

MARTEN TRANSPORT LTD
Form 10-Q
May 10, 2007

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 March 31, 2007

Commission File Number 0-15010

MARTEN TRANSPORT, LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

39-1140809
(I.R.S. employer
identification no.)

129 Marten Street, Mondovi, Wisconsin 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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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 21,775,836 as of May 7, 2007.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share information)	March 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash	\$ 2,928	\$ 2,988
Marketable securities	300	300
Receivables:		
Trade, net	51,371	48,005
Other	5,638	6,458
Prepaid expenses and other	12,531	14,227
Deferred income taxes	4,981	4,532
Total current assets	77,749	76,510
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	440,069	428,729
Accumulated depreciation	(103,935)	(98,841)
Net property and equipment	336,134	329,888
Other assets	3,917	4,424
TOTAL ASSETS	\$ 417,800	\$ 410,822
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks issued in excess of cash balances	\$ 350	\$ 804
Accounts payable and accrued liabilities	26,990	37,545
Insurance and claims accruals	16,172	16,073
Current maturities of long-term debt	5,000	5,000
Total current liabilities	48,512	59,422
Long-term debt, less current maturities	65,046	53,659
Deferred income taxes	77,507	75,835
Total liabilities	191,065	188,916
Minority interest	982	913
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; 21,770,773 shares at March 31, 2007, and 21,764,773 shares at December 31, 2006, issued and outstanding	218	218
Additional paid-in capital	73,767	73,601
Retained earnings	151,768	147,174
Total stockholders' equity	225,753	220,993
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 417,800	\$ 410,822

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

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MARTEN TRANSPORT, LTD.**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

(In thousands, except per share information)		Three Months Ended March 31, 2007	2006
OPERATING REVENUE		\$ 131,416	\$ 119,555
OPERATING EXPENSES (INCOME):			
Salaries, wages and benefits		38,413	34,419
Purchased transportation		21,820	19,168
Fuel and fuel taxes		32,812	29,584
Supplies and maintenance		8,950	7,875
Depreciation		11,723	10,674
Operating taxes and licenses		1,699	1,819
Insurance and claims		5,470	5,307
Communications and utilities		940	881
Gain on disposition of revenue equipment		(1,180)	(2,041)
Other		2,379	2,880
Total operating expenses		123,026	110,566
OPERATING INCOME		8,390	8,989
OTHER EXPENSES (INCOME):			
Interest expense		1,079	842
Interest income and other		(219)	(298)
Minority interest		150	108
		1,010	652
INCOME BEFORE INCOME TAXES		7,380	8,337
PROVISION FOR INCOME TAXES		2,786	3,284
NET INCOME		\$ 4,594	\$ 5,053
BASIC EARNINGS PER COMMON SHARE		\$ 0.21	\$ 0.23
DILUTED EARNINGS PER COMMON SHARE		\$ 0.21	\$ 0.23

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

MARTEN TRANSPORT, LTD.**CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY****(Unaudited)**

(In thousands)	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total Stock- holders Equity
Balance at December 31, 2005	21,573	\$ 216	\$ 71,045	\$ 122,656	\$ 193,917
Net income				5,053	5,053
Issuance of common stock from share-based payment arrangement exercises	161	1	662		663
Tax benefits from share-based payment arrangement exercises			1,101		1,101
Share-based payment arrangement compensation expense			62		62
Balance at March 31, 2006	21,734	217	72,870	127,709	200,796
Net income				19,465	19,465
Issuance of common stock from share-based payment arrangement exercises	31	1	149		150
Tax benefits from share-based payment arrangement exercises			197		197
Share-based payment arrangement compensation expense			385		385
Balance at December 31, 2006	21,765	218	73,601	147,174	220,993
Net income				4,594	4,594
Issuance of common stock from share-based payment arrangement exercises	6		65		65
Tax benefits from share-based payment arrangement exercises			14		14
Share-based payment arrangement compensation expense			87		87
Balance at March 31, 2007	21,771	\$ 218	\$ 73,767	\$ 151,768	\$ 225,753

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

MARTEN TRANSPORT, LTD.**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(Unaudited)**

