MARTEN TRANSPORT LTD
Form 10-Q
August 09, 2018

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarter ended June 30, 2018

Commission File Number 0-15010

**MARTEN TRANSPORT, LTD.**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 39-1140809 |
| (State of incorporation) | (I.R.S. employer identification no.) |

129 Marten Street, Mondovi, Wisconsin 54755

(Address of principal executive offices)

715-926-4216

(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | |
|---|---|---|
| Large accelerated filer | Accelerated filer | |
| Smaller reporting company | Non-accelerated filer | (Do not check if a smaller reporting company) |
| Emerging growth company | | |

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares outstanding of the Registrant's Common Stock, par value $.01 per share, was 54,659,074 as of July 31, 2018.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**MARTEN TRANSPORT, LTD.**

**CONSOLIDATED CONDENSED BALANCE SHEETS**

| (In thousands, except share information) | June 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 22,003 | $ 15,791 |
| Receivables: | | |
| Trade, net | 85,549 | 74,886 |
| Other | 7,190 | 6,131 |
| Prepaid expenses and other | 19,876 | 19,810 |
| Total current assets | 134,618 | 116,618 |
| | | |
| Property and equipment: | | |
| Revenue equipment, buildings and land, office equipment and other | 805,723 | 783,648 |
| Accumulated depreciation | (218,071) | (211,728) |
| Net property and equipment | 587,652 | 571,920 |
| Other assets | 2,169 | 1,865 |
| Total assets | $ 724,439 | $ 690,403 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 45,782 | $ 38,100 |
| Insurance and claims accruals | 25,574 | 26,177 |
| Total current liabilities | 71,356 | 64,277 |
| Deferred income taxes | 103,841 | 100,626 |
| Total liabilities | 175,197 | 164,903 |
| | | |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value per share; 2,000,000 shares authorized; no shares issued and outstanding | - | - |
| Common stock, $.01 par value per share; 192,000,000 shares authorized; 54,659,074 shares at June 30, 2018, and 54,533,455 shares at December 31, 2017, issued and outstanding | 547 | 545 |
| Additional paid-in capital | 78,366 | 76,413 |
| Retained earnings | 470,329 | 448,542 |

| | | |
|---|---|---|
| Total stockholders’ equity | 549,242 | 525,500 |
| Total liabilities and stockholders’ equity | $ 724,439 | $ 690,403 |

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

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**MARTEN TRANSPORT, LTD.**

**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

**(Unaudited)**

| (In thousands, except per share information) | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Operating revenue | $197,024 | $171,511 | $383,984 | $344,670 |
| Operating expenses (income): | | | | |
| Salaries, wages and benefits | 63,250 | 56,715 | 122,072 | 113,115 |
| Purchased transportation | 35,048 | 27,516 | 70,074 | 56,878 |
| Fuel and fuel taxes | 31,742 | 25,007 | 60,786 | 50,963 |
| Supplies and maintenance | 10,251 | 10,541 | 20,687 | 21,531 |
| Depreciation | 22,193 | 21,306 | 44,008 | 42,689 |
| Operating taxes and licenses | 2,364 | 2,252 | 4,651 | 4,499 |
| Insurance and claims | 8,941 | 8,848 | 19,231 | 17,762 |
| Communications and utilities | 1,647 | 1,487 | 3,330 | 3,068 |
| Gain on disposition of revenue equipment | (2,160) | (1,871) | (3,371) | (2,974) |
| Other | 5,525 | 4,141 | 10,699 | 7,632 |
| Total operating expenses | 178,801 | 155,942 | 352,167 | 315,163 |
| Operating income | 18,223 | 15,569 | 31,817 | 29,507 |
| Other | (138) | 125 | (327) | 266 |
| Income before income taxes | 18,361 | 15,444 | 32,144 | 29,241 |
| Income taxes expense | 4,659 | 6,303 | 8,111 | 11,886 |
| Net income | $13,702 | $9,141 | $24,033 | $17,355 |
| Basic earnings per common share | $0.25 | $0.17 | $0.44 | $0.32 |
| Diluted earnings per common share | $0.25 | $0.17 | $0.44 | $0.32 |
| Dividends declared per common share | $0.025 | $0.015 | $0.05 | $0.03 |

