

DYNAMEX INC.  
ANNUAL REPORT 2008



SAME-DAY TRANSPORTATION & DISTRIBUTION SOLUTIONS



## COMPANY PROFILE

Dynamex is the leading provider of same-day delivery and logistics services in the United States and Canada. Additional press releases and investor relations information as well as the Company's Internet e-commerce services package, dxNow™, is available at [www.dynamex.com](http://www.dynamex.com).

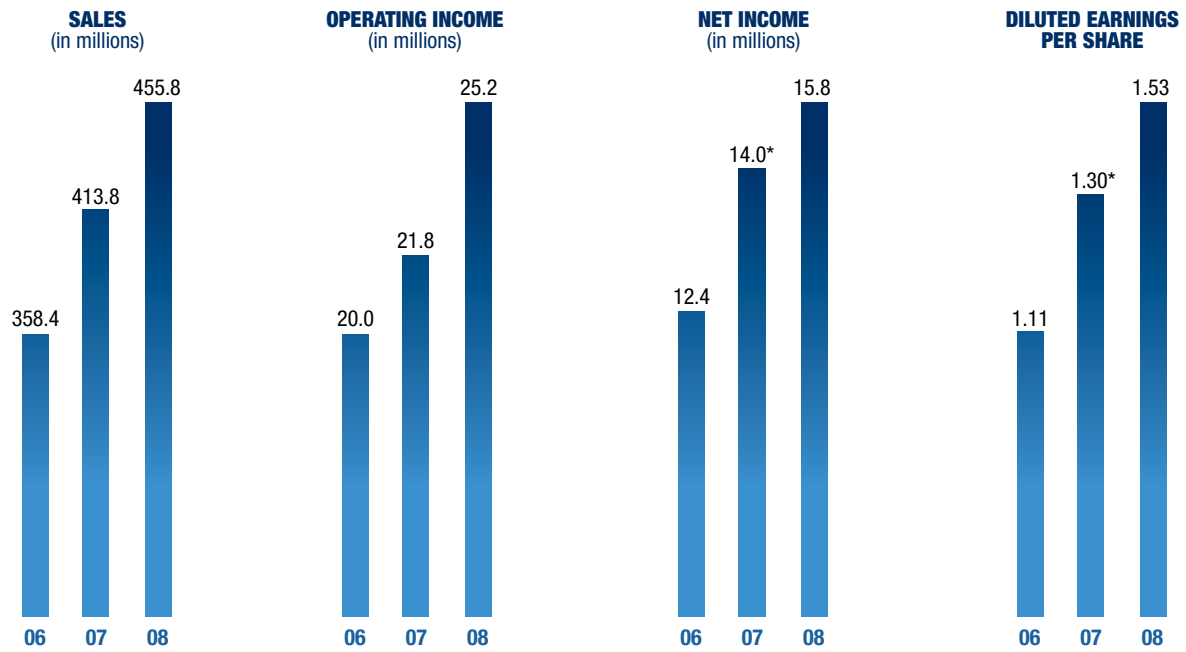
## ANNUAL MEETING

The annual meeting of shareholders of Dynamex Inc will be held January 6, 2009, at 10:00 a.m. CST at the Company's corporate office in Dallas, Texas. Stockholders of record as of November 12, 2008, will be entitled to vote at this meeting.

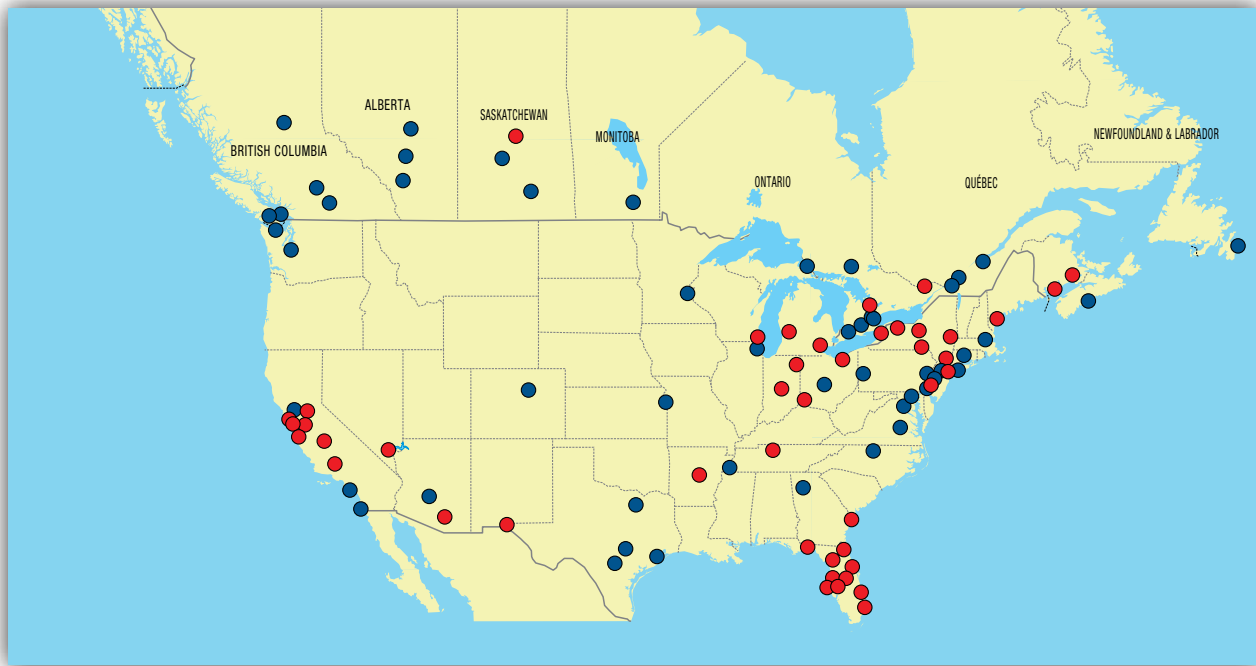
## FORWARD LOOKING STATEMENTS

Certain statements in this annual report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Act of 1933. This annual report contains forward-looking statements that involve assumptions regarding Company operations and future prospects. Although the Company believes its expectations are based on reasonable assumptions, such statements are subject to risk and uncertainty, including, among other things, the effect of changing economic conditions, acquisition strategy, competition, foreign exchange, the ability to meet the terms of current borrowing arrangements, and risks associated with the local delivery industry. These and other risks are mentioned from time to time in the Company's filings with the Securities and Exchange Commission. In light of such risks and uncertainties, the Company's actual results could differ materially from such forward-looking statements. The Company does not undertake any obligation to publicly release any revision to any forward-looking statements contained herein to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Caution should be taken that these factors could cause the actual results to differ from those stated or implied in this and other Company communications.





\*Excludes special benefit of \$972, or \$0.09 per share



● Business Centers ● Franchises

## TO OUR SHAREHOLDERS, CUSTOMERS AND EMPLOYEES

Fiscal year 2008 was a very positive year for our Company. In an economy challenged by the mortgage crisis and an historic rise in fuel costs, our business performed exceptionally well. Our people once again demonstrated why they are the best in the same-day transportation and distribution industry.

Highlights for our 2008 fiscal year include solid top line growth, with sales increasing 10.1% to \$455.8 million, almost double the sales of only six years ago. Operating income increased 15.9%, or \$3.5 million, to \$25.2 million compared to \$21.8 million last year. We reported net income of \$15.8 million, \$1.53 per fully diluted share compared to \$15.0, \$1.39 per fully diluted share last year. Last year's results included an after-tax benefit of \$972,000, \$0.09 per fully diluted share, from settlement of prior year cross-border transfer pricing issues. Excluding that one-time benefit, net income and diluted earnings per common share increased 12.8% and 17.7% respectively.

We repurchased 121,000 shares of the Company's common stock during fiscal 2008 and in August 2008, the Company repurchased an additional 222,100 shares, all from free cash flow generated from operations. We began this program about 36 months ago and to date have repurchased 2.2 million shares – reducing total outstanding shares by 18.8%. Our Board of Directors increased the share repurchase authorization by \$20 million at their September 2008 meeting raising the balance of future authorized purchases to \$32.3 million. We intend to continue to purchase our common stock from time to time using available cash or temporary borrowings from our bank credit facility as we continue to believe this is the best use of our excess cash in the current environment.

Our balance sheet remains strong as we ended the fiscal year with \$19.9 million in cash and equivalents and no debt, providing the company with a great deal of strategic flexibility and the ability to strengthen our market position. While we have used the majority of our excess cash to repurchase Dynamex common stock over the last three years, we believe there will be increased opportunities to complete tuck-in acquisitions in the current economic environment as smaller and weaker shippers struggle to survive. We continually search for attractive tuck-in acquisitions that we can easily integrate into our operations and that are accretive to our business.

We are close to surpassing the \$500 million revenue threshold and are focused on creating a billion dollar company. We have identified the building blocks to achieve that goal including an expanded sales force, the appropriate service offerings, our network makeup and operating disciplines.

We expect to invest in additional sales capacity during the first 2-3 quarters of FY 2009. I would expect to see us increase sales head count by 25% or more between now and the end of the 3rd quarter. We'll take a careful approach,

making sure we get the right people and that they get the right levels of orientation and training.

A big part of our growth strategy continues to involve the fleet outsourcing opportunity. We're experiencing good growth in this area and I think this positive momentum will continue - if not improve. The weak economy is creating more opportunities for our outsourcing business. Shippers experiencing declining business volumes and margins should become more motivated than ever to look at alternatives – like outsourcing.

We can often operate routes for shippers at a lower overall cost because shippers can use our unique service menu that offers scheduled and on-demand capacity, take advantage of our route optimization technology and innovative vehicle mix options along with a combination of full time and part time routes. We're experts in the last mile routing game and we bring a fresh perspective to client's shipping needs. We're often exactly what the client needs because by outsourcing, shippers can often reduce costs, enhance their operating flexibility and focus better on their core business by eliminating the operational distraction of running a transportation entity. They also may be able to liquidate rolling stock and deploy the capital elsewhere in the business.



Another revenue engine involves migrating overnight shipment activity away from the large global package carriers by providing shippers with a more flexible, price competitive same-day solution for shipments that stay within a short radius of their distribution centers. Instead of giving their inter-city and local shipments to the global package carriers, shippers can give us the local traffic today and we deliver today. This allows shippers to provide their clients with better service and more flexibility and this model minimizes the risk of damage and misdirected shipments associated with large sortation centers. We've had success with this application in a variety of industry verticals and we're just scratching the surface of a very large business opportunity.

Another revenue stream involves offering large, regional and national shippers our network, allowing them to consolidate their local transportation vendor base. Our national footprint has always been a strong selling feature for accounts using our outsourcing and distribution services and during the past year we have also secured business on a national basis from a number of clients that take advantage of our on-demand capabilities.

The on-demand service was our original revenue engine and it continues to be an important part of the value proposition we offer to shippers; especially those who want a bundled solution that involves not only fixed or scheduled route capacity, but also on-demand capacity to address volume spikes or unexpected emergency situations.

Another growth engine for Dynamex involves partnering with global transportation and logistics firms that require a same-day transportation component as part of a multi-modal solution. Rather than say "no" to an opportunity, they can accept it and outsource the requirement to Dynamex.

We are well positioned to take advantage of this large organic growth opportunity. But as the economy continues to weaken, this business becomes more challenging and frustrating for many owners of local delivery companies in our large and fragmented industry. So we also expect to grow Dynamex by continuing to purchase customer lists from owners who want to exit the business and by franchising with owners who want to stay in the game but do so with a strong partner. These are additional ways we are going to continue to expand our overall network and our geographic reach.

The franchising model, launched during fiscal 2006, is an exciting initiative that will help us further capitalize on the large opportunity in the same-day transportation and logistics marketplace. At fiscal year end, we operated a total of 62 company owned Business Centers in 42 markets. These are a mix of large, medium and small metropolitan markets. Since launching the franchising initiative 36 months ago, we have been focused on the remaining top 230 markets in North America. To date we have added 46 franchise locations to our network. The components of the value proposition that are most appealing to prospective franchisees continue to include access to our national account revenue stream, fresh, hosted, industry specific technology; business processes and guidance related to adding new services that allow owners to take their business to the next level; the sales horsepower associated with being an affiliate of Dynamex and the ability to leverage their client base by selling into the Dynamex network.

We understand that to achieve the billion dollar sales milestone, we must continue to focus on execution. We've built a business in Canada over the long run with a \$200 million run rate and the opportunity in the United States is ten times larger than Canada. The business in the U.S. is the same business. The cost structure and earnings quality are comparable and we know our tactics are working. We see it every week and every month. Over the last five years, our compound annual growth rate was 11.8% and 12.9% over the past three years. We expect our double digit top line momentum to continue over the longer term and our goal is to see earnings growth exceed the top line rate of growth by leveraging SG&A. We believe we can achieve this goal by focusing on five key areas:



1. Management of the existing sales territories and account base. This involves issues like managing, retaining, and also growing, existing sales areas and client relationships. Those relationships are local, regional and or national.
2. Ongoing development and leadership of the local and national sales organization. This involves the recruitment, induction and performance management of everyone in the sales organization.
3. Managing capacity and service quality. This is essentially staying ahead of demand, having the pick-up and delivery capacity where and when you need it.
4. Training and Development - the human resource side of our growing business. DxU, our online university plays a big part here. We have developed many industry specific and service specific business processes over the past 20 years and more and more of them are now available online for new and tenured people on the team. In addition to the training and development area, we're also very focused on succession planning in order to keep up with the anticipated growth rate of the business.
5. Managing direct costs. We've secured a large amount of fleet outsourcing and distribution business over the past few years and this business tends to have a lot of moving parts. Costs areas like drivers, sortation and sometimes line hauls or shuttles that move traffic to and from cross-dock locations and distribution centers. Managing these costs on a daily basis is essential. Our costs management process includes a daily operating margin analysis for each major account at each Business Center so that our local GM's have visibility on the sales and associated

delivery and warehousing costs – giving them the ability to react quickly if volume and/or costs get out of line with any account. Local management is in a position to act the day after an event, rather than having to wait for a monthly P&L that provides only aggregated sales and cost data for the entire location.



In summary, I am pleased with our fiscal 2008 performance and am optimistic about our opportunities in fiscal 2009 and beyond. We will continue to focus on the several core business strategies that have contributed to our past success and will contribute to our continued success in the future.

We recently announced the appointment of a new President and CEO, James Welch, who came on-board in early November. James brings a wealth of knowledge and experience in the transportation industry and in managing a large business. I have been the President and CEO for over 20 years and I am ready to step back from the day-to-day management of the business. I want to remove myself from the constant pressure of running a large organization and the associated travel requirements in order to achieve more balance in my personal life. This move will also allow me to invest more time on strategy – especially as it relates to organic growth, corporate development and the people side of the business and achieve that balance I want.

I thank our customers and shareholders for the confidence they have in Dynamex. I also thank our Board of Directors for their support. Finally, I would like to acknowledge our employees, who continue to demonstrate an unwavering commitment to serving our customers. Thank you for your efforts.

**Rick McClelland**  
 President, Chief Executive Officer  
 Chairman of the Board

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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 July 31, 2008

OR

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

Commission file number: 000-21057

**DYNAMEX INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State of incorporation)

86-0712225  
(I.R.S. Employer Identification No.)

5429 LBJ Freeway, Suite 1000, Dallas, Texas  
(Address of principal executive offices)

75240  
(Zip Code)

**Registrant's telephone number, including area code:**  
**(214) 560-9000**

**Securities registered pursuant to Section 12(b) of the Act:**  
**None**

**Securities registered pursuant to Section 12(g) of the Act:**  
**Common Stock, \$.01 par value**

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 Section 15(d) of the 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. (Check one):

Large accelerated filer \_\_\_\_\_ Accelerated filer  Non-accelerated filer \_\_\_\_\_ Small reporting company filer \_\_\_\_\_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes   
No

The aggregate market value of the voting stock held by non-affiliates of the registrant on January 31, 2008 was approximately \$255,059,070.

The number of shares of the registrant's common stock, \$.01 par value, outstanding as of September 30, 2008 was 9,921,968 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information required in Part III of the Form 10-K have been incorporated by reference to the Registrant's definitive Proxy Statement on Schedule 14-A to be filed with the Commission.

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## PART I

*Statements and information presented within this Annual Report on Form 10-K for Dynamex Inc. (the "Company" and "Dynamex") contain "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements can be identified by the use of predictive, future tense or forward-looking terminology, such as "believes", "anticipates", "expects", "estimates", "may", "will" or similar terms. Forward-looking statements also include projections of financial performance, statements regarding management's plans and objectives and statements concerning any assumptions relating to the foregoing. Certain important factors which may cause actual results to vary materially from these forward-looking statements accompany such statements and appear elsewhere in this report, including without limitation, the factors disclosed under "Risk Factors." All subsequent written or oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified by these factors.*

### **ITEM 1. BUSINESS**

#### **General**

Dynamex is a leading provider of same-day delivery and logistics services in the United States and Canada. The Company was organized under the laws of Delaware in 1992 as Parcelway Systems Holding Corp. and changed its name to Dynamex Inc. in 1995. Through its network of business centers, the Company provides same-day, on-demand, door-to-door delivery services utilizing its ground couriers. For many of its inter-city deliveries, the Company uses third party air or motor carriers in conjunction with its ground couriers to provide same-day service. In addition to on-demand delivery services, the Company offers local and regional distribution services, which encompass recurring, often daily, point-to-point deliveries or multiple destination deliveries that often require intermediate handling. The Company also offers outsourcing services as well as fleet and facilities management services. These services include designing and managing systems to maximize efficiencies in transporting, sorting and delivering customers' products on a local and multi-city basis. With its fleet management service, the Company manages and may provide a fleet of dedicated vehicles at single or multiple customer sites. The Company's on-demand delivery capabilities are available to supplement scheduled distribution arrangements or dedicated fleets as needed. Facilities management services include the Company's operation and management of customers' mailrooms. In Fiscal Year (FY) 2006, in conjunction with its franchising activities the Company began to license its technology and certain business processes primarily to small, privately held same-day transportation companies in order to increase market share, penetrate new markets and increase operational efficiencies.

#### **Industry Overview**

The delivery and logistics industry is large, highly fragmented and growing. The industry is composed primarily of same-day, next-day and second-day service providers. The Company primarily services the same-day, intra-city delivery market. The same-day delivery and logistics industry in the United States and Canada consists of several thousand small, independent businesses serving local markets and a small number of multi-location regional or national operators. Relative to smaller operators in the industry, the Company believes that national operators, such as the Company, benefit from several competitive advantages including: national brand identity, professional management, the ability to service accounts on a multi-market basis and centralized administrative and management information systems.

Management believes that the same-day delivery segment of the transportation industry is benefiting from several trends. For example, the trend toward outsourcing has resulted in numerous shippers turning to third party providers for a range of services including same-day delivery and management of in-house distribution. Many businesses that outsource their distribution requirements prefer to purchase such services from one source that can service multiple cities, thereby decreasing the number of vendors from which they purchase services. Additionally, the growth of "just-in-time" inventory practices designed to reduce inventory-carrying costs has increased the demand for the same-day delivery of such inventory. Technological developments such as e-mail and facsimile have increased the pace of business and other transactions, thereby increasing demand for the same-day delivery of a wide array of items, ranging from voluminous documents to critical manufacturing parts and medical devices. Consequently, there has been increased demand for the same-day transportation of items that are not suitable for fax or electronic transmission, but for which there is an immediate need.

## **Business Strategy**

The Company intends to expand its operations in the U.S. and Canada to capitalize on the demand of local, regional and national businesses for innovative same-day transportation solutions. The key elements of the Company's business strategy are as follows:

*Focus on Primary Services.* The Company operates in one reportable business segment, same day delivery services, with two primary service offerings: (i) same-day, point-to-point on-demand delivery services and (ii) same-day local and regional distribution services including outsourcing services such as fleet management and facilities management. The Company focuses its same-day on-demand delivery business on transporting non-faxable, time sensitive items throughout metropolitan areas. By delivering items of greater weight over longer distances and providing value added on-demand services such as non-technical swap-out of failed equipment, the Company expects to raise the yield per delivery relative to the yield generated by delivering documents within a central business district. Additionally, these value added services are generally less vulnerable to price competition than traditional on-demand delivery services. Also, the Company intends to capitalize on the market trend towards outsourcing transportation requirements by concentrating its logistics services in same-day local and regional distribution and fleet management. The delivery transactions in a fleet management and distribution program are recurring in nature, thus creating the potential for long-term customer relationships.