(In thousands)	Three Months Ended March 31, 2007	2006
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operations:		
Net income	\$ 4,594	\$ 5,053
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	11,723	10,674
Gain on disposition of revenue equipment	(1,180)	(2,041)
Deferred tax provision	1,223	2,194
Tax benefits from share-based payment arrangement exercises	14	1,101
Excess tax benefits from share-based payment arrangement exercises	(4)	(984)
Share-based payment arrangement compensation expense	87	62
Minority interest in undistributed earnings of affiliate	69	30
Changes in other current operating items	312	(3,657)
Net cash provided by operating activities	16,838	12,432
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Revenue equipment additions	(36,964)	(37,533)
Proceeds from revenue equipment dispositions	8,801	12,371
Buildings and land, office equipment and other additions	(246)	(370)
Proceeds from buildings and land, office equipment and other dispositions	2	
Net change in other assets	507	108
Purchases of marketable securities		(3)
Net cash used for investing activities	(27,900)	(25,427)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Borrowings under credit facility and long-term debt	42,558	38,902
Repayment of borrowings under credit facility and long-term debt	(31,171)	(25,952)
Issuance of common stock from share-based payment arrangement exercises	65	663
Excess tax benefits from share-based payment arrangement exercises	4	984
Change in checks issued in excess of cash balances	(454)	(818)
Net cash provided by financing activities	11,002	13,779
NET CHANGE IN CASH	(60)	784
CASH:		
Beginning of period	2,988	1,080
End of period	\$ 2,928	\$ 1,864
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	\$ 1,032	\$ 744
Income taxes	\$ 72	\$ 243
Non-cash investing activities:		
Change in revenue equipment not yet paid for	\$ (11,618)	\$

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2007

(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 2006 Annual Report on Form 10-K.

The accompanying unaudited consolidated condensed financial statements include the accounts of Marten Transport, Ltd. and its 45% owned affiliate, MW Logistics, LLC (MWL). MWL is a third-party provider of logistics services to the transportation industry. We have applied the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as revised, to our investment in MWL effective March 31, 2004. All material intercompany accounts and transactions have been eliminated in consolidation.

We adopted the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. The implementation of FIN 48 did not have a significant impact on our results of operations or financial position. Our reserves for uncertain tax positions were \$15,000 as of March 31, 2007.

(2) Accounting for Share-based Payment Arrangement Compensation

We account for share-based payment arrangements in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment as interpreted by SEC Staff Accounting Bulletin No. 107. During the three months ended March 31, 2007, there was no significant activity with our share-based payment arrangements. Total share-based compensation expense recorded in the first quarter of 2007 was \$87,000 (\$63,000 net of income tax benefit) and in the first quarter of 2006 was \$62,000 (\$49,000 net of income tax benefit). See Note 9 to our consolidated financial statements in our 2006 Annual Report on Form 10-K for a detailed description of stock-based awards under our 2005 Stock Incentive Plan and 1995 Stock Incentive Plan.

(3) Earnings Per Common Share

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

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2007	2006
Numerator:		
Net income	\$ 4,594	\$ 5,053
Denominator:		
Basic earnings per common share - weighted-average shares	21,766	21,674
Effect of dilutive stock options	185	271
Diluted earnings per common share - weighted-average shares and assumed conversions	21,951	21,945
Basic earnings per common share	\$ 0.21	\$ 0.23
Diluted earnings per common share	\$ 0.21	\$ 0.23

Options totaling 231,000 and 161,000 shares were outstanding but were not included in the calculation of diluted earnings per share for the three-month periods ended March 31, 2007 and March 31, 2006, respectively, because their exercise prices were greater than the average market price of the common shares and, therefore, including the options in the denominator would be antidilutive, or decrease the number of weighted-average shares.

(4) Business Segments

Beginning with fiscal 2007, we will present two reportable segments Truckload and Logistics. Information for prior periods has been shown in the same two segments for comparison 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 accessorial services.

Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations initiated in 2005, and from revenue associated with our 45% interest in MWL, a third-party provider of logistics services to the transportation industry. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the movement of our trailers on railroad flatcars for a portion of each load, with the balance of each load transported by our tractors or, to a lesser extent, by contracted carriers.

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The following table sets forth for the periods indicated our operating revenue, operating income and operating ratio by segment. The table below includes a discussion of revenue, net of fuel surcharges. We provide this additional disclosure because management believes removing this source of revenue provides a more consistent basis for comparing results of operations from period to period. This financial measure in the table below has not been determined in accordance with U.S. generally accepted accounting principles (GAAP). Pursuant to Regulation G, we have included a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating revenue. We evaluate the performance of our business segments based on operating income and operating ratio. We do not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment.

(Dollars in thousands)	Three Months Ended	
	March 31, 2007	2006
Operating revenue:		
Truckload revenue, net of fuel surcharge revenue	\$ 101,277	\$ 97,073
Truckload fuel surcharge revenue	16,870	15,793
Total Truckload revenue	118,147	112,866
Logistics revenue, net of intermodal fuel surcharge revenue(1)	12,712	6,435
Intermodal fuel surcharge revenue	557	254
Total Logistics revenue	13,269	6,689
Total operating revenue	\$ 131,416	\$ 119,555
Operating income:		
Truckload	\$ 7,347	\$ 8,422
Logistics	1,043	567
Total operating income	\$ 8,390	\$ 8,989
Operating ratio(2):		
Truckload	93.8	% 92.5
Logistics	92.1	% 91.5
Consolidated operating ratio	93.6	% 92.5

(1) Logistics revenue is net of \$3.5 million and \$4.1 million of inter-segment revenue in the first quarter of 2007 and the first quarter of 2006, respectively, for loads transported by our tractors and arranged by MWL which have been eliminated in consolidation.

