

MARTEN TRANSPORT LTD  
Form 10-K  
March 12, 2014

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2013**

**Commission file number 0-15010**

**MARTEN TRANSPORT, LTD.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State of incorporation)

**39-1140809**

(I.R.S. Employer Identification no.)

**129 MARTEN STREET**

**MONDOVI, WISCONSIN**

**54755**

**(715) 926-4216**

(Address of principal executive offices) (Zip Code) (Registrant's telephone number)

**Securities registered pursuant to Section 12(b) of the Act:**

**Title of each class:**

**COMMON STOCK, PAR VALUE \$.01 PER SHARE**

**Name of each exchange on which registered:**

**THE NASDAQ STOCK MARKET LLC  
(NASDAQ GLOBAL SELECT MARKET)**

**Securities registered pursuant to Section 12(g) of the Act:**

**NONE**

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
YES NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES NO

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

As of June 30, 2013 (the last business day of the Registrant's most recently completed second fiscal quarter), the aggregate market value of the Common Stock of the Registrant (based upon the closing price of the Common Stock at that date as reported by the NASDAQ Global Select Market), excluding outstanding shares beneficially owned by directors and executive officers, was \$400,431,000.

As of February 28, 2014, 33,329,389 shares of Common Stock of the Registrant were outstanding.

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to in this Report) from the Registrant's Proxy Statement for the annual meeting to be held May 6, 2014, or 2014 Proxy Statement.

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## FORWARD-LOOKING INFORMATION

*This Annual Report on Form 10-K contains certain forward-looking statements. Such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements not of historical fact may be considered forward-looking statements. Written words such as “may” “expect,” “believe,” “anticipate,” “plan,” “goal,” or “estimate,” or other variations of these or similar words, identify such statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially from those expressed in such forward-looking statements. Important factors known to us that could cause such material differences are identified in this Annual Report on Form 10-K under the heading “Risk Factors” beginning on page 7. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future filings with the Securities and Exchange Commission.*

*References in this Annual Report to “we,” “us,” “our,” or the “Company” or similar terms refer to Marten Transport, Ltd. and its consolidated subsidiaries unless the context otherwise requires.*

## PART I

### ITEM 1. BUSINESS

#### Overview

We are one of the leading temperature-sensitive truckload carriers in the United States. We specialize in transporting and distributing food and other consumer packaged goods that require a temperature-controlled or insulated environment. In 2013, we generated \$659.2 million in operating revenue, which consists of revenue from both truckload and logistics operations. Approximately 79% of our truckload revenue resulted from hauling temperature-sensitive products and 21% from hauling dry freight. We operate throughout the United States and in parts of Canada and Mexico, with substantially all of our revenue generated from within the United States. Our primary long-haul traffic lanes are between the Midwest and the West Coast, Southwest, Southeast, and the East Coast, as well as from California to the Pacific Northwest. We provide regional truckload carrier services in the Southeast, West Coast, Midwest, South Central and Northeast regions. In 2013, our average length of haul was 603 miles.

Our growth strategy is to expand our business internally by offering shippers a high level of service and significant freight capacity. We market primarily to shippers that offer consistent volumes of freight in the lanes we prefer and are willing to compensate us for a high level of service. With our fleet of 2,255 company and independent contractor tractors, we are able to offer service levels that include up to 99% on-time performance and delivery within the narrow time windows often required when shipping perishable commodities.

We have two reporting segments – Truckload and Logistics. Financial information regarding these segments can be found in Footnote 15 to the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K. 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. We continue to expand our regional and dedicated truckload operations, which represents 77% of our tractor fleet as of December 31, 2013 compared to 8% just six years ago. 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 MW Logistics, LLC, or 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.

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Organized under Wisconsin law in 1970, we are a successor to a sole proprietorship Roger R. Marten founded in 1946. In 1988, we reincorporated under Delaware law. Our executive offices are located at 129 Marten Street, Mondovi, Wisconsin 54755. Our telephone number is (715) 926-4216.

We maintain a website at [www.marten.com](http://www.marten.com). We are not including the information contained on our website as a part of, nor incorporating it by reference into, this Annual Report on Form 10-K. We post on our website, free of charge, documents that we file with or furnish to the Securities and Exchange Commission, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and proxy statements, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission. We also provide a link on our website to Forms 3, 4 and 5 that our officers, directors and 10% stockholders file with the Securities and Exchange Commission pursuant to Section 16(a) of the Securities Exchange Act of 1934.

## **Marketing and Operations**

We approach our business as an integrated effort of marketing and operations. Our emphasis in marketing is directed to the temperature-sensitive market, which is generally service-sensitive, as opposed to being solely price competitive. We target food and consumer packaged goods companies whose products require temperature-sensitive services and who ship multiple truckloads per week. By emphasizing high-quality service, we seek to become a core carrier for our customers. In 2013, our two largest customers were Wal-Mart and Kraft.

Our marketing efforts are conducted by a staff of approximately 192 sales, customer service and support personnel under the supervision of our senior management team. Marketing personnel travel within their regions to solicit new truckload and logistics customers and maintain contact with existing customers. Customer service managers regularly contact customers to solicit additional business on a load-by-load basis.

Our operations and sales personnel strive to improve our asset productivity by seeking freight that allows for rapid turnaround times, minimizes non-revenue miles between loads, and carries a favorable rate structure. Once we have established a customer relationship, customer service managers work closely with our fleet managers to match customer needs with our capacity and the location of revenue equipment. Fleet managers use our optimization system to assign loads to satisfy customer and operational requirements, as well as to meet the routing needs of our drivers. We attempt to route most of our trucks over selected operating lanes, which we believe assists us in meeting customer requirements, balancing traffic, reducing non-revenue miles, and improving the reliability of delivery schedules.

We employ technology in our operations when we believe that it will allow us to operate more efficiently and the investment is cost-justified. Examples of the technologies we employ include:



Terrestrial- and satellite-based tracking and messaging that allows us to communicate with our drivers, obtain load position updates, provide our customers with freight visibility, and download operating information such as fuel mileage and idling time for the tractor engines and temperature setting and run time for the temperature-control units on our trailers.

Freight optimization software that assists us in selecting loads that match our overall criteria, including profitability, repositioning, identifying capacity for expedited loads, driver availability and home time, and other factors.

Electronic data interchange and internet communication with customers concerning freight tendering, invoices, shipment status, and other information.

Electronic logging devices in our tractors to monitor drivers' hours of service.

Auxiliary power units installed on our company-owned tractors that allow us to decrease fuel costs associated with idling our tractors.

Fuel-routing software that optimizes the fuel stops for each trip to take advantage of volume discounts available in our fuel network.

We believe this integrated approach to our marketing and operations, coupled with our use of technology, has allowed us to provide our customers with a high level of service and support our revenue growth in an efficient manner. For example, we had a non-revenue mile percentage of 10.3% during 2013, which points to the efficiency of our operations and we believe compares favorably to other temperature-sensitive and dry van trucking companies.

### **Major Customers**

An important part of our growth strategy is our business with large customers, as a significant amount of our business is concentrated with a relatively small number of customers. In 2013, our top 30 customers accounted for approximately 62% of our revenue, and our top ten customers accounted for 42% of our revenue. Eight of our top ten customers have been significant customers of ours for over ten years. We believe we are the largest or second largest temperature-sensitive carrier for six of our top ten customers. We believe our relationships with these key customers are sound, but we are dependent upon them and the loss of some or all of their business could have a materially adverse effect on our results.