*Target National, Regional and Local Accounts.* The Company's national account managers focus on acquiring and maintaining national, regional and local accounts. The Company anticipates that its (i) existing multi-city network of locations combined with its network of franchisees and service partners, (ii) ability to offer value added services such as fleet management to complement its basic same-day delivery services and (iii) experienced, operations oriented management team and sales force, will create further opportunities with many of its existing customers and attract new national, regional and local accounts.

*Create Strategic Alliances.* By forming alliances with strategic partners that offer services that complement those of the Company, the Company and its partner can jointly market their services, thereby accessing one another's customer base and providing such customers with a broader range of value added services. For example, the Company has formed an alliance with Purolator whereby on an exclusive basis the Company and Purolator provide one another with certain delivery services and market one another's delivery services to their respective customers. Purolator reports that it is the largest overnight courier in Canada. See "— Sales and Marketing."

*License Technology and Business Practices.* Over the last ten years, the Company has developed industry leading proprietary software and has documented its business processes and practices. In fiscal year 2006, the Company began to franchise its technology and certain business processes to smaller, privately-owned industry participants in order to increase and solidify market share in existing markets, expand to and penetrate new markets, and increase operational efficiencies and decrease operational costs. At the end of our 2008 fiscal year, we had signed agreements with franchisees that cover 44 markets in various locations in the U.S. and Canada.

## **Services**

The Company capitalizes on its routing, dispatch and vehicle and personnel management expertise developed in the ground courier business to provide its customers with a broad range of value added, same-day distribution services. By creating innovative applications of its core services, the Company intends to expand the market for its distribution services and increase the yield per service provided.

*Same-Day On-Demand Delivery.* The Company provides same-day, intra-city on-demand delivery services whereby Company messengers or drivers respond to a customer's request for immediate pick-up and delivery. The Company also provides same-day inter-city delivery services by utilizing third-party air or motor carriers in conjunction with the Company's ground couriers. The Company focuses on the delivery of non-faxable, time sensitive items throughout major metropolitan areas rather than traditional downtown document delivery. For the fiscal years ended July 31, 2008, 2007 and 2006, approximately 33%, 33%, and 38% respectively, of the Company's sales were generated from same-day on-demand delivery services.

*Same-Day Local and Regional Distribution.* The Company provides same-day scheduled local and regional distribution services that include regularly scheduled deliveries made on a point-to-point basis and deliveries that

may require intermediate handling, routing or sorting of items to be delivered to multiple locations. The Company's on-demand delivery capabilities are available to supplement scheduled services as needed. A bulk shipment may be received at the Company's warehouse where it is sub-divided into smaller bundles and sorted for delivery to specified locations. Same-day scheduled distribution services are provided on both a local and multi-city basis. For example, in Ontario Canada, the Company services the scheduled distribution requirements of a consortium of commercial banks. These banks require regular pick-up of non-negotiable materials that are then delivered by the Company on an intra- and inter-city basis.

The Company's distribution outsourcing services include fleet management and mailroom or other facilities management, such as maintenance of call centers for inventory tracking and delivery. With its distribution outsourcing services, the Company is able to apply its same-day delivery capability and logistics experience to design and manage efficient delivery systems for its customers. The distribution outsourcing service offerings can expand or contract depending on the customer's needs. Management believes that the distribution outsourcing trend has resulted in many customers increasing their use of third-party providers for a variety of delivery services.

The largest component of the Company's distribution outsourcing services is fleet management. With its fleet management service, the Company provides transportation services primarily for customers that previously managed such operations in-house. This service is generally provided with a fleet of dedicated vehicles that can range from passenger cars to tractor-trailers (or any combination) and may display the customer's logo and colors. In addition, the Company's on-demand delivery capability may supplement the dedicated fleet as necessary, thereby allowing a smaller dedicated fleet to be maintained than would otherwise be required. The Company's fleet management services include designing and managing systems to maximize efficiencies in transporting, sorting and delivering customers' products on a local and multi-city basis. Because the Company does not own delivery vehicles, but instead contracts with drivers who do, the Company's fleet management solutions are not limited by the Company's need to utilize its own fleet.

By outsourcing their fleet management, the Company's customers (i) utilize the Company's distribution and route optimization experience to deliver their products more efficiently, (ii) gain the flexibility to expand or contract fleet size as necessary, and (iii) reduce the costs and administrative burden associated with owning or leasing vehicles and hiring and managing transportation employees

For the fiscal years ended July 31, 2008, 2007 and 2006, approximately 67%, 67%, and 62%, respectively, of the Company's sales were generated from same-day local and regional distribution services.

While the volume of individual services provided varies significantly between locations, each of the Company's business centers generally offers the same core services. Factors that impact business mix include customer base, competition, geographic characteristics, available labor and general economic environment. The Company can bundle its various delivery and logistics services to create customized distribution solutions and, by doing so, seeks to become the single source for its customers' distribution needs.

## **Operations**

The Company's operations are divided into regions, six U.S. and six Canadian, with each of the Company's approximately 48 business centers assigned to the appropriate region. Business center operations are locally managed with regional and national oversight and support provided as necessary. A business center manager is assigned to each business center and is accountable for all aspects of such business center operations including its profitability. Each business center manager reports to a regional manager with similar responsibilities for all business centers within his region. Certain administrative and marketing functions may be centralized for multiple business centers in a given city or region. Dynamex believes that the strong operational and sales and marketing background of its senior management is important to building brand identity throughout the United States and Canada while simultaneously overseeing and encouraging individual managers to be successful in their local markets.

*Same-Day On-Demand Delivery.* Most business centers have operations staffed by dispatchers, as well as customer service representatives and operations personnel. Incoming calls are received by trained customer service representatives who utilize computer systems to provide the customer with a job-specific price quote and to transmit the order to the appropriate dispatch location. All of the Company's clients have access to a web-based electronic data interface to enter dispatch requirements, make inquiries and receive billing information. A dispatcher

coordinates shipments for delivery within a specific time frame. Shipments are routed according to the type and weight of the shipment, the geographic distance between the origin and destination, and the time allotted for the delivery. Coordination and deployment of delivery personnel for on-demand deliveries is accomplished either through communications systems linked to the Company's computers, through pagers or by two-way communication devices.

*Same-Day Local and Regional Distribution.* A dispatcher manages the delivery flow by coordinating the scheduled deliveries with available drivers. In many cases, certain drivers will handle a designated group of scheduled routes on a recurring basis. Any intermediate handling required for a scheduled distribution is conducted at the Company's warehouse or the customer's facility.

The largest component of the Company's distribution outsourcing services is its fleet management. Fleet management services are coordinated by the Company's logistics specialists who have experience in designing, implementing and managing integrated networks for transportation services. Based upon the specialist's analysis of a customer's fleet and distribution requirements, the Company develops a plan to optimize fleet configuration and route design. The Company provides the vehicles and drivers necessary to implement the fleet management plan. Such vehicles and drivers are generally dedicated to a particular customer and may display the customer's name and logo on its vehicles. The Company can supplement these dedicated vehicles and drivers with its on-demand capability as necessary.

Prices for the Company's services are determined at the local level based on the distance, weight and time-sensitivity of a particular delivery. The Company generally enters into customer contracts for local and regional distribution, and fleet and facilities management, which are generally terminable by such customer upon notice generally ranging from 30 to 90 days. The Company does not typically enter into contracts with its customers for on-demand delivery services.

Substantially all of the Dynamex drivers are independent contractor owner-operators who provide their own vehicles, pay all expenses of operating their vehicles and receive a percentage of the delivery charge as payment for their services. Management believes that this creates a higher degree of responsiveness on the part of its drivers as well as significantly lowering the capital required to operate the business and reduces the Company's fixed costs.

## **Sales and Marketing**

The Company markets its services through a sales force comprised of national and local sales representatives and telemarketers. The total sales force including management, national and local sales representatives and administrative support totaled 96 persons at July 31, 2008. The Company's national sales force, comprised of 15 national account representatives supported by two managers, focus on regional and national customers who can utilize its services on a multi-market basis. Sixty-three local employee sales representatives supported by ten sales managers and two administrative employees target business opportunities in their local market, and four specialized sales representatives contact existing customers to assess customer satisfaction and requirements. The Company's sales force will seek to generate additional business from existing local accounts, which often include large companies with multiple locations. The expansion of the Company's national sales program and continuing investment in technology to support its expanding operations have been undertaken at a time when large companies are increasing their demand for delivery providers who offer a range of delivery services at multiple locations.

The Company's local sales representatives make regular calls on existing and potential customers to identify such customers' delivery and logistics needs. The Company's national product and industry specialists augment the local marketing efforts and seek new applications of the Company's primary services in an effort to expand the demand for such services. Customer service representatives on the local and national levels regularly communicate with customers to monitor the quality of services and to quickly respond to customer concerns. The Company maintains a database of its customers' service utilization patterns and satisfaction level. This database is used to analyze opportunities and conduct performance audits.

Fostering strategic alliances with customers who offer services that complement those of the Company is an important component of the Company's marketing strategy. For example, under an agreement with Purolator, the Company serves as Purolator's exclusive provider of same-day courier services, which services are then marketed by Purolator to its customers. The Company also provides Purolator with local and inter-city, same-day ground courier service for misdirected Purolator shipments. Purolator reports that it is the largest overnight courier in Canada.

## **Customers**

The Company's target customer is a business that distributes time-sensitive, non-faxable items to multiple locations. The primary industries served by the Company include financial services, electronics, pharmaceuticals, retail, office products, medical laboratories and hospitals, auto parts, legal services and Canadian governmental agencies. During the years ended July 31, 2008, 2007 and 2006, sales to Office Depot, Inc. represented approximately 14.6%, 14.2% and 10.6%, respectively, of the Company's revenue. Sales to the Company's five largest customers, including Office Depot, represented approximately 27%, 28% and 25% of the Company's consolidated sales for the years ended July 31, 2008, 2007 and 2006, respectively.

A significant number of the Company's customers are located in Canada. For the fiscal years ended July 31, 2008, 2007 and 2006, approximately 38%, 38% and 36% of the Company's sales, respectively, were generated in Canada. See Note 14 of Notes to the Consolidated Financial Statements for additional information concerning the Company's foreign operations.

## **Competition**

The market for the Company's same-day delivery and logistics services has been and is expected to remain highly competitive. The Company believes that the principal competitive factors in the markets in which it competes are reliability, quality, breadth of service and price.

Most of the Company's competitors in the same-day intra-city delivery market are privately held companies that operate in only one location, with no one competitor dominating the market. Price competition for basic delivery services is particularly intense.

The market for the Company's logistics services is also highly competitive, and can be expected to remain competitive as additional companies seek to capitalize on the growth in the industry. The Company's principal competitors for such services are other delivery companies and in-house transportation departments. The Company generally competes on the basis of its ability to provide customized service regionally and nationally, which it believes is an important advantage in this highly fragmented industry, and on the basis of price.

The Company's principal competitors for drivers are other delivery companies within each market area. Management believes that its method of driver compensation, which is based on a percentage of the delivery charge, the large volume of available work and the use of proprietary technology, are factors that are attractive to drivers and help the Company to recruit and retain drivers.

## **Regulation**

The Company's business and operations are subject to various federal (U.S. and Canadian), state, provincial and local regulations and, in many instances, require permits and licenses from state authorities. The Company holds nationwide general commodities authority from the Federal Highway Administration of the U.S. Department of Transportation to transport certain property as a motor carrier on an inter-state basis within the contiguous 48 states. Where required, the Company holds statewide general commodities authority. The Company holds permanent extra-provincial (and where required, intra-provincial) operating authority in all Canadian provinces where the Company does business.

In connection with the operation of certain motor vehicles, the handling of hazardous materials in its courier operations and other safety matters, including insurance requirements, the Company is subject to regulation by the U. S. Department of Transportation, the states and by the appropriate Canadian federal and provincial regulations. The Company is also subject to regulation by the Occupational Safety and Health Administration, provincial occupational health and safety legislation and federal and provincial employment laws respecting such matters as hours of work and driver logbooks. To the extent the Company holds licenses to operate two-way radios to communicate with its fleet, the Federal Communications Commission regulates the Company. The Company believes that it is in substantial compliance with all of these regulations. The failure of the Company to comply with the applicable regulations could result in substantial fines or possible revocations of one or more of the Company's operating permits.

## **Safety**

From time to time, the independent contractor owner-operators performing services for the Company are involved in accidents. The Company carries liability insurance with a per claim and an aggregate limit of \$30 million. Independent contractor owner-operators are required to maintain liability insurance of at least the minimum amounts required by applicable state and provincial law (generally such minimum requirements range from \$20,000 to \$40,000). The Company also has insurance policies covering property and fiduciary trust liability, which coverage includes all drivers. The Company reviews prospective drivers to ensure that they have acceptable driving records and conducts criminal background investigations. In addition, where required by applicable law, contractually or by Company policy, the Company requires prospective drivers to take a physical examination and to pass a drug test. Drivers are provided information on any additional safety requirements as dictated by customer specifications.

## **Intellectual Property**

The Company has registered "DYNAMEX", "DXFRANCHISE POWERED BY DYNAMEX", "POWERED BY DYNAMEX", "DYNAMEX DELIVERS NOW", "DXNOW.COM" and "STRATEGIC STOCKING LOCATIONS" as federal trademarks in the Canadian Intellectual Office and the U.S. Patents and Trademark's office for federal trademark registration of such names. No assurance can be given that any such registration will be granted in the U.S., or that if granted, such registration will be effective to prevent others from using the trademark concurrently or to allow the Company to use the trademark in certain locations.

## **Employees**

At July 31, 2008, the Company had approximately 2,000 employees, of whom approximately 1,000 were employed in various management, supervisory, sales, administrative, and other corporate positions and approximately 1,000 were employed as messengers and mailroom workers. Additionally at July 31, 2008, the Company had contracts with approximately 4,600 independent contractor owner-operator drivers. Management believes that the Company's relationship with such employees and independent contractor owner-operators is good. See "Risk Factors — Certain Tax Matters Related to Drivers."

Of the approximately 4,600 independent contractor owner-operator drivers used by the Company as of July 31, 2008, approximately 1,700 are located in Canada and approximately 2,900 are located in the U.S. Although the drivers and messengers located in Canada are generally independent contractors, approximately 70% are represented by major international labor unions. Management believes that the Company's relationship with such unions is good. Unions represent none of the Company's U.S. employees, drivers or messengers.

## **Available Information**

The Company electronically files its annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K with the Securities and Exchange Commission ("SEC"). Copies of the Company's filings with the SEC may be obtained from its website at [HTTP://WWW.DYNAMEX.COM](http://www.dynamex.com) or at the SEC's website, at [HTTP://WWW.SEC.GOV](http://www.sec.gov). Access to these filings is free of charge.

## **ITEM 1A. RISK FACTORS**

*In addition to other information in this report, the following risk factors should be considered carefully in evaluating the Company and its business. This report contains forward-looking statements, which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in the following risk factors and elsewhere in this report.*

### *Competition May Adversely Affect Our Results*

The market for same-day delivery and logistics services has been and is expected to remain highly competitive. Competition is often intense, particularly for basic delivery services. High fragmentation and low barriers to entry characterize the industry. We compete with other companies in the industry not only to be providers of services but also for qualified drivers. Some of these companies have longer operating histories and greater financial and other

resources than we do. Because of the low cost of entry, companies that do not currently operate delivery and logistics businesses may enter the industry in the future. See "Business — Competition."

#### *An Increase in Claims May Expose Us to Losses*

As of July 31, 2008, we utilized the services of approximately 4,600 independent contractor owner-operator drivers. From time to time such persons are involved in accidents or other activities that may give rise to liability claims. We currently carry liability insurance with a per-occurrence and an aggregate limit of \$30 million. Our independent contractor owner-operators are required to maintain liability insurance of at least the minimum amounts required by applicable state or provincial law (generally such minimum requirements range from \$20,000 to \$40,000). We also have insurance policies covering property and fiduciary trust liability, which coverage includes all drivers and messengers. We make no assurance that claims against us, whether under the liability insurance or the surety bonds, will not exceed the applicable amount of coverage, that our insurer will be solvent at the time of settlement of an insured claim, or that we will be able to obtain insurance at acceptable levels and costs in the future. If we were to experience a material increase in the frequency or severity of accidents, liability claims, workers' compensation claims or unfavorable resolutions of claims, our business, financial condition and results of operations could be materially adversely affected. In addition, significant increases in insurance costs could reduce our profitability.

#### *We Rely on Independent Contractor Owner-Operator Drivers to Make Deliveries for Our Customers*

Substantially all of our independent contractor owner-operator drivers at July 31, 2008 were independent contractors who own their own vehicles. We do not pay or withhold any federal, state or provincial employment tax with respect to or on behalf of independent contractors. From time to time, taxing authorities in the U.S. and Canada have sought to assert that independent contractor owner-operators in the transportation industry, including those utilized by us, are employees, rather than independent contractors. We believe that the independent contractor owner-operators utilized by us are not employees under existing interpretations of federal (U.S. and Canadian), state and provincial laws. However, federal (U.S. and Canadian), state, provincial authorities or independent contractors may challenge this position, and other laws or regulations, including tax laws, or interpretations thereof, may be changed. If, as a result of any of the foregoing, we were required to pay withholding taxes and pay for and administer added employee benefits to these drivers, our operating costs would increase. Additionally, if we are required to pay back-up withholding with respect to amounts previously paid to such drivers, we may also be required to pay penalties or be subject to other liabilities. Any of the foregoing circumstances may adversely impact our financial condition and results of operations, and/or compel us to restate financial information from prior periods. See "Business — Services" and "— Employees."

#### *We May Be Adversely Affected by Local Delivery Industry and General Economic Conditions*

Our sales and earnings are especially sensitive to events that affect the delivery services industry including extreme weather conditions, economic factors affecting our significant customers and shortages of or disputes with labor, any of which could result in our inability to service our clients effectively or our inability to profitably manage our operations. In addition, downturns in the level of general economic activity and employment in the U.S. or Canada may negatively impact demand for our services.

#### *Fluctuations of Foreign Exchange Rates May Adversely Affect Our Results*

Slightly more than one-third of our operations are conducted in Canada. Exchange rate fluctuations between the U.S. and Canadian dollar result in fluctuations in the amounts relating to the Canadian operations reported in our consolidated financial statements. The Canadian dollar is the functional currency for the Canadian operations; therefore, any change in the exchange rate will affect our reported sales, expenses and net income for such period. We historically have not entered into hedging transactions with respect to our foreign currency exposure, but may do so in the future. We cannot be assured that fluctuations in foreign currency exchange rates will not have a material adverse effect on our business, financial condition or results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operation."

### *Failure to Maintain Permits and Licensing May Adversely Affect Our Ability to Operate*

Although certain aspects of the transportation industry have been significantly deregulated, our delivery operations are still subject to various federal (U.S. and Canadian), state, provincial and local laws, ordinances and regulations that in many instances require certificates, permits and licenses. If we fail to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations we may incur substantial fines or possible revocation of our authority to conduct certain of our operations. See "Business — Regulation."

### *We Depend Upon Key Personnel for Our Continued Operations*

Our success is largely dependent on the skills, experience and performance of certain key members of our management. The loss of the services of any of these key employees could have a material adverse effect on our business, financial condition and results of operations. Our future success and plans for growth also depend on its ability to attract and retain skilled personnel in all areas of our business. There is strong competition for skilled personnel in the same-day delivery and logistics businesses.

### *Technological Advances May Adversely Affect Our Business*

Technological advances in the nature of facsimile, electronic mail and electronic signature capture have affected the market for on-demand document delivery services. Although we have shifted our focus to the distribution of non-faxable items and logistics services, there can be no assurance that these or other technologies will not have a material adverse effect on our business, financial condition and results of operations in the future.

