MARTEN TRANSPORT LTD
Form 10-Q
November 07, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarter ended September 30, 2014

Commission File Number 0-15010

MARTEN TRANSPORT, LTD.

(Exact name of registrant as specified in its charter)

Delaware	39-1140809
(State of incorporation)	(I.R.S. employer identification no.)

129 Marten Street, Mondovi, Wisconsin 54755

(Address of principal executive offices)

715-926-4216

(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Smaller reporting company Non-accelerated filer (Do not check if a smaller reporting company)

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

The number of shares outstanding of the Registrant's Common Stock, par value $.01 per share, was 33,405,829 as of October 30, 2014.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share information)	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$187	$13,650
Receivables:		
Trade, net	73,202	70,869
Other	4,905	4,142
Prepaid expenses and other	13,481	15,274
Deferred income taxes	3,588	3,415
Total current assets	95,363	107,350
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	642,271	579,925
Accumulated depreciation	(174,951)	(164,916)
Net property and equipment	467,320	415,009
Other assets	3,923	3,443
TOTAL ASSETS	$566,606	$525,802
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks issued in excess of cash balances	$28	$-
Accounts payable and accrued liabilities	38,709	38,624
Insurance and claims accruals	13,759	14,404
Total current liabilities	52,496	53,028
Long-term debt	24,681	-
Deferred income taxes	110,015	113,637
Total liabilities	187,192	166,665
Stockholders' equity:		
Preferred stock, $.01 par value per share; 2,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $.01 par value per share; 48,000,000 shares authorized; 33,405,829 shares at September 30, 2014, and 33,301,048 shares at December 31, 2013, issued and outstanding	334	333
Additional paid-in capital	86,992	85,077

Retained earnings	292,088	273,727
Total stockholders' equity	379,414	359,137
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$566,606	$525,802

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

1

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share information)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
OPERATING REVENUE	$171,550	$167,103	$499,382	$492,990
OPERATING EXPENSES (INCOME):				
Salaries, wages and benefits	46,435	43,310	134,834	127,780
Purchased transportation	32,914	30,136	91,783	92,449
Fuel and fuel taxes	39,398	42,547	119,718	123,466
Supplies and maintenance	10,273	10,296	31,059	29,827
Depreciation	17,253	16,248	50,489	48,155
Operating taxes and licenses	1,837	1,811	5,278	5,406
Insurance and claims	6,205	5,741	18,993	17,360
Communications and utilities	1,507	1,305	4,251	3,850
Gain on disposition of revenue equipment	(1,419)	(1,472)	(3,360)	(5,124)
Other	4,105	3,528	11,723	10,509
Total operating expenses	158,508	153,450	464,768	453,678
OPERATING INCOME	13,042	13,653	34,614	39,312
OTHER	(226)	(130)	(936)	(298)
INCOME BEFORE INCOME TAXES	13,268	13,783	35,550	39,610
Less: Income before income taxes attributable to noncontrolling interest	-	-	-	84
INCOME BEFORE INCOME TAXES ATTRIBUTABLE TO MARTEN TRANSPORT, LTD.	13,268	13,783	35,550	39,526
PROVISION FOR INCOME TAXES	5,616	5,806	14,685	16,680
NET INCOME	$7,652	$7,977	$20,865	$22,846
BASIC EARNINGS PER COMMON SHARE	$0.23	$0.24	$0.63	$0.69
DILUTED EARNINGS PER COMMON SHARE	$0.23	$0.24	$0.62	$0.68
DIVIDENDS DECLARED PER COMMON SHARE	$0.025	$0.025	$0.075	$0.058

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

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(Unaudited)

