

2005 Fourth Quarter Conference Call

Randy Marten

Good afternoon. I would like to begin by introducing Jim Hinnendael. Jim is our new Chief Financial Officer and is joining me on the call for the first time in place of Darrell Rubel, who had been CFO for many years. Jim has been at Marten for 14 years and has been the one who delivers the numbers to me for review. Jim and I welcome everyone to our fourth quarter and year end conference call. Before discussing the quarter, I'll make our forward-looking statements announcement.

This conference call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based upon 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 fourth quarter results reflect our sustained growth in revenue and net income. For the quarter, operating revenue was up 18.6%, freight revenue was up 9.0%, and net income was up 36.6%. These results were obtained through a combination of solid increases in freight rates and disciplined cost control. Our average freight revenue per mile increased to \$1.49 in the 4th quarter compared with \$1.40 in the 2004 quarter. On the cost side, our operating ratio was 90.4% for the 4th quarter. Netting fuel surcharges against fuel expense, as many of our peers do, would have produced an operating ratio of 88.7% for the quarter. Overall, this meant another quarter and year of record revenue, earnings, and earnings per share for Marten Transport.

A few key points I'll cover include how we view the business environment, how our revenue equipment strategy affected the quarter, and our outlook for the future.

Business Environment

The business environment remained favorable for us through the end of 2005 and has started out solid for January, which is seasonally slow. Demand for our services continues to grow from both existing and new customers, and our sales and operations teams continue to secure us additional business. The increased demand allows us to allocate our equipment to customers and to freight that is profitable to us from an operating standpoint. We are not seeing any signs of customer demand slowing down in the foreseeable future.

In addition to strong demand for our traditional truckload services, we had a good quarter in the logistics area as well. Although it is too early to draw definite conclusions, we were pleased with the initial results of our intermodal operations. We moved 164 loads during the quarter on the rail and were able to serve specific long-haul lanes effectively.

Our brokerage operations continued to grow and serve customers where our capacity was fully allocated or the loads did not fit our operations.

On the supply side, we are still seeing evidence of an industry-wide driver shortage. In addition, we believe owner-operators continue to exit the market because of the high cost of fuel and the increasing capital costs associated with owning their own equipment. Against that background, we have not seen any meaningful increase in temperature-controlled capacity. At Marten, our response to the driver shortage has been to hire safe, experienced drivers, provide new tractors, pay the drivers well, and then treat the drivers with respect. This has been working, as we have been able to grow internally, keep our annualized driver turnover well below the industry average and compile an excellent safety record.

From a cost perspective, there is no doubt that our industry continues to face higher costs. Driver pay, tractor and trailer prices, fuel, health care, and other costs continue to escalate. However, based on our perception that growth in freight demand continues to exceed growth in truckload capacity, we expect to achieve rate increases that equal or exceed increases in costs for the foreseeable future, excluding the effects of swings in fuel prices. While we certainly have challenges in our industry, we believe the overall environment is favorable for well-run companies and feel very positive about the future of our industry and our company.

Revenue Equipment

The item that probably stood out most in the quarter was the large order of company tractors we added and the effect it had on our operating statistics. I'll spend a little time on that so the reasons and effects are clear.

For the year, we expanded our fleet of company tractors by 469 units, or 27%. Of those tractors, 246 were in the 4th quarter, which was more than half of the increase in company tractors for the whole year. If you think about it, these two statements say a lot about Marten and our confidence in the future.

First, we feel confident that we will be able to recruit and retain a significant number of company drivers, which is necessary to support this internal growth.

Second, we have been able to increase our overall fleet size despite owner-operator attrition. It is important for our customers and for our company that we continue to expand our capacity. In the current environment for owner-operators, that means increasing the company fleet. Our expectation is that the mix of owner-operators and company drivers will continue to adjust so that more of our drivers will be driving company equipment.

Third, we must feel good about the operating environment and customer demand to add that many tractors. As I said earlier, we feel that Marten is very well-positioned to grow with our customers.