### *We Are Highly Dependent Upon Our Technology Infrastructure*

We rely heavily on technology to operate our transportation and business networks, and any disruption to our technology infrastructure or the internet could harm our operations and our reputation among our customers. Our ability to attract and retain customers and to compete effectively depends in part upon the sophistication and reliability of our technology network, including our ability to provide features of service that are important to our customers. Any disruption to our computer systems and web site could adversely impact our customer service, our ability to receive orders and respond to prompt delivery assignments and result in increased costs. While we have invested and will continue to invest in technology security initiatives and disaster recovery plans, these measures cannot fully insulate us from technology disruptions and the resulting adverse effect on our operations and financial results.

### *We Are Dependent on Availability of Qualified Delivery Personnel*

We are dependent upon our ability to attract and retain, as employees or through independent contractor or other arrangements, qualified delivery personnel who possess the skills and experience necessary to meet the needs of our operations. We compete in markets in which unemployment is generally relatively low and the competition for independent contractor owner-operators and other employees is intense. We must continually evaluate and upgrade our pool of available independent contractor owner-operators to keep pace with demands for delivery services. We have no assurance that qualified delivery personnel will continue to be available in sufficient numbers and on terms acceptable to us. Our inability to attract and retain qualified delivery personnel could have a material adverse impact on our business, financial condition and results of operations.

### *We May Need for Additional Financing to Pursue Our Acquisition Strategy*

We intend to pursue acquisitions that are complementary to our existing operations, primarily through the acquisition of customer lists of small local delivery companies that can be tucked into our current operating locations. We may be required to incur additional debt, issue additional securities that may potentially result in dilution to current holders and also may result in increased goodwill, intangible assets and amortization expense. We have no assurance that we will be able to obtain additional financing if necessary, or that such financing can be obtained on terms we will deem acceptable. As a result, we may be unable to successfully implement our acquisition strategy. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Capital Resources."

*Factors Beyond Our Control May Affect the Volatility of Our Stock Price*

Prices for our common stock will be determined in the marketplace and may be influenced by many factors, including the depth and liquidity of the market for our common stock, investor perception of us and general economic and market conditions. Variations in our operating results, general trends in the industry and other factors could cause the market price of our common stock to fluctuate significantly. In addition, general trends and developments in the industry, government regulation and other factors could have a significant impact on the price of our common stock. The stock market has, on occasion, experienced extreme price and volume fluctuations that have often particularly affected market prices for smaller companies and that often have been unrelated or disproportionate to the operating performance of the affected companies, and the price of our common stock could be affected by such fluctuations.

*Escalating Fuel Costs May Adversely Affect Our Financial Condition and Results of Operations*

The independent contractor owner-operators we engage are responsible for all vehicle expense including maintenance, insurance, fuel and all other operating costs. We make every reasonable effort to include fuel cost adjustments in customer billings that we pay to independent contractor owner-operators to offset the impact of fuel price increases. If future fuel cost adjustments are insufficient to offset independent contractor owner-operators' costs, we may be unable to attract a sufficient number of independent contractor owner-operators that may negatively impact our business, financial condition and results of operations.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Company leased facilities in 84 locations at July 31, 2008. These facilities are principally used for operations and general and administrative functions. The chart below summarizes the locations of facilities that the Company leases:

| <u>Location</u>  | <u>Number of<br/>Leased Properties</u> |
|------------------|--|
| <u>Canada</u>    |  |
| Alberta          | 4                                      |
| British Columbia | 6                                      |
| Manitoba         | 2                                      |
| Newfoundland     | 1                                      |
| Nova Scotia      | 1                                      |
| Ontario          | 13                                     |
| Quebec           | 3                                      |
| Saskatchewan     | 2                                      |
| Canadian Total   | <u>32</u>                              |

| <u>Location</u>      | <u>Number of<br/>Leased Properties</u> |
|----------------------|--|
| <u>United States</u> |  |
| Arizona              | 1                                      |
| California           | 11                                     |
| Colorado             | 1                                      |
| Connecticut          | 1                                      |
| Delaware             | 1                                      |
| Florida              | 1                                      |
| Georgia              | 1                                      |
| Illinois             | 2                                      |
| Indiana              | 1                                      |
| Kansas               | 1                                      |
| Maryland             | 1                                      |
| Massachusetts        | 1                                      |
| Minnesota            | 1                                      |
| Nevada               | 1                                      |
| New Jersey           | 3                                      |
| New York             | 6                                      |
| North Carolina       | 2                                      |
| Ohio                 | 1                                      |
| Pennsylvania         | 3                                      |
| Tennessee            | 1                                      |
| Texas                | 6                                      |
| Virginia             | 3                                      |
| Washington           | 2                                      |
| United States Total  | 52                                     |
| <br>                 |  |
| Total                | 84                                     |

The Company believes that its properties are well maintained, in good condition and adequate for its present needs. The Company anticipates that suitable additional or replacement space will be available when required.

Facility rental expense for the fiscal years ended July 31, 2008, 2007 and 2006 was approximately \$10.6 million, \$9.8 million and \$7.8 million, respectively. The Company's principal executive offices are located in Dallas, Texas. See Note 7 of Notes to the Consolidated Financial Statements for additional information.

### ITEM 3. LEGAL PROCEEDINGS

The California Employment Development Department (the “EDD”), in 2005, conducted an employment tax audit of certain of the Company’s operations in California for the period April 2003 through March 2005. As a result of the audit, the EDD concluded that certain independent contractors used by the Company should be reclassified as employees. Based on such reclassification, the EDD made a \$345,000 assessment plus accrued interest against the Company, the bulk of which was for personal income taxes. The Company subsequently provided documentation to the EDD related to the original assessment which resulted in a reduction in the assessment of approximately \$100,000. The Company subsequently pursued an administrative appeal of the denial of its Refund Claim. The California Unemployment Appeals Board upheld the denial following an evidentiary hearing in May. After weighing the cost, management time, and legal fees involved in an appeal to a California court against the value of the potential recovery, the Company made a business decision not to pursue further appeals. The decision has no legal effect on other audits conducted by the EDD.

The California EDD conducted an employment tax audit of the Company’s other California operations in 2006. Based on its conclusion that certain independent contractors used by the Company should be reclassified as employees, a Notice of Assessment was issued by the EDD in April 2007 in the amount of \$2.8 million; \$2.0 million of which the EDD claims represents personal income tax of the reclassified individuals. As in the earlier matter, the Company has collected and submitted documentation which will work to reduce the personal income tax portion of the assessment. The Company has filed a Petition for Reassessment and intends to vigorously contest the assessment.

On April 15, 2005, a putative class action was filed against the Company by a former Company driver in the Superior Court of California, Los Angeles County, alleging that the Company unlawfully misclassified its California drivers as independent contractors, rather than employees, and asserting, as a consequence, entitlement on behalf of the purported class claimants to overtime compensation and other benefits under California wage and hour laws, reimbursement of certain operating expenses, and various insurance and other benefits and the obligation of the Company to pay employer payroll taxes under federal and state law. Plaintiff’s Motion for Class Certification was denied in December 2006, and appealed by Plaintiff. Following the exchange of Briefs, an Appellate Hearing was held in August, 2008. The Appellate Court determined that the Trial Court’s denial of Plaintiff’s earlier Motion to Compel Disclosure of the names and contact information for all members of the putative class prejudiced Plaintiff’s ability to support his Motion for Class Certification. The ruling reversed the Denial of the Motion for Class Certification and remanded the matter for additional discovery and eventual re-hearing of the Motion.

On October 17, 2007, two former independent contractor drivers in New York filed a purported class action / collective action against the Company in the United States District Court in New York alleging that the Company had unlawfully misclassified its drivers in New York and in the United States as independent contractors rather than as employees, and that the Company had unlawfully failed to comply with the “Truth In Truck Leasing” and “Leasing Regulations” under U.S. Transportation Statutes. The Complaint sought relief under the New York Labor and Wage Statutes and the U.S. Fair Labor Standards Act including payment of wages for all hours worked plus overtime, as well as for reimbursement of business expenses and improper deductions made from driver wages and injunctive relief to prevent further violations. The truck leasing claims sought unspecified amounts by which plaintiffs were underpaid and amounts for which the Company had over deducted. Following various written discovery, Plaintiffs voluntarily dismissed the wage claims, With Prejudice, and the transportation law claims, Without Prejudice.

On July 25, 2008, two California independent contractor drivers filed a purported class action suit alleging that the Company’s classification of California drivers as independent contractors was unlawful, and that as a consequence they were denied the benefit of various California wage laws. They further alleged that such misclassification constituted unfair competition under California business statutes. Because the Complaint in large measure contains the same causes of action as the on-going 2005 California case, the Company filed a Special Demurrer and a Motion to Stay further proceedings pending the outcome of the earlier action. A Hearing is scheduled for early November, 2008.

The Company believes that all independent contractor owner-operator drivers are properly classified as independent contractors and intends to vigorously defend these various actions. Given the nature and preliminary status of the existing claims, however, the Company cannot yet determine with certainty the amount of any alleged liability or reasonable range of potential loss in these matters, if any.

The Company is a party to other legal proceedings and claims arising in the ordinary course of its business. Overall, the Company believes that the ultimate liability, if any and resolution of these pending legal proceedings and claims will not, in the aggregate, have a material adverse effect on the financial condition, results of operations, or liquidity of the Company.

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

None.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

*Market Information* — The Company's common stock commenced trading on the Nasdaq Global Select Market under the symbol "DDMX" on March 14, 2005. Previously, the common stock was listed on the AMEX. The following table summarizes, for the periods indicated, the range of high and low closing sale prices for our common stock, as reported on the Nasdaq Global Select Market. The NASDAQ prices represent inter-dealer quotations without retail markups, markdowns or commissions and may not represent actual transactions.

| Fiscal 2008    | Bid      |          |
|----------------|----------|----------|
|                | High     | Low      |
| First Quarter  | \$ 29.95 | \$ 23.50 |
| Second Quarter | 30.47    | 22.70    |
| Third Quarter  | 26.46    | 21.55    |
| Fourth Quarter | 29.57    | 23.05    |

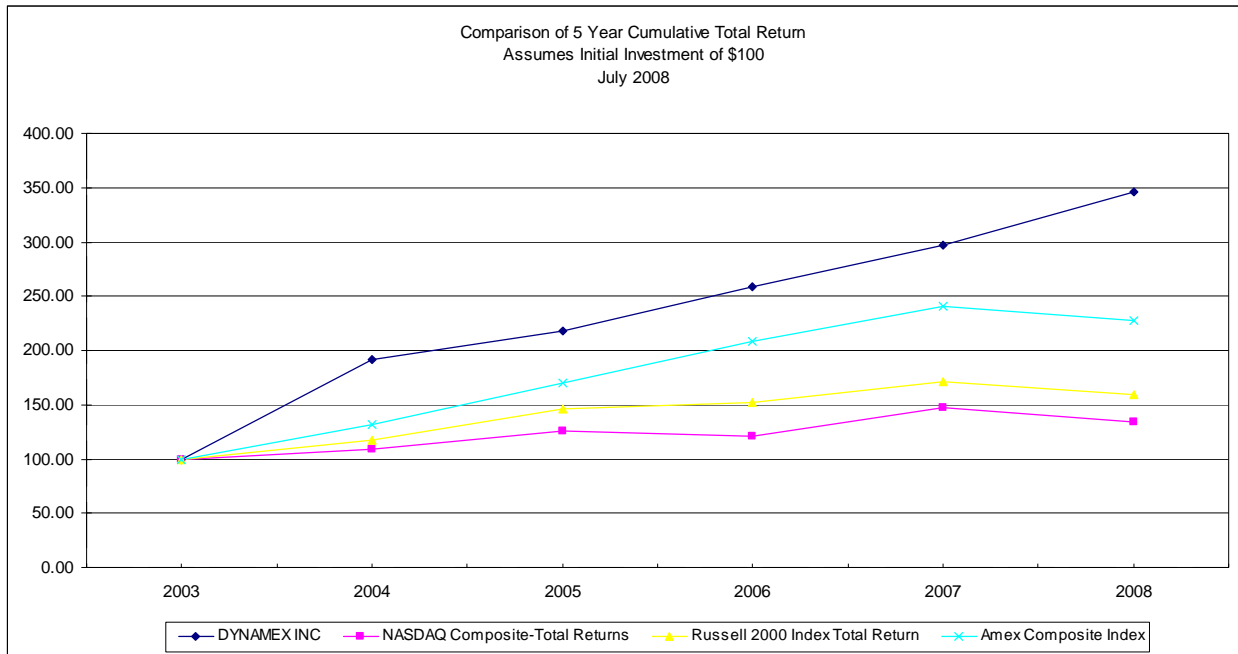
  

| Fiscal 2007    | High          | Low      |
|----------------|---------------|----------|
|                | First Quarter | \$ 22.42 |
| Second Quarter | 24.86         | 20.51    |
| Third Quarter  | 27.39         | 22.56    |
| Fourth Quarter | 29.00         | 23.65    |

#### Stock Price Performance

Set forth below is a line graph indicating the stock price performance of the Company's common stock for the period beginning August 1, 2003 and ending July 31, 2008 as contrasted with the Nasdaq Composite Index \*\* and the AMEX Composite Index and the Russell 2000 Stock Index\*\*\*. The graph assumes that \$100 was invested at the beginning of the period and has been adjusted for any stock dividends distributed after August 1, 2008. No cash or stock dividends have been paid during this period.

**COMPARATIVE CUMULATIVE TOTAL RETURN  
AMONG DYNAMEX INC.,  
NASDAQ COMPOSITE INDEX, AMEX COMPOSITE INDEX  
AND RUSSELL 2000 INDEX**



ASSUMES \$100 INVESTED ON AUGUST 1, 2003  
ASSUMES DIVIDENDS REINVESTED  
FISCAL YEAR ENDING JULY 31, 2008

\*\* The Company transferred its listing to the Nasdaq Global Select Market from the AMEX on March 14, 2005.

\*\*\* The Russell 2000 Stock Index represents companies with a market capitalization similar to that of the Company. The Company does not believe it can reasonably identify a peer group because it believes that there is only one public company engaged in lines of business directly comparative to those of the Company.

*Holdings* — At September 30, 2008, the approximate number of holders of record of common stock was 238.

*Dividends* — The Company has not declared or paid any cash dividends on its common stock since its inception. The Company does not anticipate paying any cash dividends in fiscal 2008. See "Management's Discussion and Analysis of Financial Condition and Results of Operation — Liquidity and Capital Resources".

*Securities Authorized for Issuance Under Equity Compensation Plans* — The following table provides information regarding the Company's equity compensation plan as of July 31, 2008.

| Plan category  | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|--|---|---|--|
| Equity compensation plans approved by security holders     | 512,250   | \$ 20.66  | 1,059,500  |
| Equity compensation plans not approved by security holders | -   | -   | -  |
| Total  | <u>512,250</u>  | <u>\$ 20.66</u>   | <u>1,059,500</u>   |

*Common Stock Repurchase* – As of July 31, 2008, the Board of Directors had authorized management to purchase up to \$58 million of Dynamex Inc. common stock on the open market. As of that date, the Company had repurchased a total of 1,962,000 shares at an average price of \$20.07 per share for a total dollar cost of \$39,368,000. Delaware law permits treasury shares to be retired when appropriately authorized by the Board of Directors, and the Company has retired such shares by appropriate reductions in the value of common stock and additional paid-in capital. During the year ended July 31, 2008, the Company repurchased a total of 121,000 shares at an average price of \$24.51 per share for a total dollar cost of \$2,966,000. Subsequent to July 31, 2008, the Company repurchased 281,800 shares of Dynamex common stock at an average price of \$27.95 per share, leaving a balance of \$10,756,000 in the authorization. The Board of Directors increased the share repurchase authorization by \$20 million on September 16, 2008. Management intends to continue to purchase shares from time to time using available cash or temporary borrowings from the bank facility.

The following table sets forth the purchases made during each month of the fourth quarter of the Company's fiscal year ended July 31, 2008:

| Period                  | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of a publicly announced plan | Approximate dollar value of shares that may yet be purchased under the plan |
|-------------------------|----------------------------------|------------------------------|---|---|
| May 1 to May 31, 2008   | 105,800                          | \$ 24.06                     | 105,800   | \$19.1 million  |
| July 1 to July 31, 2008 | 15,200                           | \$ 27.61                     | 15,200  | \$18.6 million  |

All purchases were made pursuant to a publicly announced program approved by the Board of Directors of the Company authorizing management to acquire up to \$58 million of the Company's common stock with no expiration date.

## ITEM 6. SELECTED FINANCIAL DATA

The following selected historical financial and other data for the three years ended July 31, 2008 and the balance sheet data at July 31, 2008 and 2007 have been derived from the audited consolidated financial statements of the Company appearing elsewhere herein. The following selected historical financial and other data for the two years ended July 31, 2005 and 2004 and the balance sheet data at July 31, 2006, 2005 and 2004 have been derived from the consolidated financial statements of the Company not appearing herein. The selected financial data are qualified in their entirety, and should be read in conjunction with the Company's consolidated financial statements, including the notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operation" appearing elsewhere herein.

|   | Years ending July 31,                    |                  |                  |                  |                  |
|---|--|------------------|------------------|------------------|------------------|
|   | 2008                                     | 2007             | 2006             | 2005             | 2004             |
|   | (in thousands, except per share amounts) |                  |                  |                  |                  |
| Statements of operations data:  |  |                  |                  |                  |                  |
| Sales   | \$ 455,776                               | \$ 413,774       | \$ 358,374       | \$ 321,103       | \$ 287,856       |
| Cost of sales   | 334,378                                  | 304,339          | 259,311          | 232,023          | 206,487          |
| Gross profit  | 121,398                                  | 109,435          | 99,063           | 89,080           | 81,369           |
| Selling, general and administrative expenses (1)                            | 93,360                                   | 85,341           | 77,125           | 69,049           | 64,026           |
| Depreciation and amortization   | 2,825                                    | 2,357            | 1,931            | 1,648            | 1,890            |
| (Gain) loss on disposal of property and equipment                           | (8)                                      | (20)             | 1                | (21)             | (41)             |
| Operating income  | 25,221                                   | 21,757           | 20,006           | 18,404           | 15,494           |
| Interest expense, net   | 232                                      | 299              | 295              | 466              | 1,406            |
| Other (income) expense, net (2)   | (516)                                    | (2,079)          | (275)            | (226)            | (182)            |
| Income before income taxes  | 25,505                                   | 23,537           | 19,986           | 18,164           | 14,270           |
| Income taxes (3)  | 9,722                                    | 8,575            | 7,594            | 6,979            | 1,437            |
| Net income  | <u>\$ 15,783</u>                         | <u>\$ 14,962</u> | <u>\$ 12,392</u> | <u>\$ 11,185</u> | <u>\$ 12,833</u> |
| Earnings per share:   |  |                  |                  |                  |                  |
| basic   | \$ 1.55                                  | \$ 1.41          | \$ 1.12          | \$ 0.97          | \$ 1.13          |
| diluted   | \$ 1.53                                  | \$ 1.39          | \$ 1.11          | \$ 0.95          | \$ 1.11          |
| Weighted average common shares outstanding:                                 |  |                  |                  |                  |                  |
| basic   | 10,207                                   | 10,612           | 11,057           | 11,544           | 11,314           |
| diluted   | 10,297                                   | 10,738           | 11,197           | 11,804           | 11,532           |
| Other data:   |  |                  |                  |                  |                  |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) (4) |  |                  |                  |                  |                  |
| Net income  | \$ 15,783                                | \$ 14,962        | \$ 12,392        | \$ 11,185        | \$ 12,833        |
| Adjustments:  |  |                  |                  |                  |                  |
| Income taxes  | 9,722                                    | 8,575            | 7,594            | 6,979            | 1,437            |
| Interest expense, net   | 232                                      | 299              | 295              | 466              | 1,406            |
| Depreciation and amortization   | 2,825                                    | 2,357            | 1,931            | 1,648            | 1,890            |
| EBITDA  | <u>\$ 28,562</u>                         | <u>\$ 26,193</u> | <u>\$ 22,212</u> | <u>\$ 20,278</u> | <u>\$ 17,566</u> |
|   | July 31,                                 |                  |                  |                  |                  |
|   | 2008                                     | 2007             | 2006             | 2005             | 2004             |
|   | (in thousands)                           |                  |                  |                  |                  |
| Balance sheet data:   |  |                  |                  |                  |                  |
| Working capital   | \$ 39,874                                | \$ 23,337        | \$ 18,889        | \$ 22,917        | \$ 16,704        |
| Total assets  | 138,624                                  | 121,040          | 110,525          | 109,475          | 102,072          |
| Long-term debt, excluding current portion                                   | -  | -                | 905              | 8                | 10,000           |
| Stockholders' equity  | 97,634                                   | 81,409           | 79,212           | 83,896           | 69,310           |

- 1) Selling, general and administrative expenses include salaries, wages and employee benefits as well as facility costs, communication, travel and entertainment, office supplies, equipment rentals and general corporate expenses.
- 2) The increase in other income in the year ended July 31, 2007, is principally attributable to the resolution of inter-company, cross-border transfer pricing issues for fiscal years 2001 through 2005. As a result, the Company realized interest income of approximately \$425,000 from the overpayment of prior year Canadian taxes without a corresponding increase in interest expense from the U.S. as the Company had available U.S. net operating losses to offset the additional income, and the realization of \$937,000 in foreign currency transaction gains on cash settlement of those inter-company charges. These inter-company charges were denominated in Canadian dollars, the value of which increased in U.S. dollars from those prior year levels. The result was to increase net income by \$972,000, \$0.09 per fully diluted share, for the 2007 year. See Footnote 13 of Notes to the Consolidated Financial Statements for additional information.
- 3) Income tax expense for the year ended July 31, 2004, was reduced by \$3.7 million as a result of recognizing the tax benefit of U.S. net operating loss carryforwards of approximately \$10.6 million that were not recognized in prior years due to uncertainty in those prior periods. Accordingly, net income increased \$3.7 million, \$0.32 per fully diluted share for 2004. Without the income tax adjustment, fully diluted earnings per share for the year ending July 31, 2004 would have been reported as \$0.79.
- 4) EBITDA is defined as income excluding interest, taxes, depreciation and amortization (as presented on the face of the income statement). EBITDA is supplementally presented because management believes that it is a widely accepted and useful financial indicator regarding our results of operations. Management believes EBITDA assists in analyzing and benchmarking the performance and value of our business. Although our management uses EBITDA as a financial measure to assess the performance of our business compared to that of others in our industry, the use of EBITDA is limited because it does not include certain costs that are material in amount, such as interest, taxes, depreciation and amortization, necessary to operate our business. EBITDA is not a recognized term under generally accepted accounting principles and, when analyzing our operating performance, investors should use EBITDA in addition to, not as an alternative for, operating income, net income and cash flows from operating activities. In addition, the Company's definition of EBITDA may not be identical to similarly entitled measures used by other companies.

