

MARTEN TRANSPORT LTD

Form 10-Q

May 06, 2016

**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, 2016

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 32,423,231 as of April 25, 2016.

**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****MARTEN TRANSPORT, LTD.****CONSOLIDATED CONDENSED BALANCE SHEETS****(Unaudited)**

(In thousands, except share information)	March 31, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,156	\$434
Receivables:		
Trade, net	65,285	70,597
Other	4,719	10,885
Prepaid expenses and other	16,829	18,134
Total current assets	87,989	100,050
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	723,457	724,597
Accumulated depreciation	(204,410)	(196,588)
Net property and equipment	519,047	528,009
Other assets	3,356	3,469
Total assets	\$610,392	\$631,528
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$44,431	\$33,641
Insurance and claims accruals	17,105	16,235
Total current liabilities	61,536	49,876
Long-term debt	-	37,867
Deferred income taxes	138,044	134,364
Total liabilities	199,580	222,107
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; 96,000,000 shares authorized; 32,419,481 shares at March 31, 2016, and 32,759,806 shares at December 31, 2015, issued and outstanding	324	328
Additional paid-in capital	70,481	76,468
Retained earnings	340,007	332,625
Total stockholders' equity	410,812	409,421
Total liabilities and stockholders' equity	\$610,392	\$631,528

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 March 31,	
	2016	2015
Operating revenue	\$ 161,929	\$ 161,287
Operating expenses (income):		
Salaries, wages and benefits	54,830	48,808
Purchased transportation	28,035	29,504
Fuel and fuel taxes	19,630	26,476
Supplies and maintenance	10,499	10,442
Depreciation	20,047	17,827
Operating taxes and licenses	2,185	1,876
Insurance and claims	7,355	8,090
Communications and utilities	1,620	1,528
Gain on disposition of revenue equipment	(1,434 )	(1,161 )
Gain on disposition of facility	-	(3,712 )
Other	5,037	4,298
Total operating expenses	147,804	143,976
Operating income	14,125	17,311
Other	215	15
Income before income taxes	13,910	17,296
Provision for income taxes	5,717	7,108
Net income	\$8,193	\$10,188
Basic earnings per common share	\$0.25	\$0.30
Diluted earnings per common share	\$0.25	\$0.30
Dividends declared per common share	\$0.025	\$0.025

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 Shares	Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stock- holders' Equity
Balance at December 31, 2014	33,419	\$ 334	\$ 87,370	\$ 300,222	\$ 387,926
Net income	-	-	-	10,188	10,188
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	84	1	972	-	973
Tax benefits from share-based payment arrangement exercises	-	-	178	-	178
Share-based payment arrangement compensation expense	-	-	273	-	273
Dividends on common stock	-	-	-	(837 )	(837 )
Balance at March 31, 2015	33,503	335	88,793	309,573	398,701
Net income	-	-	-	25,557	25,557
Repurchase and retirement of common stock	(941 )	(9 )	(16,166 )	-	(16,175 )
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	198	2	2,515	-	2,517
Tax benefits from share-based payment arrangement exercises	-	-	195	-	195
Share-based payment arrangement compensation expense	-	-	1,131	-	1,131
Dividends on common stock	-	-	-	(2,505 )	(2,505 )
Balance at December 31, 2015	32,760	328	76,468	332,625	409,421
Net income	-	-	-	8,193	8,193
Repurchase and retirement of common stock	(456 )	(5 )	(7,508 )	-	(7,513 )
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	115	1	1,527	-	1,528
Tax deficiencies from share-based payment arrangement exercises	-	-	(169 )	-	(169 )
Employee taxes paid in exchange for shares withheld	-	-	(127 )	-	(127 )
Share-based payment arrangement compensation expense	-	-	290	-	290
Dividends on common stock	-	-	-	(811 )	(811 )
Balance at March 31, 2016	32,419	\$ 324	\$ 70,481	\$ 340,007	\$ 410,812