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

**MARTEN TRANSPORT, LTD.**

**CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS’ EQUITY**

**(Unaudited)**

| (In thousands) | Common Stock Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings | Total Stock-holders’ Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2016 | 54,392 | $ 544 | $ 74,175 | $ 362,619 | $ 437,338 |
| Net income | - | - | - | 17,355 | 17,355 |
| Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards | 122 | 1 | 882 | - | 883 |
| Employee taxes paid in exchange for shares withheld | - | - | (47) | - | (47) |
| Share-based payment arrangement compensation expense | - | - | 730 | - | 730 |
| Dividends on common stock | - | - | - | (1,635) | (1,635) |
| Balance at June 30, 2017 | 54,514 | 545 | 75,740 | 378,339 | 454,624 |
| Net income | - | - | - | 72,929 | 72,929 |
| Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards | 19 | - | 207 | - | 207 |
| Share-based payment arrangement compensation expense | - | - | 520 | - | 520 |
| Dividends on common stock | - | - | - | (2,726) | (2,726) |
| Cash in lieu of fractional shares from stock split | - | - | (54) | - | (54) |
| Balance at December 31, 2017 | 54,533 | 545 | 76,413 | 448,542 | 525,500 |
| Adoption of accounting standard (Note 2) | - | - | - | 485 | 485 |
| Net income | - | - | - | 24,033 | 24,033 |
| Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards | 126 | 2 | 847 | - | 849 |
| Employee taxes paid in exchange for shares withheld | - | - | (104) | - | (104) |
| Share-based payment arrangement compensation expense | - | - | 1,210 | - | 1,210 |
| Dividends on common stock | - | - | - | (2,731) | (2,731) |
| Balance at June 30, 2018 | 54,659 | $ 547 | $ 78,366 | $ 470,329 | $ 549,242 |

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

**MARTEN TRANSPORT, LTD.**

**CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| (In thousands) | Six Months Ended June 30, 2018 | 2017 |
|---|---|---|
| Cash flows provided by operating activities: | | |
| Operations: | | |
| Net income | $ 24,033 | $ 17,355 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 44,008 | 42,689 |
| Gain on disposition of revenue equipment | (3,371) | (2,974) |
| Deferred income taxes | 3,215 | 192 |
| Share-based payment arrangement compensation expense | 1,210 | 730 |
| Distribution from affiliate | 45 | 400 |
| Equity in (earnings) loss from affiliate | (331) | 264 |
| Adoption of accounting standard (Note 2) | 485 | - |
| Changes in other current operating items: | | |
| Receivables | (8,854) | 3,191 |
| Prepaid expenses and other | (66) | 1,672 |
| Accounts payable and accrued liabilities | 7,604 | (670) |
| Insurance and claims accruals | (603) | 2,371 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net cash provided by operating activities | | 67,375 | | | 65,220 | |
| | | | | | | |
| Cash flows used for investing activities: | | | | | | |
| Revenue equipment additions | | (85,325 | ) | | (76,210 | ) |
| Proceeds from revenue equipment dispositions | | 31,954 | | | 31,304 | |
| Buildings and land, office equipment and other additions | | (5,788 | ) | | (2,034 | ) |
| Other | | (18 | ) | | (25 | ) |
| Net cash used for investing activities | | (59,177 | ) | | (46,965 | ) |
| | | | | | | |
| Cash flows used for financing activities: | | | | | | |
| Borrowings under credit facility and long-term debt | | - | | | 30,816 | |
| Repayment of borrowings under credit facility and long-term debt | | - | | | (38,702 | ) |
| Dividends on common stock | | (2,731 | ) | | (1,635 | ) |
| Issuance of common stock from share-based payment arrangement exercises | | 849 | | | 883 | |
| Employee taxes paid in exchange for shares withheld | | (104 | ) | | (47 | ) |
| Net cash used for financing activities | | (1,986 | ) | | (8,685 | ) |
| | | | | | | |
| Net change in cash and cash equivalents | | 6,212 | | | 9,570 | |
| | | | | | | |
| Cash and cash equivalents: | | | | | | |
| Beginning of period | | 15,791 | | | 488 | |
| End of period | $ | 22,003 | | $ | 10,058 | |
| | | | | | | |
| Supplemental non-cash disclosure: | | | | | | |
| Change in property and equipment not yet paid | $ | (2,790 | ) | $ | 3,156 | |

