

PAM TRANSPORTATION SERVICES INC
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-15057

P.A.M. TRANSPORTATION SERVICES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

71-0633135

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

297 West Henri De Tonti, Tontitown, Arkansas 72770

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(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (479) 361-9111

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 the 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 (§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

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 Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Class | Outstanding at April 24, 2014 |
|-------------------------------|-------------------------------|
| Common Stock, \$.01 Par Value | 7,991,613 |

P.A.M. TRANSPORTATION SERVICES, INC.

Form 10-Q

For The Quarter Ended March 31, 2014

Table of Contents

Part I. Financial Information

- | | |
|---------|--|
| Item 1. | Financial Statements (unaudited). |
| | Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013 |
| | Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2014 and 2013 |
| | Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013 |
| | Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013 |
| | Condensed Consolidated Statements of Shareholders' Equity for the Three Months Ended March 31, 2014 |
| | Notes to Condensed Consolidated Financial Statements as of March 31, 2014 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations. |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk. |
| Item 4. | Controls and Procedures. |

Part II. Other Information

- | | |
|---------|--------------------|
| Item 1. | Legal Proceedings. |
|---------|--------------------|

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Item 6. Exhibits.

Signatures

Exhibits

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.**P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(unaudited)

(in thousands, except share and per share data)

| | March 31, 2014 | December 31, 2013 |
|--|-------------------------------|----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$489 | \$1,172 |
| Accounts receivable-net: | | |
| Trade, less allowance of \$1,357 and \$1,477, respectively | 64,135 | 58,484 |
| Other | 3,643 | 3,660 |
| Inventories | 1,499 | 1,498 |
| Prepaid expenses and deposits | 8,413 | 6,621 |
| Marketable equity securities | 21,688 | 20,975 |
| Income taxes refundable | 119 | 230 |
| Total current assets | 99,986 | 92,640 |
| Property and equipment: | | |
| Land | 4,924 | 4,924 |
| Structures and improvements | 16,073 | 16,001 |
| Revenue equipment | 305,461 | 321,862 |
| Office furniture and equipment | 8,023 | 7,684 |
| Total property and equipment | 334,481 | 350,471 |
| Accumulated depreciation | (117,126) | (116,246) |
| Net property and equipment | 217,355 | 234,225 |
| Other assets | 2,438 | 2,437 |
| TOTAL ASSETS | \$319,779 | \$329,302 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$16,426 | \$27,970 |
| Accrued expenses and other liabilities | 24,293 | 22,502 |

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| | | |
|--|------------------|------------------|
| Current maturities of long-term debt | 35,070 | 40,103 |
| Deferred income taxes-current | 2,902 | 2,651 |
| Total current liabilities | 78,691 | 93,226 |
| Long-term debt-less current portion | 72,513 | 70,366 |
| Deferred income taxes-less current portion | 50,550 | 49,764 |
| Other long-term liabilities | 299 | - |
| Total liabilities | 202,053 | 213,356 |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued | - | - |
| Common stock, \$.01 par value, 40,000,000 shares authorized; 11,413,538 and 11,391,464 shares issued; 7,991,613 and 7,983,539 shares outstanding at March 31, 2014 and December 31, 2013, respectively | 114 | 114 |
| Additional paid-in capital | 79,084 | 78,811 |
| Accumulated other comprehensive income | 6,582 | 6,160 |
| Treasury stock, at cost; 3,421,925 and 3,407,925 shares, respectively | (51,963) | (51,691) |
| Retained earnings | 83,909 | 82,552 |
| Total shareholders' equity | 117,726 | 115,946 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$319,779 | \$329,302 |

See notes to condensed consolidated financial statements.

P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Operations**

(unaudited)

(in thousands, except per share data)

| | Three Months Ended March 31, 2014 2013 | |
|--|--|------------------|
| OPERATING REVENUES: | | |
| Revenue, before fuel surcharge | \$74,896 | \$77,828 |
| Fuel surcharge | 22,924 | 22,154 |
| Total operating revenues | 97,820 | 99,982 |
| OPERATING EXPENSES AND COSTS: | | |
| Salaries, wages and benefits | 26,035 | 27,395 |
| Fuel expense | 24,798 | 26,970 |
| Rents and purchased transportation | 20,761 | 20,098 |
| Depreciation | 9,126 | 10,094 |
| Operating supplies and expenses | 8,193 | 8,849 |
| Operating taxes and licenses | 1,175 | 1,271 |
| Insurance and claims | 3,742 | 3,438 |
| Communications and utilities | 623 | 601 |
| Other | 1,788 | 1,660 |
| Gain on disposition of equipment | (1,266) | (142) |
| Total operating expenses and costs | 94,975 | 100,234 |
| OPERATING INCOME (LOSS) | 2,845 | (252) |
| NON-OPERATING INCOME | 272 | 283 |
| INTEREST EXPENSE | (862) | (815) |
| INCOME (LOSS) BEFORE INCOME TAXES | 2,255 | (784) |
| FEDERAL AND STATE INCOME TAX EXPENSE (BENEFIT): | | |
| Current | 120 | - |
| Deferred | 778 | (328) |
| Total federal and state income tax expense (benefit) | 898 | (328) |
| NET INCOME (LOSS) | \$1,357 | \$(456) |
| INCOME (LOSS) PER COMMON SHARE: | | |
| Basic | \$0.17 | \$(0.05) |

| | | |
|----------------|---------------|-----------------|
| Diluted | \$0.17 | \$(0.05) |
|----------------|---------------|-----------------|

AVERAGE COMMON SHARES OUTSTANDING:

| | | |
|----------------|--------------|--------------|
| Basic | 7,985 | 8,688 |
| Diluted | 8,033 | 8,688 |

See notes to condensed consolidated financial statements.

P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(in thousands)

| | Three Months Ended March 31, 2014 2013 | |
|---|--|---------------|
| NET INCOME (LOSS) | \$ 1,357 | \$(456) |
| Other comprehensive income (loss), net of tax: | | |
| Reclassification adjustment for realized gains on marketable securities included in net income (1) | - | (4) |
| Reclassification adjustment for unrealized losses on marketable securities included in net income (2) | - | 15 |
| Changes in fair value of marketable securities (3) | 422 | 1,040 |
| COMPREHENSIVE INCOME | \$ 1,779 | \$ 595 |

(1) Net of deferred income taxes of \$0 and \$(2), respectively.

(2) Net of deferred income taxes of \$0 and \$(9), respectively.

(3) Net of deferred income taxes of \$259 and \$655, respectively.

See notes to condensed consolidated financial statements.