(2) Operating expenses as a percentage of operating revenue.

(5) Reclassifications

The tax benefits from share-based payment arrangement exercises in our 2006 consolidated condensed statement of cash flows have been reclassified to be consistent with the 2007 presentation. This reclassification does not have a material effect on our consolidated condensed financial statements.

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, 2006. 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 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 accessorial services. The main factors that affect our truckload revenue are the rate per mile we receive from our customers, the percentage of miles for which we are compensated and the number of miles we generate with our equipment. These factors relate, among other things, to the United States economy, inventory levels, the level of truck capacity in the temperature-sensitive market and specific customer demand. 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 initiated in 2005, and from revenue associated with our 45% interest in MWL, a third-party provider of logistics services to the transportation industry. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the movement of our trailers on railroad flatcars for a portion of each load, with the balance of each load transported by our tractors or, to a lesser extent, by contracted carriers. The Logistics segment was identified as a new reportable segment as of March 31, 2007 since our Logistics operations have become a more significant part of our business.

In the first quarter of 2007, we increased our operating revenue by \$11.9 million, or 9.9%. Our operating revenue, net of fuel surcharges, increased \$10.5 million, or 10.1%, compared with the first quarter of 2006. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 3.4%, due to a 2.1% improvement in average truckload revenue, net of fuel surcharges, per total mile combined with a 1.3% increase in average miles per tractor. The improvement in asset productivity resulted from a greater percentage of our fleet being seated with drivers, which overcame a somewhat softer freight market and severe winter storms that impaired productivity. We were able to increase our truckload revenue by increasing our rates, where justified, and increasing the size of our fleet while holding the line on non-revenue miles. Our logistics revenue, net of fuel surcharges, increased \$6.3 million, or 97.5%, compared with the first quarter of 2006 primarily due to continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL.

Our profitability on the expense side is impacted by variable costs of transporting freight for our customers, fixed costs and expenses containing both fixed and variable components. The variable costs include fuel expense, driver-related expenses, such as wages, benefits, training, and recruitment, and independent contractor costs, which are recorded under purchased transportation. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency and other factors. Our main fixed costs relate to the acquisition and financing of long-term assets, such as revenue equipment and operating terminals. 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 fluctuated dramatically and quickly at various times during the last several years. We manage our exposure to changes in fuel prices primarily through fuel surcharge programs with our customers, as well as volume fuel purchasing arrangements with national fuel centers and bulk purchases of fuel at our terminals. In order to control increases in insurance premiums, we have increased our self-insured retention levels periodically during the last several years. We are responsible for the first \$1.0 million on each auto liability claim and up to \$1.0 million in the aggregate for all auto liability claims between \$1.0 million and \$2.0 million. We are also responsible for the first \$750,000 on each workers compensation claim.

Our operating expenses as a percentage of operating revenue, or operating ratio, was 93.6% in the first quarter of 2007 compared with 92.5% in the first quarter of 2006. Our earnings per diluted share decreased to \$0.21 in the first quarter of 2007 from \$0.23 in the first quarter of 2006.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At March 31, 2007, we had approximately \$70.0 million of long-term debt, including current maturities, and \$225.8 million in stockholders' equity. In the first quarter of 2007, we added approximately \$16.5 million of new revenue equipment, net of proceeds from dispositions, and recognized a gain of \$1.2 million on the disposition of used equipment. We also decreased our accounts payable and accrued liabilities relating to revenue equipment by \$11.6 million during the first quarter of 2007. These capital expenditures were primarily funded with cash flows from operations and borrowings under our revolving credit facility. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$28 million for the remainder of 2007, primarily for new revenue equipment. Assuming net capital expenditures in that amount and operating margins similar to the margins in 2006 for the remainder of 2007, we expect to generate cash flows to retire a substantial amount of our debt in 2007 or provide flexibility for other purposes. Based on our current operating performance, the market for used tractors, our liquidity and our expectations concerning tractors manufactured in 2007, we decided to accelerate our tractor fleet replacement during the last two years to allow us greater flexibility in our decisions to purchase tractors manufactured in 2007 now that the current round of diesel emissions reduction directives of the EPA has gone into effect. This acceleration of our tractor fleet replacement has not impacted the useful lives of our tractors or caused impairment to the carrying amount reflected in our consolidated balance sheet.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes discussions of revenue, net of fuel surcharges. We provide this additional disclosure because management believes removing this source of revenue provides a more consistent basis for comparing results of operations from period to period. This financial measure in this quarterly report has not been determined in accordance with U.S. generally accepted accounting principles (GAAP). Pursuant to Regulation G, we have included a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating revenue.

Results of Operations

The following table sets forth for the peri