	Marten Transport, Ltd. Stockholders					
(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Non-controlling Interest	Total Stock-holders' Equity
Balance at December 31, 2012	33,164	$ 332	$ 82,679	$ 246,349	$ 2,563	$ 331,923
Net income	-	-	-	22,846	-	22,846
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	66	-	282	-	-	282
Tax benefits from share-based payment arrangement exercises	-	-	146	-	-	146
Share-based payment arrangement compensation expense	-	-	862	-	-	862
Dividends on common stock	-	-	-	(1,937)	-	(1,937)
Income before income taxes attributable to noncontrolling interest	-	-	-	-	84	84
Noncontrolling interest distributions	-	-	-	-	(84)	(84)
Change to equity method of accounting	-	-	-	-	(2,563)	(2,563)
Balance at September 30, 2013	33,230	332	83,969	267,258	-	351,559
Net income	-	-	-	7,301	-	7,301
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	71	1	843	-	-	844
Tax benefits from share-based payment arrangement exercises	-	-	43	-	-	43
Share-based payment arrangement compensation expense	-	-	222	-	-	222
Dividends on common stock	-	-	-	(832)	-	(832)
Balance at December 31, 2013	33,301	333	85,077	273,727	-	359,137
Net income	-	-	-	20,865	-	20,865
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	105	1	1,054	-	-	1,055
Tax benefits from share-based payment arrangement exercises	-	-	141	-	-	141
Share-based payment arrangement compensation expense	-	-	720	-	-	720
Dividends on common stock	-	-	-	(2,504)	-	(2,504)

Balance at September 30, 2014	33,406	$ 334	$ 86,992	$292,088	$ -	$379,414

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

3

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
(In thousands)	2014	2013
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operations:		
Net income	$20,865	$22,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	50,489	48,155
Gain on disposition of revenue equipment	(3,360)	(5,124)
Deferred income taxes	(3,795)	4,695
Tax benefits from share-based payment arrangement exercises	141	146
Excess tax benefits from share-based payment arrangement exercises	(97)	(122)
Share-based payment arrangement compensation expense	720	862
Income before income taxes attributable to noncontrolling interest	-	84
Equity in earnings from affiliate	(453)	(203)
Changes in other current operating items:		
Receivables	(3,825)	(7,725)
Prepaid expenses and other	1,793	2,501
Accounts payable and accrued liabilities	(3,450)	(252)
Insurance and claims accruals	(645)	(14)
Net cash provided by operating activities	58,383	65,849
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Revenue equipment additions	(102,752)	(85,864)
Proceeds from revenue equipment dispositions	35,429	35,321
Buildings and land, office equipment and other additions	(27,870)	(12,236)
Proceeds from buildings and land, office equipment and other dispositions	17	2
Decrease in cash and cash equivalents resulting from change to equity method of accounting	-	(1,924)
Other	(27)	(27)
Net cash used for investing activities	(95,203)	(64,728)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Borrowings under credit facility and long-term debt	102,912	77,546
Repayment of borrowings under credit facility and long-term debt	(78,231)	(79,451)
Dividends on common stock	(2,504)	(1,937)
Issuance of common stock from share-based payment arrangement exercises	1,055	282
Excess tax benefits from share-based payment arrangement exercises	97	122
Change in net checks issued in excess of cash balances	28	-
Noncontrolling interest distributions	-	(84)
Net cash provided by (used for) financing activities	23,357	(3,522)

NET CHANGE IN CASH AND CASH EQUIVALENTS	(13,463)	(2,401)
CASH AND CASH EQUIVALENTS:		
Beginning of period	13,650	3,473
End of period	$187	$1,072
SUPPLEMENTAL NON-CASH DISCLOSURE:		
Change in property and equipment not yet paid for	$4,264	$6,422
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$114	$69
Income taxes	$20,001	$13,015

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2014

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements, and therefore do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, such statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present our consolidated financial condition, results of operations and cash flows for the interim periods presented. The results of operations for any interim period do not necessarily indicate the results for the full year. The unaudited interim consolidated financial statements should be read with reference to the consolidated financial statements and notes to consolidated financial statements in our 2013 Annual Report on Form 10-K.

The accompanying unaudited consolidated condensed financial statements include the accounts of Marten Transport, Ltd., its subsidiaries and, through March 27, 2013, its 45% owned affiliate, MW Logistics, LLC (MWL). As of March 28, 2013, Marten Transport deconsolidated MWL (See Note 8).