P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Cash Flows**

(unaudited)

(in thousands)

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2014 | 2013 |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | \$1,357 | \$(456) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation | 9,126 | 10,094 |
| Bad debt expense | 56 | 301 |
| Sale leaseback deferred gain amortization | (37) | - |
| Stock compensation-net of excess tax benefits | 86 | 228 |
| Provision for (benefit from) deferred income taxes | 778 | (328) |
| Reclassification of other than temporary impairment in marketable equity securities | - | 24 |
| Recognized gain on marketable equity securities | (44) | (20) |
| Gain on sale or disposal of equipment | (1,266) | (142) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,899) | (8,424) |
| Prepaid expenses, inventories, and other assets | (1,794) | 2,130 |
| Income taxes refundable | 111 | 23 |
| Trade accounts payable | 1,295 | 3,966 |
| Accrued expenses and other liabilities | 1,761 | 2,592 |
| Net cash provided by operating activities | 5,530 | 9,988 |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (6,935) | (23,676) |
| Proceeds from disposition of equipment | 17,610 | 7,320 |
| Change in restricted cash | 209 | (1,969) |
| Sales of marketable equity securities | - | 13 |
| Purchases of marketable equity securities, net of return of capital | 12 | (3) |
| Net cash provided by (used in) investing activities | 10,896 | (18,315) |
| FINANCING ACTIVITIES: | | |
| Borrowings under line of credit | 135,196 | 31,204 |
| Repayments under line of credit | (124,706) | (25,986) |
| Borrowings of long-term debt | 5,709 | 16,776 |
| Repayments of long-term debt | (19,085) | (12,804) |
| Borrowings under margin account | 21 | 49 |
| Repayments under margin account | (215) | (205) |

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| | | |
|--|---------------|--------------|
| Repurchases of common stock | (14,216) | (341) |
| Exercise of stock options | 187 | - |
| Net cash (used in) provided by financing activities | (17,109) | 8,693 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (683) | 366 |
| CASH AND CASH EQUIVALENTS-Beginning of period | 1,172 | 507 |
| CASH AND CASH EQUIVALENTS-End of period | \$489 | \$873 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION- | | |
| Cash paid during the period for: | | |
| Interest | \$871 | \$831 |
| Income taxes | \$10 | \$7 |
| NONCASH INVESTING AND FINANCING ACTIVITIES- | | |
| Purchases of property and equipment included in accounts payable | \$1,703 | \$2,437 |

See notes to condensed consolidated financial statements.

P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**Condensed Consolidated Statements of Shareholders' Equity**

(unaudited)

(in thousands)

| | Common Stock Shares / Amount | | Additional Paid-In Capital | Accumulated Other Comprehensive Income | Treasury Stock | Retained Earnings | Total |
|---|---|---------------|----------------------------------|---|-------------------|----------------------|-------------------|
| Balance at January 1, 2014 | 7,984 | \$ 114 | \$ 78,811 | \$ 6,160 | \$(51,691) | \$ 82,552 | \$ 115,946 |
| Net Income | | | | | | 1,357 | 1,357 |
| Other comprehensive income, net of tax of \$259 | | | | 422 | | | 422 |
| Exercise of stock options-shares issued including tax benefits | 22 | | 187 | | | | 187 |
| Treasury stock repurchases | (14) | | | | (272) | | (272) |
| Share-based compensation | | | 86 | | | | 86 |
| Balance at March 31, 2014 | 7,992 | \$ 114 | \$ 79,084 | \$ 6,582 | \$(51,963) | \$ 83,909 | \$ 117,726 |

See notes to condensed consolidated financial statements.

P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (unaudited)

March 31, 2014

NOTE A: BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included. The consolidated balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the three-month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and the footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2013.

In order to conform to industry practice, the Company began to classify payments to third-party owner operator drivers as purchased transportation rather than as salaries, wages and benefits as had been presented in reports prior to the period ended September 30, 2013. This reclassification has no effect on operating income, net income or earnings per share. The Company has made corresponding reclassifications to comparative periods shown.

NOTE B: RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2013-2, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This guidance requires an organization to present the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income ("OCI"), but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The guidance is effective for fiscal years beginning after December 15, 2012. The adoption of this guidance on January 1, 2013, did not have a significant impact on the Company's financial condition, results of operations, or cash flow.

In December 2011, the FASB issued ASU No. 2011-11, *Disclosures about Offsetting Assets and Liabilities*, which requires entities to disclose both gross and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master

netting agreement. The objective of the disclosure is to facilitate comparison between those entities that prepare their financial statements on the basis of U.S. GAAP and those entities that prepare their financial statements on the basis of International Financial Reporting Standards. Retrospective presentation for all comparative periods presented is required. The adoption of this guidance on January 1, 2013, did not have a significant impact on the Company's financial condition, results of operations, or cash flow.

NOTE C: MARKETABLE EQUITY SECURITIES

The Company accounts for its marketable securities in accordance with ASC Topic 320, *Investments-Debt and Equity Securities*. ASC Topic 320 requires companies to classify their investments as trading, available-for-sale or held-to-maturity. The Company's investments in marketable securities are classified as either trading or available-for-sale and consist of equity securities. Management determines the appropriate classification of these securities at the time of purchase and re-evaluates such designation as of each balance sheet date. The cost of securities sold is based on the specific identification method and interest and dividends on securities are included in non-operating income.

Marketable equity securities classified as available-for-sale are carried at fair value, with the unrealized gains and losses, net of tax, included as a component of accumulated other comprehensive income in shareholders' equity. Realized gains and losses, declines in value judged to be other-than-temporary on available-for-sale securities, and increases or decreases in value on trading securities, if any, are included in the determination of net income. A quarterly evaluation is performed in order to judge whether declines in value below cost should be considered temporary and when losses are deemed to be other-than-temporary. Several factors are considered in this evaluation process including the severity and duration of the decline in value, the financial condition and near-term outlook for the specific issuer and the Company's ability to hold the securities.

Based upon this evaluation, the Company determined that an impairment charge was not necessary for the quarter ended March 31, 2014. For the quarter ending March 31, 2013, the Company determined that an impairment charge of \$24,000 was necessary.

The following table sets forth cost, market value and unrealized gain/(loss) on equity securities classified as available-for-sale and equity securities classified as trading as of March 31, 2014 and December 31, 2013.

| | March 31, 2014 (in thousands) | December 31, 2013 |
|-------------------------------|--|----------------------|
| Available-for-sale securities | | |
| Fair market value | \$21,479 | \$ 20,810 |
| Cost | 10,869 | 10,881 |
| Unrealized gain | \$ 10,610 | \$ 9,929 |
| Trading securities | | |
| Fair market value | \$ 209 | \$ 165 |
| Cost | 157 | 157 |
| Unrealized gain | \$ 52 | \$ 8 |
| Total | | |
| Fair market value | \$21,688 | \$ 20,975 |
| Cost | 11,026 | 11,038 |
| Unrealized gain | \$ 10,662 | \$ 9,937 |

The following table sets forth the gross unrealized gains and losses on the Company's marketable securities that are classified as available-for-sale as of March 31, 2014 and December 31, 2013.

| | March 31, 2014 (in thousands) | December 31, 2013 |
|--------------------------------|--|----------------------|
| Available-for-sale securities: | | |
| Gross unrealized gains | \$ 10,624 | \$ 9,946 |
| Gross unrealized losses | 14 | 17 |
| Net unrealized gains | \$ 10,610 | \$ 9,929 |

As of March 31, 2014 and December 31, 2013, the total net unrealized gain, net of deferred income taxes, in accumulated other comprehensive income was approximately \$6,582,000 and \$6,160,000, respectively.