| | | | | |
|---|---|---|---|---|
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid for: | | | | |
| Income taxes | $ | 848 | $ | 7,892 |
| Interest | $ | 20 | $ | 29 |

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

**MARTEN TRANSPORT, LTD.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**SIX MONTHS ENDED JUNE 30, 2018**

**(Unaudited)**

(1) Consolidated Condensed Financial Statements

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements, and therefore do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, such statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present our consolidated financial condition, results of operations and cash flows for the interim periods presented. The results of operations for any interim period do not necessarily indicate the results for the full year. The unaudited interim consolidated condensed financial statements should be read with reference to the consolidated financial statements and notes to consolidated financial statements in our 2017 Annual Report on Form 10-K.

(2) Adoption of New Accounting Standard

We account for our revenue in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 606, *Revenue from Contracts with Customers*, which we adopted on January 1, 2018 using the modified retrospective method. We recognized the cumulative effect of initially applying the new revenue standard as an increase of $485,000 to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. We expect the impact of the adoption of the new revenue standard to be immaterial to our net income and financial position on an ongoing basis.

The new revenue standard requires us to recognize revenue and related expenses within each of our four reporting segments over time, compared with our former policy in which we recorded revenue and related expenses on the date shipment of freight was completed.

The cumulative effect of the changes made to our consolidated condensed balance sheet on January 1, 2018 for the adoption of the new revenue standard was as follows:

| (In thousands) | Balance at December 31, 2017 | Adjustments Due to ASC 606 | | Balance at January 1, 2018 |
|---|---|---|---|---|
| Assets: | | | | |
| Prepaid expenses and other | $19,810 | $ 2,445 | (a) | $22,255 |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | 38,100 | 1,960 | | 40,060 |
| Stockholders' equity: | | | | |
| Retained earnings | 448,542 | 485 | | 449,027 |

(a) Contract assets balance at January 1, 2018.

The impact of the adoption of the new revenue standard on our consolidated condensed statement of operations and balance sheet was as follows:

| | Three Months Ended June 30, 2018 | | |
|---|---|---|---|
| (In thousands) | Prior to Adoption of ASC 606 | Adjustments Due to ASC 606 | As Reported |
| Operating revenue | $197,113 | $ (89) | $197,024 |
| Operating expenses: | | | |
| Salaries, wages and benefits | 63,262 | (12) | 63,250 |
| Purchased transportation | 35,106 | (58) | 35,048 |
| Fuel and fuel taxes | 31,740 | 2 | 31,742 |
| Supplies and maintenance | 10,300 | (49) | 10,251 |
| Income taxes expense | 4,652 | 7 | 4,659 |
| Net income | 13,681 | 21 | 13,702 |

| | Six Months Ended June 30, 2018 | | |
|---|---|---|---|
| (In thousands) | Prior to Adoption of ASC 606 | Adjustments Due to ASC 606 | As Reported |
| Operating revenue | $384,168 | $ (184) | $383,984 |
| Operating expenses: | | | |
| Salaries, wages and benefits | 122,020 | 52 | 122,072 |
| Purchased transportation | 69,929 | 145 | 70,074 |
| Fuel and fuel taxes | 60,783 | 3 | 60,786 |
| Supplies and maintenance | 20,711 | (24) | 20,687 |
| Income taxes expense | 8,211 | (100) | 8,111 |
| Net income | 24,293 | (260) | 24,033 |

| Balance at June 30, 2018 | |
|---|---|
| Prior to | Adjustments |

| (In thousands) | Adoption of ASC 606 | Due to ASC 606 | | As Reported |
|---|---|---|---|---|
| Assets: | | | | |
| Prepaid expenses and other | $17,615 | $ 2,261 | (a) | $19,876 |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | 43,746 | 2,036 | | 45,782 |
| Stockholders' equity: | | | | |
| Retained earnings | 470,104 | 225 | | 470,329 |

(a) Contract assets balance at June 30, 2018.