### **Drivers and Other Personnel**

We believe that maintaining a safe and productive professional driver group is essential to providing excellent customer service and achieving profitability. Approximately 146 of our drivers as of December 31, 2013 have driven more than one million miles for us without a preventable accident, while approximately 44 of our drivers have driven more than two million miles and 12 have driven more than three million miles for us without a preventable accident.

We select drivers, including independent contractors, using our specific guidelines for safety records, including drivers' Compliance, Safety, Accountability, or CSA, scores, driving experience, and personal evaluations. We maintain stringent screening, training, and testing procedures for our drivers to reduce the potential for accidents and the corresponding costs of insurance and claims. We train new drivers at a number of our terminals in all phases of our policies and operations, as well as in safety techniques and fuel-efficient operation of the equipment. All new

drivers also must pass DOT required tests prior to assignment to a vehicle.

We primarily pay company-employed drivers a fixed rate per mile. The rate increases based on length of service. Drivers also are eligible for bonuses based upon safe, efficient driving. We pay independent contractors a fixed rate per mile. Independent contractors pay for their own fuel, insurance, maintenance, and repairs.

Competition in the trucking industry for qualified drivers is normally intense and is expected to increase as a result of recent regulatory changes mandated by CSA. Our operations have been impacted, and from time-to-time we have experienced under-utilization and increased expense, as a result of a shortage of qualified drivers. We place a high priority on the recruitment and retention of an adequate supply of qualified drivers.

As of December 31, 2013, we had approximately 3,045 employees. This total consists of approximately 2,293 drivers, 269 mechanics and maintenance personnel, and 483 support personnel, which includes management and administration. As of that date, we also contracted with 49 independent contractors. None of our employees are represented by a collective bargaining unit. We consider relations with our employees to be good.

## **Revenue Equipment**

Our revenue equipment programs are an important part of our overall goal of profitable growth. We evaluate our equipment decisions based on factors such as initial cost, useful life, warranty terms, expected maintenance costs, fuel economy, driver comfort, customer needs, manufacturer support, and resale value. We generally operate newer, well-maintained equipment with uniform specifications to minimize our spare parts inventory, streamline our maintenance program, and simplify driver training.

As of December 31, 2013, we operated a fleet of 2,255 tractors, including 2,206 company-owned tractors and 49 tractors supplied by independent contractors. The average age of our company-owned tractor fleet at December 31, 2013 was approximately 1.9 years. In 2013, we replaced most of our company-owned tractors within approximately 4.5 years after purchase.

Peterbilt and Freightliner manufacture most of our company-owned tractors. Maintaining a relatively new and standardized fleet allows us to operate most miles while the tractors are under warranty to minimize repair and maintenance costs. It also enhances our ability to attract drivers, increases fuel economy, and improves customer acceptance by minimizing service interruptions caused by breakdowns. We adhere to a comprehensive maintenance program during the life of our equipment. We perform most routine servicing and repairs at our terminal facilities to reduce costly on-road repairs and out-of-route trips. We do not have any agreements with tractor manufacturers pursuant to which they agree to repurchase the tractors or guarantee a residual value, and we therefore could incur losses upon disposition if resale values of used tractors decline.

The EPA adopted revised emissions control regulations, which required progressive reductions in exhaust emissions from diesel engines through 2010, for engines manufactured in October 2002 and thereafter. The revised regulations decrease the amount of emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. The last of three stepped reductions in exhaust emissions was effective for engines manufactured in January 2010 and thereafter. As of December 31, 2013, 1,264 of the tractors in our fleet have tractor engines which were manufactured in January 2010 or thereafter and, therefore, were required to meet the revised design requirements. Compliance with these regulations has increased the cost of new tractors as manufacturers have significantly increased new equipment prices, in part to meet the more stringent engine design requirements imposed by the EPA.

We historically have contracted with independent contractors to provide and operate a portion of our tractor fleet. Independent contractors own their own tractors and are responsible for all associated expenses, including financing costs, fuel, maintenance, insurance, and taxes. The percentage of our fleet provided by independent contractors was 2.2% as of December 31, 2013 compared to 1.6% as of December 31, 2012 and 2.1% as of December 31, 2011.

As of December 31, 2013, we operated a fleet of 4,105 trailers. Most of our trailers are equipped with Thermo-King refrigeration units, air ride suspensions, and anti-lock brakes. Most of our single van trailers are refrigerated, 53 feet long and 102 inches wide. The average age of our trailer fleet at December 31, 2013 was approximately 2.4 years. In 2013, we replaced most of our company-owned trailers within approximately 5.5 years after purchase.

## **Insurance and Claims**

We self-insure for a portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as employees' health insurance. We are responsible for our proportionate share of the legal expenses relating to such claims as well. We reserve currently for anticipated losses and expenses. We periodically evaluate and adjust our insurance and claims reserves to reflect our experience. We are responsible for the first \$1.0 million on each auto liability claim. We are also responsible for the first \$750,000 on each workers' compensation claim. We have \$8.3 million in standby letters of credit to guarantee settlement of claims under agreements with our insurance carriers and regulatory authorities. We maintain insurance coverage for per-incident and total losses in excess of the amounts for which we self-insure up to specified policy limits with licensed insurance carriers. Insurance carriers have raised premiums for many businesses, including trucking companies. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention when our policies are renewed. We believe that our policy of self-insuring up to set limits, together with our safety and loss prevention programs, are effective means of managing insurance costs.

## **Fuel**

Our operations are heavily dependent upon the use of diesel fuel. The price and availability of diesel fuel can vary and are subject to political, economic, and market factors that are beyond our control. Fuel prices fluctuated dramatically and quickly at various times during the last three years and they remain high based on historical standards. We actively manage our fuel costs by purchasing fuel in bulk in Mondovi and at a number of our other maintenance facilities throughout the country and have volume purchasing arrangements with national fuel centers that allow our drivers to purchase fuel at a discount while in transit. During 2013, over 99% of our fuel purchases were made at these designated locations. To help further reduce fuel consumption, we have equipped our company-owned tractors with auxiliary power units since 2007. These units reduce fuel consumption by providing quiet climate control and electrical power for our drivers without idling the tractor engine. We have also invested in satellite tracking equipment for the temperature-control units on our trailers that has improved fuel usage through management of required temperature settings and run time of the units.

We further manage our exposure to changes in fuel prices through fuel surcharge programs with our customers and other measures that we have implemented. We have historically been able to pass through a significant portion of long-term increases in fuel prices and related taxes to customers in the form of fuel surcharges. These fuel surcharges, which adjust with the cost of fuel, enable us to recover a substantial portion of the higher cost of fuel as prices increase, except for non-revenue miles, out-of-route miles or fuel used while the tractor is idling. As of December 31, 2013, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

## **Competition**

We operate primarily in the temperature-sensitive segment of the truckload market. This market is highly competitive and fragmented. We compete with many other truckload carriers that provide temperature-sensitive service of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads, and other transportation companies, many of which have more equipment, a wider range of services, and greater capital resources than we do or have other competitive advantages. In particular, several of the largest truckload carriers that offer primarily dry-van service also offer temperature-sensitive service, and these carriers could attempt to increase their business in the temperature-sensitive market. We also compete with other motor carriers for the services of drivers, independent contractors, and management employees. We believe that the principal competitive factors in our business are service, freight rates, capacity, and financial stability. As one of the largest and best-capitalized carriers focused on the temperature-sensitive segment, we believe we are well positioned to compete in that segment.

