

MARTEN TRANSPORT

**Moderator: Randy Marten
July 20, 2006
2:00 pm CT**

Operator: Good afternoon. My name is (Rebecca) and I will be your conference operator. At this time I would like to welcome everyone to the Marten Transport Second Quarter Results conference call.

All lines have been placed on mute to prevent any background noise.

After the speaker's remarks, there will be a question and answer session. If you would like to ask a question during this time simply press star then the number 1 on your telephone keypad. If you would like to withdraw your question press the pound key. Thank you.

Mr. Marten, please go ahead, sir.

Randy Marten: Well good afternoon, everybody and welcome to Marten's 2006 Second Quarter conference call. Before we discuss the quarter I'll make our forward-looking statement announcements.

This conference call will contain forward-looking statements within the meaning of the Private Securities and Litigation Reform Act of 1995.

Forward-looking statements are based on our current assumptions and expectations and are subject to change as well as risks and uncertainties that may cause actual results to vary from our expectations.

We encourage you to review the risks identified in our filings with the Securities and Exchange Commission.

Our prepared remarks for the participants are on the call now.

Our second quarter revenue and net income increased over the second quarter of 2005 with operating revenue up 16.9%, freight revenue up 6.1%, non-freight revenue up 134.5% and net income up 11-1/2%.

In addition to the information in the press release there are a few areas that I would like to briefly comment on before turning it to Jim to comment on our financials.

First of all we're not quite comparable to demand seen in the second quarter of 2005. Demand in the second quarter of this year was comparable to normal seasonal demand and in many markets exceeded our available capacity. Many of our customers continue to ask for additional capacity and dedicated equipment. In addition our intermodal and brokerage operations continue to grow.

On the supply side, capacity continues to be dictated by a number of available drivers, as it has been for some time. Finding drivers that meet our high qualifications continues to be our largest challenge. The driver market is as difficult as we have ever seen it. I've been very clear to our employees that we must do a better job of recruiting and retaining drivers and that will be our major focus for the rest of this year.

The combination of demand and tight capacity in the quarter allowed us to secure additional rate increases. The pricing environment in the second quarter was favorable. Average freight and revenue per total mile increased 6.3% to \$1.472 from \$1.385 in the 2005 quarter.

Average revenue per tractor per week, our main measure of asset productivity improved 3.8% to \$3,215 in the second quarter of '06 compared to \$3,097 in the second quarter of '05. Our pricing increases overcame a decrease in fleet utilization primarily attributable to the competition for drivers.

I'm now going to have Jim make some financial comments and I'll make some concluding remarks.

Jim Hinnendael: Thank you, Randy. The 2006 quarter included an income tax benefit of approximately \$875,000 or 4 cents per diluted share due to a decrease in our deferred income tax liability. The decrease in the income tax liability was primarily a result of a change in our income apportionment for several states which produced the lower expected effective state income tax rate net of federal impact.

We expect to obtain an ongoing income tax benefit from the change which will not be significant. The most significant changes in our operating expenses as a percentage of revenue came in the areas of fuel, salaries, wages and benefits and purchase transportation.

Our average gross fuel cost per gallon in the second quarter of this year was \$2.75, compared to \$2.15 in the second quarter of the prior year.

Our relationships with our customers allow us to collect most of the price increase in the form of fuel surcharges but as the price of fuel rises the uncollected percentage becomes more meaningful.

Fuel expense, net of the fuel surcharges and expressed as a percentage of freight revenue increased 193 basis points over the second quarter of 2005. The increase was due to our operating a large company-owned fleet relative to our number of independent contractors and the unrecovered portion of increased fuel prices.

Salaries, wages, and benefits expense increased 240 basis points as a percentage of freight revenue, mostly attributable to an increase in the percentage of our fleet provided by company equipment.

Purchase transportation decreased 28 basis points as a percentage of freight revenue. The expense excluding the fuel surcharges passed through to the owner operators and carrier payments by Marten decreased 23% in the second quarter of the current year, reflecting the decline in owner operators. The decrease was offset to some extent primarily by increased payments to third parties under our brokerage and intermodal operations.