(3) Revenue and Business Segments

We account for our revenue in accordance with ASC 606, *Revenue from Contracts with Customers*, which we adopted on January 1, 2018 using the modified retrospective method. We combine our five current operating segments into four reporting segments (Truckload, Dedicated, Intermodal and Brokerage) for financial reporting purposes. These four reporting segments are also the appropriate categories for the disaggregation of our revenue under ASC 606.

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

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

Generally, we are paid by the mile for our Truckload and Dedicated services. We also derive Truckload and Dedicated revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services. The main factors that affect our Truckload and Dedicated revenue are the rate per mile we receive from our customers, the percentage of miles for which we are compensated, the number of miles we generate with our equipment and changes in fuel prices. We monitor our revenue production primarily through average Truckload and Dedicated revenue, net of fuel surcharges, per tractor per week. We also analyze our average Truckload and Dedicated revenue, net of fuel surcharges, per total mile, non-revenue miles percentage, the miles per tractor we generate, our fuel surcharge revenue, our accessorial revenue and our other sources of operating revenue.

Our Intermodal segment transports our customers' freight within the United States utilizing our temperature-controlled trailers on railroad flatcars for portions of trips, with the balance of the trips using our tractors or, to a lesser extent, contracted carriers. The main factors that affect our Intermodal revenue are the rate per mile and other charges we receive from our customers.

Our Brokerage segment develops contractual relationships with and arranges for third-party carriers to transport freight for our customers in temperature-controlled trailers and dry vans within the United States and into and out of Mexico through Marten Transport Logistics, LLC, which was established in 2007 and operates pursuant to brokerage authority granted by the United States Department of Transportation, or DOT. We retain the billing, collection and customer management responsibilities. The main factors that affect our Brokerage revenue are the rate per mile and other charges that we receive from our customers.

Our customer agreements are typically for one-year terms except for our Dedicated agreements which range from three to five years with annual rate reviews. Under ASC 606, the contract date for each individual load within each of our four reporting segments is generally the date that each load is tendered to and accepted by us. For each load transported within each of our four reporting segments, the entire amount of revenue to be recognized is a single performance obligation and our agreements with our customers detail the per-mile charges for line haul and fuel surcharges, along with the rates for loading and unloading, stop offs and drops, equipment detention and other ancillary services, which is the transaction price. There are no discounts that would be a material right or consideration payable to a customer. We are required to recognize revenue and related expenses over time, from load pickup to delivery, for each load within each of our four reporting segments. We base our calculation of the amount of revenue to record in each period for individual loads picking up in one period and delivering in the following period using the number of hours estimated to be incurred within each period applied to each estimated transaction price. Contract assets for this estimated revenue are classified within prepaid expenses and other within our consolidated condensed balance sheet as of June 30, 2018. We had no impairment losses on contract assets in the six months ended June 30, 2018. We bill our customers for loads after delivery is complete with standard payment terms of 30 days.

We account for revenue of our Intermodal and Brokerage segments and revenue on freight transported by independent contractors within our Truckload and Dedicated segments on a gross basis because we are the principal service provider controlling the promised service before it is transferred to each customer. We are primarily responsible for fulfilling the promise to provide each specified service to each customer. We bear the primary risk of loss in the event of cargo claims by our customers. We also have complete control and discretion in establishing the price for each specified service. Accordingly, all such revenue billed to customers is classified as operating revenue and all corresponding payments to carriers for transportation services we arrange in connection with brokerage and intermodal activities and to independent contractor providers of revenue equipment are classified as purchased transportation expense within our consolidated condensed statements of operations.