## Regulation

The United States Department of Transportation, or DOT, and various state and local agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety and insurance requirements. Our company drivers and independent contractors also must comply with the safety and fitness regulations promulgated by the DOT, including those relating to drug and alcohol testing and hours-of-service.

The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. In December 2010, the FMCSA introduced a new system, Compliance, Safety, Accountability, or CSA, to measure and evaluate the on-road safety performance of commercial carriers and individual drivers. CSA's Motor Carrier Safety Measurement System replaced the former SafeStat system and uses more roadside data to identify behaviors that predict safety issues, is more proactive with intervention and maximizes compliance monitoring resources. The CSA system has removed a number of drivers from the industry as carriers are less willing to hire and retain drivers with marginal ratings, which has increased and will continue to increase competition for qualified drivers. The FMCSA is expected to issue in 2014 a proposal to create a new carrier-safety rating process.

The FMCSA issued a regulatory rule effective in July 2013 that revised the hours-of-service requirements for drivers, which designate the length of time that drivers are allowed to drive and work. The rule retained the 11-hour driving maximum under which the industry has been operating since 2004. However, changes to the "34-hour restart" provision and required breaks effectively reduced the maximum workweek for drivers to 70 hours from 82 hours. These changes reduced on-duty non-driving time and moderately decreased industry productivity.

In January 2011, the FMCSA issued a regulatory proposal that would require commercial carriers to track compliance with hours-of-service regulations using electronic logging devices, or ELD's, which was vacated and sent back to the FMCSA for further analysis and review in September 2011 by the 7<sup>th</sup> U.S. Circuit Court of Appeals. The Moving Ahead for Progress in the 21<sup>st</sup> Century Act, or MAP-21 Act, includes a provision directing the FMCSA to develop a final ELD rule in 2013, which has been delayed and is expected to be issued in 2014. Our entire tractor fleet has been equipped with ELD's since early 2011.

The EPA adopted revised emissions control regulations, which required progressive reductions in exhaust emissions from diesel engines through 2010, for engines manufactured in October 2002 and thereafter. The revised regulations decrease the amount of emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. The last of three stepped reductions in exhaust emissions was effective for engines manufactured in January 2010 and thereafter. As of December 31, 2013, 1,264 of the tractors in our fleet have tractor engines which were manufactured in January 2010 or thereafter and, therefore, were required to meet the revised design requirements. Compliance with these regulations has increased the cost of new tractors as manufacturers have significantly increased new equipment prices, in part to meet the more stringent engine design requirements imposed



by the EPA.

We are also subject to various environmental laws and regulations dealing with the handling of hazardous materials, fuel storage tanks, air emissions from our facilities, engine idling, and discharge and retention of storm water. These regulations did not have a significant impact on our operations or financial results in 2011 through 2013.

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## ITEM 1A. RISK FACTORS

The following factors are important and should be considered carefully in connection with any evaluation of our business, financial condition, results of operations, prospects, or an investment in our common stock. The risks and uncertainties described below are those that we currently believe may materially affect our company or our financial results. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations or affect our financial results.

*Our business is subject to general economic and business factors that are largely beyond our control, any of which could have a materially adverse effect on our operating results.* Our business is dependent on a number of general economic and business factors that may have a materially adverse effect on our results of operations, many of which are beyond our control. These factors include excess capacity in the trucking industry, strikes or other work stoppages, and significant increases or fluctuations in interest rates, fuel taxes, and license and registration fees. We are affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries where we have a significant concentration of customers. Economic conditions may adversely affect our customers and their ability to pay for our services.

It is not possible to predict the effects of actual or threatened armed conflicts or terrorist attacks, efforts to combat terrorism, military action against any foreign state, heightened security requirements, or other related events and the subsequent effects on the economy or on consumer confidence in the United States, or the impact, if any, on our future results of operations.

*Instability of the credit markets and the resulting effects on the economy could have a material adverse effect on our operating results.* If the credit markets and the economy weaken, our business, financial results, and results of operations could be materially and adversely affected, especially if consumer confidence declines and domestic spending decreases. We may need to incur additional indebtedness, which may include drawing on our credit facility, or issue debt securities in the future to fund working capital requirements, make investments, or for general corporate purposes. Additionally, stresses in the credit market causes uncertainty in the equity markets, which may result in volatility of the market price for our securities.

*We operate in a highly competitive and fragmented industry, and numerous competitive factors could impair our ability to maintain our current profitability.* We compete with many other truckload carriers that provide temperature-sensitive service of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads and other transportation companies, many of which have more equipment, a wider range of services and greater capital resources than we do or have other competitive advantages. In particular, several of the largest truckload carriers that offer primarily dry-van service also offer temperature-sensitive service, and these carriers could attempt to increase their business in the temperature-sensitive market. Many of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain

or increase freight rates or maintain significant growth in our business. In addition, many customers reduce the number of carriers they use by selecting so-called “core carriers” as approved service providers, or conduct bids from multiple carriers for their shipping needs, and in some instances we may not be selected as a core carrier or to provide service under such bids.

In addition, the trend toward consolidation in the trucking industry may create other large carriers with greater financial resources and other competitive advantages relating to their size. Competition from freight logistics and brokerage companies may negatively impact our customer relationships and freight rates. Furthermore, economies of scale that may be passed on to smaller carriers by procurement aggregation providers may improve such carriers’ ability to compete with us.

*We derive a significant portion of our revenue from our major customers, the loss of one or more of which could have a materially adverse effect on our business.* A significant portion of our revenue is generated from our major customers. For 2013, our top 30 customers, based on revenue, accounted for approximately 62% of our revenue; our top ten customers accounted for approximately 42% of our revenue; our top five customers accounted for approximately 30% of our revenue; and our top two customers accounted for approximately 14% of our revenue. Generally, we enter into one-year contracts with our major customers, the majority of which do not contain any firm obligations to ship with us. We cannot assure you that, upon expiration of existing contracts, these customers will continue to use our services or that, if they do, they will continue at the same levels. Many of our customers periodically solicit bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in loss of business to our competitors. Some of our customers also operate their own private trucking fleets, and they may decide to transport more of their own freight. A reduction in or termination of our services by one or more of our major customers could have a materially adverse effect on our business and operating results.

*If the growth in our regional operations declines, or if we expand into a market with insufficient economic activity, our results of operations could be adversely affected.* We operate regional service centers which are located in a number of cities within the United States. In order to support future growth, these regional operations require the commitment of additional capital, revenue equipment and facilities along with qualified management, drivers and other personnel. Should the growth in our regional operations decline, the results of our operations could be adversely affected. It may become more difficult to identify additional cities that can support service centers, and we may expand into cities where there is insufficient economic activity, reduced capacity for growth or less driver and non-driver personnel to support our operations. We may encounter operating conditions in these new markets that materially differ from our current operations and customer relationships may be difficult to obtain at appropriate freight rates. Also, we may not be able to apply our regional operating strategy successfully in additional cities, and it might take longer than expected or require a more substantial financial commitment than anticipated to establish our operations in the additional cities.