For the quarter ended March 31, 2014, the Company had net unrealized gains in market value on securities classified as available-for-sale of approximately \$410,000, net of deferred income taxes. For the year ended December 31, 2013, the Company had net unrealized gains in market value on securities classified as available-for-sale of approximately

\$1,897,000, net of deferred income taxes.

As of March 31, 2014, the Company's marketable securities that are classified as trading had gross recognized gains of approximately \$52,000 and no gross recognized losses. As of March 31, 2013, the Company's marketable securities that are classified as trading had gross recognized losses of approximately \$12,000 and no gross recognized gains. The following table shows recognized gains (losses) in market value for securities classified as trading during the first three months of 2014 and 2013.

| | Three Months Ended MarchMarch 31, 31, 2014 2013 (in thousands) | |
|---|---|----------|
| Trading securities | | |
| Recognized gain (loss) at beginning of period | \$ 8 | \$ (26) |
| Recognized gain (loss) at end of period | 52 | (12) |
| Net recognized gain | \$44 | \$ 14 |
| Net recognized gain, net of taxes | \$26 | \$ 9 |

There were no reclassifications of marketable securities during the first three months of 2014 or 2013.

The following table shows the Company's realized gains during the first three months of 2014 and 2013 on certain securities which were held as available-for sale. The cost of securities sold is based on the specific identification method and interest and dividends on securities are included in non-operating income.

| | Three Months Ended March 31, 2014 | March 31, 2013 (in thousands) |
|------------------------------|--|---|
| Realized gains | | |
| Sale proceeds | \$ - | \$ 13 |
| Cost of securities sold | - | 6 |
| Realized gains | \$ - | \$ 7 |
| Realized gains, net of taxes | \$ - | \$ 4 |

The following table shows the Company's investments' approximate gross unrealized losses and fair value of those securities in a loss position at March 31, 2014 and December 31, 2013. These investments consist of equity securities. As of March 31, 2014 and December 31, 2013 there were no investments that had been in a continuous unrealized loss position for twelve months or longer.

| | March 31, 2014 (in thousands) | | December 31, 2013 | |
|--|----------------------------------|------------|----------------------|------------|
| | Fair | Unrealized | Fair | Unrealized |
| | Value | Losses | Value | Losses |
| Equity securities – Available-for-sale | \$88 | \$ 16 | \$397 | \$ 17 |
| Equity securities – Trading | - | - | - | - |
| Totals | \$88 | \$ 16 | \$397 | \$ 17 |

The market value of the Company's equity securities are periodically used as collateral against any outstanding margin account borrowings. As of March 31, 2014 and December 31, 2013, the Company had outstanding borrowings of approximately \$9,823,000 and \$10,017,000, respectively, under its margin account. Margin account borrowings are used for the purchase of marketable equity securities and as a source of short-term liquidity.

NOTE D: STOCK BASED COMPENSATION

The Company maintains a stock option plan under which incentive stock options and nonqualified stock options may be granted. On March 2, 2006, the Company's Board of Director's (the "Board") adopted, and shareholders later approved, the 2006 Stock Option Plan (the "2006 Plan"). Under the 2006 Plan 750,000 shares are reserved for the issuance of stock options to directors, officers, key employees, and others. The option exercise price under the 2006 Plan is the fair market value of the stock on the date the option is granted. The fair market value is determined by the average of the highest and lowest sales prices for a share of the Company's common stock, on its primary exchange, on the same date that the option is granted.

Outstanding nonqualified stock options at March 31, 2014, must be exercised within either five or ten years from the date of grant.

During the first three months of 2014, 3,024 shares of common stock were granted to non-employee directors under the 2006 Plan. This stock award has a grant date fair value of \$19.88 per share, based on the closing price of the Company's stock on the date of grant and vests immediately.

The total grant date fair value of stock and stock options vested during the first three months of 2014 was approximately \$60,000. Total pre-tax stock-based compensation expense, recognized in Salaries, wages and benefits during the first three months of 2014 was approximately \$86,000 and includes approximately \$60,000 recognized as a result of the grant of 504 shares to each non-employee director during the first quarter of 2014. The recognition of stock-based compensation expense decreased diluted and basic earnings per common share by approximately \$0.01 during the three months ending March 31, 2014. As of March 31, 2014, the Company had stock-based compensation plans with total unvested stock-based compensation expense of approximately \$321,000 which is being amortized on a straight-line basis over the remaining vesting period. As a result, the Company expects to recognize approximately \$91,000 in additional compensation expense related to unvested option awards during the remainder of 2014 and to recognize approximately \$116,000, \$86,000, and \$28,000 in additional compensation expense related to unvested option awards during the years 2015, 2016, and 2017, respectively.

The total grant date fair value of options vested during the first three months of 2013 was approximately \$179,000. Total pre-tax stock-based compensation expense, recognized in Salaries, wages and benefits during the first three months of 2013 was approximately \$228,000 and includes approximately \$179,000 recognized as a result of the grant of 5,000 shares to each non-employee director during the first quarter of 2013. The recognition of stock-based compensation expense increased diluted and basic loss per common share by approximately \$0.01 during the three months ending March 31, 2013. As of March 31, 2013, the Company had stock-based compensation plans with total unvested stock-based compensation expense of approximately \$700,000 which was being amortized on a straight-line basis over the remaining vesting period.

The weighted average grant date fair value of options granted during the first three months of 2013 was \$5.13 per share. There were no options granted during the first three months of 2014.

The fair value of the Company's employee stock options was estimated at the date of grant using a Black-Scholes-Merton ("BSM") option-pricing model using the following assumptions:

| | | |
|--------------------------|--|---|
| | Three Months Ended March 31, 2013 | |
| Dividend yield | 0 | % |
| Volatility | 62.69 | % |
| Risk-free rate | 0.61 | % |
| Expected life (in years) | 4.3 | |
| Fair value of options | \$ 5.13 | |

The Company does not anticipate paying any additional cash dividends in the foreseeable future. The estimated volatility is based on the historical volatility of our stock. The risk free rate for the periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of the options was calculated based on the historical exercise behavior.

Information related to stock option activity for the three months ended March 31, 2014 is as follows:

| Shares Under Options | Weighted-Average Exercise Price | Weighted- Average Remaining | Aggregate Intrinsic Value* |
|----------------------------|------------------------------------|-----------------------------------|----------------------------------|
|----------------------------|------------------------------------|-----------------------------------|----------------------------------|

| | | (per share) | Contractual Term (in years) | |
|-------------------------------|-----------|-------------|-----------------------------------|--------------|
| Outstanding-January 1, 2014 | 164,098 | \$ 10.99 | | |
| Granted | - | - | | |
| Exercised | (19,050) | 9.81 | | |
| Cancelled/forfeited/expired | (42) | 11.22 | | |
| Outstanding at March 31, 2014 | 145,006 | \$ 11.15 | 6.0 | \$ 1,266,412 |
| Exercisable at March 31, 2014 | 76,992 | \$ 11.31 | 4.4 | \$ 659,747 |

* The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The per share market value of our common stock, as determined by the closing price on March 31, 2014, was \$19.88.