(2) Earnings per Common Share

Basic and diluted earnings per common share were computed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2014	2013	2014	2013
Numerator:				
Net income	$7,652	$7,977	$20,865	$22,846
Denominator:				
Basic earnings per common share - weighted-average shares	33,403	33,226	33,371	33,206
Effect of dilutive stock options	289	249	301	183
	33,692	33,475	33,672	33,389

Diluted earnings per common share - weighted-average shares and assumed conversions				
Basic earnings per common share	$0.23	$0.24	$0.63	$0.69
Diluted earnings per common share	$0.23	$0.24	$0.62	$0.68

Options totaling 171,500 equivalent shares for each of the three-month and nine-month periods ended September 30, 2014, and 67,500 and 355,350 equivalent shares for the three-month and nine-month periods ended September 30, 2013, respectively, were outstanding but were not included in the calculation of diluted earnings per share because including the options in the denominator would be antidilutive, or decrease the number of weighted-average shares, due to their exercise prices exceeding the average market price of the common shares, or because inclusion of average unrecognized compensation expense in the calculation would cause the options to be antidilutive.

Unvested performance unit awards totaling 39,885 equivalent shares for each of the three-month and nine-month periods ended September 30, 2014, and 49,404 equivalent shares for each of the three-month and nine-month periods ended September 30, 2013, were considered outstanding but were not included in the calculation of diluted earnings per share because inclusion of average unrecognized compensation expense in the calculation would cause the performance units to be antidilutive.

(3) Stock Split

On June 14, 2013, we effected a three - for - two stock split of our common stock, $.01 par value, in the form of a 50% stock dividend. Our consolidated condensed financial statements, related notes, and other financial data contained in this report have been adjusted to give retroactive effect to the stock split for all periods presented.

(4) Long-Term Debt

We maintain a credit agreement that provides for an unsecured committed credit facility which matures in May 2016. The aggregate principal amount of the credit facility of $50.0 million may be increased at our option, subject to completion of signed amendments with the lender, up to a maximum aggregate principal amount of $75.0 million. At September 30, 2014, there was an outstanding principal balance of $24.7 million on the credit facility. As of that date, we had outstanding standby letters of credit of $9.2 million and remaining borrowing availability of $16.1 million. This facility bears interest at a variable rate based on the London Interbank Offered Rate or the lender's Prime Rate, in each case plus/minus applicable margins. The weighted average interest rate for the facility was 0.99% at September 30, 2014.

(5) Related Party Transactions

We purchase fuel and obtain tires and related services from Bauer Built, Inc., or BBI. Jerry M. Bauer, one of our directors, is the chairman of the board and chief executive officer and the principal stockholder of BBI. We paid BBI $413,000 in the first nine months of 2014 and $449,000 in the first nine months of 2013 for fuel and tire services. In addition, we paid $1.1 million in the first nine months of 2014 and $1.3 million in the first nine months of 2013 to tire manufacturers for tires that we purchased from the tire manufacturers but were provided by BBI. BBI received commissions from the tire manufacturers related to these purchases.

We provide transportation services to MWL as described in Note 8.

(6) Dividends

In 2010, we announced that our Board of Directors approved a regular cash dividend program to our stockholders, subject to approval each quarter. Quarterly cash dividends of $0.025 per share of common stock were declared in each of the first three quarters of 2014. Quarterly cash dividends of $0.017 per share of common stock were declared in each of the first two quarters of 2013, and of $0.025 per share of common stock were declared in the third quarter of 2013.

(7) Accounting for Share-based Payment Arrangement Compensation

We account for share-based payment arrangements in accordance with Financial Accounting Standards Board Accounting Standards Codification, or FASB ASC, 718, *Compensation – Stock Compensation*. During the first nine months of 2014, there were no significant changes to the structure of our stock-based award plans. Pre-tax compensation expense related to stock options and performance unit awards recorded in the first nine months of 2014 and 2013 was $720,000 and $862,000, respectively. See Note 11 to our consolidated financial statements in our 2013 Annual Report on Form 10-K for a detailed description of stock-based awards under our 2005 Stock Incentive Plan.

(8) Equity Investment

We own a 45% equity interest in MWL, a third-party provider of logistics services to the transportation industry. A non-related party owns the other 55% equity interest in MWL. Pursuant to the guidance in the Variable Interest Entities (VIE) Subsections of FASB ASC 810, *Consolidation*, we included the accounts of MWL in our consolidated financial statements from April 1, 2004 to March 27, 2013, as we were deemed to be the entity’s primary beneficiary. On March 28, 2013, the other member of MWL made a capital contribution to MWL which triggered a VIE reconsideration event, and it was no longer required to be consolidated as of that date. Accordingly, we deconsolidated MWL and have accounted for our ownership interest in MWL under the equity method of accounting, effective as of March 28, 2013.