*Increased prices and restricted availability of new revenue equipment could cause our financial condition, results of operations and cash flows to suffer.* We have experienced higher prices for new tractors and trailers over the past few years, primarily as a result of higher commodity prices and government regulations applicable to newly manufactured tractors and diesel engines. We expect to continue to pay increased prices for revenue equipment for the foreseeable future. Our business could be harmed if we are unable to continue to obtain an adequate supply of new tractors and trailers or if we have to pay increased prices for new revenue equipment.

The EPA adopted revised emissions control regulations, which required progressive reductions in exhaust emissions from diesel engines through 2010, for engines manufactured in October 2002 and thereafter. The revised regulations decrease the amount of emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. The last of three stepped reductions in exhaust emissions was effective for engines manufactured in January 2010 and thereafter. As of December 31, 2013, 1,264 of the tractors in our fleet have tractor engines which were manufactured in January 2010 or thereafter and, therefore, were required to meet the revised design requirements. Compliance with these regulations has increased the cost of new tractors as manufacturers have

significantly increased new equipment prices, in part to meet the more stringent engine design requirements imposed by the EPA.

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*We have significant ongoing capital requirements that could harm our financial condition, results of operations and cash flows if we are unable to generate sufficient cash from our operations.* The truckload industry is capital intensive, and our policy of operating newer equipment requires us to expend significant amounts annually. If we elect to expand our fleet in future periods, our capital needs would increase. We expect to pay for projected capital expenditures with cash flows from operations and borrowings under our revolving credit facility. If we are unable to generate sufficient cash from operations and obtain financing on favorable terms in the future, we may have to limit our growth, enter into less favorable financing arrangements, or operate our revenue equipment for longer periods, any of which could have a materially adverse effect on our profitability.

*Ongoing insurance and claims expenses could significantly affect our earnings.* Our future insurance and claims expense might exceed historical levels, which could reduce our earnings. We self-insure for a portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as employees' health insurance. We also are responsible for our legal expenses relating to such claims. We reserve currently for anticipated losses and expenses. We periodically evaluate and adjust our claims reserves to reflect our experience. However, ultimate results may differ from our estimates, which could result in losses over our reserved amounts.

We maintain insurance above the amounts for which we self-insure with licensed insurance carriers. Although we believe the aggregate insurance limits should be sufficient to cover reasonably expected claims, it is possible that one or more claims could exceed our aggregate coverage limits. Insurance carriers have raised premiums for many businesses, including trucking companies. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention when our policies are renewed. If these expenses increase, or if we experience a claim in excess of our coverage limits, or we experience a claim for which coverage is not provided, results of our operations and financial condition could be materially and adversely affected.

*We operate in a highly regulated industry and increased costs of compliance with, or liability for violation of, existing or future regulations could have a materially adverse effect on our business.* The DOT and various state and local agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety and insurance requirements. Our company drivers and independent contractors also must comply with the safety and fitness regulations promulgated by the DOT, including those relating to drug and alcohol testing and hours-of-service. We also may become subject to new or more restrictive regulations relating to fuel emissions, ergonomics, or other matters affecting safety or operating methods. Other agencies, such as the EPA and the Department of Homeland Security, or DHS, also regulate our equipment, operations, and drivers. Future laws and regulations may be more stringent and require changes in our operating practices, influence the demand for transportation services, or require us to incur significant additional costs. Higher costs incurred by us or by our suppliers who pass the costs onto us through higher prices could adversely affect our results of operations.

The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. In December 2010, the FMCSA introduced a new system, Compliance, Safety, Accountability, or CSA, to measure and evaluate the on-road safety performance of commercial carriers and

individual drivers. CSA's Motor Carrier Safety Measurement System replaced the former SafeStat system and uses more roadside data to identify behaviors that predict safety issues, is more proactive with intervention and maximizes compliance monitoring resources. The CSA system has removed a number of drivers from the industry as carriers are less willing to hire and retain drivers with marginal ratings, which has increased and will continue to increase competition for qualified drivers. The FMCSA is expected to issue in 2014 a proposal to create a new carrier-safety rating process.

The FMCSA issued a regulatory rule effective in July 2013 that revised the hours-of-service requirements for drivers, which designate the length of time that drivers are allowed to drive and work. The rule retained the 11-hour driving maximum under which the industry has been operating since 2004. However, changes to the “34-hour restart” provision and required breaks effectively reduced the maximum workweek for drivers to 70 hours from 82 hours. These changes reduced on-duty non-driving time and moderately decreased industry productivity.

In January 2011, the FMCSA issued a regulatory proposal that would require commercial carriers to track compliance with hours-of-service regulations using electronic logging devices, or ELD’s, which was vacated and sent back to the FMCSA for further analysis and review in September 2011 by the 7<sup>th</sup> U.S. Circuit Court of Appeals. The Moving Ahead for Progress in the 21<sup>st</sup> Century Act, or MAP-21 Act, includes a provision directing the FMCSA to develop a final ELD rule in 2013, which has been delayed and is expected to be issued in 2014. Our entire tractor fleet has been equipped with ELD’s since early 2011.

From time to time, various federal, state, or local taxes are increased, including taxes on fuels. We cannot predict whether, or in what form, any such increase applicable to us will be enacted, but such an increase could adversely affect our profitability.

*Increases in compensation or difficulty in attracting drivers could affect our profitability and ability to grow.* The transportation industry has historically experienced substantial difficulty in attracting and retaining qualified drivers, including independent contractors. With increased competition for drivers, including the impact that recent regulatory changes mandated by CSA may have on the number of drivers in the transportation industry, we could experience greater difficulty in attracting sufficient numbers of qualified drivers. In addition, due in part to current economic conditions, including the cost of fuel and insurance, the available pool of independent contractor drivers is smaller than it has been historically. Accordingly, we may face difficulty in attracting and retaining drivers for all of our current tractors and for those we may add. Additionally, we may face difficulty in increasing the number of our independent contractor drivers. In addition, our industry suffers from high turnover rates of drivers. Our turnover rate requires us to recruit a substantial number of drivers. Moreover, our turnover rate could increase. If we are unable to continue to attract drivers and contract with independent contractors, we could be required to continue adjusting our driver compensation package beyond the norm or let trucks sit idle. An increase in our expenses or in the number of tractors without drivers could materially and adversely affect our growth and profitability.

*Fluctuations in the price or availability of fuel may increase our cost of operation, which could materially and adversely affect our profitability.* We require large amounts of diesel fuel to operate our tractors and to power the temperature-control units on our trailers. Fuel is one of our largest operating expenses. Fuel prices tend to fluctuate, and prices and availability of all petroleum products are subject to political, economic and market factors that are beyond our control. We depend primarily on fuel surcharges, auxiliary power units for our tractors, satellite tracking equipment for the temperature-control units on our trailers, volume purchasing arrangements with truck stop chains and bulk purchases of fuel at our terminals to control and recover our fuel expenses. There can be no assurance that we will be able to collect fuel surcharges, enter into volume purchase agreements, or execute successful hedges in the future. Additionally, we may encounter decreases in productivity that may offset or eliminate savings from auxiliary



power units or satellite tracking equipment, or may incur unexpected maintenance or other costs associated with such units. The absence of meaningful fuel price protection through these measures, fluctuations in fuel prices, or a shortage of diesel fuel, could materially and adversely affect our results of operations.