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

*The following discussion should be read in conjunction with the information contained in the Company's consolidated financial statements, including the notes thereto, and the other financial information appearing elsewhere in this report. Statements regarding future economic performance, management's plans and objectives, and any statements concerning its assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operation constitute forward-looking statements. Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements or appear elsewhere in this report, including without limitation, the factors disclosed under "Risk Factors."*

### **General**

Sales consist primarily of charges to customers for delivery services and weekly or monthly charges for recurring services, such as facilities management. Sales are recognized when the service is performed. The yield (value per transaction) for a particular service is dependent upon a number of factors including size and weight of articles transported, distance transported, special handling requirements, requested delivery time and local market conditions. Generally, articles of greater weight transported over longer distances and those that require special handling produce higher yields.

Cost of sales consists of costs relating directly to performance of services, including driver and messenger costs, third party delivery charges, warehousing and sorting expenses, insurance and workers' compensation costs. Substantially all of the drivers used by the Company are independent contractor owner-operators who provide their own vehicles as opposed to employees of the Company. Drivers and messengers are generally compensated based on a percentage of the delivery charge. Consequently, the Company's driver and messenger costs are variable in nature. To the extent that delivery personnel are employees of the Company, employee benefit costs related to them, such as payroll taxes and insurance, are also included in cost of sales.

Selling, general and administrative expenses ("SG & A") include salaries, wages and benefit costs incurred at the business center level related to taking orders and dispatching drivers and messengers, as well as administrative

costs related to such functions. Also included in SG & A expenses are regional and corporate level marketing and administrative costs and occupancy costs related to business center and corporate locations.

Generally, the Company's on-demand services provide higher gross profit margins than do local and regional distribution or fleet management services because driver payments for on-demand services are generally lower as a percentage of sales from such services due primarily to the smaller size of the vehicle required. However, scheduled distribution and fleet management services generally have fewer administrative requirements related to order taking, dispatching drivers and billing and collection. As a result of these variances, the Company's gross profit margin is dependent in part on the mix of business for a particular period.

During the years ended July 31, 2008, 2007 and 2006, sales to Office Depot, Inc. represented approximately 14.6%, 14.2% and 10.6%, respectively, of the Company's revenue. Sales to the Company's five largest customers, including Office Depot, represented approximately 27%, 28% and 25% of the Company's consolidated sales for the years ended July 31, 2008, 2007 and 2006, respectively.

The Company has no significant investment in transportation equipment. Depreciation and amortization expense primarily relates to office, communication, IT equipment and software, leasehold improvements and intangible assets, which are primarily customer lists.

A significant portion of the Company's sales is generated in Canada. For the fiscal years ended July 31, 2008, 2007 and 2006, approximately 38%, 38%, and 36%, respectively, of the Company's sales were generated in Canada. Before deduction of corporate costs, the majority of which are incurred in the U.S., the cost structure of the Company's operations in the U.S. and Canada are similar.

The conversion rate of Canadian dollars to U.S. dollars increased during the fiscal year ending July 31, 2008 compared to July 31, 2007 and increased during the fiscal year ending July 31, 2007 compared to July 31, 2006. As the Canadian dollar is the functional currency for the Company's Canadian operations, these changes in the exchange rate have affected the Company's reported sales and net income. Management does not believe that the effect of these changes on the Company's net income for the fiscal years ended July 31, 2008, 2007 and 2006 has been significant, although there can be no assurance that fluctuations in such currency exchange rate will not, in the future, have a material effect on the Company's business, financial condition or results of operations.

### **Critical Accounting Policies**

The Company believes that the following are its most significant accounting policies:

*Use of estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses. Actual results may differ from such estimates. The Company reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any necessary adjustments prior to their issuance.

*Revenue recognition* – Revenues are recognized after services are rendered to customers. There may be a time lag between pickup and delivery and the generation of an invoice. Accordingly, unbilled revenue is recognized for those shipments that have been delivered but have not been invoiced.

*Intangibles* – Intangibles arise from acquisitions accounted for as purchased business combinations and include goodwill, covenants not-to-compete and other identifiable intangibles and from the payment of financing costs associated with the Company's credit facility. Goodwill represents the excess of the purchase price over all tangible and identifiable intangible net assets acquired. The Company tests goodwill for impairment at least annually. The Company has two reporting units for the purposes of assessing potential future impairments of goodwill, Canada and the United States. These two regions were identified as reporting units in accordance with paragraph 30 of SFAS No. 142 because discrete financial information is available and management regularly reviews the operating results of these regions. The Company performs its annual goodwill impairment test as of the first day of the fourth quarter of each year. Based on this test, the Company determined that no impairment exists during the three years ended July 31, 2008. Other intangible assets are being amortized over periods ranging from 3 to 25 years.

*Other assets – Recoverable contract contingency costs* - The Company has recorded as an Other Asset certain costs related to contractually reimbursable contingency costs incurred in connection with the launch of certain contracts in accordance with EITF 99-5, “Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements.” These costs will be recovered during the initial contract term, from a designated portion of the unit price specified in the contract. Should the contract be cancelled for any reason, the customer is obligated to reimburse the Company for any unamortized balance. Total recoverable contract contingency costs capitalized at July 31, 2008 and 2007 amount to \$1,172 thousand and \$1,381 thousand, respectively.

*Self-insured claims liability* - The Company is primarily self-insured for U.S. workers’ compensation and vehicle liability claims. A liability for unpaid claims and the associated claim expenses, including incurred but unreported losses, are recorded based on the Company’s estimates of the aggregate liability for claims incurred. The Company’s estimates are based on actual experience and historical assumptions of development of unpaid liabilities over time. Factors affecting the determination of amounts to be accrued for claims include, but are not limited to, cost, frequency, or payment patterns resulting from new types of claims, the hazard level of our operations, tort reform or other legislative changes, unfavorable jury decisions, court interpretations, changes in the medical conditions of claimants and economic factors such as inflation. The method of calculating the estimated accrued liability for claims is subject to inherent uncertainty. If actual results are less favorable than what are used to calculate the accrued liability, the Company would have to record expenses in excess of what has already been accrued.

*Allowance for doubtful accounts* – The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make payments when due or within a reasonable period of time thereafter. Estimates are used in determining this allowance based on the Company’s historical collection experience, current trends, credit policy and a percentage of accounts receivable by aging category. If the financial condition of the Company’s customers were to deteriorate, resulting in an impairment of their ability to make required payments, additional allowances may be required. The allowance for doubtful accounts represented approximately 1.9% of accounts receivable at July 31, 2008 compared to approximately 2.0% at July 31, 2007.

*Income taxes* – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The net deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

During the year ended July 31, 2007 and 2006, the Company repatriated approximately \$3.6 million and \$12.7 million, respectively from its Canadian subsidiary. Except for certain applicable state income taxes, the Company was able to substantially offset the U.S. income tax liability arising from the dividends with foreign tax credits. The Company establishes valuation allowances in accordance with the provisions of Statement of Financial Accounting Standards No. 109 “Accounting for Income Taxes” (“SFAS No. 109”).

*Stock-based compensation* – Statement of Financial Accounting Standards No. 123 (Revised 2004), “Share-Based Payment,” (“SFAS No. 123(R)”) requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of operations. The accounting provisions of SFAS No. 123(R) were adopted by the Company effective August 1, 2005.

The fair value of each grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2008, 2007, and 2006, respectively: dividend yield of 0% for all years; expected volatility of 43%, 44%, and 51%; risk-free interest rate of 3.9%, 4.6%, and 4.3%, and expected lives of an average of 7.2, 7.2 and 5.3 years for options granted to employees and of 6.8, 6.8 and 7.7 years for options granted to non-employee directors for all years. The weighted average grant-date fair value of stock options granted during the years 2008, 2007 and 2006 was \$14.80, \$11.97 and \$8.82, respectively.

As discussed in Note 10 of Notes to the Consolidated Financial Statements, option expense in 2008, 2007 and 2006 amounted to \$1,180,000, \$771,000 and \$717,000, respectively, under the fair value approach. Based on the outstanding and unvested awards as of July 31, 2008, the anticipated effect on net income for fiscal 2009, net of taxes, will be approximately \$810,000.

*Foreign currency translation* – Assets and liabilities in foreign currencies are translated into U.S. dollars at the rates in effect at the balance sheet date. Revenues and expenses are translated at average rates during the year. The net exchange differences resulting from these translations are recorded in stockholders' equity. Where amounts denominated in a foreign currency are converted into U.S. dollars by remittance or repayment, the realized exchange differences are included as other income (expense) in the Consolidated Statement of Operations.

*Treasury stock acquired and retired* – Treasury stock is recorded at cost. Delaware law permits treasury shares to be retired when appropriately authorized by the Board of Directors, and the Company has retired such shares by appropriate reductions in the value of common stock and additional paid-in capital.

*Other long-term liabilities* – The Company recognizes a deferred rent liability for tenant improvement allowances within other long-term liabilities and amortizes those amounts over the term of the lease as a reduction of rent expense. For scheduled rent escalation clauses during the lease term, the Company records rental expense on a straight-line basis over the term of the lease.

## Results of Operations

The following table sets forth for the periods indicated certain items from the Company's consolidated statement of operations, expressed as a percentage of sales:

|   | Years Ended July 31, |              |              |
|---|----------------------|--------------|--------------|
|   | 2008                 | 2007         | 2006         |
| Sales   | 100.0%               | 100.0%       | 100.0%       |
| Cost of sales:                                    |                      |              |              |
| Purchased transportation                          | 65.9%                | 65.4%        | 65.0%        |
| Other direct costs                                | 7.5%                 | 8.1%         | 7.3%         |
| Cost of sales                                     | <u>73.4%</u>         | <u>73.5%</u> | <u>72.3%</u> |
| Gross profit                                      | 26.6%                | 26.5%        | 27.7%        |
| Selling, general and administrative expenses:     |                      |              |              |
| Salaries and employee benefits                    | 14.4%                | 14.1%        | 15.0%        |
| Other   | 6.1%                 | 6.5%         | 6.5%         |
| Selling, general and administrative expenses      | <u>20.5%</u>         | <u>20.6%</u> | <u>21.5%</u> |
| Depreciation and amortization                     | 0.6%                 | 0.6%         | 0.5%         |
| (Gain) loss on disposal of property and equipment | <u>0.0%</u>          | <u>0.0%</u>  | <u>0.0%</u>  |
| Operating income                                  | 5.5%                 | 5.3%         | 5.7%         |
| Interest expense                                  | 0.0%                 | 0.1%         | 0.1%         |
| Other (income) expense, net                       | <u>-0.1%</u>         | <u>-0.5%</u> | <u>0.1%</u>  |
| Income before income taxes                        | 5.6%                 | 5.7%         | 5.7%         |
| Income taxes                                      | <u>2.1%</u>          | <u>2.1%</u>  | <u>2.1%</u>  |
| Net income  | <u>3.5%</u>          | <u>3.6%</u>  | <u>3.6%</u>  |

The following tables sets forth for the periods indicated, the Company's sales accumulated by service type and country:

|                        | Years Ended July 31, |               |                   |               |                   |               |
|------------------------|----------------------|---------------|-------------------|---------------|-------------------|---------------|
|                        | 2008                 |               | 2007              |               | 2006              |               |
| Sales by service type: |                      |               |                   |               |                   |               |
| On demand              | \$ 148,410           | 32.6%         | \$ 137,418        | 33.2%         | \$ 134,179        | 37.5%         |
| Scheduled/distribution | <u>307,366</u>       | <u>67.4%</u>  | <u>276,356</u>    | <u>66.8%</u>  | <u>224,195</u>    | <u>62.5%</u>  |
| Total sales            | <u>\$ 455,776</u>    | <u>100.0%</u> | <u>\$ 413,774</u> | <u>100.0%</u> | <u>\$ 358,374</u> | <u>100.0%</u> |
| Sales by country:      |                      |               |                   |               |                   |               |
| United States          | \$ 280,583           | 61.6%         | \$ 257,025        | 62.1%         | \$ 230,768        | 64.4%         |
| Canada                 | <u>175,193</u>       | <u>38.4%</u>  | <u>156,749</u>    | <u>37.9%</u>  | <u>127,606</u>    | <u>35.6%</u>  |
| Total sales            | <u>\$ 455,776</u>    | <u>100.0%</u> | <u>\$ 413,774</u> | <u>100.0%</u> | <u>\$ 358,374</u> | <u>100.0%</u> |

### Year Ended July 31, 2008 Compared to Year Ended July 31, 2007

Net income for the year ended July 31, 2008 was \$15.8 million (\$1.53 per fully diluted share) compared to \$15.0 million (\$1.39 per fully diluted share) for the year ended July 31, 2007. Net income for the year ended July 31, 2007, was favorably impacted by approximately \$972,000 (\$0.09 per fully diluted share) from the settlement of prior year cross border transfer pricing issues between the U.S. and Canada. See Footnote 13 of the Notes to the Condensed Consolidated Financial Statements.

Sales for the year ended July 31, 2008 were \$456 million, a \$42 million (10.2%) increase over the prior year. The average conversion rate between the Canadian dollar and the U.S. dollar increased 11.4% over the prior year period, which had the effect of increasing sales for the year ended July 31, 2008 by approximately \$17.6 million (4.2%). Also, management estimates that approximately 2.7% of the year-over-year increase in sales is attributable to fuel surcharges. The core growth rate, the rate excluding the impact of the fuel surcharge and changes in the foreign exchange rate, was approximately 3.6% for the year ended July 31, 2008 (6.7% in the U.S. and -1.9% in Canada). Canadian sales, including fuel surcharges, increased approximately 0.2% in Canadian dollars in the current fiscal year compared to last year. Sales for the year ended July 31, 2007 include sales for services provided on an interim basis to one customer in Canada of approximately \$11 million U.S. Excluding the temporary sales last year in Canada, the core growth rate per day was approximately 6.3%. The remaining sales increase is primarily attributable to volume increases from the expansion of business with existing and new customers. Price increases did not account for a substantial increase in FY2008 sales.

Cost of sales for the year ended July 31, 2008 increased \$30 million, or 9.9%, to \$334 million from \$304 million for the same period in the prior year. Cost of sales, as a percentage of sales was 73.4% for the year ended July 31, 2008, compared to 73.5% for the year ended July 31, 2007. Purchased transportation costs were 65.9% of sales this year compared to 65.4% last year, partially due to the decline in on-demand sales as a percentage of total sales in the year ended 2008 compared to the prior year. Although on-demand sales increased slightly this year compared to the prior year, it represented only 32.6% of total sales compared to 33.2% last year, as distribution sales increased 11%. The decrease in other cost of sales from 8.1% last year to 7.5% this year is primarily due to the year-over-year improvement from the optimization of the operations of new business started during the last fiscal year.

SG & A expenses for the year ended July 31, 2008 increased \$8.0 million, or 9.4%, to \$93 million compared to the prior year. As a percentage of sales, SG & A expenses were 20.5% for the year ended July 31, 2008, compared to 20.6% in the same period last year. Approximately \$3.3 million of the increase is attributable to the stronger Canadian dollar with the balance primarily attributable to the impact of additional personnel hired over the last twelve months to support not only the current level of business but also future sales growth, in addition to normal increases in compensation and higher premiums related to medical and dental coverage. As the core growth rate accelerates above the current level, management expects to realize additional leverage from its relatively fixed cost infrastructure.

For the year ended July 31, 2008, depreciation and amortization was \$2,825,000 compared to \$2,357,000 for the same period in the prior year. The increase is primarily attributable to the lessor financed leasehold improvements that occurred during fiscal year 2007. Management expects the level of depreciation and amortization expense to increase next year due to the higher level of planned capital expenditures in FY 2009 above historical levels.

Other income, net for the year ended July 31, 2008, was \$516,000 compared to \$2,079,000 for the same period in the prior year. This decrease is principally attributable to the prior year resolution of cross-border transfer pricing issues between Canada and the U.S. for fiscal years 2001 through 2005. As a result, the Company realized interest income of approximately \$425,000 from the overpayment of prior year Canadian taxes without a corresponding increase in interest expense in the U.S. as the Company had available net operating losses to offset the additional income, and the realization of \$937,000 in foreign currency transaction gains on cash settlement of those inter-company charges. The inter-company charges were denominated in Canadian dollars, the value of which increased in U.S. dollars from those prior year levels. See Footnote 13 of the Notes to the Condensed Consolidated Financial Statements.

Interest expense was \$232,000, a decrease of \$67,000 or 22.4% for the year ended July 31, 2008.

The effective income tax rate was 38.1% for the current year compared to 36.4% for the prior year. The higher income rate this year results from the higher proportion of pre-tax income generated in the U.S. than the previous year. The Company's current year effective income tax rate in the U.S. was approximately 41.6% and 33.3% in Canada. Excluding the impact of the one-time benefit from the resolution of prior year cross-border transfer pricing issues, the prior year income tax expense would have been approximately \$8.2 million, 36.9% of income before taxes. See Footnote 8 of the Notes to the Condensed Consolidated Financial Statements.

## Year Ended July 31, 2007 Compared to Year Ended July 31, 2006

Net income for the year ended July 31, 2007 was \$15.0 million (\$1.39 per fully diluted share) compared to \$12.4 million (\$1.11 per fully diluted share) for the year ended July 31, 2006. Net income for the year ended July 31, 2007, was favorably impacted by approximately \$972,000 (\$0.09 per fully diluted share) from the settlement of prior year cross border transfer pricing issues between the U.S. and Canada. See Footnote 13 of the Notes to the Condensed Consolidated Financial Statements.