Most of our other operating expenses remained fairly flat as a percentage of freight revenue, other than changes attributable to the mix of independent contractors and our company drivers.

Our balance sheet remains strong with approximately \$208.8 million in stockholders equity and \$56.1 million in borrowed debt for a debt-to-capitalization ratio of approximately 21.2%. We did not have any material off-balance sheet financing arrangements as of June 30, 2006.

Randy, back to you.

Randy Marten: Thanks. In our first quarter conference call we reiterated our previous announced goals of our operating ratio of 2006. We announced that our goal was to improve our operating ratio by 50 basis points in '06 which would bring our operating ratio goal to 88.9 in '06 compared to 89.4 in '05, netting fuel against fuel expense.

Our goal still remains unchanged. The goal is based on our continued ability to increase freight revenue per tractor based on strong demand and is subjected to the risks outlined in our SEC filings, particularly regarding the ability to attract and retain enough drivers.

Going forward we expect that the demand will continue to exceed supply, providing a favorable rate environment. In terms of second half growth plans we intend to focus first on seating more trucks and then adding truck as driver availability and freight allows.

That will conclude Jim's and Randy's remarks. And at this time we'll open it up for questions.

Operator: At this time I would like to remind everyone if you have a question please press star 1 on your telephone keypad.

Your first question comes from David Ross with Stifel Nicolaus.

David Ross: Good afternoon, Randy.

Randy Marten: Good afternoon.

David Ross: Good afternoon, Jim.

Jim Hinnendael: Hi.

David Ross: Given the driver constraints out there and, you know, keeping your, you know, operating ratio targets the same, how has your fleet growth targets changed, your fleet growth the same? And you're looking to get the same margin or are you projecting lower fleet growth in the second half and maybe better cost?

Randy Marten: Well it's a balancing act, (Dave), based on what the driver availability. Obviously the freight demand is there for our services so it's more a question about the driver availability. You know, our average number of tractors increased 2.1% in the second quarter but the average miles decreased and of course I'm trying to do a balancing act here at Marten because of a decrease in operators that keep our fleet size relatively the same. Unfortunately it impacts us because we're doing it on the company size, which the driver situation has been extremely difficult.

We are still pressing forward at Marten with the goals of keeping our fleet young before the '07 but that will be in a state of flux influence in our CAPEX at the end of the year if the tractors that we have currently available for sale are not disposed of in a timely manner and we're unable to staff any faster than we currently are.

David Ross: So are you of the mind right now to, I guess, continue selling tractors in '06 and then not sell in '07 and not buy any in '07?

Randy Marten: Our goals are Marten we have tractors that were ordered that were going to be a big buildup at the end of December for '07 tractors with '06 engines. Once

the EPA has established that the manufacturers could move the delivery of tractors in the calendar year '07 with '06 engines based on their inventory of old style engines, we have moved some of our deliveries out into January and February of '07 also, so we'll still get '07 equipment with '06 engines. So we'll still continue to try to sell it as that goes, so we will try to upgrade the fleet.

David Ross: Okay, so you expect, I guess, a significant drop-off in CAPEX in '07 still?

Randy Marten: Yes absolutely and we do not look to buy another new power unit until some time in calendar year '08 or extremely late in calendar year '07, like December 31 as an example of '07.

David Ross: Okay. And then also you mentioned fuel as the biggest cost pressure. What, you know, can you do to alleviate that? I mean are you going to go back and try to tighten up the fuel surcharge program? I know you said you have a percent of revenue fuel surcharge on the regional markets. Any chance of that happening in line haul?

Randy Marten: I would say at this moment in time the change of that happening to line haul are very difficult. It's extremely difficult to go back to a customer today with the amount of surcharge they're currently paying on a per mile basis to try to renegotiate and start over. Good business practices maybe to me doesn't dictate that.

The question is - is what can we do to continue to minimize our (idle), continue to minimize and reduce our debt head number and work along those lines. Because our surcharge program up until this rapid ramp up in fuel again in the month of June, we had stabilization in May. We had a bang in April, stabilization in May and a bang again in June obviously. We're still doing fine

on the collection. Obviously as it gets larger the margin split is going to – it's really difficult to try to approach this again at this stage of the game. If it was \$1.20 or \$1.25 it'd be a different issue but it's not.