The following table sets forth for the periods indicated our operating revenue and operating income by segment. We do not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Operating revenue: | | | | |
| Truckload revenue, net of fuel surcharge revenue | $80,525 | $84,480 | $160,741 | $169,291 |
| Truckload fuel surcharge revenue | 13,879 | 10,434 | 26,680 | 21,281 |
| Total Truckload revenue | 94,404 | 94,914 | 187,421 | 190,572 |
| | | | | |
| Dedicated revenue, net of fuel surcharge revenue | 47,232 | 38,601 | 89,596 | 75,500 |
| Dedicated fuel surcharge revenue | 9,739 | 2,901 | 16,208 | 6,279 |
| Total Dedicated revenue | 56,971 | 41,502 | 105,804 | 81,779 |
| | | | | |
| Intermodal revenue, net of fuel surcharge revenue | 21,291 | 16,877 | 42,099 | 33,688 |
| Intermodal fuel surcharge revenue | 4,179 | 2,238 | 8,023 | 4,613 |
| Total Intermodal revenue | 25,470 | 19,115 | 50,122 | 38,301 |
| | | | | |
| Brokerage revenue | 20,179 | 15,980 | 40,637 | 34,018 |
| Total operating revenue | $197,024 | $171,511 | $383,984 | $344,670 |
| | | | | |
| Operating income: | | | | |
| Truckload | $8,689 | $7,511 | $15,504 | $13,485 |
| Dedicated | 5,584 | 5,074 | 8,072 | 9,561 |
| Intermodal | 2,512 | 2,040 | 5,490 | 4,189 |
| Brokerage | 1,438 | 944 | 2,751 | 2,272 |
| Total operating income | $18,223 | $15,569 | $31,817 | $29,507 |

Truckload segment depreciation expense was $13.1 million and $14.4 million, Dedicated segment depreciation expense was $7.4 million and $5.4 million, Intermodal segment depreciation expense was $1.4 million and $1.1 million, and Brokerage segment depreciation expense was $300,000 and $344,000, in the three-month periods ended June 30, 2018 and 2017, respectively.

Truckload segment depreciation expense was $26.6 million and $29.0 million, Dedicated segment depreciation expense was $14.1 million and $10.8 million, Intermodal segment depreciation expense was $2.7 million and $2.2 million, and Brokerage segment depreciation expense was $623,000 and $678,000 in the six-month periods ended June 30, 2018 and 2017, respectively.

(4) Earnings per Common Share

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

| (In thousands, except per share amounts) | Three Months Ended June 30, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---|---|---|---|---|
| Numerator: | | | | |
| Net income | $13,702 | $9,141 | $24,033 | $17,355 |
| Denominator: | | | | |
| Basic earnings per common share - weighted-average shares | 54,613 | 54,493 | 54,592 | 54,459 |
| Effect of dilutive stock options | 513 | 309 | 523 | 313 |
| Diluted earnings per common share - weighted-average shares and assumed conversions | 55,126 | 54,802 | 55,115 | 54,772 |
| Basic earnings per common share | $0.25 | $0.17 | $0.44 | $0.32 |
| Diluted earnings per common share | $0.25 | $0.17 | $0.44 | $0.32 |

Options totaling 17,000 equivalent shares for each of the three-month and six-month periods ended June 30, 2018, and 373,667 and 380,000 equivalent shares for the three-month and six-month periods ended June 30, 2017, respectively, were outstanding but were not included in the calculation of diluted earnings per share because including the options in the denominator would be antidilutive, or decrease the number of weighted-average shares, due to their exercise prices exceeding the average market price of the common shares, or because inclusion of average unrecognized compensation expense in the calculation would cause the options to be antidilutive.

Unvested performance unit awards totaling 109,255 equivalent shares for each of the three-month and six-month periods ended June 30, 2018, and 132,305 equivalent shares for each of the three-month and six-month periods ended June 30, 2017, were considered outstanding but were not included in the calculation of diluted earnings per share because inclusion of average unrecognized compensation expense in the calculation would cause the performance units to be antidilutive.