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, 2016	2015
Cash flows provided by operating activities:		
Operations:		
Net income	\$ 8,193	\$ 10,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	20,047	17,827
Gain on disposition of revenue equipment	(1,434 )	(1,161 )
Gain on disposition of facility	-	(3,712 )
Deferred income taxes	3,680	2,306
Tax (deficiencies) benefits from share-based payment arrangement exercises	(169 )	178
Excess tax benefits from share-based payment arrangement exercises	-	(159 )
Share-based payment arrangement compensation expense	290	273
Equity in loss from affiliate	129	159
Changes in other current operating items:		
Receivables	13,251	18,703
Prepaid expenses and other	1,305	1,692
Accounts payable and accrued liabilities	8,903	6,034

## Edgar Filing: MARTEN TRANSPORT LTD - Form 10-Q

Insurance and claims accruals	870	834
Net cash provided by operating activities	55,065	53,162
Cash flows used for investing activities:		
Revenue equipment additions	(18,865 )	(20,360 )
Proceeds from revenue equipment dispositions	10,526	13,291
Buildings and land, office equipment and other additions	(1,198 )	(4,295 )
Proceeds from buildings and land, office equipment and other dispositions	-	4,616
Other	(16 )	(14 )
Net cash used for investing activities	(9,553 )	(6,762 )
Cash flows used for financing activities:		
Borrowings under credit facility and long-term debt	36,225	13,444
Repayment of borrowings under credit facility and long-term debt	(74,092 )	(37,817 )
Repurchase and retirement of common stock	(7,513 )	-
Dividends on common stock	(811 )	(837 )
Issuance of common stock from share-based payment arrangement exercises	1,528	973
Excess tax benefits from share-based payment arrangement exercises	-	159
Employee taxes paid in exchange for shares withheld	(127 )	-
Change in checks issued in excess of cash balances	-	(745 )

Edgar Filing: MARTEN TRANSPORT LTD - Form 10-Q

Net cash used for financing activities	(44,790 )	(24,823 )
Net change in cash and cash equivalents	722	21,577
Cash and cash equivalents:		
Beginning of period	434	123
End of period	\$ 1,156	\$ 21,700
Supplemental non-cash disclosure:		
Change in property and equipment not yet paid	\$ 114	\$ 5,315
Supplemental disclosure of cash flow information:		
Cash (received) paid for:		
Income taxes	\$ (6,934 )	\$ (12,145 )
Interest	\$ 87	\$ 28

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

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS****THREE MONTHS ENDED MARCH 31, 2016****(Unaudited)****(1) Consolidated Financial Statements**

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 condensed financial statements should be read with reference to the consolidated financial statements and notes to consolidated financial statements in our 2015 Annual Report on Form 10-K.

**(2) 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,	
	2016	2015
Numerator:		
Net income	\$8,193	\$10,188
Denominator:		
Basic earnings per common share - weighted-average shares	32,454	33,458
Effect of dilutive stock options	185	303
Diluted earnings per common share - weighted-average shares and assumed conversions	32,639	33,761
Basic earnings per common share	\$0.25	\$0.30
Diluted earnings per common share	\$0.25	\$0.30

Options totaling 330,400 and 160,800 equivalent shares for the three-month periods ended March 31, 2016 and March 31, 2015, 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 57,205 and 48,861 equivalent shares for the three-month periods ended March 31, 2016 and March 31, 2015, respectively, 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) Long-Term Debt

We maintain a credit agreement that provides for an unsecured committed credit facility which matures in December 2019. In November 2015, we entered into an amendment to the facility which increased the aggregate principal amount of the facility from \$50.0 million to \$75.0 million. At March 31, 2016, there was no outstanding principal balance on the facility. As of that date, we had outstanding standby letters of credit of \$8.6 million and remaining borrowing availability of \$66.4 million. At December 31, 2015, there was an outstanding principal balance of \$37.9 million on the facility. 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 1.1% at December 31, 2015.

Our credit facility prohibits us from paying, in any fiscal year, stock redemptions and dividends in excess of 25% of our net income from the prior fiscal year. A waiver of the 25% limitation for 2015 and 2016, should it apply, was obtained from the lender. This facility also contains restrictive covenants which, among other matters, require us to maintain compliance with cash flow leverage and fixed charge coverage ratios. We were in compliance with all covenants at March 31, 2016 and December 31, 2015.