Under the deconsolidation accounting guidelines, the investor's opening investment is recorded at fair value as of the date of deconsolidation. The difference between this initial fair value of the investment and the net carrying value is recognized as a gain or loss in earnings. We completed a valuation analysis and have determined that the net carrying value of our equity interest in MWL as of March 28, 2013 of $2.6 million was equal to its fair value and, as such, no gain or loss was recognized upon deconsolidation of MWL. In determining the fair value, we utilized a combination of the income and market approaches, and equally weighed the business enterprise value of MWL provided by each approach. The income approach included the following inputs and assumptions: (a) an expectation regarding the growth of MWL's revenue at a compounded average growth rate; (b) a perpetual long-term growth rate; and (c) a discount rate that was based on MWL's estimated weighted average cost of capital. The market approach included a range of multiples of selected comparable companies applied to MWL's financial metrics for the trailing twelve months in order to obtain an indication of MWL's business enterprise value on a minority, marketable basis.

Due to the significance of inputs used in determining the fair value of our equity interest in MWL that are unobservable, the investment is classified within Level 3 of the fair value hierarchy that prioritizes from Level 1 to Level 3 the inputs to fair value valuation techniques under the provisions of the accounting guidance for fair value measurements. Fair value measurements using Level 1 inputs provide the most reliable measure of fair value, while Level 3 inputs generally require significant management judgment.

Following the deconsolidation, as an equity method investment, MWL is considered a related party. We received $5.7 million and $6.3 million of our revenue for loads transported by our tractors and arranged by MWL in the nine-month periods ended September 30, 2014 and September 30, 2013, respectively. Prior to deconsolidation effective March 28, 2013, these inter-segment revenues were eliminated in consolidation. Inter-segment revenue eliminated in consolidation was $2.1 million for the three-month period ended March 31, 2013. As of September 30, 2014, we also had both a trade receivable in the amount of $1.1 million and a current receivable of $1.7 million from MWL for the excess of amounts drawn by MWL over the payments by MWL's customers into our lockbox account.

(9) Fair Value of Financial Instruments

The carrying amounts of accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amount of our long-term debt approximates fair value as its interest rate is based upon prevailing market rates.

(10) Commitments and Contingencies

We are committed to purchase $12.8 million of new revenue equipment in the remainder of 2014 and operating lease obligation expenditures totaling $685,000 through 2017.

We self-insure, in part, for losses relating to workers' compensation, auto liability, general liability, cargo and property damage claims, along with employees' health insurance with varying risk retention levels. We maintain insurance coverage for per-incident and total losses in excess of these risk retention levels in amounts we consider adequate based upon historical experience and our ongoing review, and reserve currently for the estimated cost of the uninsured portion of pending claims.

We are also involved in other legal actions that arise in the ordinary course of business. In the opinion of management, based upon present knowledge of the facts, it is remote that the ultimate outcome of any such legal actions will have a material adverse effect upon our long-term financial position or results of operations.

(11) Business Segments

We have six current operating segments that have been aggregated into two reporting segments (Truckload and Logistics) for financial reporting purposes. The primary source of our operating revenue is truckload revenue, which we generate by transporting freight for our customers and report within our Truckload segment. Generally, we are paid by the mile for our services. We also derive truckload revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services.

Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations, and through our 45% interest in MWL, a third-party provider of logistics services to the transportation industry, until we deconsolidated MWL effective March 28, 2013. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the transport of our temperature-controlled trailers and dry containers on railroad flatcars for portions of trips, with the balance of the trips using our tractors or, to a lesser extent, contracted carriers.

The following table sets forth for the periods indicated our operating revenue and operating income by segment. We do not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2014	2013	2014	2013
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$105,271	$103,145	$304,962	$298,106
Truckload fuel surcharge revenue	25,816	27,135	79,294	80,760
Total Truckload revenue	131,087	130,280	384,256	378,866
Logistics revenue, net of intermodal fuel surcharge revenue(1)	34,670	31,397	98,197	98,878
Intermodal fuel surcharge revenue	5,793	5,426	16,929	15,246
Total Logistics revenue	40,463	36,823	115,126	114,124
Total operating revenue	$171,550	$167,103	$499,382	$492,990
Operating income:				
Truckload	$12,501	$12,267	$31,844	$33,643
Logistics	541	1,386	2,770	5,669
Total operating income	$13,042	$13,653	$34,614	$39,312

(1) Logistics revenue is net of $2.1 million of inter-segment revenue in the three-month period ended March 31, 2013 for loads transported by our tractors and arranged by MWL prior to the deconsolidation of MWL effective March 28, 2013. Such revenue has been eliminated in consolidation.