(5) Stock Split

On July 7, 2017, we effected a five-for-three stock split of our common stock, $.01 par value, in the form of a 66 % 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.

(6) Third Amendment to Amended and Restated Certificate of Incorporation

In May 2018, our stockholders approved our Third Amendment to Amended and Restated Certificate of Incorporation increasing the authorized number of shares of common stock, $.01 par value, from 96 million shares to 192 million shares.

(7) Long-Term Debt

We maintain a credit agreement that provides for an unsecured committed credit facility up to an aggregate principal amount of $40.0 million which matures in December 2019. At June 30, 2018, there was no outstanding principal balance on the facility. As of that date, we had outstanding standby letters of credit to guarantee settlement of self-insurance claims of $14.6 million and remaining borrowing availability of $25.4 million. At December 31, 2017, there was also no outstanding principal balance on the facility. As of that date, we had outstanding standby letters of credit of $12.9 million on the facility. This facility bears interest at a variable rate based on the London Interbank Offered Rate or the lender's Prime Rate, in each case plus/minus applicable margins. The interest rate for the facility that would apply to outstanding principal balances was 2.8% at June 30, 2018.

Our credit facility prohibits us from paying, in any fiscal year, stock redemptions and dividends in excess of 25% of our net income from the prior fiscal year. This facility also contains restrictive covenants which, among other matters, require us to maintain compliance with cash flow leverage and fixed charge coverage ratios. We were in compliance with all covenants at June 30, 2018 and December 31, 2017.

(8) Related Party Transactions

We purchase fuel and tires and obtain related services from Bauer Built, Inc., or BBI. Jerry M. Bauer, one of our directors, is the chairman of the board, chief executive officer and the principal stockholder of BBI. We paid BBI $188,000 in the first six months of 2018 and $182,000 in the first six months of 2017 for fuel, tires and related services. In addition, we paid $1.4 million in the first six months of 2018 and $1.5 million in the first six months of 2017 to tire manufacturers for tires that were provided by BBI. BBI received commissions from the tire manufacturers related to these purchases.

We provide transportation services to MW Logistics, LLC (MWL) as described in Note 12.

(9) Share Repurchase Program

In December 2007, our Board of Directors approved and we announced a share repurchase program to repurchase up to one million shares of our common stock either through purchases on the open market or through private transactions and in accordance with Rule 10b-18 of the Exchange Act. In November 2015, our Board of Directors approved and we announced an increase in the share repurchase program, providing for the repurchase of up to $40 million, or approximately two million shares, of our common stock, which was increased by our Board of Directors to 3.3 million shares on August 15, 2017 to reflect the five-for-three stock split effected in the form of a stock dividend on July 7, 2017. The timing and extent to which we repurchase shares depends on market conditions and other corporate considerations. The repurchase program does not have an expiration date.

We did not repurchase any shares in 2017 or in the first six months of 2018. As of June 30, 2018, future repurchases of up to $16.3 million, or 1.0 million shares, were available in the share repurchase program.

(10) Dividends

In 2010, we announced that our Board of Directors approved a regular cash dividend program to our stockholders, subject to approval each quarter. A quarterly cash dividend of $0.025 per share of common stock was declared in each of the first two quarters of 2018 and totaled $2.7 million. A quarterly cash dividend of $0.015 per share of common stock was declared in each of the first two quarters of 2017 and totaled $1.6 million.

(11) Accounting for Share-based Payment Arrangement Compensation

We account for share-based payment arrangements in accordance with FASB ASC 718, *Compensation – Stock Compensation*. During the first six months of 2018, there were no significant changes to the structure of our stock-based award plans. Pre-tax compensation expense related to stock options and performance unit awards recorded in the first six months of 2018 and 2017 was $1.2 million and $730,000, respectively.