(4) Related Party Transactions

We purchase fuel and tires and obtain related services from Bauer Built, Inc., or BBI. Jerry M. Bauer, one of our directors, is the chairman of the board, chief executive officer and the principal stockholder of BBI. We paid BBI \$62,000 in the first three months of 2016 and \$55,000 in the first three months of 2015 for fuel, tires and related services. In addition, we paid \$479,000 in the first three months of 2016 and \$219,000 in the first three months of 2015 to tire manufacturers for tires that were provided by BBI. BBI received commissions from the tire manufacturers related to these purchases.

We provide transportation services to MW Logistics, LLC (MWL) as described in Note 8.

(5) Share Repurchase Program

In December 2007, our Board of Directors approved and we announced a share repurchase program to repurchase up to one million shares of our common stock either through purchases on the open market or through private transactions and in accordance with Rule 10b-18 of the Exchange Act. On November 4, 2015, our Board of Directors approved and we announced an increase in the share repurchase program, providing for the repurchase of up to \$40 million, or approximately 2 million shares, of our common stock. The timing and extent to which we repurchase shares depends on market conditions and other corporate considerations. The repurchase program does not have an expiration date.

In the fourth quarter of 2015 we repurchased and retired 941,024 shares of our common stock for \$16.2 million. We repurchased and retired 455,581 shares of our common stock for \$7.5 million in the first quarter of 2016.

(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 quarters of 2016 and 2015. Our ability to pay cash dividends is currently limited by restrictions contained in our revolving credit facility, which prohibits us from paying, in any fiscal year, stock redemptions and dividends in excess of 25% of our net income from the prior fiscal year. A waiver of the 25% limitation for 2015 and 2016, should it apply, was obtained from the lender.

(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 three months of 2016, 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 three months of 2016 and 2015 was \$290,000 and \$273,000, respectively. See Note 13 to our consolidated financial statements in our 2015 Annual Report on Form 10-K for a detailed description of stock-based awards.

(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. We received \$642,000 and \$2.0 million of our revenue for loads transported by our tractors and arranged by MWL in the three-month periods ended March 31, 2016 and March 31, 2015, respectively. As of March 31, 2016, we also had a trade receivable in the amount of \$268,000 from MWL and an accrued liability of \$4.0 million to MWL for the excess of payments by MWL's customers into our lockbox account over the amounts drawn on the account by MWL.

(9)Fair Value of Financial Instruments

The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value because of the short maturity of these instruments.

(10)Commitments and Contingencies

We are committed to purchase \$122.1 million of new revenue equipment in the remainder of 2016; building construction expenditures of \$1.2 million in the remainder of 2016; and operating lease obligation expenditures totaling \$369,000 through 2018.

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 aggregated our five current operating segments into four reporting segments (Truckload, Dedicated, Intermodal and Brokerage) for financial reporting purposes.



The primary source of our operating revenue is provided by our Truckload segment through a combination of regional short-haul and medium-to-long-haul full-load transportation services. We transport food and other consumer packaged goods that require a temperature-controlled or insulated environment across the United States and into and out of Mexico and Canada.

Our Dedicated segment provides customized transportation solutions tailored to meet individual customers' requirements, utilizing temperature-controlled trailers, dry vans and other specialized equipment within the United States. Our customer contracts range from three to five years and are subject to annual rate reviews.

Our Intermodal segment transports our customers' freight within the United States primarily utilizing our temperature-controlled trailers and also, through March 2015, our 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.

Our Brokerage segment arranges for smaller third-party carriers to transport freight for our customers in temperature-controlled trailers and dry vans within the United States and into and out of Mexico while we retain the billing, collection and customer management responsibilities.

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.