Truckload segment depreciation expense was $15.5 million and $15.0 million, and Logistics segment depreciation expense was $1.8 million and $1.3 million, in the three-month periods ended September 30, 2014 and September 30, 2013, respectively. Truckload segment depreciation expense was $45.3 million and $44.5 million, and Logistics segment depreciation expense was $5.2 million and $3.7 million, in the first nine months of 2014 and 2013, respectively.

(12) Use of Estimates

We must make estimates and assumptions to prepare the consolidated condensed financial statements in conformity with U.S. generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities in the consolidated condensed financial statements and the reported amount of revenue and expenses during the reporting period. These estimates are primarily related to insurance and claims accruals and depreciation. Ultimate results could differ from these estimates.

(13) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers” which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard, which is effective for the first quarter of 2017, will replace most existing revenue recognition guidance required by U.S. generally accepted accounting principles. Early application is not permitted. The adoption of this standard is not expected to have a significant impact on our consolidated condensed balance sheets, statements of operations or statements of cash flows.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our consolidated condensed financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those included in our Form 10-K, Part 1, Item 1A for the year ended December 31, 2013. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this report.

Overview

The primary source of our operating revenue is truckload revenue, which we generate by transporting regional, long-haul and dedicated freight for our customers and report within our Truckload segment. Generally, we are paid by the mile for our services. We also derive truckload revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services. The main factors that affect our truckload revenue are the rate per mile we receive from our customers, the percentage of miles for which we are compensated, the number of miles we generate with our equipment and changes in fuel prices. We monitor our revenue production primarily through average truckload revenue, net of fuel surcharges, per tractor per week. We also analyze our average truckload revenue, net of fuel surcharges, per total mile, non-revenue miles percentage, the miles per tractor we generate, our accessorial revenue and our other sources of operating revenue.

Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations, and through our 45% interest in MWL, a third-party provider of logistics services to the transportation industry, until we deconsolidated MWL effective March 28, 2013. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the transport of our temperature-controlled trailers and dry containers on railroad flatcars for portions of trips, with the balance of the trips using our tractors or, to a lesser extent, contracted carriers. The main factors that affect our logistics revenue are the rate per mile and other charges we receive from our customers.

In addition to the factors discussed above, our operating revenue is also affected by, among other things, the United States economy, inventory levels, the level of truck and rail capacity in the transportation market, a contracting driver market, severe weather conditions and specific customer demand.

Our operating revenue increased $6.4 million, or 1.3%, in the first nine months of 2014. Our operating revenue, net of fuel surcharges and MWL revenue, increased $12.9 million, or 3.3%, compared with the first nine months of 2013. Truckload segment revenue, net of fuel surcharges, increased 2.3% primarily due to an increase in our average truckload revenue, net of fuel surcharges, per tractor per week of 3.1%, partially offset by a decrease in our average fleet size of 0.8% from the first nine months of 2013. The increase in our average revenue per tractor was primarily due to an increase in our average rate per mile. Fuel surcharge revenue increased to $96.2 million in the first nine months of 2014 from $96.0 million in the same period of 2013. Logistics segment revenue, net of intermodal fuel surcharges and MWL revenue, increased 6.5% compared with the first nine months of 2013. This increase resulted primarily from volume growth in our intermodal services. Logistics revenue as a percentage of our operating revenue, with each net of MWL revenue, was 23.1% in the first nine months of 2014 compared to 22.1% in the first nine months of 2013.