*Seasonality and the impact of weather can affect our profitability.* Our tractor productivity generally decreases during the winter season because inclement weather impedes operations and some shippers reduce their shipments. At the same time, operating expenses generally increase, with harsh weather creating higher accident frequency, increased claims and more equipment repairs. We can also suffer short-term impacts from weather-related events such as hurricanes, blizzards, ice-storms, and floods that could harm our results or make our results more volatile.

*Service instability in the railroad industry could increase our operating costs and reduce our ability to offer intermodal services, which could adversely affect our revenue, results of operations, and customer relationships.* In the future, our dependence on railroads will increase if we continue to expand our intermodal services. In most markets, rail service is limited to a few railroads or even a single railroad. Any reduction in service by the railroads with which we have, or in the future may have, relationships is likely to increase the cost of the rail-based services we provide and reduce the reliability, timeliness, and overall attractiveness of our rail-based services. Furthermore, railroads are relatively free to adjust shipping rates up or down as market conditions permit. Price increases could result in higher costs to our customers and reduce or eliminate our ability to offer intermodal services. In addition, we cannot assure you that we will be able to negotiate additional contracts with railroads to expand our capacity, add additional routes, or obtain multiple providers, which could limit our ability to provide this service.

*Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.* We are subject to various environmental laws and regulations dealing with the handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, engine idling, and discharge and retention of storm water. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination have occurred. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. Although we have instituted programs to monitor and control environmental risks and promote compliance with applicable environmental laws and regulations, if we are involved in a spill or other accident involving hazardous substances or if we are found to be in violation of applicable laws or regulations, we could be subject to liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business and operating results.

*If we are unable to retain our executive officers and key management employees, our business, financial condition and results of operations could be adversely affected.* We are highly dependent upon the services of our executive officers and key management employees. Currently, we do not have employment agreements with these employees and the loss of any of their services could have a materially adverse effect on our operations and future profitability. In addition, we must continue to develop and retain a core group of managers if we are to realize our goal of expanding our operations and continuing our growth. We cannot assure you that we will be able to do so in the future.

*We depend on the stability, availability and security of the technology related to our management information systems, which may prove to be inadequate.* We depend upon our management information systems for many aspects of our business. Some of our key software has been developed internally by our programmers or by adapting purchased software to our needs and this software may not be easily modified or integrated with other software and systems. In addition, the security risks associated with information technology systems have increased in recent years because of the sophistication and amount of cyber attacks. Our business will be materially and adversely affected if our management information systems are disrupted by a failure or security breach or if we are unable to improve, upgrade, integrate or expand our systems as we continue to execute our growth strategy, including our logistics services.



**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our executive offices and principal terminal are located on approximately seven acres in Mondovi, Wisconsin. This facility consists of 39,000 square feet of office space and 21,000 square feet of equipment repair and maintenance space. We added additional equipment repair and maintenance facilities in 2007 and in 2009 in Mondovi, Wisconsin which consist of 15,000 square feet of space located on approximately 11 acres and 50,000 square feet of space located on approximately three acres, respectively. We operate facilities in or near the following cities at which we perform the following designated operating activities:

	Owned or			Driver	Driver		
Company Locations	Leased	Maintenance	Fueling	Recruitment	Training	Dispatch	Sales
Mondovi, Wisconsin	Owned	X	X	X	X	X	X
Ontario, California	Owned	X	X				X
Atlanta, Georgia	Owned	X	X	X	X	X	X
Portland, Oregon	Owned	X	X			X	X
Indianapolis, Indiana	Owned	X	X	X	X	X	X
Desoto, Texas	Owned	X	X	X	X	X	X
Tampa, Florida	Owned	X				X	X
Memphis, Tennessee	Owned	X		X		X	X
Colonial Heights, Virginia	Owned	X		X	X	X	X
Laredo, Texas	Owned	X	X			X	X
Phoenix, Arizona	Owned	X		X	X	X	X
Kansas City, Kansas	Owned	X		X		X	X
Carlisle, Pennsylvania	Leased	X		X		X	X
Chicago, Illinois	Leased					X	X
Otay Mesa, California	Leased					X	X

**ITEM 3. LEGAL PROCEEDINGS**

We are involved in ordinary routine litigation incidental to our operations. These lawsuits primarily involve claims for workers' compensation, personal injury, or property damage incurred in the transportation of freight.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

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**ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT**

Our executive officers, with their ages and the offices held as of February 28, 2014, are as follows:

Name	Age	Position
Randolph L. Marten	61	Chairman of the Board, Chief Executive Officer and Director
Timothy M. Kohl	66	President
Timothy P. Nash	62	Executive Vice President of Sales and Marketing
James J. Hinnendael	50	Chief Financial Officer
John H. Turner	52	Senior Vice President of Sales

**Randolph L. Marten** has been a full-time employee of ours since 1974. Mr. Marten has been a Director since October 1980, our Chairman of the Board since August 1993 and our Chief Executive Officer since January 2005. Mr. Marten also served as our President from June 1986 until June 2008, our Chief Operating Officer from June 1986 until August 1998 and as a Vice President from October 1980 to June 1986.

**Timothy M. Kohl** has been our President since June 2008. Mr. Kohl joined the company in November 2007, and has over 25 years' experience in the transportation services industry. Mr. Kohl served as Knight Transportation Inc.'s President from 2004 to 2007 and as its Secretary from 2000 to 2007. Mr. Kohl served as a director on Knight's Board of Directors from 2001 to 2006, and he served as its Chief Financial Officer from 2000 to 2004. Mr. Kohl also served as Knight's Vice President of Human Resources from 1996 through 1999. From 1999 through 2000, Mr. Kohl served as Vice President of Knight's southeast region. Prior to his employment with Knight, Mr. Kohl was employed by Burlington Motor Carriers as Vice President of Human Resources. Prior to his employment with Burlington Motor Carriers, Mr. Kohl served as Vice President of Human Resources for J.B. Hunt.

**Timothy P. Nash** has been our Executive Vice President of Sales and Marketing since November 2000. Mr. Nash also served as our Vice President of Sales from November 1990 to November 2000 and as a Regional Sales Manager from July 1987 to November 1990. Mr. Nash served as a regional sales manager for Overland Express, Inc., a long-haul truckload carrier, from 1986 to 1987.

**James J. Hinnendael** has been our Chief Financial Officer since January 2006 and served as our Controller from January 1992 to December 2005. Mr. Hinnendael served in various professional capacities with Ernst & Young LLP, a public accounting firm, from 1987 to December 1991. Mr. Hinnendael is a certified public accountant.

