MARTEN TRANSPORT LTD
Form 10-Q
August 09, 2013
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, 2013

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 33,223,469 as of August 1, 2013.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share information)	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$635	$3,473
Receivables:		
Trade, net	68,588	66,239
Other	2,863	7,177
Prepaid expenses and other	13,836	15,490
Deferred income taxes	3,364	3,155
Total current assets	89,286	95,534
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	588,038	551,136
Accumulated depreciation	(160,153)	(156,660)
Net property and equipment	427,885	394,476
Other assets	3,359	613
TOTAL ASSETS	$520,530	$490,623
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$42,606	$33,062
Insurance and claims accruals	14,029	13,838
Total current liabilities	56,635	46,900
Long-term debt, less current maturities	7,387	2,726
Deferred income taxes	112,413	109,074
Total liabilities	176,435	158,700
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; 33,220,969 shares at June 30, 2013, and 33,164,428 shares at December 31, 2012, issued and outstanding	332	332
Additional paid-in capital	83,652	82,679
Retained earnings	260,111	246,349
Total Marten Transport, Ltd. stockholders' equity	344,095	329,360
Noncontrolling interest	-	2,563
Total stockholders' equity	344,095	331,923
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$520,530	$490,623

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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
OPERATING REVENUE	$161,413	$156,964	$325,887	$308,438
OPERATING EXPENSES (INCOME):				
Salaries, wages and benefits	42,345	39,398	84,470	77,669
Purchased transportation	28,129	29,734	62,313	59,593
Fuel and fuel taxes	40,596	39,515	80,919	78,639
Supplies and maintenance	9,998	9,841	19,531	19,377
Depreciation	16,219	15,042	31,907	29,577
Operating taxes and licenses	1,825	1,617	3,595	3,199
Insurance and claims	5,808	5,185	11,619	11,007
Communications and utilities	1,262	1,161	2,545	2,372
Gain on disposition of revenue equipment	(1,237)	(1,179)	(3,652)	(2,704)
Other	3,347	3,367	6,981	6,907
Total operating expenses	148,292	143,681	300,228	285,636
OPERATING INCOME	13,121	13,283	25,659	22,802
OTHER	(153)	(13)	(168)	(34)
INCOME BEFORE INCOME TAXES	13,274	13,296	25,827	22,836
Less: Income before income taxes attributable to noncontrolling interest	-	245	84	406
INCOME BEFORE INCOME TAXES ATTRIBUTABLE TO MARTEN TRANSPORT, LTD.	13,274	13,051	25,743	22,430
PROVISION FOR INCOME TAXES	5,607	5,467	10,874	9,400
NET INCOME	$7,667	$7,584	$14,869	$13,030
BASIC EARNINGS PER COMMON SHARE	$0.23	$0.23	$0.45	$0.39
DILUTED EARNINGS PER COMMON SHARE	$0.23	$0.23	$0.45	$0.39

DIVIDENDS PAID PER COMMON SHARE	$0.017	$0.017	$0.033	$0.03

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					Total
	Common Stock		Additional		Non-	Stock-
			Paid-In	Retained	controlling	holders'
(In thousands)	Shares	Amount	Capital	Earnings	Interest	Equity
Balance at December 31, 2011	32,977	$ 330	$ 80,078	$ 237,762	$ 2,189	$ 320,359
Net income	-	-	-	13,030	-	13,030
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	130	1	615	-	-	616
Tax benefits from share-based payment arrangement exercises	-	-	350	-	-	350
Share-based payment arrangement compensation expense	-	-	791	-	-	791
Dividends on common stock	-	-	-	(993)	-	(993)
Income before income taxes attributable to noncontrolling interest	-	-	-	-	406	406
Noncontrolling interest distributions	-	-	-	-	(185)	(185)
Balance at June 30, 2012	33,107	331	81,834	249,799	2,410	334,374
Net income	-	-	-	14,237	-	14,237
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	57	1	352	(1)	-	352
Tax benefits from share-based payment arrangement exercises	-	-	59	-	-	59
Share-based payment arrangement compensation expense	-	-	434	-	-	434
Dividends on common stock	-	-	-	(17,686)	-	(17,686)
Income before income taxes attributable to noncontrolling interest	-	-	-	-	91	91
Noncontrolling interest distributions and other	-	-	-	-	62	62
Balance at December 31, 2012	33,164	332	82,679	246,349	2,563	331,923
Net income	-	-	-	14,869	-	14,869
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	57	-	179	-	-	179
	-	-	143	-	-	143