David Ross: Okay. And then just on the driver side again, is there anything that makes driving, you know, (tempered) controlled tractor is less attractive for candidates that drive in, you know, assuming it's the same length of haul, same type of, you know, operation?

Randy Marten: Well we'd like to think there's not and just our standards haven't changed and our actions and ratios haven't changed. They're accident per million miles hasn't changed. Our safe stat score is one of the highest, so we haven't changed there. We do drop and hook like a drive-in carrier does. We monitor the temperatures in Wisconsin. We know what the temperature and trailer so the answer is no.

David Ross: And then, you know, lastly just if you could speak a little bit about competition. You said you expect demand to exceed supply. Is there any capacity coming into the, you know, (refer) market out there that you're aware of and what, you know, if you could just describe the pricing environment as well?

Randy Marten: Well we definitely don't see any capacity coming in just by due to the fact that some of the awards that we've seen in Marten and large accounts that Marten have added significant amounts of business to us. Our top accounts have grown almost 20%, once again on a six-month year-over-year basis. On the pricing environment I would imagine that to remain steady as we have established here in the last four or five quarters due to the fact that a lot of our contracts are once again redone in the second half of the year.

David Ross: Thank you very much.

Randy Marten: Thank you.

Operator: Your next question comes from Chaz Jones with Morgan Keegan.

Chaz Jones: Yeah hi, Randy and Jim.

Man: Hi.

Man: Hi.

Chaz Jones: I just was curious in terms of the driver situation how much, you know, is it related to turnover versus retention or is it all of the above? And then maybe I think in the past, you know, Marten's turnover has kind of trended somewhere generally between 60% and 70%. I was wondering if maybe you could give us a little sense for maybe where that is today.

Randy Marten: Yes, our turnover has climbed into the 70% range. We find that in the first quarter this year with a reduction in miles, a lack of available business that pretty much come our way at Marten Transport some of the driver issues were self-inflicted by our company in terms of the lack of business or the lack of miles on a truck that keep drivers moving.

Things that we've done to alleviate that we've put a practice in place as an example of a senior fleet manager running a team of fleet managers of four to five people working in a group.

By that, those turnovers in those brackets have dropped into the 60% to 61% range as we currently speak as we've rolled that out. In the last three weeks

once we've established that we could see a turnover reduction there we've rolled it out company-wide in terms of the operations of the fleet manager team leader managing a group of fleet managers and doing. So it's a combination of both the real issue in the driver situation as we've seen the quantity drop and the quality of the quantity has not been up to what our standards are.

Chaz Jones: Okay. And then I was wondering, I think in the first quarter you actually broke out. I mean given the strength that we saw in the non-truck revenue line perhaps what MW Logistics, the brokerage and intermodal contributed during the quarter.

Randy Marten: Well I can give you revenue numbers for the quarter. intermodal revenue was \$2,992,112 in the quarter and that's up from approximately, I believe, \$1.6 million in the first quarter. Brokerage revenue was \$1,097,749 in the June quarter as compared to \$215,683 the previous year. MW Logistics revenue was \$5,533,487 as compared to \$3,888,117 the previous year.

Chaz Jones: I think in the past, Randy, you've kind of set a goal for intermodal was perhaps to get to \$6 million in revenue this year but you almost did half that this quarter. Any change in expectations I guess in terms of, you know, how quickly the intermodal division could perhaps, you know, get to 10% of revenue and any change in expectations this year?

Randy Marten: As long, Chaz, the intermodal can grow past \$6 million our goal was to do \$6 to \$6-1/2 million. The folks that run the intermodal along with (Tim Nash) who is in charge of our sales are Marten are welcome to grow it to whatever percentage they can take it to as long as it remains balanced. At Marten we're using our over the road trailers and we do not have the luxury of having six containers for every load we want to move. We do not have that luxury.

Our trailer ratio is up to 1-1/2 to 1 and that's where we're capping it at. At this moment in time don't have that luxury, so the point being is that they can grow it as long as we continue to keep it balanced and continue to keep the equipment moving.

Chaz Jones: Okay.