**John H. Turner** has been our Senior Vice President of Sales since December 2013, our Vice President of Sales from January 2007 to December 2013 and an executive officer since August 2007. He also served as our Vice President of Sales from October 2000 to February 2005, and as an executive officer from January 2002 to February 2005. Mr. Turner also served as our Director of Sales from July 1999 to October 2000 and in various professional capacities in our sales and marketing area from August 1991 to July 1999 and as our Operations Manager-West from October 1990 to August 1991. Previously, Mr. Turner served as a vice president for Naterra Land, Inc., a recreational land developer, from 2005 to 2006 and as the western fleet general manager and area sales manager for Munson Transportation, Inc., a long-haul truckload carrier, from 1986 to 1990.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is listed on the NASDAQ Global Select Market under the symbol "MRTN." The table below shows the range of high and low bid prices for the quarters indicated on the NASDAQ Global Select Market. Such quotations reflect inter-dealer prices, without retail markups, markdowns or commissions and, therefore, may not necessarily represent actual transactions.

	<b>Common Stock Price</b>	
	<b>High</b>	<b>Low</b>
<b>Year ended December 31, 2013</b>		
Fourth Quarter	<b>\$21.10</b>	<b>13.58</b>
Third Quarter	<b>18.60</b>	<b>13.41</b>
Second Quarter	<b>16.47</b>	<b>9.85</b>
First Quarter	<b>14.19</b>	<b>11.46</b>
<b>Year ended December 31, 2012</b>		
Fourth Quarter	\$12.93	10.01
Third Quarter	14.20	9.67
Second Quarter	14.99	12.01
First Quarter	15.41	10.97

The prices do not include adjustments for retail mark-ups, mark-downs or commissions. On February 28, 2014, we had 172 record stockholders, and approximately 4,908 beneficial stockholders of our common stock. On June 14, 2013, we effected a three-for-two stock split in the form of a 50% stock dividend. The foregoing stock prices and the following cash dividends and share amounts have been adjusted to give retroactive effect to the stock split for all periods presented.

In August 2010, we announced a regular cash dividend program to our stockholders, subject to approval each quarter. In 2013, we paid cash dividends totaling \$2.8 million which consisted of quarterly dividends of \$0.017 per share of common stock in March and May and \$0.025 per share in September and December. In 2012, we paid cash dividends totaling \$18.7 million which consisted of quarterly dividends of \$0.013 per share in March and \$0.017 per share in May, September and December, along with a special dividend of \$0.50 per share in December. We paid quarterly cash dividends of \$0.013 per share in 2011 totaling \$1.8 million. We currently expect to continue to pay quarterly cash dividends in the future. The payment of cash dividends in the future, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors. 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, dividends in excess of 25% of our net income from the prior fiscal year. A waiver of the 25% limitation was obtained from the lender prior to payment of the special dividend in December 2012.

On December 4, 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. The timing and extent to which we will repurchase shares depends on market conditions and other corporate considerations. The repurchase program does not have an expiration date. In the first quarter of 2008 we repurchased and retired 101,250 shares of our common stock. We have made no purchases since 2008.

## **Comparative Stock Performance**

The graph below compares the cumulative total stockholder return on our common stock with the NASDAQ Market index and the SIC code 4213 (trucking, except local) line-of-business index for the last five years. Research Data Group, Inc. prepared the line-of-business index. The graph assumes \$100 is invested in our common stock, the NASDAQ Stock Market index and the line-of-business index on December 31, 2008, with reinvestment of dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock. The information in the graph below shall be deemed “furnished” and not “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section.





**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data should be read in conjunction with the consolidated financial statements and notes under Item 8 of this Form 10-K.

<i>(Dollars in thousands, except per share amounts)</i>	<b>2013</b>	2012	2011	2010	2009
<b>FOR THE YEAR</b>					
Operating revenue	<b>\$659,214</b>	\$638,456	\$603,679	\$516,920	\$505,874
Operating income	<b>51,995</b>	45,853	43,030	35,289	29,359
Net income	<b>30,147</b>	27,267	24,285	19,742	16,267
Operating ratio <sup>(1)</sup>	<b>92.1</b> %	92.8 %	92.9 %	93.2 %	94.2 %
<b>PER-SHARE DATA<sup>(2)</sup></b>					
Basic earnings per common share	<b>\$0.91</b>	\$0.82	\$0.74	\$0.60	\$0.50
Diluted earnings per common share	<b>0.90</b>	0.82	0.73	0.60	0.49
Dividends paid per common share	<b>0.083</b>	0.563	0.053	0.027	—
Book value	<b>10.78</b>	10.01	9.71	8.99	8.37
<b>AT YEAR END</b>					
Total assets	<b>\$525,802</b>	\$490,623	\$470,579	\$460,308	\$414,838
Long-term debt	<b>—</b>	2,726	—	19,346	1,499
Stockholders' equity	<b>359,137</b>	331,923	320,359	295,904	274,907

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

(2) Restated to reflect the three-for-two stock split effected in the form of a 50% stock dividend on June 14, 2013.

**ITEM 7. 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 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 under the heading "Risk Factors" beginning on page 7. 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 \$20.8 million, or 3.3%, in 2013. Our operating revenue, net of fuel surcharges and MWL revenue, increased \$38.1 million, or 7.8%, compared with 2012. Truckload segment revenue, net of fuel surcharges, increased 5.8% primarily due to an increase in our average truckload revenue, net of fuel surcharges, per tractor per week of 3.8% and an increase in our average fleet size of 2.3% from 2012. Fuel surcharge revenue increased by \$6.6 million, or 5.4%, primarily due to an increase in volume for our truckload and intermodal services. Logistics segment revenue, net of intermodal fuel surcharges and MWL revenue, increased 15.0% compared with 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 22.3% in 2013 compared to 20.5% in 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 2013 from 92.8% in 2012. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharge revenue, improved to 90.2% for 2013 from 91.1% for 2012. Our net income increased 10.6% to \$30.1 million in 2013 from \$27.3 million in 2012.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At December 31, 2013, we had approximately \$13.7 million of cash and cash equivalents, \$359.1 million in stockholders’ equity and no long-term debt outstanding. In 2013, net cash flows provided by operating activities of \$89.2 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of \$54.8 million, to partially construct and acquire regional operating facilities in the amount of \$16.9 million, to pay cash dividends of \$2.8 million, to repay \$2.7 million of long-term debt, and to increase cash and cash equivalents by \$10.2 million. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$68 million in 2014. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, existing cash and cash equivalents balances, current borrowing availability and other sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

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

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

	<b>2013</b>	2012	2011
Truckload Segment:			
Total Truckload revenue (in thousands)	<b>\$507,279</b>	\$483,323	\$455,847
Average truckload revenue, net of fuel surcharges, per tractor per week <sup>(1)</sup>	<b>\$3,465</b>	\$3,339	\$3,162
Average tractors <sup>(1)</sup>	<b>2,216</b>	2,167	2,170
Average miles per trip	<b>603</b>	624	626
Total miles – company-employed drivers (in thousands)	<b>225,194</b>	215,742	202,836
Total miles – independent contractors (in thousands)	<b>4,974</b>	4,583	6,841
Logistics Segment:			
Total Logistics revenue (in thousands)	<b>\$151,935</b>	\$155,133	\$147,832
Brokerage:			
Marten Transport			
Revenue (in thousands)	<b>\$52,746</b>	\$53,161	\$48,354
Loads	<b>35,140</b>	32,533	25,412
MWL			
Revenue (in thousands)	<b>\$6,676</b>	\$30,648	\$34,463
Loads	<b>3,758</b>	16,120	17,194
Intermodal:			
Revenue (in thousands)	<b>\$92,513</b>	\$71,324	\$65,015
Loads	<b>38,316</b>	27,488	24,302
Average tractors	<b>83</b>	63	75

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 49, 36 and 48 tractors as of December 31, 2013, 2012 and 2011, respectively.