<i>(Dollars in thousands)</i>	Three Months Ended March 31,	
	2016	2015
Operating revenue:		
Truckload revenue, net of fuel surcharge revenue	\$82,942	\$86,811
Truckload fuel surcharge revenue	7,112	14,590
Total Truckload revenue	90,054	101,401
Dedicated revenue, net of fuel surcharge revenue	35,510	19,863
Dedicated fuel surcharge revenue	1,587	2,591
Total Dedicated revenue	37,097	22,454
Intermodal revenue, net of fuel surcharge revenue	15,854	17,019
Intermodal fuel surcharge revenue	1,347	3,373
Total Intermodal revenue	17,201	20,392
Brokerage revenue	17,577	17,040
Total operating revenue	\$161,929	\$161,287
Operating income:		
Truckload	\$6,940	\$9,602
Dedicated	4,324	2,004
Intermodal	1,929	1,251
Brokerage	932	742
Total operating income before gain on disposition of facility	14,125	13,599
Gain on disposition of facility	-	3,712
Total operating income	\$14,125	\$17,311

Truckload segment depreciation expense was \$13.7 million and \$13.2 million, Dedicated segment depreciation expense was \$5.0 million and \$2.9 million, Intermodal segment depreciation expense was \$941,000 and \$1.5 million, and Brokerage segment depreciation expense was \$481,000 and \$270,000, in the three-month periods ended March 31, 2016 and March 31, 2015, 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, or FASB, 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 2018, will replace most existing revenue recognition guidance required by U.S. generally accepted accounting principles. 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.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases" which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance also requires additional disclosures related to leasing transactions. The standard is effective for the first quarter of 2019. 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.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting" which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The standard is effective for the first quarter of 2017. The adoption of this standard will result in an increase or decrease to our provision for income taxes each quarter based on the actual increase in our stock price compared with the grant-date fair value of the quarter's exercised options and vested performance unit awards. The adoption of the other provisions 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, 2015. 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 provided by our Truckload segment through a combination of regional short-haul and medium-to-long-haul full-load transportation services. We transport food and other consumer packaged goods that require a temperature-controlled or insulated environment across the United States and into and out of Mexico and Canada.

Our Dedicated segment provides customized transportation solutions tailored to meet individual customers' requirements, utilizing temperature-controlled trailers, dry vans and other specialized equipment within the United States. Our customer contracts range from three to five years and are subject to annual rate reviews.

Generally, we are paid by the mile for our Truckload and Dedicated services. We also derive Truckload and Dedicated revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services. The main factors that affect our Truckload and Dedicated 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 and Dedicated revenue, net of fuel surcharges, per tractor per week. We also analyze our average Truckload and Dedicated revenue, net of fuel surcharges, per total mile, non-revenue miles percentage, the miles per tractor we generate, our fuel surcharge revenue, our accessorial revenue and our other sources of operating revenue.

Our Intermodal segment transports our customers' freight within the United States primarily utilizing our temperature-controlled trailers and also, through March 2015, our 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 Intermodal revenue are the rate per mile and other charges we receive from our customers.

Our Brokerage segment arranges for smaller third-party carriers to transport freight for our customers in temperature-controlled trailers and dry vans within the United States and into and out of Mexico while we retain the billing, collection and customer management responsibilities. The main factors that affect our Brokerage 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 \$642,000, or 0.4%, in the first three months of 2016, despite a 51.1% decrease in fuel surcharge revenue to \$10.0 million from \$20.6 million in the first three months of 2015 due to lower fuel prices. Our operating revenue, net of both fuel surcharges and revenue from our dry container service discontinued in March 2015, increased \$12.5 million, or 8.9%, compared with the first three months of 2015. Truckload segment revenue, net of fuel surcharges, decreased 4.5% from the first three months of 2015 primarily due to a decrease in our average revenue per tractor, partially offset by an increase in our average fleet size. Dedicated segment revenue, net of fuel surcharges, increased 78.8% primarily due to an increase in our average fleet size of 80.2% from the first three months of 2015. Intermodal segment revenue, net of both fuel surcharges and revenue from our discontinued dry container service, increased 1.0% from the first three months of 2015 due to an increase in volume in our temperature-controlled trailer service. Brokerage segment revenue increased 3.2% in the first three months of 2016 due to an increase in volume.

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 and subsequent depreciation 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, along with any increases in fleet size. 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 Intermodal and Brokerage segments, our profitability is impacted by the percentage of revenue we pay to providers for the transportation services we arrange, which is included within purchased transportation in our consolidated condensed statements of operations.