Randy Marten: But as a goal in terms of getting up to 10% of our revenue, I don't have a, you know, as – we're so new in this, to give you an answer as to how fast we go, and I'm hesitant to go too fast to get out of balance.

Chaz Jones: Are the profitability levels meeting your expectations, Randy?

Randy Marten: We do not have a separate breakout in terms of the profitability but at this moment in time we're still moving our intermodal freight at truckload pricing.

Chaz Jones: Okay, okay good. And then maybe I was wondering as MW Logistics kind of ramps here and the brokerage division as well what's your experience in terms of have you seen a large increase in the number of carriers that you're using that have come to Marten to use Marten for the – for moving freight.

Randy Marten: I do not have the number on our own brokerage operation as to how far we've had to expand that carrier reach to move the amount of business we've done. MW Logistics will they have grown we're trying to reduce ourselves as a percentage of their business. We're encouraging them to go out and expand more and more and solicit business with other carriers so I do not have a number for you either side of that coin.

I know that we had used approximately 350 qualified carriers starting up our brokerage operation to do the business in the first quarter and the end of last year so that's all I know.

Jim Hinnendael: Within (WL) the revenue numbers that Randy gave you, the \$5.5 million for the current quarter versus \$3.9 from the year, that represents revenue they do with carriers other than Marten.

Chaz Jones: Okay.

Jim Hinnendael: So that'll give you an idea of how much they've grown with other carriers.

Chaz Jones: Okay. I guess last thing here, guys, you know, if you're able to get an adequate supply of drivers in the second half of '06, I mean given what it sounds like I'm hearing in terms of the business opportunities that certainly have come Marten's way through it's existing customer base perhaps in the last six months, I mean, how quickly could, you know, revenue growth trends jump back into kind of that double-digit range?

Randy Marten: Chaz, it's a function of how fast we staff the trucks. And that I don't have an answer for you. You know, that's a variance from week to week as to how fast we go and I can't – I really couldn't give you an accurate answer.

Chaz Jones: Okay. Now understood but...

Randy Marten: I'm impossible for me to give you an accurate answer to be (unintelligible) with you.

Chaz Jones: Sure, I guess what I'm just trying to get at is just more emphasis on, you know, ability to source drivers that the revenue numbers should be able to very quickly jump back up and to that – kind of that double-digit teen range.

Randy Marten: Yes that's very true, no doubt about that. If we – when Jim and I sit down and we put the column here at Marten we put a plus column and we put a minus column as to what the pluses are in our company and what the minuses are. Our customer base is strong. Our rate per mile has been increasing and has been strong.

Our other auxiliary businesses we haven't taken a concentration from our truckload business but our intermodal MW Logistics and our brokerage have grown. And in the negative column we have drivers and that's been the real struggle for us in the first six months of this year and in particular in the second quarter because there's no doubt about the business being available to us. I'm very confident of that.

Chaz Jones: Okay. Well I appreciate the commentary, guys.

Randy Marten: Thank you.

Jim Hinnendael: Thank you.

Operator: Your next question comes from Tom Albrecht with Stephens.

Tom Albrecht: Hey, Randy and Jim. Let me change the topic a little bit. I know that you're really looking at the cost side of things. You already run a pretty lean company. What kinds of things would you discover perhaps on the cost side that would allow your driver to non-driver ratio to get in the neighborhood of 6 from where it's been?

Randy Marten: Well the first goal, Tom, is to go from the current just a little bit over 5 back to our normalized level of (5.4) to (5.5).

Tom Albrecht: Okay.

Randy Marten: And, Tom, that's a function of staffed trucks. It's not a function of anything else. There hasn't been a ramp up of people that are so dramatic other than some temporary summer help that are young students out of college that'll strip decals off of trailers and/or tractors. So there hasn't been a ramp up anywhere in the system. intermodal I believe has three people involved in the operation.

Brokerage has three or four people involved in the operation, so there's not twenty people that have been added to start up an intermodal operation. It's just a function of the number of staffed trucks. As the operator count down and our inability to take on more new even though we had the demands in business that's why this headcount tractors per non-driver employee has fallen.

Tom Albrecht: Okay.

