MARTEN TRANSPORT LTD
Form 10-Q
August 09, 2010

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 June 30, 2010

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 x No o

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 o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, was 21,934,232 as of August 4, 2010.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share information)	June 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,563	$ 5,410
Marketable securities	138	118
Receivables:		
Trade, net	49,644	45,434
Other	9,701	4,382
Prepaid expenses and other	10,878	12,328
Deferred income taxes	5,361	5,172
Total current assets	79,285	72,844
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	494,412	491,127
Accumulated depreciation	(136,443)	(149,670)
Net property and equipment	357,969	341,457
Other assets	526	537
TOTAL ASSETS	$ 437,780	$ 414,838
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Checks issued in excess of cash balances	$ 693	$ 1,671
Accounts payable and accrued liabilities	36,066	31,896
Insurance and claims accruals	18,219	19,222
Current maturities of long-term debt		1,428
Total current liabilities	54,978	54,217
Long-term debt, less current maturities	13,521	71
Deferred income taxes	84,141	85,643
Total liabilities	152,640	139,931
Stockholders equity:		
Marten Transport, Ltd. 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; 21,934,232 shares at June 30, 2010, and 21,885,073 shares at December 31, 2009, issued and outstanding	219	219
Additional paid-in capital	77,444	76,477
Retained earnings	205,530	196,480
Total Marten Transport, Ltd. stockholders equity	283,193	273,176
Noncontrolling interest	1,947	1,731

Total stockholders equity		285,140		274,907
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	437,780	$	414,838

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

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share information)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
OPERATING REVENUE	$ 125,862	$ 125,804	$ 251,674	$ 247,759
OPERATING EXPENSES (INCOME):				
Salaries, wages and benefits	31,984	35,759	64,386	71,861
Purchased transportation	26,346	25,933	54,105	48,685
Fuel and fuel taxes	28,167	24,272	55,760	46,138
Supplies and maintenance	8,597	9,558	17,607	19,376
Depreciation	12,612	13,386	25,649	26,819
Operating taxes and licenses	1,574	1,702	3,079	3,378
Insurance and claims	3,984	4,678	7,836	10,199
Communications and utilities	1,054	1,002	1,867	2,067
Gain on disposition of revenue equipment	(429)	(528)	(628)	(999)
Other	2,780	2,539	5,786	5,481
Total operating expenses	116,669	118,301	235,447	233,005
OPERATING INCOME	9,193	7,503	16,227	14,754
NET INTEREST EXPENSE (INCOME)	26	4	(80)	35
INCOME BEFORE INCOME TAXES	9,167	7,499	16,307	14,719
Less: Income before income taxes attributable to noncontrolling interest	1	145	57	261
INCOME BEFORE INCOME TAXES ATTRIBUTABLE TO MARTEN TRANSPORT, LTD.	9,166	7,354	16,250	14,458
PROVISION FOR INCOME TAXES	4,008	2,877	7,200	5,928
NET INCOME	$ 5,158	$ 4,477	$ 9,050	$ 8,530
BASIC EARNINGS PER COMMON SHARE	$ 0.24	$ 0.20	$ 0.41	$ 0.39
DILUTED EARNINGS PER COMMON SHARE	$ 0.23	$ 0.20	$ 0.41	$ 0.39

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)	Marten Transport, Ltd. Stockholders: Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Non-controlling Interest	Total Stock-holders Equity
Balance at December 31, 2008	21,830	$ 218	$ 75,305	$ 180,213	$ 1,715	$ 257,451
Net income				8,530		8,530
Issuance of common stock from share-based payment arrangement exercises	55	1	331			332
Tax benefits from share-based payment arrangement exercises			254			254
Share-based payment arrangement compensation expense			346			346
Income before income taxes attributable to noncontrolling interest					261	261
Noncontrolling interest distributions					(84)	(84)
Balance at June 30, 2009	21,885	219	76,236	188,743	1,892	267,090
Net income				7,737		7,737
Tax benefits from share-based payment arrangement exercises			1			1
Share-based payment arrangement compensation expense			240			240
Income before income taxes attributable to noncontrolling interest					323	323
Noncontrolling interest distributions					(484)	(484)
Balance at December 31, 2009	21,885	219	76,477	196,480	1,731	274,907
Net income				9,050		9,050
Issuance of common stock from share-based payment arrangement exercises	49		234			234
Tax benefits from share-based payment arrangement exercises			273			273
Share-based payment arrangement compensation expense			460			460
Income before income taxes attributable to noncontrolling interest					57	57
Noncontrolling interest distributions and other, net					159	159
Balance at June 30, 2010	21,934	$ 219	$ 77,444	$ 205,530	$ 1,947	$ 285,140

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)	**Six Months Ended June 30, 2010**	**2009**
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operations:		
Net income	$ 9,050	$ 8,530
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	25,649	26,819
Gain on disposition of revenue equipment	(628)	(999)
Deferred income taxes	(1,691)	3,779
Tax benefits from share-based payment arrangement exercises	273	254
Excess tax benefits from share-based payment arrangement exercises	(235)	(222)
Share-based payment arrangement compensation expense	460	346
Income before income taxes attributable to noncontrolling interest	57	261
Changes in other current operating items:		
Receivables	(9,529)	855
Prepaid expenses and other	1,450	2,457
Accounts payable and accrued liabilities	115	(123)
Insurance and claims accruals	(1,003)	655
Net cash provided by operating activities	23,968	42,612
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Revenue equipment additions	(55,470)	(38,659)
Proceeds from revenue equipment dispositions	24,052	12,829
Buildings and land, office equipment and other additions	(6,146)	(3,681)
Proceeds from buildings and land, office equipment and other dispositions	86	143
Net change in other assets	11	175
Purchases of marketable securities	(20)	(70,012)
Sales of marketable securities		63,906
Net cash used for investing activities	(37,487)	(35,299)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Borrowings under credit facility and long-term debt	69,650	
Repayment of borrowings under credit facility and long-term debt	(57,628)	(1,429)
Issuance of common stock from share-based payment arrangement exercises	234	332
Excess tax benefits from share-based payment arrangement exercises	235	222
Change in net checks issued in excess of cash balances	(978)	(765)
Noncontrolling interest distributions and other, net	159	(84)
Net cash provided by (used for) financing activities	11,672	(1,724)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,847)	5,589
CASH AND CASH EQUIVALENTS:		
Beginning of period	5,410	2,395
End of period	$ 3,563	$ 7,984
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 115	$ 129
Income taxes	$ 9,736	$ 3,619
Non-cash investing activities:		