Our profitability is impacted by the variable costs of transporting freight for our customers, fixed costs, and expenses containing both fixed and variable components. The variable costs include fuel expense, driver-related expenses, such as wages, benefits, training, and recruitment, and independent contractor costs, which are recorded under purchased transportation. Expenses that have both fixed and variable components include maintenance and tire expense and our cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency and other factors. Our main fixed costs relate to the acquisition of long-term assets, such as revenue equipment and operating terminals. We expect our annual cost of tractor and trailer ownership will increase in future periods as a result of higher prices of new equipment. Although certain factors affecting our expenses are beyond our control, we monitor them closely and attempt to anticipate changes in these factors in managing our business. For example, fuel prices have significantly fluctuated over the past several years. We manage our exposure to changes in fuel prices primarily through fuel surcharge programs with our customers, as well as through volume fuel purchasing arrangements with national fuel centers and bulk purchases of fuel at our terminals. To help further reduce fuel expense, we have installed and tightly manage the use of auxiliary power units in our tractors to provide climate control and electrical power for our drivers without idling the tractor engine, and also have improved the fuel usage in the temperature-control units on our trailers. For our Logistics segment, our profitability is impacted by the percentage of logistics revenue we pay to providers for the transportation services we arrange.

Our operating expenses as a percentage of operating revenue, or “operating ratio,” increased to 93.1% in the first nine months of 2014 from 92.0% in the first nine months of 2013. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharge revenue, increased to 91.4% for the first nine months of 2014 from 90.1% for the first nine months of 2013. Our net income decreased to $20.9 million in the first nine months of 2014 from $22.8 million in the first nine months of 2013. The decrease in profitability in the first nine months of 2014 was primarily caused by the impact of the severe weather conditions in the first quarter of 2014 on both freight volumes and operating costs, a significant reduction in the gain on disposition of revenue equipment, and costs associated with rail service interruption and delay issues that constrained our intermodal operations, partially offset by the increase in our average truckload revenue per tractor.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At September 30, 2014, we had $187,000 of cash and cash equivalents, $24.7 million of long-term debt outstanding and $379.4 million in stockholders’ equity. In the first nine months of 2014, net cash flows provided by operating activities of $58.4 million, borrowings under our credit facility of $24.7 million, and cash and cash equivalents of $13.5 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of $67.3 million, to acquire and partially construct regional operating facilities in the amount of $24.6 million, and to pay cash dividends of $2.5 million. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately $15 million for the remainder of 2014. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, existing cash and cash equivalents balances, current borrowing availability and other sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

We have transformed our business strategy to a multifaceted set of transportation service solutions, primarily regional temperature-controlled operations along with intermodal and brokerage services, while developing a diverse customer base that gains value from and expands each of these operating units. We believe that we are well-positioned regardless of the economic environment with this transformation of our services combined with our competitive position, cost control emphasis, modern fleet and strong balance sheet.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations includes discussions of operating and logistics revenue, each net of fuel surcharge revenue and MWL revenue, truckload revenue net of fuel surcharge revenue, operating expenses as a percentage of operating revenue, each net of fuel surcharge revenue, and net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors, outside drayage carriers and railroads). We provide these additional disclosures because management believes these measures provide a more consistent basis for comparing results of operations from period to period. These financial measures in this report have not been determined in accordance with U.S. generally accepted accounting principles (GAAP). Pursuant to Item 10(e) of Regulation S-K, we have included the amounts necessary to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures of operating revenue, operating expenses divided by operating revenue, and fuel and fuel taxes.

Stock Split

On June 14, 2013, we effected a three-for-two stock split of our common stock, $.01 par value, in the form of a 50% stock dividend. Our consolidated condensed financial statements, related notes, and other financial data contained in this report have been adjusted to give retroactive effect to the stock split for all periods presented.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Truckload Segment:				
Total Truckload revenue (in thousands)	$131,087	$130,280	$384,256	$378,866
Average truckload revenue, net of fuel surcharges, per tractor per week[(1)]	$3,555	$3,509	$3,552	$3,446
Average tractors [(1)]	2,253	2,237	2,201	2,218
Average miles per trip	580	593	600	605
Total miles – company-employed drivers (in thousands)	56,333	57,286	166,835	169,212
Total miles – independent contractors (in thousands)	1,520	1,345	3,634	3,659
Logistics Segment:				
Total Logistics revenue (in thousands):	$40,463	$36,823	$115,126	$114,124
Brokerage:				
Marten Transport				
Revenue (in thousands)	$15,441	$12,614	$40,208	$39,896
Loads	9,679	8,435	25,998	26,467
MWL				
Revenue (in thousands)	$-	$-	$-	$6,676
Loads	-	-	-	3,758
Intermodal:				
Revenue (in thousands)	$25,022	$24,209	$74,918	$67,552
Loads	11,677	9,837	34,232	27,343
Average tractors	116	81	112	81

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 57 and 52 tractors as of September 30, 2014 and 2013, respectively.