Sales for the year ended July 31, 2007 were \$414 million, a \$56 million (15.5%) increase over the prior year. The average conversion rate between the Canadian dollar and the U.S. dollar increased 2.6% over the prior year period, which had the effect of increasing sales for the year ended July 31, 2007 by approximately \$3.9 million (1.1%). Also during the period, fuel surcharges included in consolidated sales were essentially unchanged this year compared to last year. The core growth rate, the rate excluding the impact of the fuel surcharge and changes in the foreign exchange rate, was approximately 14.2% for the year ended July 31, 2007 (11.2% in the U.S. and 19.6% in Canada). Canadian sales, including fuel surcharges, increased approximately 19.7% in Canadian dollars in the current fiscal year compared to last year. Sales for the year ended July 31, 2007 include sales for services provided on an interim basis to one customer in Canada of approximately \$10 million U.S. (approximately \$3 million for the three months ended July 31, 2007). The remaining sales increase is primarily attributable to volume increases from the expansion of business with existing and new customers. Management estimates that price increases accounted for substantially less than 5% of the increase in sales in FY 2007.

Cost of sales for the year ended July 31, 2007 increased \$45.0 million, or 17.4%, to \$304.3 million from \$259.3 million for the same period in the prior year. Cost of sales, as a percentage of sales was 73.5% for the year ended July 31, 2007, compared to 72.3% for the year ended July 31, 2006. Purchased transportation costs were 65.4% of sales this year compared to 65.0% last year, partially due to the decline in on-demand sales as a percentage of total sales in the year ended 2007 compared to the prior year. Although on-demand sales increased slightly this year compared to the prior year, it represented only 33.2% of total sales compared to 37.5% last year, as distribution and dedicated sales increased 33%. The increase in other cost of sales from 7.3% last year to 8.1% in this year was due principally to additional warehouse personnel, equipment and space required to support new business added this fiscal year.

SG & A expenses for the year ended July 31, 2007 increased \$8.2 million, or 10.7%, to \$85.3 million compared to the prior year. Approximately \$4.7 million of the dollar increase is attributable to higher compensation and benefits. The increase in compensation and benefits results from normal salary increases plus the additional personnel added over the last year to operate and manage new business and to increase engineering capacity in order to facilitate route optimization, enhance driver economics and reduce costs. Also, the current year includes approximately \$1.4 million for additional warehouse and office space, computer licenses and support of \$0.6 million and professional fees and contract start-up costs of \$0.6 million. As a percentage of sales, SG & A expenses were 20.6% for the year ended July 31, 2007, compared to 21.5% for the year ended July 31, 2006.

For the year ended July 31, 2007, depreciation and amortization was \$2,357,000 compared to \$1,931,000 for the same period in the prior year. The increase is primarily attributable to higher capital expenditures including lessor financed leasehold improvements, the acquisition of new route optimization software and the installation at corporate headquarters and some business centers of a voice-over-internet protocol (VoIP) telephone system beginning late in FY 2006.

Other income, net for the year ended July 31, 2007, was \$2,079,000 compared to \$275,000 for the same period in the prior year. This increase is principally attributable to the resolution of cross-border transfer pricing issues between Canada and the U.S. for inter-company services for fiscal years 2001 through 2005. As a result, the Company realized interest income of approximately \$425,000 from the overpayment of prior year Canadian taxes without a corresponding increase in interest expense from the U.S. as the Company had available net operating losses to offset the additional income, and the realization of \$937,000 in foreign currency transaction gains on cash settlement of those inter-company charges. These inter-company charges were denominated in Canadian dollars, the value of which increased in U.S. dollars from those prior year levels. See Footnote 13 of the Notes to the Condensed Consolidated Financial Statements.

Interest expense was \$299,000, an increase of \$4,000 or 1.4% for the year ended July 31, 2007. Interest expense, as a percentage of sales, was 0.1% in the current year, the same as the prior year.

The effective income tax rate was 36.4% for the current year compared to 38.0% for the prior year. Excluding the impact of the one-time benefit from the resolution of prior year cross-border transfer pricing issues, income tax expense would have been approximately \$8.2 million, 36.9% of income before taxes. See Footnote 8 of the Notes to the Condensed Consolidated Financial Statements.

## Liquidity and Capital Resources

Our primary sources of liquidity are cash flow provided from operations and our revolving credit facility. Net cash provided by operating activities for the fiscal years ended July 31, 2008, 2007 and 2006 were \$16.4 million, \$24.6 million and \$15.5 million, respectively. The reduced level of cash provided this year is primarily attributable to the \$4.7 million payment in August 2007 for stock repurchase transactions consummated and accrued in FY 2007, higher cash taxes paid in the current year and the benefit last year from lessor financed leasehold improvements and non-cash rent expense.

Net cash used in investing activities declined \$1.6 million in FY 2008 compared to the prior year. The prior year included approximately \$2.0 million for leasehold improvements that were financed by the lessor while the current year includes approximately \$500 for acquisition of customer lists. Our cash flow from operations has been our primary source of liquidity, and we expect it to continue to be the primary source in the future. The Company does not have significant capital expenditure requirements to replace or expand the number of vehicles used in its operations because substantially all of its drivers are independent contractors who provide their own vehicles.

As of July 31, 2008, The Board of Directors had authorized management to purchase up to \$58 million of Dynamex Inc. common stock on the open market. As of that date, the Company had repurchased a total of 1,962,000 shares at an average price of \$20.07 per share for a total dollar cost of \$39.4 million. Delaware law permits treasury shares to be retired when appropriately authorized by the Board of Directors, and the Company has retired such shares by appropriate reductions in the value of common stock and additional paid-in capital. During the year ended July 31, 2008, the Company repurchased a total of 121,000 shares at an average price of \$24.51 per share for a total dollar cost of \$3.0 million. Subsequent to July 31, 2008, the Company repurchased 281,800 shares of Dynamex common stock at an average price of \$27.95 per share, leaving a balance of \$10.8 million in the authorization. The Board of Directors increased the share repurchase authorization by \$20 million on September 16, 2008. Management intends to continue to purchase shares from time to time using available cash or temporary borrowings from the bank facility.

Our revolving credit facility was initially established in 2004 and last amended in September 17, 2008. The credit facility has a maturity date of July 31, 2013 and has no scheduled principal payments. The revolving credit facility is secured by all of the Company's U.S. assets and 100% of the stock of its domestic subsidiaries. At July 31, 2008, there were \$6.1 million letters of credit issues but no outstanding borrowings under the revolving credit agreement.

The revolving credit facility requires us to satisfy certain financial and other covenants, including:

| Compliance Area  | Covenant                              | Level at July 31,<br>2008 |
|--|---------------------------------------|---------------------------|
| Ratio of funded debt to EBITDA                         | Maximum of 2.00 to 1.00               | 0.20 to 1.00              |
| Total indebtedness                                     | \$20 million, including LOC's         | \$6.1 million             |
| Letters of credit sublimit                             | \$7.5 million                         | \$6.1 million             |
| Maximum treasury stock purchases<br>in any fiscal year | \$20 million                          | \$3.0 million             |
| Fixed charge coverage ratio                            | Equal to or greater than 1.50 to 1.00 | 1.75 to 1.00              |

Management expects internally generated cash flow and temporary borrowings from its bank credit facility will be sufficient to fund its operations, capital requirements and common stock repurchases.

## Contractual Obligations

The following table sets forth the Company's contractual commitments as of July 31, 2008 for the periods indicated (in thousands):

|                  | <u>Total</u>     | <u>Less than<br/>1 year</u> | <u>1 - 3 years</u> | <u>3 - 5 years</u> | <u>Thereafter</u> |
|------------------|------------------|-----------------------------|--------------------|--------------------|-------------------|
| Operating Leases | <u>\$ 37,796</u> | <u>\$ 10,851</u>            | <u>\$ 15,438</u>   | <u>\$ 7,480</u>    | <u>\$ 4,027</u>   |

The Company has entered into an employment agreement with its President and CEO which provides for the payment of a base salary in the annual amount of \$525,000, participation in an executive bonus plan, an auto allowance, and participation in other employee benefit plans. On September 16, 2008 the Company's Board of Directors approved a special compensation award to the Company's current President and CEO of \$1.5 million in cash. In addition, the Company has entered into retention agreements with certain key executive officers and other employees that provide certain benefits in the event their employment is terminated subsequent to a change in control of the Company, as defined in the retention agreements. The Company believes that it is unlikely that these circumstances will transpire, but if they did the potential exposure could range between \$3.7 million and \$4.1 million. As of July 31, 2008 the Company had outstanding letters of credit totaling \$6.1 million.

## Income Taxes

The provision for income taxes was \$9.7 million in fiscal 2008 compared to \$8.6 million and \$7.6 million in the years ended July 31, 2007 and 2006, respectively. The difference between the statutory rates and the effective federal income tax rates is primarily attributable to foreign and state income taxes, changes in the valuation allowance on net operating loss carry forwards and foreign tax credits, and other expenses that are non-deductible for tax purposes.

During the year ended July 31, 2007, the Company repatriated approximately \$3.6 million from its Canadian subsidiary. Except for certain applicable state income taxes, the Company was able to offset substantially all of the U.S. income tax liability arising from the dividends with foreign tax credits. The Company utilized substantially all of its available NOL's during the 2004 and 2005 fiscal years and all of its foreign tax credits in fiscal year 2007.

## Inflation

The Company believes that it is experiencing some inflationary impacts from the rapid rise in fuel prices and will, along with other segments of the economy, experience further impacts of inflation in the form of utility cost and other cost increases. However, such inflationary pressures have not had a material effect on the Company's results of operations for fiscal 2008. There can be no assurance the Company's business will not be affected by inflation in the future.

## Financial Condition

The Company believes its financial condition is strong and that it has the financial resources necessary to meet its needs. Cash provided by operating activities and the Company's credit facility should be sufficient to meet the Company's operational requirements.

## Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157 ("SFAS 157"), "Fair Value Measurement." This Statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. While SFAS 157 does not require any new value measurements, it may change the application of fair value measurements embodied in other accounting standards. SFAS 157 will be effective at the beginning of the Company's 2009 fiscal year. The Company is currently assessing the effect of this pronouncement, but does not expect the impact on our consolidated financial statements to be material.

In February 2007, the FASB issued Statement No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No 115.” This Statement permits an entity to choose to measure many financial instruments and certain other items at fair value. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings. The fair value option (a) may be applied instrument by instrument, (b) is irrevocable, and (c) is applied to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company believes the adoption of SFAS No. 159 will have no material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 141R (“SFAS No. 141R”), “Business Combinations.” This Statement requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. The Statement applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for periods beginning on or after December 15, 2008 and will be effective for us beginning in the second quarter of fiscal 2009 for business combinations occurring after the effective date. The Company believes the adoption of SFAS No. 141R will have no material impact on its consolidated financial statements.

#### **“Safe Harbor” Statement Under The Private Securities Litigation Reform Act:**

With the exception of historical information, the matters discussed in this report are “forward looking statements” as that term is defined in Section 21E of the Securities Exchange Act of 1934.

The risk factors described in this report could cause actual results to differ materially from those predicted. By way of example:

- The competitive nature of the same-day delivery business.
- The ability of the Company to attract and retain qualified courier personnel as well as retain key management personnel.
- A change in the current tax status of courier drivers from independent contractor drivers to employees.
- A significant increase in the number of workers’ compensation or vehicle liability claims such that the Company’s self insurance expense would increase significantly.
- A significant reduction in the exchange rate between the Canadian dollar and the U.S. dollar.
- Failure of the Company to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations could result in substantial fines or possible revocation of the Company’s authority to conduct certain of its operations.
- The ability of the Company to obtain adequate financing.
- The ability of the Company to pass on fuel cost increases to customers to maintain profit margins and the quality of driver pay.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

### **Foreign Exchange Exposure**

Significant portions of the Company’s operations are conducted in Canada. Exchange rate fluctuations between the U.S. and Canadian dollar result in fluctuations in the amounts relating to the Canadian operations reported in the Company’s consolidated financial statements. The Company historically has not entered into hedging transactions with respect to its foreign currency exposure, but may do so in the future.

The sensitivity analysis model used by the Company for foreign exchange exposure compares the revenue and net income figures from Canadian operations over the previous four quarters at the actual exchange rate versus a 10% decrease in the exchange rate. Based on this model, a 10% decrease would result in a decrease in revenue of approximately \$17.4 million and a decrease in net income of approximately \$0.7 million over this period. There can be no assurances that the above projected exchange rate decrease will materialize. Fluctuations of exchange rates are beyond the control of the Company's management.

### **Interest Rate Exposure**

The Company has no interest rate protection arrangements in effect at the present time. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Item 15(a).

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **(a). Evaluation of disclosure control and procedures**

An evaluation was carried out under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the Company's fiscal year. Based upon the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

### **(b). Management's report on internal control over financial reporting.**

Management's report on internal control over financial reporting, which appears on page F-2 of this Annual Report, is incorporated herein by reference.

## **ITEM 9B. OTHER INFORMATION**

None.

### **PART III**

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information set forth under the caption “Directors and Executive Officers” in the Company’s definitive proxy statement to be filed in connection with the 2009 Annual Meeting of Stockholders is incorporated herein by reference.

The Company has adopted a code of ethics that applies to all members of Board of Directors and employees of the Company, including, the principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions. The Company has notice of amendments to, or waivers of, the code posted on the Company’s internet website at the internet address: <http://www.dynamex.com>. Copies of the code may be obtained free of charge from the Company’s website at the above internet address.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information set forth under the caption “Directors and Executive Officers” in the Company’s definitive proxy statement to be filed in connection with the 2009 Annual Meeting of Stockholders is incorporated herein by reference.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information set forth under the caption “Beneficial Ownership of Common Stock” in the Company’s definitive proxy statement to be filed in connection with the 2009 Annual Meeting of Stockholders is incorporated herein by reference.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information set forth under the caption “Certain Relationships and Related Transactions” in the Company’s definitive proxy statement to be filed in connection with the 2009 Annual Meeting of Stockholders is incorporated herein by reference.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information set forth under the caption “Principal Accountant Fees and Services” in the Company’s definitive proxy statement to be filed in connection with the 2008 Annual Meeting of Stockholders is incorporated herein by reference.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) *Financial Statements*

See Index to Consolidated Financial Statements on page F-1.

(b) *Exhibits*

Reference is made to the Exhibit Index on page E-1 for a list of all exhibits filed as a part of this report.

(c) *Financial Statement Schedules*

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are considered inapplicable and therefore have been omitted.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dynamex Inc.,  
A Delaware corporation

By: /s/ Ray E. Schmitz  
Ray E. Schmitz, Vice-President and Chief Financial Officer  
Dated: October 14, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons of the registrant and in the capacities indicated on October xx, 2008.

| <u>Name</u>   | <u>Title</u>  |
|---|---|
| <u>/s/ Richard K. McClelland</u><br>Richard K. McClelland | Chairman of the Board, Chief Executive Officer, President and Director<br>(Principal Executive Officer) |
| <u>/s/ Ray E. Schmitz</u><br>Ray E. Schmitz               | Vice President, Chief Financial Officer<br>(Principal Financial Officer)                                |
| <u>/s/ Gilbert Jones</u><br>Gilbert Jones                 | Corporate Controller<br>(Principal Accounting Officer)  |
| <u>/s/ Wayne Kern</u><br>Wayne Kern                       | Director  |
| <u>/s/ Stephen P. Smiley</u><br>Stephen P. Smiley         | Director  |
| <u>/s/ Brian J. Hughes</u><br>Brian J. Hughes             | Director  |
| <u>/s/ Bruce E. Ranck</u><br>Bruce E. Ranck               | Director  |
| <u>/s/ Craig R. Lentzsch</u><br>Craig R. Lentzsch         | Director  |

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Directors and  
Stockholders of Dynamex Inc.

Management of Dynamex Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Dynamex Inc.'s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of Dynamex Inc.'s internal control over financial reporting as of July 31, 2008. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on our assessment and those criteria, we believe that Dynamex Inc. maintained effective internal control over financial reporting as of July 31, 2008.

Dynamex Inc.'s independent registered public accounting firm, BDO Seidman, LLP, has issued an attestation report dated October 14, 2008 on the effectiveness of Dynamex Inc.'s internal control over financial reporting. That report is included herein.

/s/ Richard K. McClelland  
Richard K. McClelland  
Chairman of the Board, Chief Executive  
Officer, President and Director  
(Principal Executive Officer)

/s/ Ray E. Schmitz  
Ray E. Schmitz  
Vice President, Chief Financial Officer  
(Principal Financial Officer)

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Dynamex Inc.  
Dallas, Texas

We have audited the accompanying consolidated balance sheets of Dynamex Inc. and Subsidiaries (the "Company") as of July 31, 2008 and 2007 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company at July 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended July 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, effective August 1, 2007, the Company changed its method of accounting for income taxes to conform to Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109".

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of July 31, 2008, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated October 14, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP  
BDO Seidman, LLP

Dallas, Texas  
October 14, 2008

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Dynamex Inc.  
Dallas, Texas

We have audited the internal control over financial reporting maintained by Dynamex Inc. and Subsidiaries (the "Company") as of July 31, 2008, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Management of the Company is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of July 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of July 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended July 31, 2008. Our report dated October 14, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ BDO Seidman, LLP  
BDO Seidman, LLP

Dallas, Texas  
October 14, 2008

**DYNAMEX INC.**

Consolidated Balance Sheets

July 31, 2008 and 2007

(in thousands, except per share data)

|  | <u>2008</u>       | <u>2007</u>       |
|--|-------------------|-------------------|
| <b>ASSETS</b>  |                   |                   |
| <b>CURRENT</b>   |                   |                   |
| Cash and cash equivalents  | \$ 19,888         | \$ 8,857          |
| Accounts receivable (net of allowance for doubtful accounts<br>of \$915 and \$866, respectively)         | 47,288            | 42,649            |
| Income taxes receivable  | 1,546             | 1,092             |
| Prepaid and other current assets   | 4,429             | 3,559             |
| Deferred income taxes  | <u>3,504</u>      | <u>3,136</u>      |
| Total current assets   | 76,655            | 59,293            |
| <br>   |                   |                   |
| PROPERTY AND EQUIPMENT - net   | 8,670             | 8,495             |
| GOODWILL   | 48,109            | 47,613            |
| INTANGIBLES - net  | 808               | 326               |
| DEFERRED INCOME TAXES  | -                 | 1,398             |
| OTHER  | <u>4,382</u>      | <u>3,915</u>      |
| Total assets   | <u>\$ 138,624</u> | <u>\$ 121,040</u> |
| <br><b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                   |                   |
| <b>CURRENT LIABILITIES</b>   |                   |                   |
| Accounts payable trade   | \$ 12,621         | \$ 15,426         |
| Accrued liabilities  | <u>24,160</u>     | <u>20,530</u>     |
| Total current liabilities  | 36,781            | 35,956            |
| <br>   |                   |                   |
| LONG-TERM DEBT   | -                 | -                 |
| OTHER LONG-TERM LIABILITIES  | <u>4,209</u>      | <u>3,675</u>      |
| Total liabilities  | <u>40,990</u>     | <u>39,631</u>     |
| <br><b>COMMITMENTS AND CONTINGENCIES</b>   |                   |                   |
| <br><b>STOCKHOLDERS' EQUITY</b>  |                   |                   |
| Preferred stock; \$0.01 par value, 10,000 shares authorized;<br>none outstanding                         | -                 | -                 |
| Common stock; \$0.01 par value, 50,000 shares authorized;<br>10,148 and 10,145 outstanding, respectively | 101               | 101               |
| Additional paid-in capital   | 45,311            | 45,671            |
| Retained earnings  | 46,905            | 31,122            |
| Accumulated other comprehensive income:  |                   |                   |
| Cumulative translation adjustment  | <u>5,317</u>      | <u>4,515</u>      |
| Total stockholders' equity   | <u>97,634</u>     | <u>81,409</u>     |
| Total liabilities and stockholders' equity   | <u>\$ 138,624</u> | <u>\$ 121,040</u> |

See accompanying notes to the consolidated financial statements.