Tax benefits from share-based payment arrangement exercises						
Share-based payment arrangement compensation expense	-	-	651	-	-	651
Dividends on common stock	-	-	-	(1,107)	-	(1,107)
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 June 30, 2013	33,221	$ 332	$ 83,652	$ 260,111	$ -	$ 344,095

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, 2013	2012
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operations:		
Net income	$14,869	$13,030
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	31,907	29,577
Gain on disposition of revenue equipment	(3,652)	(2,704)
Deferred income taxes	3,130	2,611
Tax benefits from share-based payment arrangement exercises	143	350
Excess tax benefits from share-based payment arrangement exercises	(119)	(282)
Share-based payment arrangement compensation expense	651	791
Income before income taxes attributable to noncontrolling interest	84	406
Equity in earnings from affiliate	(44)	-
Changes in other current operating items:		
Receivables	(3,274)	(6,698)
Prepaid expenses and other	1,413	1,393
Accounts payable and accrued liabilities	2,511	2,166
Insurance and claims accruals	191	(628)
Net cash provided by operating activities	47,810	40,012
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Revenue equipment additions	(68,461)	(79,381)
Proceeds from revenue equipment dispositions	25,631	31,106
Buildings and land, office equipment and other additions	(9,646)	(7,011)
Proceeds from buildings and land, office equipment and other dispositions	2	-
Decrease in cash and cash equivalents resulting from change to equity method of accounting	(1,924)	-
Other	(18)	(18)
Net cash used for investing activities	(54,416)	(55,304)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Borrowings under credit facility and long-term debt	36,946	4,665
Repayment of borrowings under credit facility and long-term debt	(32,285)	(4,665)
Dividends on common stock	(1,107)	(993)
Issuance of common stock from share-based payment arrangement exercises	179	616
Excess tax benefits from share-based payment arrangement exercises	119	282
Noncontrolling interest distributions	(84)	(185)
Net cash provided by (used for) financing activities	3,768	(280)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,838)	(15,572)

CASH AND CASH EQUIVALENTS:		
Beginning of period	3,473	20,821
End of period	$635	$5,249
SUPPLEMENTAL NON-CASH DISCLOSURE:		
Change in property and equipment not yet paid for	$9,560	$5,954
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$30	$-
Income taxes	$7,754	$4,267

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2013

(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 2012 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 as we are no longer the primary beneficiary of MWL (See Note 8).

(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)	2013	2012	2013	2012
Numerator:				
Net income	$7,667	$7,584	$14,869	$13,030
Denominator:				
Basic earnings per common share - weighted-average shares	33,210	33,099	33,196	33,075
Effect of dilutive stock options	168	151	148	156
Diluted earnings per common share - weighted-average shares and	33,378	33,250	33,344	33,231

assumed conversions				
Basic earnings per common share	$0.23	$0.23	$0.45	$0.39
Diluted earnings per common share	$0.23	$0.23	$0.45	$0.39

Options totaling 463,200 and 571,100 shares for the three-month and six-month periods ended June 30, 2013, respectively, and 520,125 shares for each of the three-month and six-month periods ended June 30, 2012, 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 due to inclusion of average unrecognized compensation expense in the calculation.

Unvested performance unit awards totaling 54,819 and 73,607 shares for the three-month and six-month periods ended June 30, 2013, respectively, and 51,623 shares for each of the three-month and six-month periods ended June 30, 2012, 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 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 million. At June 30, 2013, there was an outstanding principal balance of $7.4 million on the credit facility. As of that date, we had outstanding standby letters of credit of $8.3 million and remaining borrowing availability of $34.3 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 1.05% at June 30, 2013.

(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 $308,000 in the first six months of 2013 and $587,000 in the first six months of 2012 for fuel and tire services. In addition, we paid $746,000 in the first six months of 2013 and $966,000 in the first six months of 2012 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. $302,000 in the first six months of 2012 for various construction projects. Larry B. Hagness, one of our directors, is the president and owner of Durand Builders Service, Inc.

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

(6) Dividends

In August 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 $0.017 per share of common stock were paid in each of March and May 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 six months of 2013, 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 six months of 2013 and 2012 was $651,000 and $791,000, respectively. See Note 9 to our consolidated financial statements in our 2012 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.