12

Comparison of Three Months Ended September 30, 2014 to Three Months Ended September 30, 2013

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

(Dollars in thousands)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Dollar Change Three Months Ended September 30, 2014 vs. 2013	Percentage Change Three Months Ended September 30, 2014 vs. 2013
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$105,271	$103,145	$2,126	2.1%
Truckload fuel surcharge revenue	25,816	27,135	(1,319)	(4.9)
Total Truckload revenue	131,087	130,280	807	0.6
Logistics revenue, net of intermodal fuel surcharge revenue	34,670	31,397	3,273	10.4
Intermodal fuel surcharge revenue	5,793	5,426	367	6.8
Total Logistics revenue	40,463	36,823	3,640	9.9
Total operating revenue	$171,550	$167,103	$4,447	2.7%
Operating income:				
Truckload	$12,501	$12,267	$234	1.9%
Logistics	541	1,386	(845)	(61.0)
Total operating income	$13,042	$13,653	$(611)	(4.5)%
Operating ratio(1):				
Truckload	90.5%	90.6%		
Logistics	98.7	96.2		
Consolidated operating ratio	92.4%	91.8%		

(1) Represents operating expenses as a percentage of operating revenue.

Our operating revenue increased $4.4 million, or 2.7%, to $171.6 million in the 2014 period from $167.1 million in the 2013 period. Our operating revenue, net of fuel surcharges, increased $5.4 million, or 4.0%, to $139.9 million in the 2014 period from $134.5 million in the 2013 period. This increase was primarily due to an increase in truckload revenue, net of fuel surcharges, and growth in brokerage revenue. Fuel surcharge revenue decreased to $31.6 million in the 2014 period from $32.6 million in the 2013 period.

Truckload segment revenue increased $807,000, or 0.6%, to $131.1 million in the 2014 period from $130.3 million in the 2013 period. Truckload segment revenue, net of fuel surcharges, increased 2.1% primarily due to an increase in our average truckload revenue, net of fuel surcharges, per tractor per week of 1.3%, and an increase in our average fleet size of 0.7% from the 2013 period. The increase in our average revenue per tractor was primarily due to an increase in our average rate per mile. The increase in profitability in the 2014 period was due to an increase in our average truckload revenue per tractor.

Logistics segment revenue increased $3.6 million, or 9.9%, to $40.5 million in the 2014 period from $36.8 million in the 2013 period. Logistics segment revenue, net of intermodal fuel surcharges, increased 10.4%. This increase was primarily the result of volume growth in our brokerage services. The increase in the operating ratio for our Logistics segment in the 2014 period was primarily due to costs associated with rail service interruption and delay issues that constrained our intermodal operations and volume growth in our dry container intermodal service, which produces a higher operating ratio than the other components of our Logistics segment.

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

(Dollars in thousands)	Dollar Change Three Months Ended September 30, 2014 vs. 2013	Percentage Change Three Months Ended September 30, 2014 vs. 2013	Percentage of Operating Revenue Three Months Ended September 30, 2014	2013
Operating revenue	$ 4,447	2.7 %	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	3,125	7.2	27.1	25.9
Purchased transportation	2,778	9.2	19.2	18.0
Fuel and fuel taxes	(3,149)	(7.4)	23.0	25.5
Supplies and maintenance	(23)	(0.2)	6.0	6.2
Depreciation	1,005	6.2	10.1	9.7
Operating taxes and licenses	26	1.4	1.1	1.1
Insurance and claims	464	8.1	3.6	3.4
Communications and utilities	202	15.5	0.9	0.8
Gain on disposition of revenue equipment	53	3.6	(0.8)	(0.9)
Other	577	16.4	2.4	2.1
Total operating expenses	5,058	3.3	92.4	91.8
Operating income	(611)	(4.5)	7.6	8.2
Other	(96)	(73.8)	(0.1)	(0.1)
Income before income taxes	(515)	(3.7)	7.7	8.2
Provision for income taxes	(190)	(3.3)	3.3	3.5