**DYNAMEX INC.**

Consolidated Statements of Operations  
Years ended July 31, 2008, 2007 and 2006  
(in thousands except per share data)

|  | <u>2008</u>      | <u>2007</u>      | <u>2006</u>      |
|--|------------------|------------------|------------------|
| Sales  | \$ 455,776       | \$ 413,774       | \$ 358,374       |
| Cost of sales:   |                  |                  |                  |
| Purchased transportation                                       | 300,211          | 270,910          | 233,084          |
| Other direct costs   | <u>34,167</u>    | <u>33,429</u>    | <u>26,227</u>    |
| Cost of sales  | <u>334,378</u>   | <u>304,339</u>   | <u>259,311</u>   |
| Gross profit   | 121,398          | 109,435          | 99,063           |
| Selling, general and administrative expenses:                  |                  |                  |                  |
| Salaries and employee benefits                                 | 65,639           | 58,420           | 53,707           |
| Other  | <u>27,721</u>    | <u>26,921</u>    | <u>23,418</u>    |
| Selling, general and administrative expenses                   | 93,360           | 85,341           | 77,125           |
| Depreciation and amortization                                  | 2,825            | 2,357            | 1,931            |
| (Gain) loss on disposal of property and equipment              | <u>(8)</u>       | <u>(20)</u>      | <u>1</u>         |
| Operating income   | 25,221           | 21,757           | 20,006           |
| Interest expense   | 232              | 299              | 295              |
| Other income, net  | <u>(516)</u>     | <u>(2,079)</u>   | <u>(275)</u>     |
| Income before income taxes                                     | 25,505           | 23,537           | 19,986           |
| Income taxes   | <u>9,722</u>     | <u>8,575</u>     | <u>7,594</u>     |
| Net income   | <u>\$ 15,783</u> | <u>\$ 14,962</u> | <u>\$ 12,392</u> |
| Basic earnings per common share                                | <u>\$ 1.55</u>   | <u>\$ 1.41</u>   | <u>\$ 1.12</u>   |
| Diluted earnings per common share                              | <u>\$ 1.53</u>   | <u>\$ 1.39</u>   | <u>\$ 1.11</u>   |
| Weighted average shares:                                       |                  |                  |                  |
| Common shares outstanding                                      | 10,207           | 10,612           | 11,057           |
| Adjusted common shares - assuming<br>exercise of stock options | 10,297           | 10,738           | 11,197           |

See accompanying notes to the consolidated financial statements.

**DYNAMEX INC.**

## Consolidated Statements of Stockholders' Equity

Years ended July 31, 2008, 2007 and 2006

(in thousands)

|   | <u>Common</u><br><u>Shares</u> | <u>Stock</u><br><u>Amount</u> | <u>Additional</u><br><u>Paid-in</u><br><u>Capital</u> | <u>Retained</u><br><u>Earnings</u> | <u>Accumulated</u><br><u>Other</u><br><u>Comprehensive</u><br><u>Income</u> | <u>Total</u>     |
|---|--------------------------------|-------------------------------|---|------------------------------------|---|------------------|
| BALANCE AT JULY 31, 2005                                      | 11,612                         | \$ 116                        | \$ 77,196   | \$ 3,768                           | \$ 2,816  | \$ 83,896        |
| Issuance of common stock, including<br>tax benefit of \$1,044 | 245                            | 3                             | 2,126   |                                    |   | 2,129            |
| Stock option compensation                                     |                                |                               | 717   |                                    |   | 717              |
| Treasury stock purchase and<br>retirement                     | (1,219)                        | (13)                          | (21,525)  |                                    |   | (21,538)         |
| Net income  |                                |                               |   | 12,392                             |   | 12,392           |
| Unrealized foreign currency translation<br>adjustment         |                                |                               |   |                                    | 1,616   | 1,616            |
| Total comprehensive income                                    |                                |                               |   |                                    |   | 14,008           |
| BALANCE AT JULY 31, 2006                                      | <u>10,638</u>                  | <u>106</u>                    | <u>58,514</u>   | <u>16,160</u>                      | <u>4,432</u>  | <u>79,212</u>    |
| Issuance of common stock, including<br>tax benefit of \$142   | 128                            | 1                             | 1,244   |                                    |   | 1,245            |
| Stock option compensation                                     |                                |                               | 771   |                                    |   | 771              |
| Treasury stock purchase and<br>retirement                     | (621)                          | (6)                           | (14,858)  |                                    |   | (14,864)         |
| Net income  |                                |                               |   | 14,962                             |   | 14,962           |
| Unrealized foreign currency translation<br>adjustment         |                                |                               |   |                                    | 83  | 83               |
| Total comprehensive income                                    |                                |                               |   |                                    |   | 15,045           |
| BALANCE AT JULY 31, 2007                                      | <u>10,145</u>                  | <u>101</u>                    | <u>45,671</u>   | <u>31,122</u>                      | <u>4,515</u>  | <u>81,409</u>    |
| Issuance of common stock, including<br>tax benefit of \$328   | 124                            | 1                             | 1,425   |                                    |   | 1,426            |
| Stock option compensation                                     |                                |                               | 1,180   |                                    |   | 1,180            |
| Treasury stock purchase and<br>retirement                     | (121)                          | (1)                           | (2,965)   |                                    |   | (2,966)          |
| Net income  |                                |                               |   | 15,783                             |   | 15,783           |
| Unrealized foreign currency translation<br>adjustment         |                                |                               |   |                                    | 802   | 802              |
| Total comprehensive income                                    |                                |                               |   |                                    |   | 16,585           |
| BALANCE AT JULY 31, 2008                                      | <u>10,148</u>                  | <u>\$ 101</u>                 | <u>\$ 45,311</u>                                      | <u>\$ 46,905</u>                   | <u>\$ 5,317</u>   | <u>\$ 97,634</u> |

See accompanying notes to the consolidated financial statements.

**DYNAMEX INC.**

Consolidated Statements of Cash Flows  
Years ended July 31, 2008, 2007 and 2006  
(in thousands)

|  | <u>2008</u>      | <u>2007</u>     | <u>2006</u>     |
|--|------------------|-----------------|-----------------|
| <b>OPERATING ACTIVITIES</b>  |                  |                 |                 |
| Net income   | \$ 15,783        | \$ 14,962       | \$ 12,392       |
| Adjustments to reconcile net income to net cash provided<br>by operating activities: |                  |                 |                 |
| Depreciation and amortization  | 2,825            | 2,357           | 1,931           |
| Amortization of deferred bank financing fees   | 10               | 28              | 24              |
| Provision for losses on accounts receivable  | 1,039            | 499             | 695             |
| Stock option compensation  | 1,180            | 771             | 717             |
| Deferred income taxes  | 1,472            | 3,368           | 1,716           |
| Lessor financed leasehold improvements   | -                | 1,997           | -               |
| Non-cash rent expense  | 49               | 860             | -               |
| (Gain) loss on disposal of property and equipment                                    | (8)              | (19)            | 1               |
| Changes in current operating assets and liabilities:                                 |                  |                 |                 |
| Accounts receivable  | (5,678)          | (6,722)         | (5,417)         |
| Prepays and other current assets   | (1,405)          | (105)           | (1,377)         |
| Accounts payable and accrued liabilities   | 1,087            | 6,589           | 4,837           |
| Net cash provided by operating activities  | <u>16,354</u>    | <u>24,585</u>   | <u>15,519</u>   |
| <b>INVESTING ACTIVITIES</b>  |                  |                 |                 |
| Purchase of property and equipment   | (2,845)          | (4,961)         | (2,193)         |
| Cash payment for acquisition   | (491)            | -               | -               |
| Purchase of investments  | (322)            | (278)           | (160)           |
| Net cash used in investing activities  | <u>(3,658)</u>   | <u>(5,239)</u>  | <u>(2,353)</u>  |
| <b>FINANCING ACTIVITIES</b>  |                  |                 |                 |
| Principal payments on long-term debt   | -                | (5)             | (3)             |
| Net (payments) receipts under line of credit   | -                | (900)           | 900             |
| Proceeds from stock option exercise  | 1,099            | 1,103           | 1,084           |
| Tax benefit realized from exercise of stock options                                  | 328              | 142             | 1,044           |
| Purchase and retirement of treasury stock  | (2,966)          | (14,864)        | (21,538)        |
| Other assets and deferred financing fees   | (176)            | (1,212)         | (964)           |
| Net cash used in financing activities  | <u>(1,715)</u>   | <u>(15,736)</u> | <u>(19,477)</u> |
| <b>EFFECT OF EXCHANGE RATES ON CASH</b>  | <u>50</u>        | <u>(811)</u>    | <u>691</u>      |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                          | 11,031           | 2,799           | (5,620)         |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                  | 8,857            | 6,058           | 11,678          |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>  | <u>\$ 19,888</u> | <u>\$ 8,857</u> | <u>\$ 6,058</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                              |                  |                 |                 |
| Cash paid for interest   | <u>\$ 157</u>    | <u>\$ 262</u>   | <u>\$ 304</u>   |
| Cash paid for taxes  | <u>\$ 8,043</u>  | <u>\$ 5,226</u> | <u>\$ 6,910</u> |

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Description of business* - Dynamex Inc. and Subsidiaries (the “Company” or “Dynamex”) provide same-day delivery and logistics services in the United States and Canada. The Company’s primary services are (i) same-day, on-demand delivery, (ii) scheduled and distribution and (iii) fleet outsourcing and facilities management.

The operating subsidiaries of the Company, with country of incorporation, are as follows:

- Dynamex Operations East Inc. (U.S.)
- Dynamex Operations West Inc. (U.S.)
- Dynamex Fleet Services, Inc. (U.S.)
- Dynamex Franchise Holdings, Inc. (U.S.)
- Dynamex Domestic Franchising, Inc. (U.S.)
- Dynamex Canada Corp. (Canada)
- Dynamex Canada Franchise Holdings, Inc. (Canada)

*Principles of consolidation* - The consolidated financial statements include the accounts of Dynamex Inc. and its wholly-owned subsidiaries. All significant inter-company accounts and transactions have been eliminated. All dollar amounts in the financial statements and notes to the financial statements are stated in thousands of dollars unless otherwise indicated.

*Use of estimates* - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses. Actual results may differ from such estimates. The Company reviews all significant estimates affecting the financial statements on a recurring basis and records the effect of any necessary adjustments prior to their issuance.

*Property and equipment* – Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and principally on accelerated methods for tax purposes. Leasehold improvements are depreciated using the straight-line method over their estimated useful lives or the lease term, whichever is shorter. Ordinary maintenance and repairs are charged to expense as incurred. Expenditures that extend the physical or economic life of property and equipment are capitalized. The estimated useful lives of property and equipment are as follows:

|           |           |
|-----------|-----------|
| Equipment | 3-7 years |
| Software  | 3-5 years |
| Furniture | 7 years   |
| Vehicles  | 5 years   |

The Company periodically reviews property and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. When any such impairment exists, the related assets will be written down to their fair value.

The Company capitalizes both internal and external costs of developing or obtaining computer software for internal use. Costs incurred to develop internal-use software during the application development stage are capitalized, while data conversion, training and maintenance costs associated with internal-use software are expensed as incurred. As of July 31, 2008 and 2007, the net book value of capitalized software costs was \$1,554 and \$2,291, respectively. Amortization expense related to capitalized software was \$756, \$737 and \$626 in fiscal years 2008, 2007 and 2006, respectively.

*Business and credit concentrations* - Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade receivables.

The Company places its temporary cash investments with high-credit, quality financial institutions. At times such amounts may exceed F.D.I.C. limits. The Company limits the amount of credit exposure with any one financial institution and believes no significant concentration of credit risk exists with respect to cash investments.

The Company's customers are not concentrated in any specific geographic region or industry. During the years ended July 31, 2008, 2007 and 2006, sales to Office Depot, Inc. represented approximately 14.6%, 14.2% and 10.6%, respectively, of the Company's revenue. Sales to the Company's five largest customers, including Office Depot, represented approximately 27%, 28% and 25% of the Company's consolidated sales for the years ended July 31, 2008, 2007 and 2006, respectively.

A significant number of the Company's customers are located in Canada. For the fiscal years ended July 31, 2008, 2007 and 2006, approximately 38%, 38% and 36% of the Company's sales, respectively, were generated in Canada. See Note 14 of Notes to the Consolidated Financial Statements for additional information concerning the Company's foreign operations.

Office Depot represented approximately 10.5% of the net accounts receivable at July 31, 2008 and July 31, 2007. There were no other significant accounts receivable from a single customer. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

*Goodwill and intangibles* – Intangibles arise from acquisitions accounted for as purchased business combinations and include goodwill, covenants not-to-compete and other identifiable intangibles and from the payment of financing costs associated with the Company's credit facility. Goodwill represents the excess purchase price over all tangible and identifiable intangible net assets acquired. Effective August 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142") which requires, among other things, that companies no longer amortize goodwill and instead sets forth methods to periodically evaluate goodwill for impairment. The Company conducts on at least an annual basis a review of its reporting units to determine whether their carrying value exceeds their market value and, if so, performs a detailed analysis of the reporting unit's assets and liabilities to determine whether the goodwill is impaired. The Company performed its goodwill impairment test as of the first day of the fourth quarter of fiscal 2008. Based on this test, no impairment was indicated. Other intangible assets are being amortized over periods ranging from 3 to 25 years. Deferred bank financing fees are amortized over the term of the related credit facility. Amortization of deferred financing fees is classified as interest expense in the consolidated statement of operations. Aggregate amortization expense during the years ended July 31, 2008, 2007 and 2006 totaled \$81, \$51 and \$51, respectively. Estimated amortization expense for the succeeding five fiscal years is approximately \$153 for the year 2009, \$116 for 2010, \$33 for 2011, \$23 for 2012 and \$19 for 2013.

*Revenue recognition* - Revenues are recognized when services are rendered to customers, that is, primarily when the pickup and delivery is complete. There may be a time lag between the completion of the service and the generation of an invoice. Accordingly, unbilled revenue is recognized for those shipments that have been completed but have not been invoiced.

*Cash and cash equivalents* - The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

*Allowance for doubtful accounts* – The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make payments when due or within a reasonable period of time thereafter. Estimates are used in determining this allowance based on the Company's historical collection experience, current trends, credit policy and aging category. If the financial condition of the Company's customers were to deteriorate, thus impairing their ability to make required payments, additional allowances may be required. The Company's allowance at July 31, 2008 is approximately 1.9% of outstanding accounts receivable compared to approximately 2.0% at July 31, 2007.

*Financial instruments* - Carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

Long-term debt consists primarily of variable rate borrowings under the bank credit agreement. The carrying value of these borrowings approximates fair value.

*Financing costs* - During the fiscal years ended July 31, 2008, 2007, and 2006, the Company capitalized \$0, \$3 and \$74, respectively of costs incurred in connection with debt financings and amendments. These costs are being amortized over the terms of the respective financings and are included in interest expense. The amounts of amortization and the write-off of previous deferred financing costs were \$10 in 2008, \$32 in 2007 and \$24 in 2006.

*Other assets – Recoverable contract contingency costs* - The Company has recorded as an Other Asset certain costs related to contractually reimbursable contingency costs incurred in connection with the launch of certain contracts in accordance with EITF 99-5, “Accounting for Pre-Production Costs Related to Long-Term Supply Arrangements.” These costs will be recovered during the initial contract term, from a designated portion of the unit price specified in the contract. Should the contract be cancelled for any reason, the customer is obligated to reimburse the Company for any unamortized balance. Total recoverable contract contingency costs capitalized at July 31, 2008 and 2007 amount to \$1,172 and \$1,381, respectively.

*Other long-term liabilities* - During July 2006 the Company entered into a new lease for its U.S. corporate headquarters. This lease agreement contains tenant improvement allowances and rent escalation clauses. The Company recognizes a deferred rent liability for tenant improvement allowances within other long-term liabilities and amortizes these amounts over the term of the lease as a reduction of rent expense. For scheduled rent escalation clauses during the lease term, the Company records rental expense on a straight-line basis over the term of the lease.

*Self-insured claims liability* - The Company is primarily self-insured for U.S. workers’ compensation and vehicle liability claims. A liability for unpaid claims and the associated claim expenses, including incurred but unreported losses, are recorded based on the Company’s estimates of the aggregate liability for claims incurred. The Company’s estimates are based on actual experience and historical assumptions of development of unpaid liabilities over time. Factors affecting the determination of amounts to be accrued for claims include, but are not limited to, cost, frequency, or payment patterns resulting from new types of claims, the hazard level of our operations, tort reform or other legislative changes, unfavorable jury decisions, court interpretations, changes in the medical conditions of claimants and economic factors such as inflation. The method of calculating the estimated accrued liability for claims is subject to inherent uncertainty. If actual results are less favorable than what are used to calculate the accrued liability, the Company would have to record expenses in excess of what has already been accrued.

*Income taxes* – Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of assets and liabilities for financial and income tax reporting. The net deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

*Stock-based compensation* – Statement of Financial Accounting Standards No. 123 (Revised 2004), “Share-Based Payment,” (“SFAS No. 123(R)”) requires the measurement and recording of all share-based payments to employees, including grants of stock options, be determined using a fair-value-based method.

The fair value of each grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2008, 2007, and 2006, respectively: dividend yield of 0% for all years; expected volatility of 43%, 44%, and 51%; risk-free interest rate of 3.9%, 4.6%, and 4.3%, and expected lives of an average of 7.2 years for options granted to employees and of 6.8 years for options granted to non-employee directors for all years. The weighted average grant-date fair value of stock options granted during the years 2008, 2007 and 2006 was \$14.80, \$11.97 and \$8.82, respectively.

As discussed in Note 10 of Notes to the Consolidated Financial Statements, option expense in 2008, 2007 and 2006 amounted to \$1,180, \$771 and \$717, respectively, under the fair value approach. Based on the outstanding and unvested awards as of July 31, 2008, the anticipated effect on net income for fiscal 2009, net of taxes, will be approximately \$810.

*Net income per share* - Basic net income per common share is based on the weighted average number of common shares outstanding during the period. Diluted net income per common share is based on the weighted average common shares outstanding and all potentially dilutive common shares outstanding during the period determined using the treasury stock method. Diluted earnings per share reflect the potential dilution that could occur if outstanding stock options were exercised, that would then share in the earnings of the Company. Outstanding options to purchase 146, 20 and 10 shares of common stock at July 31, 2008, 2007 and 2006, respectively, were not included in the computation of net income per share as their effect would be antidilutive. Outstanding stock options issued by the Company represent the only dilutive effect reflected in diluted weighted average shares.

*Foreign currency translation* – Assets and liabilities in foreign currencies are translated into U.S. dollars at the rates in effect at the balance sheet date. Revenues and expenses are translated at average rates during the year. The net exchange differences resulting from these translations are recorded in stockholders' equity. Where amounts denominated in a foreign currency are converted into dollars by remittance or repayment, the realized exchange differences are included in the Consolidated Statement of Operations.

*Treasury stock acquired and retired* – Treasury stock is recorded at cost. Delaware law permits treasury shares to be retired when appropriately authorized by the Board of Directors, and the Company has retired such shares by appropriate reductions in the value of common stock and additional paid-in capital.

*New accounting pronouncements* – In September 2006, the FASB issued Statement No. 157 (“SFAS 157”), “Fair Value Measurement.” This Statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. While SFAS 157 does not require any new value measurements, it may change the application of fair value measurements embodied in other accounting standards. SFAS 157 will be effective at the beginning of the Company’s 2009 fiscal year. The Company is currently assessing the effect of this pronouncement, but does not expect the impact on our consolidated financial statements to be material.

In February 2007, the FASB issued Statement No. 159 (“SFAS 159”), “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No 115.” This Statement permits an entity to choose to measure many financial instruments and certain other items at fair value. A business entity will report unrealized gains and losses on items for which the fair value option has been elected in earnings. The fair value option (a) may be applied instrument by instrument, (b) is irrevocable, and (c) is applied to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. The Company believes the adoption of SFAS No. 159 will have no material impact on its consolidated financial statements.

In December 2007, the FASB issued Statement No. 141R (“SFAS No. 141R”), “Business Combinations.” This Statement requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at full fair value. The Statement applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for periods beginning on or after December 15, 2008 and will be effective for us beginning in the second quarter of fiscal 2009 for business combinations occurring after the effective date. The Company believes the adoption of SFAS No. 141R will have no material impact on its consolidated financial statements.

*Reclassification* – Certain reclassifications have been made to conform prior year data to the current presentation.