In addition to those factors, maintaining a very new fleet is consistent with our short-term and long-term equipment strategy. A newer fleet generally makes it easier to keep our maintenance and tire costs low, and we continually strive to reduce our costs. Also, the larger than normal delivery of tractors in the fourth quarter will help manage our exposure to the 2007 engines that are expected to have increased maintenance costs and fuel efficiency issues associated with them, as well as increased new equipment prices. While we expect to run a group of test engines, we would rather that the industry solve any problems associated with the 2007 technology before we adopt it on a large scale.

Based on the large number of deliveries of equipment that we took in the 4th quarter, and our anticipated orders and deliveries through 2006, we plan on not being required to make any purchases in 2007, although we wouldn't necessarily rule out doing so if the freight environment supports further expansion and we feel good about the pricing and performance of the 2007 engines.

While we believe it was the right decision for Marten, taking delivery of the large group of tractors had certain effects on our operating statistics and results. Remember that we include all tractors (whether they are running or not) in our mileage and revenue per tractor numbers. Adding the large group in one quarter meant that some would go unseated for a period of time. We have a heightened emphasis on recruiting and retaining qualified drivers and we expect our percentage of unseated tractors to return to the level we experienced throughout most of 2005.

This increase in unseated tractors, offset by the increase in average freight revenue per total mile, caused our average freight revenue per tractor per week to remain essentially flat compared with the fourth quarter of 2004. We were able to produce a strong quarter, and we continue to believe it was the right decision for Marten.

Jim will now give a financial summary of the quarter, before I make some concluding remarks.

Jim Hinnendael

Thanks, Randy. The numbers were covered in our press release, so I won't cover them in detail here.

On the expense side, our average fuel cost per gallon increased 64 cents, or 33%, over the fourth quarter of 2004. We remain focused on collecting our fuel surcharge revenue to help offset these increasing costs. We collect a high percentage of the fuel price increases. However, the small uncollected percentage becomes more meaningful as our business grows, the cost of fuel rises, and our company tractor percentage increases. Fuel and related taxes (net of surcharges) were 12.2% of freight revenue in the fourth quarter of 2005, compared with 10.9% in the fourth quarter of 2004.

For the most part, our operating expenses, expressed as a percentage of freight revenue, remained fairly flat. Purchased transportation, as a percentage of freight revenue, decreased 177 basis points due to the decline in the number of owner-operators. This more than offset the pass-through of higher fuel surcharges and increased intermodal and brokerage expense. Salaries, wages, and benefits, as a percentage of freight revenue, increased 225 basis points, reflecting a combination of driver pay increases in January and April of 2005 and an increase in the percentage of company-owned tractors in our fleet.

We had another good safety quarter, which resulted in a 47 basis point improvement as a percentage of freight revenue in insurance and claims versus last year's fourth quarter.

During the quarter, we purchased 404 tractors and 237 trailers and disposed of 158 tractors and 102 trailers. Net capital expenditures were approximately \$41 million during the quarter. For 2006, we are currently projecting net capital expenditures of approximately \$70 million. This estimate of capital expenditures for 2006 may be impacted by the timing of tractor and trailer deliveries between 2006 and 2007.

At the end of the year, our balance sheet remained solid, with approximately \$193.9 million in stockholders' equity and \$48.3 million of borrowed debt, which resulted in a debt-to-total capitalization ratio of approximately 19.9%. We did not have any material off-balance sheet financing arrangements at December 31, 2005.

Randy, I'm turning it back to you.

Randy Marten

Thanks Jim. Before opening the call to questions I'd like to comment on our outlook.

Going forward, we expect the balance between supply and demand to be very similar to the environment in 2005. Based on that, we further expect freight rates to increase faster than increased costs of operations. In that environment, our goals would be to increase our average fleet size by 8% to 10% and to improve our operating ratio for the year by approximately 50 basis points compared with 2005.

In 2003, at the time of our public offering of additional shares of our common stock, we gave our goals for improvement in our operating ratio through 2005. We more than achieved our goals in each of these years and are committed to continually improving our profitability in 2006 and beyond.

That concludes our remarks. At this time, I will open it up for questions.