A summary of the status of the Company's nonvested options and restricted stock as of March 31, 2014 and changes during the three months ended March 31, 2014, is presented below:

Stock Options:

| | |
|-------------------------|-------------------------------|
| Number of Options | Weighted- Average Grant |
|-------------------------|-------------------------------|

| | | Date Fair Value |
|------------------------------|--------|--------------------|
| Nonvested at January 1, 2014 | 68,039 | \$ 6.11 |
| Granted | - | - |
| Canceled/forfeited/expired | (25) | 6.34 |
| Vested | - | - |
| Nonvested at March 31, 2014 | 68,014 | \$ 11.15 |

Restricted Stock:

| | Number of Options | Weighted- Average Grant Date Fair Value |
|------------------------------|-------------------------|---|
| Nonvested at January 1, 2014 | 9,500 | \$ 18.17 |
| Granted | - | - |
| Canceled/forfeited/expired | (9,500) | 18.17 |
| Vested | - | - |
| Nonvested at March 31, 2014 | - | \$ - |

The number, weighted average exercise price and weighted average remaining contractual life of options outstanding as of March 31, 2014 and the number and weighted average exercise price of options exercisable as of March 31, 2014 are as follows:

| Exercise Price | Shares Under Outstanding Options | Weighted-Average Remaining Contractual Term (in years) | Shares Under Exercisable Options |
|-------------------|---|---|---|
| \$ 10.44 | 20,000 | 3.9 | 20,000 |
| \$ 10.90 | 12,000 | 3.2 | 12,000 |
| \$ 10.90 | 66,000 | 8.2 | 10,800 |
| \$ 11.22 | 27,006 | 6.7 | 14,192 |
| \$ 11.54 | 6,000 | 2.9 | 6,000 |
| \$ 11.75 | 6,000 | 1.9 | 6,000 |
| \$ 14.32 | 8,000 | 0.9 | 8,000 |
| | 145,006 | 6.0 | 76,992 |

Cash received from option exercises totaled approximately \$187,000 during the three months ended March 31, 2014. There were no options exercised during the three months ended March 31, 2013. The Company issues new shares upon option exercise.

NOTE E: SEGMENT INFORMATION

The Company follows the guidance provided by ASC Topic 280, *Segment Reporting*, in its identification of operating segments. The Company has determined that it has a total of two operating segments whose primary operations can be characterized as either Truckload Services or Brokerage and Logistics Services, however in accordance with the aggregation criteria provided by FASB ASC Topic 280, the Company has determined that the operations of the two

operating segments can be aggregated into a single reporting segment, motor carrier operations. Truckload Services revenues and Brokerage and Logistics Services revenues, each before fuel surcharges, were as follows:

| | Three Months Ended March 31, | | | |
|--|--|-------|----------|-------|
| | 2014 | | 2013 | |
| | Amount | % | Amount | % |
| | (in thousands, except percentage data) | | | |
| Truckload Services revenue | \$69,447 | 92.7 | \$70,908 | 91.1 |
| Brokerage and Logistics Services revenue | 5,449 | 7.3 | 6,920 | 8.9 |
| Total revenues | \$74,896 | 100.0 | \$77,828 | 100.0 |

NOTE F: TREASURY STOCK

The Company accounts for Treasury stock using the cost method and as of March 31, 2014, 3,421,925 shares were held in the treasury at an aggregate cost of approximately \$51,963,000. During the three months ending March 31, 2014, the Company repurchased 14,000 shares of its common stock at an aggregate cost of approximately \$272,000.

NOTE G: ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated balances of other comprehensive income for the three months ended March 31, 2014:

| | Unrealized gains and losses on available-for-sale securities (in thousands) |
|--|---|
| Balance at December 31, 2013, net of tax of \$3,770 | \$ 6,160 |
| Other comprehensive income before reclassifications, net of tax of \$259 | 422 |
| Balance at March 31, 2014, net of tax of \$4,029 | \$ 6,582 |

There were no reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2014.

NOTE H: EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by adjusting the weighted average number of shares of common stock outstanding by common stock equivalents attributable to dilutive stock options. The computation of diluted earnings (loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect on earnings (loss) per share. The computations of basic and diluted earnings (loss) per share were as follows:

| | Three Months Ended March 31, 2014 2013 (in thousands, except per share data) | |
|--|---|----------|
| Net income (loss) | \$1,357 | \$(456) |
| Basic weighted average common shares outstanding | 7,985 | 8,688 |
| Dilutive effect of common stock equivalents | 48 | - |

| | | |
|--|--------|-----------|
| Diluted weighted average common shares outstanding | 8,033 | 8,688 |
| Basic earnings (loss) per share | \$0.17 | \$(0.05) |
| Diluted earnings (loss) per share | \$0.17 | \$(0.05) |

There were no options outstanding to purchase shares of common stock at March 31, 2014 that had an anti-dilutive effect on the computation of diluted earnings per share. Options to purchase 251,129 shares of common stock were outstanding at March 31, 2013 but were not included in the computation of diluted earnings per share because to do so would have an anti-dilutive effect.

NOTE I: INCOME TAXES

The Company and its subsidiaries are subject to U.S. and Canadian federal income tax laws as well as the income tax laws of multiple state jurisdictions. The major tax jurisdictions in which we operate generally provide for a deficiency assessment statute of limitation period of three years and as a result, the Company's tax years 2010 and forward remain open to examination in those jurisdictions.

In determining whether a tax asset valuation allowance is necessary, management, in accordance with the provisions of ASC 740-10-30, weighs all available evidence, both positive and negative to determine whether, based on the weight of that evidence, a valuation allowance is necessary. If negative conditions exist which indicate a valuation allowance might be necessary, consideration is then given to what effect the future reversals of existing taxable temporary differences and the availability of tax strategies might have on future taxable income to determine the amount, if any, of the required valuation allowance. As of March 31, 2014, management determined that the future reversals of existing taxable temporary differences and available tax strategies would generate sufficient future taxable income to realize its tax assets and therefore a valuation allowance was not necessary.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities, based on the technical merits of the position. As of March 31, 2014, an adjustment to the Company's consolidated financial statements for uncertain tax positions has not been required as management believes that the Company's tax positions taken in income tax returns filed or to be filed are supported by clear and unambiguous income tax laws. The Company recognizes interest and penalties related to uncertain income tax positions, if any, in income tax expense. During the three months ended March 31, 2014 and 2013, the Company has not recognized or accrued any interest or penalties related to uncertain income tax positions.

NOTE J: FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments consist of cash and cash equivalents, marketable equity securities, accounts receivable, trade accounts payable, and borrowings.

The Company follows the guidance for financial assets and liabilities measured on a recurring basis. This guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date and also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level
1: Quoted market prices in active markets for identical assets or liabilities.

Inputs other than Level 1 inputs that are either directly or indirectly observable such as quoted prices for similar Level assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are
2: not active; inputs other than quoted prices that are observable; or other inputs not directly observable, but derived principally from, or corroborated by, observable market data.