## 2. COMPUTATION OF EARNINGS PER SHARE

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computation as required by Statement of Financial Accounting Standards No. 128, Earnings Per Share. Common stock equivalents related to stock options are excluded from diluted earnings per share calculation if their effect would be antidilutive to earnings per share.

|   | Years Ended July 31, |                  |                  |
|---|----------------------|------------------|------------------|
|   | 2008                 | 2007             | 2006             |
| Net income                                  | <u>\$ 15,783</u>     | <u>\$ 14,962</u> | <u>\$ 12,392</u> |
| Weighted average common shares outstanding  | 10,207               | 10,612           | 11,057           |
| Common share equivalents related to options | <u>90</u>            | <u>126</u>       | <u>140</u>       |
| Common shares and common share equivalents  | <u>10,297</u>        | <u>10,738</u>    | <u>11,197</u>    |
| Basic earnings per common share             | <u>\$ 1.55</u>       | <u>\$ 1.41</u>   | <u>\$ 1.12</u>   |
| Diluted earnings per common share           | <u>\$ 1.53</u>       | <u>\$ 1.39</u>   | <u>\$ 1.11</u>   |

## 3. INTANGIBLES

Intangibles consist of the following:

|                                | July 31,      |               |
|--------------------------------|---------------|---------------|
|                                | 2008          | 2007          |
| Carrying amount:               |               |               |
| Deferred bank financing fees   | \$ 132        | \$ 132        |
| Customer lists                 | 583           | 92            |
| Trademarks                     | 470           | 470           |
|                                | <u>1,185</u>  | <u>694</u>    |
| Less accumulated amortization: |               |               |
| Deferred bank financing fees   | (132)         | (123)         |
| Customer lists                 | (59)          | (78)          |
| Trademarks                     | (186)         | (167)         |
|                                | <u>(377)</u>  | <u>(368)</u>  |
| Intangibles - net              | <u>\$ 808</u> | <u>\$ 326</u> |

#### 4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

|                               | July 31,        |                 |
|-------------------------------|-----------------|-----------------|
|                               | 2008            | 2007            |
| Equipment                     | \$ 20,852       | \$ 18,621       |
| Software                      | 8,633           | 8,592           |
| Furniture                     | 2,098           | 2,030           |
| Vehicles                      | 544             | 567             |
| Leasehold improvements        | 4,066           | 4,948           |
| Other                         | -               | 1               |
|                               | <u>36,193</u>   | <u>34,759</u>   |
| Less accumulated depreciation | (27,523)        | (26,264)        |
| Property and equipment - net  | <u>\$ 8,670</u> | <u>\$ 8,495</u> |

Depreciation expense included in the accompanying consolidated statements of operations for the years ended July 31, 2008, 2007 and 2006 was \$2,745, \$2,306 and \$1,879, respectively.

#### 5. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

|  | July 31,         |                  |
|--|------------------|------------------|
|  | 2008             | 2007             |
| Salaries and wages                     | \$ 3,936         | \$ 3,816         |
| Independent contractor settlements     | 8,067            | 5,870            |
| Workers' compensation estimated claims | 1,483            | 1,711            |
| Vehicle liability estimated claims     | 2,268            | 2,234            |
| Vacation                               | 2,621            | 2,400            |
| Deferred revenue                       | 352              | 177              |
| Taxes - other                          | 1,104            | 1,100            |
| Other                                  | 4,329            | 3,222            |
| Total accrued liabilities              | <u>\$ 24,160</u> | <u>\$ 20,530</u> |

#### 6. LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following:

|                                   | July 31,        |                 |
|-----------------------------------|-----------------|-----------------|
|                                   | 2008            | 2007            |
| Operating leases (a)              | \$ 2,327        | \$ 2,526        |
| Deferred compensation             | 1,440           | 1,149           |
| Deferred income taxes             | 442             | -               |
| Total other long-term liabilities | <u>\$ 4,209</u> | <u>\$ 3,675</u> |

##### a) Operating leases

The Company recognizes a deferred rent liability for tenant improvement allowances within other long-term liabilities and amortizes these amounts over the term of the lease as a reduction of rent expense. For scheduled rent escalation clauses during the lease term, the Company records rental expense on a straight-line basis over the term of the lease.

## Long-Term Debt

The revolving credit facility was initially established in 2004 and last amended in September 17, 2008. The revolving credit facility line of credit is \$40 million, has a maturity date of July 31, 2013 and has no scheduled principal payments. The revolving credit facility is secured by all of the Company's U.S. assets and 100% of the stock of its domestic subsidiaries. At July 31, 2008, there were \$6.1 million letters of credit issues but no outstanding borrowings under the revolving credit agreement. The revolving credit facility requires the Company to satisfy certain financial and other covenants. As of July 31, 2008, the Company was in compliance with all financial and other covenants.

## 7. COMMITMENTS AND CONTINGENCIES

### COMMITMENTS

The Company leases certain equipment and properties under non-cancelable operating lease agreements, which expire at various dates.

At July 31, 2008, minimum annual lease payments for such operating leases are as follows:

|            | <u>Operating<br/>Leases</u> |
|------------|-----------------------------|
| 2009       | \$ 10,851                   |
| 2010       | 8,845                       |
| 2011       | 6,593                       |
| 2012       | 4,571                       |
| 2013       | 2,909                       |
| Thereafter | <u>4,027</u>                |
|            | <u>\$ 37,796</u>            |

Rent expense related to operating leases amounted to approximately \$16,606, \$17,855, and \$14,350 for the years ended July 31, 2008, 2007 and 2006, respectively.

The Company has entered into an employment agreement with its President and CEO which provides for the payment of a base salary in the annual amount of \$525, participation in an executive bonus plan, an auto allowance, and participation in other employee benefit plans. On September 16, 2008 the Company's Board of Directors approved a special compensation award to the Company's current President and CEO of \$1.5 million in cash. In addition, the Company has entered into retention agreements with certain key executive officers and other employees that provide certain benefits in the event their employment is terminated subsequent to a change in control of the Company, as defined in the retention agreements. The Company believes that it is unlikely that these circumstances will transpire, but if they did the potential exposure could range between \$3.7 million and \$4.1 million.

### CONTINGENCIES

The California Employment Development Department (the "EDD"), in 2005, conducted an employment tax audit of certain of the Company's operations in California for the period April 2003 through March 2005. As a result of the audit, the EDD concluded that certain independent contractors used by the Company should be reclassified as employees. Based on such reclassification, the EDD made a \$345 assessment plus accrued interest against the Company, the bulk of which was for personal income taxes. The Company subsequently provided documentation to the EDD related to the original assessment which resulted in a reduction in the assessment of approximately \$100. The Company subsequently pursued an administrative appeal of the denial of its Refund Claim. The California Unemployment Appeals Board upheld the denial following an evidentiary hearing in May. After weighing the cost, management time, and legal fees involved in an appeal to a California

court against the value of the potential recovery, the Company made a business decision not to pursue further appeals. The decision has no legal effect on other audits conducted by the EDD.

The California EDD conducted an employment tax audit of the Company's other California operations in 2006. Based on its conclusion that certain independent contractors used by the Company should be reclassified as employees, a Notice of Assessment was issued by the EDD in April 2007 in the amount of \$2.8 million; \$2.0 million of which the EDD claims represents personal income tax of the reclassified individuals. As in the earlier matter, the Company has collected and submitted documentation which will work to reduce the personal income tax portion of the assessment. The Company has filed a Petition for Reassessment and intends to vigorously contest the assessment.

On April 15, 2005, a putative class action was filed against the Company by a former Company driver in the Superior Court of California, Los Angeles County, alleging that the Company unlawfully misclassified its California drivers as independent contractors, rather than employees, and asserting, as a consequence, entitlement on behalf of the purported class claimants to overtime compensation and other benefits under California wage and hour laws, reimbursement of certain operating expenses, and various insurance and other benefits and the obligation of the Company to pay employer payroll taxes under federal and state law. Plaintiff's Motion for Class Certification was denied in December 2006, and appealed by Plaintiff. Following the exchange of Briefs, an Appellate Hearing was held in August, 2008. The Appellate Court determined that the Trial Court's denial of Plaintiff's earlier Motion to Compel Disclosure of the names and contact information for all members of the putative class prejudiced Plaintiff's ability to support his Motion for Class Certification. The ruling reversed the Denial of the Motion for Class Certification and remanded the matter for additional discovery and eventual re-hearing of the Motion.

On October 17, 2007, two former independent contractor drivers in New York filed a purported class action / collective action against the Company in the United States District Court in New York alleging that the Company had unlawfully misclassified its drivers in New York and in the United States as independent contractors rather than as employees, and that the Company had unlawfully failed to comply with the "Truth In Truck Leasing" and "Leasing Regulations" under U.S. Transportation Statutes. The Complaint sought relief under the New York Labor and Wage Statutes and the U.S. Fair Labor Standards Act including payment of wages for all hours worked plus overtime, as well as for reimbursement of business expenses and improper deductions made from driver wages and injunctive relief to prevent further violations. The truck leasing claims sought unspecified amounts by which plaintiffs were underpaid and amounts for which the Company had over deducted. Following various written discovery, Plaintiffs voluntarily dismissed the wage claims, With Prejudice, and the transportation law claims, Without Prejudice.

On July 25, 2008, two California independent contractor drivers filed a purported class action suit alleging that the Company's classification of California drivers as independent contractors was unlawful, and that as a consequence they were denied the benefit of various California wage laws. They further alleged that such misclassification constituted unfair competition under California business statutes. Because the Complaint in large measure contains the same causes of action as the on-going 2005 California case, the Company filed a Special Demurrer and a Motion to Stay further proceedings pending the outcome of the earlier action. A Hearing is scheduled for early November, 2008.

The Company believes that all independent contractor owner-operator drivers are properly classified as independent contractors and intends to vigorously defend these various actions. Given the nature and preliminary status of the existing claims, however, the Company cannot yet determine with certainty the amount of any alleged liability or reasonable range of potential loss in these matters, if any.

The Company is a party to other legal proceedings and claims arising in the ordinary course of its business. Overall, the Company is optimistic and believes that the ultimate liability, if any and resolution of these pending legal proceedings and claims will not, in the aggregate, have a material adverse effect on the financial condition, results of operations, or liquidity of the Company.

## 8. INCOME TAXES

The United States and Canadian components of income before income taxes are as follows:

|               | Years ended July 31, |                  |                  |
|---------------|----------------------|------------------|------------------|
|               | 2008                 | 2007             | 2006             |
| Canada        | \$ 10,598            | \$ 10,547        | \$ 7,857         |
| United States | 14,907               | 12,990           | 12,129           |
|               | <u>\$ 25,505</u>     | <u>\$ 23,537</u> | <u>\$ 19,986</u> |

The provision for income tax expense consisted of the following:

|                            | Years ended July 31, |                 |                 |
|----------------------------|----------------------|-----------------|-----------------|
|                            | 2008                 | 2007            | 2006            |
| Current tax expense:       |                      |                 |                 |
| Canada                     | \$ 3,509             | \$ 1,641        | \$ 2,784        |
| United States - Federal    | 3,893                | 2,935           | 2,578           |
| United States - States     | 848                  | 631             | 517             |
| Total current tax expense  | <u>8,250</u>         | <u>5,207</u>    | <u>5,879</u>    |
| Deferred tax expense:      |                      |                 |                 |
| Canada                     | 12                   | 50              | 14              |
| United States - Federal    | 1,242                | 3,021           | 1,148           |
| United States - States     | 218                  | 297             | 553             |
| Total deferred tax expense | <u>1,472</u>         | <u>3,368</u>    | <u>1,715</u>    |
| Total income tax provision | <u>\$ 9,722</u>      | <u>\$ 8,575</u> | <u>\$ 7,594</u> |

Differences between financial accounting principles and tax laws cause differences between the bases of certain assets and liabilities for financial reporting purposes and tax purposes. The tax effects of these differences, to the extent they are temporary, are recorded as deferred tax assets and liabilities under Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS No. 109") and consisted of the following components:

|  | July 31,        |                 |
|--|-----------------|-----------------|
|  | 2008            | 2007            |
| Deferred tax asset:                        |                 |                 |
| Allowance for doubtful accounts            | \$ 276          | \$ 254          |
| Amortization of intangibles                | -               | 1,745           |
| Accrued vacation                           | 690             | 637             |
| Accrued liabilities and other              | 2,414           | 2,120           |
| Stock option expense                       | 602             | 396             |
| Deferred compensation                      | 543             | 424             |
| WOTC tax credit carryforward               | 125             | 125             |
| Capitalized start-up costs                 | 35              | 35              |
| Total deferred tax benefits                | <u>4,685</u>    | <u>5,736</u>    |
| Less valuation allowance                   | -               | -               |
| Net deferred tax asset                     | <u>4,685</u>    | <u>5,736</u>    |
| Deferred tax liability:                    |                 |                 |
| Fixed assets                               | (1,185)         | (1,202)         |
| Amortization of intangibles                | <u>(438)</u>    | <u>-</u>        |
| Total deferred tax liability               | <u>(1,623)</u>  | <u>(1,202)</u>  |
| Net deferred tax asset                     | <u>\$ 3,062</u> | <u>\$ 4,534</u> |
| Financial statements:                      |                 |                 |
| Current deferred tax asset                 | <u>\$ 3,504</u> | <u>\$ 3,136</u> |
| Non-current deferred tax asset (liability) | <u>\$ (442)</u> | <u>\$ 1,398</u> |

The Company establishes valuation allowances in accordance with the provisions of SFAS No. 109. The Company continually reviews the adequacy of its valuation allowances and adjusts the allowances for changes in expected realization.

During the year ended July 31, 2007, the Company repatriated approximately \$3.6 million from its Canadian subsidiary. Except for certain applicable state income taxes, the Company was able to offset substantially all the U.S. income tax liability with foreign tax credits. At July 31, 2006 the Company established a valuation allowance of approximately \$1.7 million to reduce the value of its foreign tax credit carryforwards to estimated realizable value. At July 31, 2007 the Company had utilized substantially all of its foreign tax credit carryforwards.

The Company has not provided for U.S. Federal and foreign withholding taxes on the foreign subsidiaries' undistributed earnings as of July 31, 2008. Such earnings were intended to be reinvested indefinitely. The Company intends to repatriate cash in excess of its operating needs from its Canadian operations in FY2009. As a result, the U.S. effective income tax rate for FY2009 is expected to be approximately 45%.

Total income tax expense was \$9.7 million, 38.1% of income before taxes in the current fiscal year compared to \$8.6 million, 36.4% of income before taxes in fiscal year 2007. Excluding the impact of the one-time benefit from the resolution of prior year cross-border transfer pricing issues as shown in Footnote 13 below, income tax expense in fiscal year 2007 would have been approximately \$8.2 million, 36.9% of income before taxes. The higher income rate this year results from the higher proportion of pre-tax income generated in the U.S. than the previous year.

The Company adopted FIN 48 on August 1, 2007. The adoption of the FIN 48 provision did not have a material effect on the Company's financial position, results of operations or cash flows.

The differences in income tax provided and the amounts determined by applying the statutory rate to income before income taxes result from the following:

|   | Years ended July 31, |                 |                 |
|---|----------------------|-----------------|-----------------|
|   | 2008                 | 2007            | 2006            |
| Income taxes at statutory rate  | \$ 8,927             | \$ 8,003        | \$ 6,995        |
| Effect on taxes resulting from:   |                      |                 |                 |
| State taxes   | 1,066                | 928             | 823             |
| Impact on NY State net operating loss<br>carryforward from merging subsidiary | -                    | -               | 248             |
| Foreign taxes (refunds)   | (182)                | (1,971)         | 314             |
| (Increase) decrease in foreign tax credit                                     | -                    | 3,608           | (1,504)         |
| Increase (decrease) in valuation allowance                                    | -                    | (1,724)         | 430             |
| Other (including permanent differences)                                       | (89)                 | (269)           | 288             |
|   | <u>\$ 9,722</u>      | <u>\$ 8,575</u> | <u>\$ 7,594</u> |

## 9. RESERVE FOR DOUBTFUL ACCOUNTS

The changes in the reserve for doubtful accounts are summarized below:

|                    | Balance at<br>Beginning of<br>Year | Additions Charges<br>to Costs and<br>Expenses | Deductions | Balance<br>at End of<br>Year |
|--------------------|------------------------------------|---|------------|------------------------------|
| Fiscal year ended: |                                    |   |            |                              |
| July 31, 2008      | \$ 866                             | \$ 1,039                                      | \$ 990     | \$ 915                       |
| July 31, 2007      | 676                                | 499   | 309        | 866                          |
| July 31, 2006      | 767                                | 695   | 786        | 676                          |

## 10. STOCK OPTION PLAN

On September 19, 2007, the Company's Board of Directors approved the 2008 Equity Compensation Plan (the "Equity Plan"), to replace the 1996 Stock Option Plan and reserved a total of 1,200,000 shares for issuance under the Equity Plan, inclusive of 339,579 shares remaining available for issuance under the Company's 1996 Stock Option Plan (the "Stock Option Plan") and being transferred to the new Equity Plan. On January 8, 2008, the Equity Plan was approved by the Company's shareholders. The Equity Plan provides for the granting of incentive stock options and non-qualified stock options and restricted stock. Awards under the Equity Plan may also take the form of stock appreciation rights or performance units. Subject to certain restrictions that are set forth in the plan, the Compensation Committee will have complete and absolute authority to set the terms, conditions and provisions of each award, including the size of the award, the exercise or base price, the vesting and exercisability schedule (including provisions regarding acceleration of vesting and exercisability) and termination, cancellation and forfeiture provisions. The exercise price of all options granted under the Equity Plan may not be less than the fair market value of the underlying common stock on the date of grant. Generally, the options and restricted stock grants vest and become exercisable ratably over a four-year period, commencing one year after the grant date. The options expire 10 years from the date of grant. Performance units and performance based options vest at the end of the performance period, generally three years.

Effective August 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation ("SFAS No. 123") for stock-based employee compensation. During the years ended July 31, 2008, 2007 and 2006, the Company recognized \$1,180, \$771 and \$717 of stock based compensation.

Stock option activity during the year ended July 31, 2008, is as follows:

|                                  | Number of<br>Shares | Weighted<br>Average<br>Exercise Price |
|----------------------------------|---------------------|---------------------------------------|
| Number of shares under option:   |                     |                                       |
| Outstanding at beginning of year | 485,050             | \$ 15.47                              |
| Granted                          | 182,000             | 28.81                                 |
| Exercised                        | (113,300)           | 9.70                                  |
| Forfeited                        | (41,500)            | 25.59                                 |
| Outstanding at end of year       | <u>512,250</u>      | 20.66                                 |
| Exercisable at end of year       | <u>182,650</u>      | 15.56                                 |

Nonvested stock option activity during the year ended July 31, 2008, is as follows:

|                                | Number of<br>Shares | Weighted Avg.<br>Grant Date Fair<br>Value |
|--------------------------------|---------------------|---|
| Number of nonvested shares:    |                     |   |
| Nonvested at beginning of year | 276,000             | \$ 10.52                                  |
| Granted                        | 167,000             | 15.07                                     |
| Vested                         | (74,300)            | 10.26                                     |
| Forfeited                      | (39,100)            | 13.57                                     |
| Nonvested at end of year       | <u>329,600</u>      | 12.52                                     |

The following table summarizes information about stock options outstanding at July 31, 2008:

| Range of<br>Exercise Prices | Stock Options Outstanding |  |                                       | Stock Options Exercisable |  |                                       |
|-----------------------------|---------------------------|--|---------------------------------------|---------------------------|--|---------------------------------------|
|                             | Shares                    | Weighted<br>Average<br>Rem. Life (Yrs) | Weighted<br>Average<br>Exercise Price | Shares                    | Weighted<br>Average<br>Rem. Life (Yrs) | Weighted<br>Average<br>Exercise Price |
| \$1.44 - 10.00              | 26,650                    | 3.52                                   | \$ 2.37                               | 26,650                    | 3.52                                   | \$ 2.37                               |
| \$10.01 - 20.00             | 176,000                   | 6.53                                   | 15.38                                 | 94,000                    | 6.25                                   | 14.87                                 |
| \$20.01 -30.00              | 309,600                   | 8.71                                   | 25.24                                 | 62,000                    | 8.40                                   | 22.27                                 |
|                             | <u>512,250</u>            | <u>7.69</u>                            | <u>\$ 20.66</u>                       | <u>182,650</u>            | <u>6.58</u>                            | <u>\$ 15.56</u>                       |

At July 31, 2008, the aggregate intrinsic value (i.e., the difference in market price of \$28.07 and the exercise price to be paid by the optionee) of stock options outstanding was \$4.0 million. The aggregate intrinsic value of exercisable stock options at that date was \$2.3 million.