*Comparison of Year Ended December 31, 2013 to Year Ended December 31, 2012*

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

(Dollars in thousands)	<b>2013</b>	2012	Dollar Change 2013 vs. 2012	Percentage Change 2013 vs. 2012	
Operating revenue:					
Truckload revenue, net of fuel surcharge revenue	<b>\$400,324</b>	\$378,383	\$21,941	5.8	%
Truckload fuel surcharge revenue	<b>106,955</b>	104,940	2,015	1.9	
Total Truckload revenue	<b>507,279</b>	483,323	23,956	5.0	
Logistics revenue, net of intermodal fuel surcharge revenue <sup>(1)</sup>	<b>131,186</b>	138,960	(7,774 )	(5.6	)
Intermodal fuel surcharge revenue	<b>20,749</b>	16,173	4,576	28.3	
Total Logistics revenue	<b>151,935</b>	155,133	(3,198 )	(2.1	)
Total operating revenue	<b>\$659,214</b>	\$638,456	\$20,758	3.3	%
Operating income:					
Truckload	<b>\$44,865</b>	\$36,805	\$8,060	21.9	%
Logistics	<b>7,130</b>	9,048	(1,918 )	(21.2	)
Total operating income	<b>\$51,995</b>	\$45,853	\$6,142	13.4	%
Operating ratio <sup>(2)</sup> :					
Truckload	<b>91.2</b>	%	92.4	%	
Logistics	<b>95.3</b>		94.2		
Consolidated operating ratio	<b>92.1</b>	%	92.8	%	

Logistics revenue is net of \$2.1 million and \$9.7 million of inter-segment revenue in 2013 and 2012, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation. The (1) inter-segment revenue in 2013 relates to loads transported prior to the deconsolidation of MWL effective March 28, 2013

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

Truckload segment depreciation expense was \$59.3 million and \$56.7 million, and Logistics segment depreciation expense was \$5.2 million and \$4.2 million, in 2013 and 2012, respectively.

Our operating revenue increased \$20.8 million, or 3.3%, to \$659.2 million in 2013 from \$638.5 million in 2012. Our operating revenue, net of fuel surcharges and MWL revenue, increased \$38.1 million, or 7.8%, to \$524.8 million in 2013 from \$486.7 million in 2012. This increase was primarily due to an increase in truckload revenue, net of fuel surcharges, along with growth in intermodal revenue. Fuel surcharge revenue increased to \$127.7 million in 2013 from \$121.1 million in 2012 primarily due to an increase in volume for our truckload and intermodal services.

Truckload segment revenue increased \$24.0 million, or 5.0%, to \$507.3 million in 2013 from \$483.3 million in 2012. Truckload segment revenue, net of fuel surcharges, increased 5.8% primarily due to an increase in our average truckload revenue, net of fuel surcharges, per tractor per week of 3.8% and an increase in our average fleet size of 2.3% from 2012. The increase in revenue per tractor per week and the improvement in our overall cost structure primarily caused the increase in profitability in 2013.

Logistics segment revenue decreased \$3.2 million, or 2.1%, to \$151.9 million in 2013 from \$155.1 million in 2012. Logistics segment revenue, net of intermodal fuel surcharges and MWL revenue, increased 15.0%. This increase resulted from continued volume growth in our intermodal services. The increase in the operating ratio for our Logistics segment in 2013 was primarily due to an increase in the payments to carriers for transportation services which we arranged as a percentage of our brokerage and intermodal revenue.

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

(Dollars in thousands)	Dollar	Percentage	Percentage of	
	Change	Change	Operating	Operating
	2013 vs.	2013 vs.	Revenue	Revenue
	2012	2012	2013	2012
Operating revenue	\$20,758	3.3	% 100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	8,072	4.9	26.0	25.6
Purchased transportation	(833 )	(0.7 )	18.7	19.5
Fuel and fuel taxes	(326 )	(0.2 )	24.8	25.6
Supplies and maintenance	663	1.7	6.2	6.3
Depreciation	3,572	5.9	9.8	9.5
Operating taxes and licenses	369	5.5	1.1	1.1
Insurance and claims	2,963	14.3	3.6	3.2
Communications and utilities	273	5.5	0.8	0.8
Gain on disposition of revenue equipment	(670 )	(12.6 )	(0.9 )	(0.8 )
Other	533	3.9	2.1	2.1
Total operating expenses	14,616	2.5	92.1	92.8
Operating income	6,142	13.4	7.9	7.2
Other	(344 )	(716.7 )	(0.1 )	-
Income before income taxes	6,486	14.1	7.9	7.2
Less: Income before income taxes attributable to noncontrolling interest	(413 )	(83.1 )	-	0.1
Income before income taxes attributable to Marten Transport, Ltd.	6,899	15.2	7.9	7.1
Provision for income taxes	4,019	22.2	3.4	2.8
Net income	\$2,880	10.6	% 4.6	% 4.3



Salaries, wages and benefits consist of compensation for our employees, including both driver and non-driver employees, employees' health insurance, 401(k) plan contributions and other fringe benefits. These expenses vary depending upon the ratio of company drivers to independent contractors, our efficiency, our experience with employees' health insurance claims, changes in health care premiums and other factors. The increase in salaries, wages and benefits resulted primarily from a 4.4% increase in the total miles driven by company drivers and increases to several components of the amount paid to company drivers during 2012, which was partially offset by a decrease in employees' health insurance expense of \$1.3 million due to a decrease in our self-insured medical claims and a \$1.2 million decrease in bonus compensation expense for our non-driver employees.

Purchased transportation consists of payments to independent contractor providers of revenue equipment and to carriers for transportation services we arrange in connection with brokerage and intermodal activities. This category will vary depending upon the ratio of company drivers versus independent contractors, the amount of fuel surcharges passed through to independent contractors and the amount and rates, including fuel surcharges, we pay to third-party railroad and motor carriers. Purchased transportation expense decreased \$833,000 in total, or 0.7%, in 2013 from 2012. Payments to carriers for transportation services we arranged in our brokerage operations decreased \$145,000 to \$45.6 million in 2013 from \$45.7 million in 2012, and in our intermodal services increased \$17.8 million to \$65.1 million in 2013 from \$47.3 million in 2012. With the March 28, 2013 deconsolidation of MWL, purchased transportation expense related to MWL included in our Logistics segment in 2013 was \$5.4 million compared with \$24.5 million in 2012. The portion of purchased transportation expense related to our independent contractors, including fuel surcharges, increased \$572,000 in 2013, primarily due to an increase in the number of independent contractor-owned tractors in our fleet. We expect that purchased transportation expense will increase as we continue to grow our Logistics segment.