Level
3: Unobservable inputs that are supported by little or no market activity.

The Company utilizes the market approach to measure fair value for its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

At March 31, 2014, the following items are measured at fair value on a recurring basis:

| Total | Level 1 | Level 2 | Level 3 |
|----------------|---------|---------|---------|
| (in thousands) | | | |

| | | | | |
|------------------------------|----------|----------|---|---|
| Marketable equity securities | \$21,688 | \$21,688 | - | - |
|------------------------------|----------|----------|---|---|

The Company's investments in marketable securities are recorded at fair value based on quoted market prices. The carrying value of other financial instruments, including cash, accounts receivable, accounts payable, and accrued liabilities approximate fair value due to their short maturities.

The carrying amount for the line of credit approximates fair value because the line of credit interest rate is adjusted frequently.

For long-term debt other than the lines of credit, the fair values are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying value and estimated fair value of this other long-term debt at March 31, 2014 was as follows:

| Carrying | Estimated |
|----------------|------------|
| Value | Fair Value |
| (in thousands) | |

| | | |
|----------------|----------|----------|
| Long-term debt | \$97,093 | \$96,966 |
|----------------|----------|----------|

The Company has not elected the fair value option for any of its financial instruments.

NOTE K: NOTES PAYABLE AND LONG-TERM DEBT

During the first three months of 2014, the Company's subsidiaries entered into installment obligations totaling approximately \$5.7 million for the purpose of purchasing revenue equipment. These obligations are payable in 60 monthly installments at a weighted average interest rate of 2.51%.

NOTE L: OFF-BALANCE SHEET ARRANGEMENTS

During the first quarter of 2014, the Company's subsidiaries entered into operating leases for the lease of 147 trucks. Revenue equipment held under operating leases is not carried on our balance sheet and the respective lease payments are reflected in our consolidated statement of operations as a component of the Rents and purchased transportation category. Rent expense related to revenue equipment under operating leases totaled \$389,000 for the quarter ended March 31, 2014.

Leases for revenue equipment under non-cancellable operating leases expire at various dates through 2017. Future minimum lease payments related to non-cancellable leases for revenue equipment at March 31, 2014 are:

| | (in thousands) |
|-------------------------------------|-------------------|
| 2014 | \$ 2,379 |
| 2015 | 3,172 |
| 2016 | 2,622 |
| 2017 | 81 |
| Total future minimum lease payments | \$ 8,254 |

NOTE M: LITIGATION

We are a defendant in a collective-action lawsuit which was filed on August 22, 2013, in the United States District Court for the Western District of Arkansas. The plaintiffs, who are current and former drivers and who worked for the Company during the period of August 22, 2010, through the date of the filing, allege claims for unpaid wages under the Fair Labor Standards Act and the Arkansas Minimum Wage Law. The complaint alleges that the Company failed to pay newly hired drivers minimum wage during orientation, training, and while traveling during normal business hours and that the Company failed to pay all drivers when working on assignment for more than 24 hours. The plaintiffs seek to enjoin the Company from continuing its current pay practices related to the allegations. They also seek actual damages, liquidated damages equal to actual damages, court costs, and legal fees. The lawsuit is currently in the discovery stage. We cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from this lawsuit. Management has determined that any losses under this claim would not be covered by existing insurance policies.

NOTE N: SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through the date these financial statements were filed with the United States Securities and Exchange Commission and concluded that no subsequent events or transactions have occurred that require recognition or disclosure in our financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

FORWARD-LOOKING INFORMATION

Certain information included in this Quarterly Report on Form 10-Q constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements may relate to expected future financial and operating results or events, and are thus prospective. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, excess capacity in the trucking industry; surplus inventories; recessionary economic cycles and downturns in customers' business cycles; increases or rapid fluctuations in fuel prices, interest rates, fuel taxes, tolls, license and registration fees; the resale value of the Company's used equipment and the price of new equipment; increases in compensation for and difficulty in attracting and retaining qualified drivers and owner-operators; increases in insurance premiums and deductible amounts relating to accident, cargo, workers' compensation, health, and other claims; unanticipated increases in the number or amount of claims for which the Company is self insured; inability of the Company to continue to secure acceptable financing arrangements; seasonal factors such as harsh weather conditions that increase operating costs; competition from trucking, rail, and intermodal competitors including reductions in rates resulting from competitive bidding; the ability to identify acceptable acquisition candidates, consummate acquisitions, and integrate acquired operations; a significant reduction in or termination of the Company's trucking service by a key customer; and other factors, including risk factors, included from time to time in filings made by the Company with the Securities and Exchange Commission ("SEC"). The Company undertakes no obligation to update or clarify forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in our Form 10-K for the fiscal year ended December 31, 2013.

BUSINESS OVERVIEW

The Company's administrative headquarters are in Tontitown, Arkansas. From this location we manage operations conducted through wholly owned subsidiaries based in various locations around the United States, Mexico, and Canada. The operations of these subsidiaries can generally be classified into either truckload services or brokerage and logistics services. Truckload services include those transportation services in which we utilize company owned trucks or owner-operator owned trucks. Brokerage and logistics services consist of services such as transportation scheduling, routing, mode selection, transloading and other value added services related to the transportation of freight which may or may not involve the usage of company owned or owner-operator owned equipment. Both our truckload operations and our brokerage/logistics operations have similar economic characteristics and are impacted by virtually the same economic factors as discussed elsewhere in this Report. All of the Company's operations are in the motor carrier segment.

For both operations, substantially all of our revenue is generated by transporting freight for customers and is predominantly affected by the rates per mile received from our customers, equipment utilization, and our percentage of non-compensated miles. These aspects of our business are carefully managed and efforts are continuously underway to achieve favorable results. Truckload services revenues, excluding fuel surcharges, represented 92.7% and 91.1% of total revenues, excluding fuel surcharges for the three months ended March 31, 2014 and 2013, respectively. The remaining revenues, excluding fuel surcharges, were generated from brokerage and logistics services.

The main factors that impact our profitability on the expense side are costs incurred in transporting freight for our customers. Currently our most challenging costs include fuel, driver recruitment, training, wage and benefit costs, independent broker costs (which we record as purchased transportation), insurance, and maintenance and capital equipment costs.

In discussing our results of operations we use revenue, before fuel surcharge, (and fuel expense, net of surcharge), because management believes that eliminating the impact of this sometimes volatile source of revenue allows a more consistent basis for comparing our results of operations from period to period. During the three months ended March 31, 2014 and 2013, approximately \$22.9 million and \$22.2 million, respectively, of the Company's total revenue was generated from fuel surcharges. We may also discuss certain changes in our expenses as a percentage of revenue, before fuel surcharge, rather than absolute dollar changes. We do this because we believe the variable cost nature of certain expenses makes a comparison of changes in expenses as a percentage of revenue more meaningful than absolute dollar changes.