At July 31, 2008, the total future compensation cost related to non-vested stock options not yet recognized in the statement of income was \$3.1 million and the weighted average period over which these awards are expected to be recognized was 1.8 years. Of that total, \$1,064, \$829, \$705, \$446 and \$97 will be recognized in 2009, 2010, 2011, 2012 and 2013, respectively.

The following table summarizes information about options granted, options exercised and options becoming exercisable during the years shown:

|  | Years ended July 31, |               |               |
|--|----------------------|---------------|---------------|
|  | 2008                 | 2007          | 2006          |
| Weighted average grant date fair value for options granted | \$ 14.80             | \$ 11.97      | \$ 8.82       |
| Total Intrinsic value of shares underlying options:        |                      |               |               |
| Options exercised  | \$2.1 million        | \$1.9 million | \$3.6 million |
| Options becoming exercisable                               | \$0.8 million        | \$1.0 million | \$0.8 million |

## 11. REPURCHASE OF EQUITY SECURITIES

The Board of Directors has authorized the Company to purchase up to \$58 million of Dynamex Inc. common stock on the open market. Through July 31, 2008, the Company had repurchased a total of 1,962 shares at an average price of \$20.07 per share for a total dollar cost of \$39,368. Delaware law permits treasury shares to be retired when appropriately authorized by the Board of Directors, and the Company has retired such shares by appropriate reductions in the value of common stock and additional paid-in capital. During the year ended July 31, 2008, the Company had repurchased a total of 121 shares at an average price of \$24.51 per share for a total dollar cost of \$2,966. Subsequent to fiscal year 2008, the Company repurchased 282 shares of Dynamex common stock at an average price of \$27.95 per share, leaving a balance of \$10,756 in the current authorization. Management intends to continue to purchase shares from time to time using available cash or temporary borrowings from the bank facility.

## 12. EMPLOYEES' DEFINED CONTRIBUTION PLAN

The Company sponsors a defined contribution 401K plan (the "Plan") for the benefit of substantially all of its employees who meet certain eligibility requirements, primarily age and length of service. The Plan allows employees to invest up to 15% of their current gross cash compensation on a pre-tax basis at their option up to a maximum of \$15,500. Beginning January 1, 2002, changes in the tax law provided for catch-up contributions which allow participants over 50 years of age to contribute an additional \$1 per year, rising \$1 per year each year thereafter, until reaching an additional \$5 per year in 2006. The Company may make discretionary contributions to the Plan as determined by the Company's Board of Directors. The Company made 401K matched contributions of \$295 and \$138 for 2008 and 2007, respectively. The Company did not make any discretionary contributions to the Plan during the year ended July 31, 2006.

## 13. OTHER INCOME

In December 2006 the Company reached agreement with Canadian taxing authorities on the valuation of intercompany services performed by the U.S. on behalf of Dynamex Canada. The Canadian Revenue Authority (CRA) specifically challenged certain allocations of expenses between the Canadian and United States operations during audits of fiscal years 2001 and 2002. As a result of the agreement, Canadian taxable income was reduced approximately \$4 million with a corresponding increase in U.S. taxable income. During the second quarter of fiscal 2007 Dynamex Canada transferred cash to the U.S. in payment for services provided by the U.S. from 2001 to 2005 which resulted in a foreign currency transaction gain of approximately \$937.

In December 2006, Dynamex Canada received approximately \$1.35 million Cdn from the CRA in income tax refunds for tax years 2001 to 2003 and approximately \$345 Cdn in interest on the overpayment of such Canadian income taxes. The effects of the foreign currency transaction gain and the total interest income of \$425 are recorded in Other Income in the Condensed Statements of Consolidated Operations.

Management recorded the net effects of the above described items during the second quarter of fiscal 2007. Since the challenge by the CRA and the resulting transfer pricing studies were accounting estimates resolved during the second quarter, management considers it appropriate to record the effects during the second quarter

of fiscal 2007. The effect of this resolution was an increase in net income of approximately \$972 (\$0.09 per basic and per fully diluted share for the year ended April 30, 2007). Excluding the impact of this transaction, fully diluted earnings per common share for the year ended April 30, 2007, would have been \$1.30 as shown in the following table:

| Transfer pricing impact on the year ended:  | Year ended       |                  |                  |
|---|------------------|------------------|------------------|
|   | July 31,         |                  |                  |
|   | 2008             | 2007             | 2006             |
| Income before income taxes - As reported  | \$ 25,505        | \$ 23,537        | \$ 19,986        |
| Income from transfer pricing (foreign exchange gain and interest income)              | <u>-</u>         | <u>1,362</u>     | <u>-</u>         |
| Income before income taxes - Excluding transfer pricing effects                       | <u>\$ 25,505</u> | <u>\$ 22,175</u> | <u>\$ 19,986</u> |
| Income taxes - As reported  | \$ 9,722         | \$ 8,575         | \$ 7,594         |
| Income tax effects (foreign exchange gain, interest income and intercompany services) | <u>-</u>         | <u>390</u>       | <u>-</u>         |
| Income taxes - Excluding transfer pricing effects                                     | <u>\$ 9,722</u>  | <u>\$ 8,185</u>  | <u>\$ 7,594</u>  |
| Net income - As reported  | <u>\$ 15,783</u> | <u>\$ 14,962</u> | <u>\$ 12,392</u> |
| Net income - Excluding transfer pricing effects                                       | <u>\$ 15,783</u> | <u>\$ 13,990</u> | <u>\$ 12,392</u> |
| Net income from the transfer pricing transactions                                     | <u>\$ -</u>      | <u>\$ 972</u>    | <u>\$ -</u>      |
| Earnings per share:   |                  |                  |                  |
| Basic - As reported   | \$ 1.55          | \$ 1.41          | \$ 1.12          |
| Transfer pricing adjustment   | -                | 0.09             | -                |
| Basic - Excluding transfer pricing effects  | <u>\$ 1.55</u>   | <u>\$ 1.32</u>   | <u>\$ 1.12</u>   |
| Fully diluted - As reported   | \$ 1.53          | \$ 1.39          | \$ 1.11          |
| Transfer pricing adjustment   | -                | 0.09             | -                |
| Basic - Excluding transfer pricing effects  | <u>\$ 1.53</u>   | <u>\$ 1.30</u>   | <u>\$ 1.11</u>   |

#### 14. GEOGRAPHIC AREA INFORMATION

Dynamex Inc. operates in one reportable business segment, same-day delivery services, with two primary service offerings: (i) same-day on-demand delivery services and (ii) same-day local and regional distribution services including outsourcing services such as fleet management and facilities management. The Company evaluates the performance of its geographic regions, United States and Canada, based upon operating income before unusual and non-recurring items.

The following table summarizes selected financial information for the United States and Canada for the years ended July 31, 2008, 2007 and 2006:

|   | United<br>States | Canada     | Total      |
|---|------------------|------------|------------|
| <b>2008</b>                                     |                  |            |            |
| Sales   | \$ 280,583       | \$ 175,193 | \$ 455,776 |
| Operating income                                | 12,855           | 12,366     | 25,221     |
| Identifiable assets                             | 100,397          | 38,227     | 138,624    |
| Goodwill, net                                   | 36,111           | 11,998     | 48,109     |
| Capital expenditures                            | 1,981            | 864        | 2,845      |
| Depreciation and amortization                   | 2,370            | 455        | 2,825      |
| Amortization of deferred bank<br>financing fees | 10               | -          | 10         |
| <b>2007</b>                                     |                  |            |            |
| Sales   | \$ 257,025       | \$ 156,749 | \$ 413,774 |
| Operating income                                | 9,896            | 11,861     | 21,757     |
| Identifiable assets                             | 91,334           | 29,706     | 121,040    |
| Goodwill, net                                   | 36,111           | 11,502     | 47,613     |
| Capital expenditures                            | 4,579            | 382        | 4,961      |
| Depreciation and amortization                   | 2,079            | 278        | 2,357      |
| Amortization of deferred bank<br>financing fees | 28               | -          | 28         |
| <b>2006</b>                                     |                  |            |            |
| Sales   | \$ 230,768       | \$ 127,606 | \$ 358,374 |
| Operating income                                | 10,376           | 9,630      | 20,006     |
| Identifiable assets                             | 78,760           | 31,765     | 110,525    |
| Goodwill, net                                   | 36,111           | 10,823     | 46,934     |
| Capital expenditures                            | 1,860            | 333        | 2,193      |
| Depreciation and amortization                   | 1,670            | 261        | 1,931      |
| Amortization of deferred bank<br>financing fees | 24               | -          | 24         |

## 15. QUARTERLY DATA (Unaudited)

Summarized quarterly financial data for 2008 and 2007 is as follows (in thousands except per share amounts and business days):

|                            | Quarter Ended |             |            |            |
|----------------------------|---------------|-------------|------------|------------|
|                            | October 31,   | January 31, | April 30,  | July 31,   |
| <b>2008</b>                |               |             |            |            |
| Sales                      | \$ 111,752    | \$ 111,957  | \$ 112,976 | \$ 119,092 |
| Gross profit               | 29,705        | 29,833      | 29,590     | 32,270     |
| Net income                 | 3,994         | 3,419       | 3,774      | 4,596      |
| Net income per share:      |               |             |            |            |
| Basic                      | 0.39          | 0.33        | 0.37       | 0.45       |
| Assuming dilution          | 0.39          | 0.33        | 0.37       | 0.45       |
| Average shares outstanding | 10,174        | 10,232      | 10,243     | 10,181     |
| Number of business days    | 64            | 60          | 63         | 64         |
| <b>2007</b>                |               |             |            |            |
| Sales                      | \$ 100,615    | \$ 100,988  | \$ 103,526 | \$ 108,644 |
| Gross profit               | 26,927        | 26,175      | 27,261     | 29,071     |
| Net income                 | 3,649         | 3,722 (1)   | 3,487      | 4,105      |
| Net income per share:      |               |             |            |            |
| Basic                      | 0.34          | 0.35 (1)    | 0.33       | 0.39       |
| Assuming dilution          | 0.34          | 0.35 (1)    | 0.32       | 0.38       |
| Average shares outstanding | 10,601        | 10,602      | 10,643     | 10,605     |
| Number of business days    | 64            | 62          | 62         | 64         |

(1) Includes net income of \$972, \$0.09 per basic and fully diluted earnings per share, resulting from resolution of cross-border transfer pricing issues, a foreign currency transaction gain and interest income. See Note 13 of the Notes to Consolidated Financial Statements for additional information.

## INDEX TO EXHIBITS

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 3.1(2)                    | — Restated Certificate of Incorporation of Dynamex Inc.  |
| 3.2(3)                    | — Bylaws, as amended and restated, of Dynamex Inc.   |
| 10.1(4)                   | — Amendment No. 2 to Employment Agreement of Richard K. McClelland.  |
| 10.2(3)                   | — Dynamex Inc. Amended and Restated 1996 Stock Option Plan.  |
| 10.3(2)                   | — Marketing and Transportation Services Agreement, between Purolator Courier Ltd. and Parcelway Courier Systems Canada Ltd., dated November 20, 1995.  |
| 10.4(2)                   | — Form of Indemnity Agreements with Executive Officers and Directors.  |
| 10.14(5)                  | — Credit Agreement by and among the Company and Bank of America N.A., as administrative agent for the lenders therein, dated March 2, 2004.  |
| 10.14(6)                  | — First Amendment to the \$30,000,000 Revolving Credit Facility by and among the Company and Bank of America, N.A., as administrative agent and a lender, dated April 22, 2005.  |
| 10.14(7)                  | — Second Amendment to the \$30,000,000 Revolving Credit Facility by and among the Company and Bank of America, N.A., as administrative agent and a lender, dated November 10, 2005.  |
| 10.14(7)                  | — Third Amendment to the \$30,000,000 Revolving Credit Facility by and among the Company and Bank of America, N.A., as administrative agent and a lender, dated December 23, 2005 (but effective as of October 31, 2005).            |
| 10.14(8)                  | — Fourth Amendment to the \$30,000,000 Revolving Credit Facility by and among the Company and Bank of America, N.A., as administrative agent and a lender, dated April 22, 2005.   |
| 10.14(9)                  | — Fifth Amendment to the \$30,000,000 Revolving Credit Facility by and among the Company and Bank of America, N.A., as administrative agent and a lender, dated October 5, 2006.   |
| 10.14(10)                 | — Sixth Amendment to the \$30,000,000 Revolving Credit Facility by and among the Company and Bank of America, N.A., as administrative agent and a lender, dated July 31, 2007.   |
| 10.14(1)                  | — Seventh Amendment to the \$40,000,000 Revolving Credit Facility by and among the Company and Bank of America, N.A., as administrative agent and a lender, dated September 17, 2008.  |
| 11.1                      | — Statement regarding computation of earnings (loss) per share. All information required by Exhibit 11.1 is presented in Note 2 of the Company's Consolidated Financial Statements in accordance with the provisions of SFAS No. 128 |
| 21.1(8)                   | — Subsidiaries of the Registrant.  |
| 23.1(1)                   | — Consent of BDO Seidman, LLP.   |
| 31.1(1)                   | — Certification of Chief Executive Officer of the Registrant, pursuant to 17 CFR 240.13a – 14(a) Or 17 CFR 240.15d – 14(a)   |
| 31.2(1)                   | — Certification of Chief Financial Officer of the Registrant, pursuant to 17 CFR 240.13a – 14(a) Or 17 CFR 240.15d – 14(a)   |
| 32.1(1)                   | — Certification of Chief Executive Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 32.2(1)                   | — Certification of Chief Financial Officer of the Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |
| 99.1(1)                   | — Dynamex Inc. 2008 Equity Compensation Plan   |

- 
- (1) Filed herewith.
  - (2) Filed as an exhibit to the registrant's Registration Statement on Form S-1 (File No. 333-05293), and incorporated herein by reference.
  - (3) Filed as an exhibit to the registrant's annual report on Form 10-K for the fiscal year ended July 31, 1997, and incorporated herein by reference.
  - (4) Filed as an exhibit to Registration Statement on Form S-1 (File No. 333-49603), and incorporated herein by reference.
  - (5) Filed as an exhibit to the registrant's quarterly report on Form 10-Q for the quarterly period ended April 30, 2004, and incorporated herein by reference.

- (6) Filed as an exhibit to the registrant's quarterly report on Form 10-Q for the quarterly period ended April 30, 2005, and incorporated herein by reference.
- (7) Filed as an exhibit to the registrant's quarterly report on Form 10-Q for the quarterly period ended January 31, 2006, and incorporated herein by reference.
- (8) Filed as an exhibit to the registrant's annual report on Form 10-K for the fiscal year ended July 31, 2006, and incorporated herein by reference.
- (9) Filed as an exhibit to the registrant's quarterly report on Form 10-Q for the quarterly period ended October 31, 2006, and incorporated herein by reference.
- (10) Filed as an exhibit to the registrant's annual report on Form 10-K for the fiscal year ended July 31, 2007, and incorporated herein by reference.

## DYNAMEX SERVICE OFFERINGS

### ON-DEMAND DELIVERY

Critical Shipments Needing Delivery in the Same Day

- Ground Delivery in 1 to 6 Hours
- In-City & City-to-City (up to 400+ miles)
- Same-Day Air Delivery
- Professional, Uniformed & Bonded Independent Contract Drivers
- Order & Track Online
- FAA Compliant

### SCHEDULED DELIVERY

- Schedule Vehicles For Recurring Same-Day Distribution
- Static or Variable Route Services
- Single Package to Multiple Pallet Deliveries; Hundreds or Thousands of Shipments Per Day
- Dedicated Driver for the Route
- Minimized Handling
- Consistent, Scheduled Stops
- Local, Regional & Transborder
- Flexible & Adjustable as Your Business Changes
- Optimization Modeling and Routing Program Available

### DEDICATED FLEET SERVICES

One or Multiple Vehicles Dedicated to a Business

- Full- or Half-Day Basis
- Your Facility or Ours
- Same Vehicle Eliminates Sorting
- Branding Program Available
- Optimized Routing Programs
- Variable Cost Structure
- Reduced Administrative Burden
- Eliminates Assets & Liabilities
- Local, Regional & National
- Scalable
- Experienced Operations Management
- Customized Reporting

### EXPEDITE SERVICES

Ground or Air Solutions for Urgent, Time-Sensitive Shipments

- Direct Drive
- In-City & City-to-City (up to 400+ miles)
- FAA Compliant
- Transborder Specialists
- Local, Regional, National & International
- ISO:9001 Certified

### BIOTRANSPORT SERVICES

Specially Certified Drivers to Handle Biomedical Material

- OSHA Compliant
- JCAHO Compliant
- HAZMAT Certified
- Chain of Custody Records

### VALUE ADDED SERVICES

We Manage a Dedicated Team to Work for a Business

Strategic Stocking

Facilities Management

Call Centers

Semi-Technical Field Services

- Single-Source Solution
- Improved Efficiencies
- Dedicated Teams
- Reduced Administrative Costs

### DYNAMEX.COM

dxNow® for Orders 24-Hours a Day 7 Days a Week

- Secure Online Ordering
- Real-Time Online Tracking
- Online Reports to Quickly Manage & Analyze Shipping Costs
- Instant E-Mail Proof-Of-Delivery
- Print Waybills & Shipping Labels
- Multiuser Accounts
- Address Storage
- Smart Code Reference Billing
- Credit Card Payments
- Bilingual
- Secure 24-Hour Access
- 24-Hour Help Desk

### FRANCHISING

Licensing our Success So Others Can Grow Their Business

- Fresh, hosted, industry specific technology
- Business processes and guidance related to adding new services that allow owners to take their business to the next level
- The sales horsepower associated with being an affiliate of Dynamex
- The ability to leverage their client base by selling into the Dynamex network
- Access to our national account revenue stream



## SENIOR MANAGEMENT

Richard K. McClelland  
Chairman of the Board and former  
President, Chief Executive Officer

James L. Welch  
President, Chief Executive Officer

James R. Aitken  
President, Dynamex Canada

Gilbert Jones  
Controller

Ray E. Schmitz  
Vice President, Chief Financial Officer

Catherine J. Taylor  
President, Dynamex USA

## BOARD OF DIRECTORS

Richard K. McClelland, Chairman  
James L. Welch  
Brian J. Hughes  
Wayne L. Kern  
Craig Lentzsch  
Bruce E. Ranck  
Stephen P. Smiley

## CORPORATE HEADQUARTERS

Dynamex Inc.  
5429 LBJ Freeway, Suite 1000  
Dallas, Texas 75240  
Phone: 214-560-9000  
Fax: 214-560-9349  
dynamex.us@dynamex.com

## CANADIAN ADMINISTRATION

2630 Skymark Avenue, Suite 610  
Mississauga, ON L4W 5A4  
Phone: 905-238-6414  
Fax: 905-238-6989  
dynamex.ca@dynamex.com

## STOCK

Stock Symbol: DDMX  
Stock Traded on NASDAQ  
Global Market®

## INVESTOR RELATION CONTACTS

Ray E. Schmitz  
Vice President, Chief Financial Officer  
Phone: 214-560-9000  
Fax: 214-560-9349  
E-mail: ray.schmitz@dynamex.com

## FORM 10-K

A copy of the Annual Report on Form 10-K for fiscal year ended July 31, 2008, is included with this Annual Report. A copy of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is available by contacting Dynamex Inc., Investor Relations, 5429 LBJ Freeway, Suite 1000, Dallas, Texas, 75240.

The Annual Report, Form 10-K and other financial information is available at [www.dynamex.com](http://www.dynamex.com) under the "Investor Relations" tab.

## TRANSFER AGENT

Questions concerning stock transfers, account consolidations, lost certificates, change of address, receipt of duplicate material, and any other account related matters should be directed to Computershare, Investor Services, L.L.C. by calling 303-262-0600, or by writing to:

Dynamex Inc.  
c/o Computershare  
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Stockholders may also e-mail the transfer agent at [inquiry@computershare.com](mailto:inquiry@computershare.com)

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