(12) Equity Investment

We own a 45% equity interest in MWL, a third-party provider of logistics services to the transportation industry. A non-related party owns the other 55% equity interest in MWL. We account for our ownership interest in MWL under the equity method of accounting. We received $3.2 million and $384,000 of our revenue for loads transported by our tractors and arranged by MWL in the first six months of 2018 and 2017, respectively. As of June 30, 2018, we also had a trade receivable in the amount of $1.0 million from MWL and an accrued liability of $1.7 million to MWL for the excess of payments by MWL's customers into our lockbox account over the amounts drawn on the account by MWL.

(13) Fair Value of Financial Instruments

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

(14) Commitments and Contingencies

We are committed to purchase $55.6 million of new revenue equipment through the remainder of 2018. Operating lease obligations through 2021 total $571,000.

We self-insure, in part, for losses relating to workers' compensation, auto liability, general liability, cargo and property damage claims, along with employees' health insurance with varying risk retention levels. We maintain insurance coverage for per-incident and total losses in excess of these risk retention levels in amounts we consider adequate based upon historical experience and our ongoing review, and reserve currently for the estimated cost of the uninsured portion of pending claims.

We are also involved in other legal actions that arise in the ordinary course of business. In the opinion of management, based upon present knowledge of the facts, it is remote that the ultimate outcome of any such legal actions will have a material adverse effect upon our long-term financial position or results of operations.

(15) Use of Estimates

We must make estimates and assumptions to prepare the consolidated condensed financial statements in conformity with U.S. generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities in the consolidated condensed financial statements and the reported amount of revenue and expenses during the reporting period. These estimates are primarily related to insurance and claims accruals and depreciation. Ultimate results could differ from these estimates.

(16) Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases” which requires organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. The new guidance also requires additional disclosures related to leasing transactions. The standard is effective for the first quarter of 2019. The adoption of this standard is not expected to have a significant impact on our consolidated condensed balance sheets, statements of operations or statements of cash flows.

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

*The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our consolidated condensed financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those included in our Form 10-K, Part 1, Item 1A for the year ended December 31, 2017. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this* report.

**Overview**

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

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

Generally, we are paid by the mile for our Truckload and Dedicated services. We also derive Truckload and Dedicated revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services. The main factors that affect our Truckload and Dedicated revenue are the rate per mile we receive from our customers, the percentage of miles for which we are compensated, the number of miles we generate with our equipment and changes in fuel prices. We monitor our revenue production primarily through average Truckload and Dedicated revenue, net of fuel surcharges, per tractor per week. We also analyze our average Truckload and Dedicated revenue, net of fuel surcharges, per total mile, non-revenue miles percentage, the miles per tractor we generate, our fuel surcharge revenue, our accessorial revenue and our other sources of operating revenue.

Our Intermodal segment transports our customers' freight within the United States utilizing our temperature-controlled trailers on railroad flatcars for portions of trips, with the balance of the trips using our tractors or, to a lesser extent, contracted carriers. The main factors that affect our Intermodal revenue are the rate per mile and other charges we receive from our customers.

Our Brokerage segment develops contractual relationships with and arranges for third-party carriers to transport freight for our customers in temperature-controlled trailers and dry vans within the United States and into and out of Mexico through Marten Transport Logistics, LLC, which was established in 2007 and operates pursuant to brokerage authority granted by the DOT. We retain the billing, collection and customer management responsibilities. The main factors that affect our Brokerage revenue are the rate per mile and other charges that we receive from our customers.

In addition to the factors discussed above, our operating revenue is also affected by, among other things, the United States economy, inventory levels, the level of truck and rail capacity in the transportation market, a contracting driver market, severe weather conditions and specific customer demand.

