disposition of revenue equipment	3,604	51.6	(0.6)	(1.3)
Oth				