Randy Marten: It's not – there is nothing just had got huge ramp ups anywhere in the company. It's actually operator account falls, inability to staff any new trucks or take on new because of the demands of business we haven't been able to do it.

Tom Albrecht: Uh huh.

Randy Marten: We will as a company have to make those adjustments by the end of this current month if we're going to take and move on that.

Tom Albrecht: Okay.

Randy Marten: And we will rationalize our headcount as per the number of tractors we have. We will take those steps to do that.

Tom Albrecht: So if I look kind of to the end of this month beginning of August, stage one will be getting back to the other standard. Would – how long would it take you to maybe get to 6? Is that going to be the rest of the year then or would that be something that could be attained by the end of the quarter?

Randy Marten: That would be over the next 60 to 90 days.

Tom Albrecht: Okay. And then let me ask a whole different question here. The owner operators not surprisingly continue to go down. You know, you've got 388 left as of the end of June 30. Would it be fair to say that close to 100% of those are in those lease-purchase agreements? I mean how many would be independent, guys?

Randy Marten: Jim will get you a number on that. It seems to me it's like around 200 that are in the least-purchase.

Tom Albrecht: Okay. I was thinking it was a little bit higher than that.

Randy Marten: Hang on a second, Tom.

Tom Albrecht: Okay.

Jim Hinnendael: We're down to 132.

Randy Marten: So 132 are in the lease-purchase as of the end of June.

Tom Albrecht: Okay. All right. And so at this point, I mean maybe a year ago you probably were over 200. When guys leave and they've been on a lease-purchase program, is it just because their lease is up or is it because even they are having difficulty as an owner-operator making a living?

Randy Marten: Number two. It's not because their lease is up. It's primarily they're having difficulty in the same manner trying to make a living. We adjust their fuel surcharge on a weekly basis. The miles are anywhere in the 10 to 12,000 bracket for the majority of our operators and it's a difficult environment.

Tom Albrecht: Okay. And then...

Randy Marten: (Unintelligible) has the greatest amount of, I'm sorry, Tom, the ones that have the greatest of difficulty is anybody that has more than one truck, a small fleet owner.

Tom Albrecht: Right.

Randy Marten: Because they're looking at the same driver pool that we look at and historically they are (unintelligible) to offer that first at any insurance, any disability pay, vacation pay. There's nothing that they can do that's any better.

Tom Albrecht: Let me ask you a macro question as well. I don't know that you can fully answer it but I'm sure you've got an anecdote or two that might shed light. You know, we keep hearing that some of the other markets that naturally compete for drivers, particularly housing, maybe parts of manufacturing are

slowing and yet the driver dilemma clearly seems the worst that anybody has ever experienced.

And it's been bad for years but it seems to have gone to a whole new magnitude. If those other sectors are slowing, I'm trying to figure out where that driver might be going, you know, at a point where the economy seems to be decelerating just a little bit.

Randy Marten: I guess I don't have a macro or an answer for that. I do know if I had an answer for that the consulting fees would be enormous.

Tom Albrecht: Is there a truck lane going down in the Bermuda Triangle maybe? I think that's that...

Randy Marten: (Unintelligible) I don't know. I know we're still in a situation of our – of the demographic of the population which is traditionally a 22 to 23 to 35 to 40 year old white male. It's still on the downward cycle in our last census and it still is continuing down. But I don't have an answer for you. I don't know if it's migrated from housing to oil field. In some respects when I see the ability to make \$150,000 a year working two weeks on and two weeks off in the oil sands of Northern Alberta, it might be someplace that somebody is not going to pound nails anymore and go there.

Tom Albrecht: Right.

Randy Marten: I don't have an answer for you. Like I said, the consulting fees would be enormous if I did have an answer.

Tom Albrecht: Okay. Well that's helpful nonetheless. Hang in there, guys.

Randy Marten: We will.

Jim Hinnendael: Thank you.

Operator: At this time we have no further questions.

Randy Marten: Well if there's no further questions I'd like to thank everybody for participating in our conference call. I can assure you that the management of Marten will continue to work diligently on improving our company, our driver retention and staffing our trucks and putting us back on the top of the heap where we know we belong.

Thank you very very much.

Operator: This concludes today's Marten Transport conference call. You may now disconnect.

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