(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 determined that MWL is no longer considered a VIE 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 is 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 $4.2 million and $4.9 million of our revenue for loads transported by our tractors and arranged by MWL in the six-month periods ended June 30, 2013 and June 30, 2012, respectively. As of June 30, 2013, we also had a trade receivable in the amount of $828,000 from MWL and an accrued liability of $2.7 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 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 building construction and acquisition expenditures of $2.7 million in the remainder of 2013 and operating lease obligation expenditures totaling $672,000 through 2016.

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 seven 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 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 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 June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2013	2012	2013	2012
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$99,996	$94,148	$194,961	$183,346
Truckload fuel surcharge revenue	26,856	26,121	53,625	51,374
Total Truckload revenue	126,852	120,269	248,586	234,720
Logistics revenue, net of intermodal fuel surcharge revenue(1)	29,721	33,045	67,481	66,481
Intermodal fuel surcharge revenue	4,840	3,650	9,820	7,237
Total Logistics revenue	34,561	36,695	77,301	73,718
Total operating revenue	$161,413	$156,964	$325,887	$308,438
Operating income:				
Truckload	$11,376	$10,973	$21,376	$18,101
Logistics	1,745	2,310	4,283	4,701
Total operating income	$13,121	$13,283	$25,659	$22,802

(1) Logistics revenue is net of $2.1 million of inter-segment revenue in the six-month period ended June 30, 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. Inter-segment revenue was $2.4 million and $4.9 million for the three-month and six-month periods ended June 30, 2012.

Truckload segment depreciation expense was $15.0 million and $14.0 million, and Logistics segment depreciation expense was $1.2 million and $1.0 million, in the three-month periods ended June 30, 2013 and June 30, 2012, respectively. Truckload segment depreciation expense was $29.5 million and $27.7 million, and Logistics segment depreciation expense was $2.4 million and $1.9 million, in the first six months of 2013 and 2012, 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.

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, 2012. 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 long-haul and regional 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 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 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 and specific customer demand.

Our operating revenue increased $17.4 million, or 5.7%, in the first six months of 2013. Our operating revenue, net of fuel surcharges and MWL revenue, increased $22.3 million, or 9.5%, compared with the first six months of 2012. Truckload segment revenue, net of fuel surcharges, increased 6.3% primarily due to an increase in our average truckload revenue, net of fuel surcharges, per tractor per week of 4.0% and an increase in our average fleet size of 2.8% from the first six months of 2012. Fuel surcharge revenue increased by $4.8 million, or 8.2%. Logistics segment revenue, net of intermodal fuel surcharges and MWL revenue, increased 21.2% compared with the first six months of 2012. This increase primarily resulted from continued volume growth in our intermodal services. Logistics revenue as a percentage of our operating revenue, with each net of MWL revenue, was 22.1% in the first six months of 2013 compared to 19.6% in the first six months of 2012.

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 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 fluctuated dramatically 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 installed auxiliary power units in our tractors to provide climate control and electrical power for our drivers without idling the tractor engine. For our Logistics segment, our profitability on the expense side 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,” improved to 92.1% in the first six months of 2013 from 92.6% in the first six months of 2012. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharge revenue, improved to 90.2% for the first six months of 2013 from 90.9% for the first six months of 2012. Our net income increased 14.1% to $14.9 million in the first six months of 2013 from $13.0 million in the first six months of 2012.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At June 30, 2013, we had approximately $635,000 of cash and cash equivalents, $7.4 million of long-term debt outstanding and $344.1 million in stockholders’ equity. In the first six months of 2013, net cash flows provided by operating activities of $47.8 million and borrowings under our credit facility of $4.7 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of $42.8 million, to partially construct and acquire regional operating facilities in the amount of $8.4 million, and to pay cash dividends of $1.1 million. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately $28 million for remainder of 2013. 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, 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Truckload Segment:				
Total Truckload revenue (in thousands)	$126,852	$120,269	$248,586	$234,720
Average truckload revenue, net of fuel surcharges, per tractor per week(1)	$3,459	$3,371	$3,414	$3,284
Average tractors (1)	2,224	2,149	2,209	2,148
Average miles per trip	598	625	612	621
Total miles – company-employed drivers (in thousands)	57,031	53,516	111,926	104,797