RESULTS OF OPERATIONS – TRUCKLOAD SERVICES

The following table sets forth, for truckload services, the percentage relationship of expense items to operating revenues, before fuel surcharges, for the periods indicated. Fuel costs are shown net of fuel surcharges.

| | Three Months Ended March 31, 2014 2013 (percentages) | |
|---|---|--------|
| Operating revenues, before fuel surcharge | 100.0 | 100.0 |
| Operating expenses: | | |
| Salaries, wages and benefits (1) | 37.3 | 38.5 |
| Fuel expense, net of fuel surcharge | 2.7 | 6.8 |
| Rents and purchased transportation (1) | 22.6 | 19.2 |
| Depreciation | 13.1 | 14.2 |
| Operating supplies and expenses | 11.9 | 12.5 |
| Operating taxes and licenses | 1.7 | 1.8 |
| Insurance and claims | 5.4 | 4.8 |
| Communications and utilities | 0.9 | 0.8 |
| Other | 2.5 | 2.3 |
| Gain on sale or disposal of property | (1.9) | (0.2) |
| Total operating expenses | 96.2 | 100.7 |
| Operating income (loss) | 3.8 | (0.7) |
| Non-operating income | 0.3 | 0.4 |
| Interest expense | (1.1) | (1.1) |
| Income (loss) before income taxes | 3.0 | (1.4) |

(1) In order to conform to industry practice, the Company began to classify payments to third-party owner operator drivers as purchased transportation rather than as salaries, wages and benefits as had been presented in reports prior to the period ended September 30, 2013. This reclassification has no effect on operating income, net income or earnings per share. The Company has made corresponding reclassifications to comparative periods shown.

THREE MONTHS ENDED MARCH 31, 2014 VS. THREE MONTHS ENDED MARCH 31, 2013

During the first quarter of 2014, truckload services revenue, before fuel surcharges, decreased 2.1% to \$69.4 million as compared to \$70.9 million during the first quarter of 2013. The decrease was primarily due to a decrease in the number of miles traveled and a decrease in the average rate charged to customers which was partially offset by a reduction in uncompensated miles. The number of miles traveled decreased from 51.7 million miles during the first quarter of 2013 to 51.0 million miles during the first quarter of 2014 primarily as a result of severe winter conditions in areas in which we operate. The average rate charged per total mile during the first quarter of 2014 decreased \$0.01 as compared to the average rate charged during the first quarter of 2013. Uncompensated miles decreased from 8.0% of total miles for the first quarter of 2013 to 6.9% of total miles for the first quarter of 2014.

Salaries, wages and benefits decreased from 38.5% of revenues, before fuel surcharges, during the first quarter of 2013 to 37.3% of revenues, before fuel surcharges, during the first quarter of 2014. The decrease related primarily to a decrease in Company driver wages paid during the first quarter of 2014 as compared to Company driver wages paid during the first quarter of 2013. Our driver pool consists of both company drivers and third-party owner operators. Company drivers are employees of the Company and perform services in company-owned equipment while owner-operator drivers provide services, under contract, using their own equipment. While each group is generally compensated on a per-mile basis, owner-operator payments are classified in the Company's financial statements under the Rents and purchased transportation category. The percentage-based decrease in Salaries, wages and benefits resulted from a decrease in the proportion of total miles driven by company drivers during the first quarter of 2014 in comparison to the proportion of total miles driven by company drivers during the first quarter of 2013. This proportional decrease was the result of an increase in the average number of owner operators under contract from 257 during the first quarter of 2013 to 352 during the first quarter of 2014 and a corresponding decrease in the average number of company drivers. On a dollar basis, total salaries, wages and benefits decreased from \$27.2 million during the first quarter of 2013 to \$25.9 million during the first quarter of 2014. Also contributing to the decrease was a decrease of \$0.7 million in costs associated with workers' compensation benefits during the first quarter of 2014 as compared to the first quarter of 2013.

Fuel expense, net of fuel surcharge, decreased from 6.8% of revenues, before fuel surcharges, during the first quarter of 2013 to 2.7% of revenues, before fuel surcharges, during the first quarter of 2014. The decrease relates primarily to a decrease in the average surcharge-adjusted fuel price paid per gallon of diesel fuel and to an increase in the average miles-per-gallon ("mpg") experienced. The average surcharge-adjusted fuel price paid per gallon of diesel fuel decreased as a result of more favorable fuel surcharge arrangements made with customers and to an increase in the number of owner operators in our fleet. Fuel surcharge collections can fluctuate significantly from period to period as they are generally based on changes in fuel prices from period to period so that during periods of rising fuel prices fuel surcharge collections increase while fuel surcharge collections decrease during periods of falling fuel prices. Fuel surcharge revenue generated from transportation services performed by owner operators is reflected as a reduction in net fuel expense, while fuel surcharges paid to owner operators for their services is reported along with their base rate of pay in the Rents and purchased transportation category. These categorizations have the effect of reducing our net fuel expense while increasing the Rents and purchased transportation category, as discussed above. The average mpg experienced increased during the first quarter of 2014 as compared to the mpg experienced during the first quarter of 2013 as a result of replacing older trucks with newer trucks, which are more fuel efficient.

Rents and purchased transportation increased from 19.2% of revenues, before fuel surcharges, during the first quarter of 2013 to 22.6% of revenues, before fuel surcharges, during the first quarter of 2014. The increase relates primarily to an increase in driver lease expense as the average number of owner operators under contract increased from 257 during the first quarter of 2013 to 352 during the first quarter of 2014. The increase in costs in this category, as they relate to the increase in owner operators, are partially offset by a decrease in other cost categories, such as repairs and fuel, which are generally borne by the owner operator. Also contributing to the increase were lease payments associated with the lease of 147 trucks, as discussed below.

Depreciation decreased from 14.2% of revenues, before fuel surcharges, during the first quarter of 2013 to 13.1% of revenues, before fuel surcharges, during the first quarter of 2014. The decrease relates primarily to a decrease in the average number of company-owned trucks. While the total size of our operating truck fleet has grown slightly, the number of company-owned trucks has decreased as a result of a sale-leaseback transaction entered into during the first quarter of 2014 and to an increase in the number of owner operators under contract. During the first quarter of 2014, the Company entered into lease agreements for the lease of 147 trucks, including 97 company-owned trucks which were sold to a third party and then leased back to the Company. The lease payments associated with these leases are reported in the Rents and purchased transportation category. The number of owner operators increased from an average of 257 under contract during the first quarter of 2013 to 352 under contract during the first quarter of 2014.

Operating supplies and expenses decreased from 12.5% of revenues, before fuel surcharges, during the first quarter of 2013 to 11.9% of revenues, before fuel surcharges, during the first quarter of 2014. The decrease relates primarily to a decrease in amounts paid for driver training schools and driver layover pay during the first quarter of 2014 as compared to amounts paid during the first quarter of 2013. The decrease also relates to a decrease in amounts paid for equipment maintenance costs during the first quarter of 2014 as compared to amounts paid during the first quarter of 2013 as a result of replacing older equipment with new equipment.