Our operating expenses as a percentage of operating revenue, or “operating ratio,” increased to 91.3% in the first three months of 2016 from 89.3% in the first three months of 2015. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharges, was 90.7% in the first three months of 2016. Our operating ratio for the first three months of 2015, net of both the facility disposition gain of \$3.7 million and fuel surcharges, was 90.3%. Our net income decreased to \$8.2 million, or \$0.25 per diluted share, in the first three months of 2016 from \$10.2 million, or \$0.30 per diluted share, in the first three months of 2015. Net income improved 2.4% over earnings of \$8.0 million, or \$0.24 per diluted share, in the first three months of 2015 excluding the facility disposition gain, due to increased operating income in our Dedicated, Intermodal and Brokerage segments, partially offset by decreased operating income in our Truckload segment.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At March 31, 2016, we had \$1.2 million of cash and cash equivalents, \$410.8 million in stockholders’ equity and no long-term debt outstanding. In the first three months of 2016, net cash flows provided by operating activities of \$55.1 million were primarily used to repay \$37.9 million of long-term debt, to purchase new revenue equipment, net of proceeds from dispositions, in the amount of \$8.3 million, and to repurchase and retire 455,581 shares of our common stock for \$7.5 million. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$120 million for the remainder 2016. 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.

Our business strategy encompasses a multifaceted set of transportation service solutions, primarily regional Truckload temperature-controlled operations along with Dedicated, Intermodal and Brokerage services, with a diverse customer

base that gains value from and expands each of these operating segments. We believe that we are well-positioned regardless of the economic environment with the services we provide 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 revenue, net of fuel surcharge revenue; Truckload, Dedicated and Intermodal revenue, net of fuel surcharge revenue; operating revenue and Intermodal revenue, each net of fuel surcharge revenue and revenue from our dry container service discontinued in March 2015; operating expenses as a percentage of operating revenue, each net of fuel surcharge revenue and the sum of fuel surcharge revenue and the facility disposition gain; 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.

## Results of Operations

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

	Three Months Ended March 31,	
	2016	2015
Truckload Segment:		
Revenue (in thousands)	\$90,054	\$101,401
Average revenue, net of fuel surcharges, per tractor per week <sup>(1)</sup>	\$3,366	\$3,606
Average tractors <sup>(1)</sup>	1,896	1,872
Average miles per trip	642	705
Total miles (in thousands)	44,471	47,530
Dedicated Segment:		
Revenue (in thousands)	\$37,097	\$22,454
Average revenue, net of fuel surcharges, per tractor per week <sup>(1)</sup>	\$3,375	\$3,442
Average tractors <sup>(1)</sup>	809	449
Average miles per trip	314	375
Total miles (in thousands)	18,521	11,075
Intermodal Segment:		
Revenue (in thousands)	\$17,201	\$20,392
Loads	8,696	9,367
Average tractors	76	96
Brokerage Segment:		
Revenue (in thousands)	\$17,577	\$17,040

Loads	12,951	10,850
-------	--------	--------

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 79 and 54 tractors as of March 31, 2016 and 2015, respectively.

12

---

*Comparison of Three Months Ended March 31, 2016 to Three Months Ended March 31, 2015*

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:

	Three Months		Dollar	Percentage
	Ended	Ended	Change	Change
	March 31,	March 31,	Three	Three
	2016	2015	Months	Months
(Dollars in thousands)			Months	Months
Operating revenue:			Ended	Ended
Truckload revenue, net of fuel surcharge revenue	\$82,942	\$86,811	March	March
Truckload fuel surcharge revenue	7,112	14,590	31,	31,
Total Truckload revenue	90,054	101,401	2016 vs.	2016 vs.
			2015	2015
Dedicated revenue, net of fuel surcharge revenue	35,510	19,863	15,647	78.8
Dedicated fuel surcharge revenue	1,587	2,591	(1,004 )	(38.7 )
Total Dedicated revenue	37,097	22,454	14,643	65.2
Intermodal revenue, net of fuel surcharge revenue	15,854	17,019	(1,165 )	(6.8 )
Intermodal fuel surcharge revenue	1,347	3,373	(2,026 )	(60.1 )
Total Intermodal revenue	17,201	20,392	(3,191 )	(15.6 )
Brokerage revenue	17,577	17,040	537	3.2
Total operating revenue	\$161,929	\$161,287	\$642	0.4 %
Operating income:				
Truckload	\$6,940	\$9,602	\$(2,662 )	(27.7 )%
Dedicated	4,324	2,004	2,320	115.8
Intermodal	1,929	1,251	678	54.2
Brokerage	932	742	190	25.6
Total operating income before gain on disposition of facility	14,125	13,599	526	3.9
Gain on disposition of facility	-	3,712	(3,712 )	(100.0 )
Total operating income	\$14,125	\$17,311	\$(3,186 )	(18.4 )%
Operating ratio <sup>(1)</sup> :				
Truckload	92.3	%	90.5	%
Dedicated	88.3		91.1	

Edgar Filing: MARTEN TRANSPORT LTD - Form 10-Q

Intermodal	88.8		93.9	
Brokerage	94.7		95.6	
Consolidated operating ratio before gain on disposition of facility	91.3	%	91.6	%
Consolidated operating ratio	91.3	%	89.3	%

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

Our operating revenue increased \$642,000, or 0.4%, to \$161.9 million in the 2016 period from \$161.3 million in the 2015 period, despite a 51.1% decrease in fuel surcharge revenue to \$10.0 million from \$20.6 million in the 2015 period due to lower fuel prices. Our operating revenue, net of both fuel surcharges and revenue from our dry container service discontinued in March 2015, increased \$12.5 million, or 8.9%, to \$151.9 million in the 2016 period from \$139.4 million in the 2015 period. This increase was due to a \$15.6 million increase in Dedicated revenue, net of fuel surcharges, a \$537,000 increase in Brokerage revenue, and a \$155,000 increase in Intermodal revenue, net of both fuel surcharges and the discontinued dry container service, partially offset by a \$3.9 million decrease in Truckload revenue, net of fuel surcharges.

Truckload segment revenue decreased \$11.3 million, or 11.2%, to \$90.1 million in the 2016 period from \$101.4 million in the 2015 period. Truckload segment revenue, net of fuel surcharges, decreased \$3.9 million, or 4.5%, to \$82.9 million in the 2016 period from \$86.8 million in the 2015 period, primarily due to a decrease in our average revenue per tractor, partially offset by an increase in our average fleet size. The increase in the operating ratio in the 2016 period was primarily due to a decrease in our average revenue per tractor within a soft freight market since the second quarter of 2015.

Dedicated segment revenue increased \$14.6 million, or 65.2%, to \$37.1 million in the 2016 period from \$22.5 million in the 2015 period. Dedicated segment revenue, net of fuel surcharges, increased 78.8% primarily due to an increase in our average fleet size of 80.2% driven by a significant increase in the number of Dedicated contracts we have with customers. The improvement in the operating ratio in the 2016 period, in spite of a decrease in the average revenue per tractor, was achieved by an improvement in insurance and claims expense along with other cost control measures.

Intermodal segment revenue decreased \$3.2 million, or 15.6%, to \$17.2 million in the 2016 period from \$20.4 million in the 2015 period. Intermodal segment revenue, net of both fuel surcharges and \$1.3 million of revenue from our discontinued dry container service, increased \$155,000, or 1.0%, from the 2015 period due to an increase in volume in our temperature-controlled trailer service. The improvement in the operating ratio in the 2016 period was primarily due to the disposal of our dry container service, which produced a higher operating ratio than our temperature-controlled trailer service, and a decrease in depreciation expense, as the fleet size was reduced to optimize productivity.

Brokerage segment revenue increased \$537,000, or 3.2%, to \$17.6 million in the 2016 period from \$17.0 million in the 2015 period, due to an increase in volume. The improvement in the operating ratio in the 2016 period was primarily due to a decrease in the payments to carriers for transportation services which we arranged as a percentage of our Brokerage revenue.

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:

Dollar

Change