Change in revenue equipment not yet paid for	$	4,055	$	(178)

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2010

(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 2009 Annual Report on Form 10-K.

The accompanying unaudited consolidated condensed financial statements include the accounts of Marten Transport, Ltd., its subsidiaries 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 Financial Accounting Standards Board Accounting Standards Codification, or FASB ASC, 810, *Consolidation* to our investment in MWL and have determined that Marten is the primary beneficiary based on MWL s equity structure. All material intercompany accounts and transactions have been eliminated in consolidation. MWL has elected to be classified as a partnership for federal income tax purposes. Consequently, federal income taxes are not payable by MWL.

(2) Earnings Per Common Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	**2010**	**2009**	**2010**	**2009**
Numerator:				
Net income	$ 5,158	$ 4,477	$ 9,050	$ 8,530
Denominator:				
Basic earnings per common share - weighted-average shares	21,929	21,871	21,913	21,855
Effect of dilutive stock options	104	122	99	123
Diluted earnings per common share - weighted-average shares and assumed conversions	22,033	21,993	22,012	21,978
Basic earnings per common share	$ 0.24	$ 0.20	$ 0.41	$ 0.39
Diluted earnings per common share	$ 0.23	$ 0.20	$ 0.41	$ 0.39

5

Options totaling 334,000 and 350,500 shares for the three-month and six-month periods ended June 30, 2010, respectively, and 278,600 and 308,100 shares for the three-month and six-month periods ended June 30, 2009, respectively, were outstanding but were not included in the calculation of diluted earnings per share, primarily 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. Additionally, performance-based option awards totaling 107,000 shares for each of the 2010 and 2009 periods were also not included in the calculation of diluted earnings per share because the performance condition was not considered probable of achievement.

(3) 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 president and a stockholder of BBI. We paid BBI $312,000 in the first six months of 2010 and $382,000 in the first six months of 2009 for fuel and tire services. In addition, we paid $952,000 in the first six months of 2010 and $703,000 in the first six months of 2009 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 paid Durand Builders Service, Inc. $832,000 in the first six months of 2009 for various construction projects. Larry B. Hagness, one of our directors, is the president and owner of Durand Builders Service, Inc.

(4) Income Taxes

Our effective income tax rate increased to 44.3% for the first six months of 2010 from 41.0% for the first six months of 2009, primarily because of the nondeductible effect of a per diem pay structure for our drivers which was more broadly implemented in the third quarter of 2009 and further increased in the first quarter of 2010.

Our reserves for unrecognized tax benefits were $180,000 as of June 30, 2010 and $158,000 as of December 31, 2009. The $22,000 increase in the amount reserved in the first six months of 2010 relates to current period tax positions. The amount reserved as of December 31, 2009 was added in 2007 through 2009 relating to current period tax positions. If recognized, $117,000 of the unrecognized tax benefits as of June 30, 2010 would impact our effective tax rate. No potential interest or penalties related to unrecognized tax benefits were recognized in our financial statements as of June 30, 2010. We do not expect the reserves for unrecognized tax benefits to change significantly within the next twelve months.

The federal statute of limitations remains open for 2006 and forward. We file tax returns in numerous state jurisdictions with varying statutes of limitations.

(5) Accounting for Share-based Payment Arrangement Compensation

We account for share-based payment arrangements in accordance with FASB ASC 718, *Compensation Stock Compensation*. During the six months ended June 30, 2010, there were no significant changes to the structure of our share-based payment arrangements. Total pre-tax share-based compensation expense recorded in the first six months of 2010 was $460,000 and in the first six months of 2009 was $346,000. See Note 8 to our consolidated financial statements in our 2009 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.

(6) Fair Value of Financial Instruments

The carrying amounts of accounts receivable, direct financing leases receivable and accounts payable approximate fair value because of the short maturity of these instruments. The carrying value of our long-term debt approximates fair value as the credit facility bears interest based upon a variable interest rate.

(7) Commitments and Contingencies

We are committed to: (a) purchase $26.0 million of new revenue equipment through 2011; (b) building construction expenditures of $1.2 million in 2010; and (c) operating lease obligation expenditures totaling $680,000 through 2013.

We are involved in legal actions that arise in the ordinary course of business. Although the outcomes of any such legal actions cannot be predicted, in the opinion of management, the resolution of any currently pending or threatened actions will not have a material adverse effect upon our financial position or results of operations.

(8) Business Segments

Our presentation includes two reporting segments Truckload and Logistics. 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, both launched in 2005, and through 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 transport of our trailers on railroad flatcars for a portion of a trip, with the balance of the trip using our tractors or, to a lesser extent, contracted carriers.

The following table sets forth for the periods indicated our operating revenue, operating income and operating ratio 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2010**	**2009**	**2010**	**2009**
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$ 80,566	$ 87,969		