Insurance and claims increased from 4.8% of revenues, before fuel surcharges, during the first quarter of 2013 to 5.4% of revenues, before fuel surcharges, during the first quarter of 2014. The increase relates primarily to increases in the amount paid for physical damage insurance due to an increase in the value of the equipment covered as a result of replacing older equipment with new equipment and to obtaining physical damage coverage on our trailers effective during the fourth quarter of 2013.

Gains on sale or disposal of property increased from 0.2% during the first quarter of 2013 to 1.9% during the first quarter of 2014. The increase relates primarily to both an increase in the number of trailers sold and to a more favorable used equipment market. The number of trailers sold increased from 62 units sold during the first quarter of 2013 to 238 units sold during the first quarter of 2014.

The truckload services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, decreased from 100.7% for the first quarter 2013 to 96.2% for the first quarter of 2014.

RESULTS OF OPERATIONS – LOGISTICS AND BROKERAGE SERVICES

The following table sets forth, for logistics and brokerage services, the percentage relationship of expense items to operating revenues, before fuel surcharges, for the periods indicated. Brokerage service operations occur specifically in certain divisions; however, brokerage operations occur throughout the Company in similar operations having substantially similar economic characteristics.

| | Three Months Ended March 31, 2014 2013 (percentages) | |
|---|---|--------|
| Operating revenues, before fuel surcharge | 100.0 | 100.0 |
| Operating expenses: | | |
| Salaries, wages and benefits | 2.9 | 2.2 |
| Rents and purchased transportation | 93.0 | 93.7 |
| Communications and utilities | 0.2 | 0.2 |
| Other | 0.4 | 0.3 |
| Total operating expenses | 96.5 | 96.4 |
| Operating income | 3.5 | 3.6 |
| Non-operating income | 0.1 | 0.0 |
| Interest expense | (0.3) | (0.2) |
| Income before income taxes | 3.3 | 3.4 |

THREE MONTHS ENDED MARCH 31, 2014 VS. THREE MONTHS ENDED MARCH 31, 2013

During the first quarter of 2014, logistics and brokerage services revenue, before fuel surcharges, decreased 21.3% to \$5.4 million as compared to \$6.9 million during the first quarter of 2013. The decrease relates to a decrease in the number of brokered loads during the first quarter of 2014 as compared to the first quarter of 2013.

Salaries, wages and benefits increased from 2.2% of revenues, before fuel surcharges, in the first quarter of 2013 to 2.9% of revenues, before fuel surcharges, during the first quarter of 2014. The increase relates to an increase in the number of employees assigned to the logistics and brokerage services division and to the interaction of the fixed-cost characteristic of salaries expense with a decrease in revenues for the periods compared.

Rents and purchased transportation decreased from 93.7% of revenues, before fuel surcharges, during the first quarter of 2013 to 93.0% of revenues, before fuel surcharges during the first quarter of 2014. The decrease relates to a decrease in amounts paid to third party logistics and brokerage service providers.

The logistics and brokerage services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, increased from 96.4% for the first quarter of 2013 to 96.5% for the first quarter of 2014.

RESULTS OF OPERATIONS – COMBINED SERVICES

THREE MONTHS ENDED MARCH 31, 2014 VS. THREE MONTHS ENDED MARCH 31, 2013

Net income for all divisions was approximately \$1.4 million, or 1.8% of revenues, before fuel surcharge for the first quarter of 2014 as compared to a net loss of \$0.5 million or 0.6% of revenues, before fuel surcharge for the first quarter of 2013. The increase in income resulted in diluted earnings per share of \$0.17 for the first quarter of 2014 as compared to diluted loss per share of \$0.05 for the first quarter of 2013.

LIQUIDITY AND CAPITAL RESOURCES

Our business has required, and will continue to require, a significant investment in new revenue equipment. Our primary sources of liquidity have been funds provided by operations, proceeds from the sales of revenue equipment, issuances of equity securities, and borrowings under our lines of credit, installment notes, and investment margin account.

During the first three months of 2014, we generated \$5.5 million in cash from operating activities. Investing activities provided \$10.9 million in cash in the first three months of 2014. Financing activities used \$17.1 million in cash in the first three months of 2014.

Our primary use of funds is for the purchase of revenue equipment. We typically use installment notes, our existing line of credit on an interim basis, proceeds from the sale or trade of equipment, and cash flows from operations to finance capital expenditures and repay long-term debt. During the first three months of 2014, we utilized cash on hand, installment notes, and our lines of credit to finance revenue equipment purchases of approximately \$6.5 million.

Occasionally, we finance the acquisition of revenue equipment through installment notes with fixed interest rates and terms ranging from 36 to 60 months. During the first three months of 2014, the Company's subsidiary, P.A.M. Transport, Inc. entered into installment obligations totaling approximately \$5.7 million for the purpose of purchasing revenue equipment. These obligations are payable in 60 monthly installments at interest rates ranging from 2.46% to 2.55%.

During the remainder of 2014, we expect to purchase approximately 300 new trucks and 540 new trailers while continuing to sell or trade older equipment, which we expect to result in net capital expenditures of approximately \$30.8 million. Management believes we will be able to finance our near term needs for working capital over the next

twelve months, as well as any planned capital expenditures during such period, with cash balances, cash flows from operations, and borrowings believed to be available from financing sources. We will continue to have significant capital requirements over the long-term, which may require us to incur debt or seek additional equity capital. The availability of additional capital will depend upon prevailing market conditions, the market price of our common stock and several other factors over which we have limited control, as well as our financial condition and results of operations. Nevertheless, based on our recent operating results, current cash position, anticipated future cash flows, and sources of financing that we expect will be available to us, we do not expect that we will experience any significant liquidity constraints in the foreseeable future.

We currently intend to retain our future earnings to finance our growth and do not anticipate paying additional cash dividends in the foreseeable future.

During the first three months of 2014 we maintained a \$35.0 million revolving line of credit. Amounts outstanding under the line of credit bear interest at LIBOR (determined as of the first day of each month) plus 1.75% (1.91% at March 31, 2014), are secured by our accounts receivable and mature on June 1, 2015. At March 31, 2014 outstanding advances on the line of credit were approximately \$11.6 million, including letters of credit totaling \$1.1 million, with availability to borrow \$23.4 million.

Trade accounts receivable increased from \$58.5 million at December 31, 2013 to \$64.1 million at March 31, 2014. The increase relates to a general increase in freight revenue and fuel surcharge revenue, which flows through the accounts receivable account, during the first quarter of 2014 as compared to the last quarter of 2013.

Prepaid expenses and deposits increased from \$6.6 million at December 31, 2013 to \$8.4 million at March 31, 2014. The increase relates to prepaid tractor and trailer license fees. The 2014 license fees of approximately \$2.3 million were paid during the first quarter of 2014. These prepaid expenses will continue to be amortized to expense through the remainder of the year.

Marketable equity securities increased from \$21.0 million at December 31, 2013 to \$21.7 million at March 31, 2014. The \$0.7 million increase was related to an increase in the market value of the Company's investments during the first three months of 2014.