Fuel and fuel taxes decreased by \$326,000 in 2013 from 2012. Net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors, outside drayage carriers and railroads) decreased \$2.8 million, or 5.0%, to \$53.4 million in 2013 from \$56.3 million in 2012. Fuel surcharges passed through to independent contractors, outside drayage carriers and railroads were \$17.9 million in 2013 and \$13.8 million in 2012. We have worked diligently to control fuel usage and costs by improving our volume purchasing arrangements and optimizing our drivers' fuel purchases with national fuel centers, focusing on shorter lengths of haul, installing and tightly managing the use of auxiliary power units in our tractors to minimize engine idling and improving fuel usage in the temperature-control units on our trailers. Auxiliary power units, which we have installed in our company-owned tractors, provide climate control and electrical power for our drivers without idling the tractor engine. The decrease in net fuel expense was primarily due to continued progress with the cost control measures stated above and extreme heat in 2012 which increased fuel consumption, partially offset by an increase in total miles driven. The DOE national average cost of fuel decreased slightly to \$3.92 per gallon in 2013 from \$3.97 per gallon in 2012. Net fuel expense represented 11.3% of truckload and intermodal revenue, net of fuel surcharges, in 2013, compared with 13.0% in 2012.

Depreciation relates to owned tractors, trailers, auxiliary power units, communication units, terminal facilities and other assets. The increase in depreciation was primarily due to a continued increase in the cost of revenue equipment and a 2.3% increase in our average fleet size. We expect our annual cost of tractor and trailer ownership will increase in future periods as a result of higher prices of new equipment, which will result in greater depreciation over the useful life.



Insurance and claims consist of the costs of insurance premiums and the accruals we make for claims within our self-insured retention amounts, primarily for personal injury, property damage, physical damage to our equipment, cargo claims and workers' compensation claims. These expenses will vary primarily based upon the frequency and severity of our accident experience, our self-insured retention levels and the market for insurance. The \$3.0 million increase in insurance and claims in 2013 was primarily due to increases in the cost of physical damage claims related to our tractors and trailers and in the cost of our self-insured auto liability claims. Our significant self-insured retention exposes us to the possibility of significant fluctuations in claims expense between periods depending on the frequency, severity and timing of claims and to adverse financial results if we incur large or numerous losses.

Gain on disposition of revenue equipment increased to \$6.0 million in 2013 from \$5.3 million in 2012 due to an increase in the market value for used revenue equipment. Future gains or losses on disposition of revenue equipment will be impacted by the market for used revenue equipment, which is beyond our control.

As a result of the foregoing factors, our operating expenses as a percentage of operating revenue, or "operating ratio," improved to 92.1% in 2013 from 92.8% in 2012. The operating ratio for our Truckload segment improved to 91.2% in 2013 from 92.4% in 2012. The operating ratio for our Logistics segment was 95.3% and 94.2% in 2013 and 2012, respectively. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharge revenue, improved to 90.2% in 2013 from 91.1% in 2012.

Our effective income tax rate increased to 42.4% in 2013 from 39.9% in 2012. A decrease to our deferred income tax liability as a result of a change in income apportionment for several states decreased our effective income tax rate in 2012.

As a result of the factors described above, net income increased 10.6% to \$30.1 million in 2013 from \$27.3 million in 2012. Net earnings per diluted share increased to \$0.90 in 2013 from \$0.82 in 2012.

*Comparison of Year Ended December 31, 2012 to Year Ended December 31, 2011*

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

(Dollars in thousands)	2012	2011	Dollar Change 2012 vs. 2011	Percentage Change 2012 vs. 2011	
Operating revenue:					
Truckload revenue, net of fuel surcharge revenue	\$378,383	\$357,787	\$20,596	5.8	%
Truckload fuel surcharge revenue	104,940	98,060	6,880	7.0	
Total Truckload revenue	483,323	455,847	27,476	6.0	
Logistics revenue, net of intermodal fuel surcharge revenue <sup>(1)</sup>	138,960	132,890	6,070	4.6	
Intermodal fuel surcharge revenue	16,173	14,942	1,231	8.2	
Total Logistics revenue	155,133	147,832	7,301	4.9	
Total operating revenue	\$638,456	\$603,679	\$34,777	5.8	%
Operating income:					
Truckload	\$36,805	\$35,298	\$1,507	4.3	%
Logistics	9,048	7,732	1,316	17.0	
Total operating income	\$45,853	\$43,030	\$2,823	6.6	%
Operating ratio <sup>(2)</sup> :					
Truckload	92.4	%	92.3	%	
Logistics	94.2		94.8		
Consolidated operating ratio	92.8	%	92.9	%	

(1) Logistics revenue is net of \$9.7 million and \$9.0 million of inter-segment revenue in 2012 and 2011, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation.

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

Truckload segment depreciation expense was \$56.7 million and \$54.4 million, and Logistics segment depreciation expense was \$4.2 million and \$3.1 million, in 2012 and 2011, respectively.

Our operating revenue increased \$34.8 million, or 5.8%, to \$638.5 million in 2012 from \$603.7 million in 2011. Our operating revenue, net of fuel surcharges, increased \$26.7 million, or 5.4%, to \$517.3 million in 2012 from \$490.7 million in 2011. The increase in operating revenue, net of fuel surcharges, was due to an increase in truckload revenue, net of fuel surcharges, along with growth in logistics revenue. Fuel surcharge revenue increased to \$121.1 million in 2012 from \$113.0 million in 2011.

Truckload segment revenue increased \$27.5 million, or 6.0%, to \$483.3 million in 2012 from \$455.8 million in 2011. Truckload segment revenue, net of fuel surcharges, increased 5.8% primarily due to an increase in our average truckload revenue, net of fuel surcharges, per tractor per week of 5.6%. The changes in our operating statistics are primarily the result of the continued growth of our regional temperature-controlled operations, which we have increased to 73.7% of our truckload fleet as of December 31, 2012 from 64.7% as of December 31, 2011. By focusing on shorter lengths of haul in certain defined areas, we are addressing customer trends toward regional distribution to lower their transportation expense, furthering our own objectives of reducing fuel consumption per load, and matching some of our drivers' desires to stay closer to home. The operating ratio for our Truckload segment in 2012 was consistent with 2011.

Logistics segment revenue increased \$7.3 million, or 4.9%, to \$155.1 million in 2012 from \$147.8 million in 2011. Logistics segment revenue, net of intermodal fuel surcharges, increased 4.6%. The increase in logistics revenue resulted from continued volume growth in each of our internal brokerage and intermodal services. The improvement in the operating ratio for our Logistics segment in 2012 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 years indicated the dollar and percentage increase or decrease of the items in our consolidated statements of operations, and those items as a percentage of operating revenue:

(Dollars in thousands)	Dollar	Percentage	Percentage of	
	Change	Change	Operating	Operating
	2012 vs.	2012 vs.	2012	2011
	2011	2011		
Operating revenue	\$34,777	5.8	% 100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	15,596	10.6	25.6	24.5
Purchased transportation	3,937	3.3	19.5	19.9
Fuel and fuel taxes	8,001	5.1	25.6	25.8
Supplies and maintenance	(392 )	(1.0 )	6.3	6.7
Depreciation	3,373	5.9	9.5	9.5
Operating taxes and licenses	368	5.8	1.1	1.1
Insurance and claims	2,548	14.0	3.2	3.0
Communications and utilities	334	7.3	0.8	0.8
Gain on disposition of revenue equipment	(1,502 )	(39.5 )	(0.8 )	(0.6 )