Revenue equipment, at March 31, 2014, which generally consists of trucks, trailers, and revenue equipment accessories such as QualcommTM satellite tracking units and auxiliary power units, decreased approximately \$16.4 million as compared to December 31, 2013. The decrease relates primarily to a decrease in the number of company-owned trucks due to the sale of 178 trucks during the first quarter of 2014 without a corresponding company-owned replacement.

Accounts payable decreased from \$28.0 million at December 31, 2013 to \$16.4 million at March 31, 2014. The \$11.6 million decrease was primarily related to the payment for treasury stock through a Dutch Auction in the amount of \$13.9 million which was partially offset by an increase in amounts accrued for revenue equipment at March 31, 2014 as compared to December 31, 2013.

Accrued expenses and other liabilities increased from \$22.5 million at December 31, 2013 to \$24.1 million at March 31, 2014. The increase was primarily related to a \$1.7 million increase in amounts accrued at the end of the period which were payable to company drivers and third-party owner-operator drivers which can vary significantly throughout the year depending on the timing of the actual date of payment in relation to the last day of the reporting period. This increase was offset by a \$0.2 million reduction in margin account borrowings which are secured by the Company's investments in marketable equity securities. The Company periodically uses this margin account for the purchase of marketable equity securities and as a source of short-term liquidity.

Current maturities of long term-debt and long-term debt fluctuations are reviewed on an aggregate basis as the classification of amounts in each category are typically affected merely by the passage of time. Current maturities of long-term debt and long-term debt, on an aggregate basis, decreased from \$110.5 million at December 31, 2013 to \$107.6 million at March 31, 2014. The decrease was primarily related to the net effect of additional borrowings made during the first three months of 2014 and installment note payments made during the first three months of 2014.

NEW ACCOUNTING PRONOUNCEMENTS

See Note B to the condensed consolidated financial statements for a description of the most recent accounting pronouncements and their impact, if any, on the Company.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our primary market risk exposures include equity price risk, interest rate risk, commodity price risk (the price paid to obtain diesel fuel for our trucks), and foreign currency exchange rate risk. The potential adverse impact of these risks and the general strategies we employ to manage such risks are discussed below.

The following sensitivity analyses do not consider the effects that an adverse change may have on the overall economy nor do they consider additional actions we may take to mitigate our exposure to such changes. Actual results of changes in prices or rates may differ materially from the hypothetical results described below.

Equity Price Risk

We hold certain actively traded marketable equity securities which subjects the Company to fluctuations in the fair market value of its investment portfolio based on the current market price of such securities. The recorded value of marketable equity securities increased to \$21.7 million at March 31, 2014 from \$21.0 million at December 31, 2013. The increase during the first three months of 2014 includes an increase in the fair market value of \$0.7 million. A 10% decrease in the market price of our marketable equity securities would cause a corresponding 10% decrease in the carrying amounts of these securities, or approximately \$2.2 million. For additional information with respect to the marketable equity securities, see Note C to our condensed consolidated financial statements.

Interest Rate Risk

Our line of credit bears interest at a floating rate equal to LIBOR plus a fixed percentage. Accordingly, changes in LIBOR, which are affected by changes in interest rates, will affect the interest rate on, and therefore our costs under, the line of credit. Assuming \$12.0 million of variable rate debt was outstanding, a hypothetical 100 basis point increase in LIBOR for a one year period would result in approximately \$120,000 of additional interest expense.

Commodity Price Risk

Prices and availability of all petroleum products are subject to political, economic, and market factors that are generally outside of our control. Accordingly, the price and availability of diesel fuel, as well as other petroleum products, can be unpredictable. Because our operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition. Based upon our 2013 fuel consumption, a 10% increase in the average annual price per gallon of diesel fuel would increase our annual fuel expenses by \$9.8 million.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk related to the activities of our branch office located in Mexico. Currently, we do not hedge our exchange rate exposure through any currency forward contracts, currency options, or currency swaps as all of our revenues, and substantially all of our expenses and capital expenditures, are transacted in U.S. dollars. However, certain operating expenditures and capital purchases related to our Mexico branch office are incurred in or exposed to fluctuations in the exchange rate between the U.S. dollar and the Mexican peso. Based on 2013 expenditures denominated in pesos, a 10% increase in the exchange rate would increase our annual operating expenses by \$78,000.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures. Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on management’s evaluation, our chief executive officer and chief financial officer concluded that, as of March 31, 2014, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in internal controls over financial reporting. We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes.

There were no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The nature of our business routinely results in litigation, primarily involving claims for personal injuries and property damage incurred in the transportation of freight. We believe that all such routine litigation is adequately covered by

insurance and that adverse results in one or more of those cases would not have a material adverse effect on our financial condition.

We are a defendant in a collective-action lawsuit which was filed on August 22, 2013, in the United States District Court for the Western District of Arkansas. The plaintiffs, who are current and former drivers and who worked for the Company during the period of August 22, 2010, through the date of the filing, allege claims for unpaid wages under the Fair Labor Standards Act and the Arkansas Minimum Wage Law. The complaint alleges that the Company failed to pay newly hired drivers minimum wage during orientation, training, and while traveling during normal business hours and that the Company failed to pay all drivers when working on assignment for more than 24 hours. The plaintiffs seek to enjoin the Company from continuing its current pay practices related to the allegations. They also seek actual damages, liquidated damages equal to actual damages, court costs, and legal fees. The lawsuit is currently in the discovery stage. We cannot reasonably estimate at this time the possible loss or range of loss, if any, that may arise from this lawsuit. Management has determined that any losses under this claim would not be covered by existing insurance policies.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In September 2011, our Board of Directors authorized the Company to repurchase up to 500,000 shares of its common stock. The following table summarizes the Company's common stock repurchases during the first quarter of 2014 made pursuant to this authorization. No shares were purchased during the quarter other than through this program, and all purchases were made by or on behalf of the Company and not by any "affiliated purchaser".

Issuer Purchases of Equity Securities

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs |
|---------------------|----------------------------------|------------------------------|--|--|
| January 1-31, 2014 | - | - | - | 225,675 |
| February 1-28, 2014 | 14,000 | \$ 19.37 | 14,000 | 211,675 |
| March 1-31, 2014 | - | - | - | 211,675 |
| Total | 14,000 | \$ 19.37 | 14,000 | |

Item 6. Exhibits.

| Exhibit Number | Exhibit Description |
|----------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on May 15, 2002.) |
| 3.2 | Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed on December 11, 2007.) |
| 31.1 | Rule 13a-14(a) Certification of Principal Executive Officer |
| 31.2 | Rule 13a-14(a) Certification of Principal Financial Officer |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

P.A.M. TRANSPORTATION SERVICES, INC.

Dated: May 9, 2014 By: /s/ Daniel H. Cushman
Daniel H. Cushman
President and Chief Executive Officer
(principal executive officer)

Dated: May 9, 2014 By: /s/ Allen W. West
Allen W. West
Vice President-Finance, Chief Financial
Officer, Secretary and Treasurer
(principal accounting and financial officer)

P.A.M. TRANSPORTATION SERVICES, INC.

Index to Exhibits to Form 10-Q

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