Our operating revenue increased $39.3 million, or 11.4%, from the first six months of 2017 to the first six months of 2018. Our operating revenue, net of fuel surcharges, increased $20.6 million, or 6.6%, compared with the first six months of 2017. Truckload segment revenue, net of fuel surcharges, decreased 5.1% from the first six months of 2017, primarily due to a reduction in our average number of tractors, partially offset by an increase in our average revenue per tractor. Dedicated segment revenue, net of fuel surcharges, increased 18.7% from the first six months of 2017, primarily due to fleet growth driven by an increase in the number of Dedicated contracts we have with our customers. Intermodal segment revenue, net of fuel surcharges, increased 25.0% due to increased volume and Brokerage segment revenue increased 19.5% due to increased revenue per load in the first six months of 2018. Fuel surcharge revenue increased to $50.9 million in the first six months of 2018 from $32.2 million in the first six months of 2017 primarily due to a shift of a portion of line haul revenue to fuel surcharge revenue which began in the first quarter of 2018 as a result of a change in our agreements with a number of customers. The change reduced our revenue excluding fuel surcharges by $5.4 million in the first six months of 2018 and increased our fuel surcharge revenue by the same amount. Higher fuel prices also increased our fuel surcharge revenue.

Our profitability is impacted by the variable costs of transporting freight for our customers, fixed costs, and expenses containing both fixed and variable components. The variable costs include fuel expense, driver-related expenses, such as wages, benefits, training, and recruitment, and independent contractor costs, which are recorded under purchased transportation. Expenses that have both fixed and variable components include maintenance and tire expense and our cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency and other factors. Our main fixed costs relate to the acquisition and subsequent depreciation of long-term assets, such as revenue equipment and operating terminals. We expect our annual cost of tractor and trailer ownership will increase in future periods as a result of higher prices of new equipment, along with any increases in fleet size. Although certain factors affecting our expenses are beyond our control, we monitor them closely and attempt to anticipate changes in these factors in managing our business. For example, fuel prices have significantly fluctuated over the past several years. We manage our exposure to changes in fuel prices primarily through fuel surcharge programs with our customers, as well as through volume fuel purchasing arrangements with national fuel centers and bulk purchases of fuel at our terminals. To help further reduce fuel expense, we have installed and tightly manage the use of auxiliary power units in our tractors to provide climate control and electrical power for our drivers without idling the tractor engine, and also have improved the fuel usage in the temperature-control units on our trailers. For our Intermodal and Brokerage segments, our profitability is impacted by the percentage of revenue which is payable to the providers of the transportation services we arrange. This expense is included within purchased transportation in our consolidated condensed statements of operations.

Our operating expenses as a percentage of operating revenue, or “operating ratio,” was 91.7% in the first six months of 2018 and 91.4% in the first six months of 2017. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharges, was 90.4% in the first six months of 2018 and 90.6% in the first six months of 2017. Our net income increased 38.5% to $24.0 million, or $0.44 per diluted share, in the first six months of 2018 from $17.4 million, or $0.32 per diluted share, in the first six months of 2017.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At June 30, 2018, we had $22.0 million of cash and cash equivalents, $549.2 million in stockholders’ equity and no long-term debt outstanding. In the first six months of 2018, net cash flows provided by operating activities of $67.4 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of $53.4 million, to acquire and upgrade regional operating facilities in the amount of $5.0 million, and to pay cash dividends of $2.7 million, resulting in a $6.2 million increase in cash and cash equivalents. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately $65 million for the remainder 2018. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, existing cash and cash equivalents balances, current borrowing availability and other sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

Our business strategy encompasses a multifaceted set of transportation service solutions, primarily regional Truckload temperature-controlled operations along with Dedicated, Intermodal and Brokerage services, with a diverse customer base that gains value from and expands each of these operating segments. We believe that we are well-positioned regardless of the economic environment with the services we provide combined with our competitive position, cost control emphasis, modern fleet and strong balance sheet.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations includes discussions of operating revenue, net of fuel surcharge revenue; Truckload, Dedicated and Intermodal revenue, net of fuel surcharge revenue; operating 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 of operating revenue, operating expenses divided by operating revenue, and fuel and fuel taxes.

**Stock Split**

On July 7, 2017, we effected a five-for-three stock split of our common stock, $.01 par value, in the form of a 66 % stock dividend. Our consolidated condensed financial statements, related notes, and other financial data contained in this report have been adjusted to give retroactive effect to the stock split for all periods presented.

**Results of Operations**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Truckload Segment: | | | | |
| Revenue (in thousands) | $94,404 | $94,914 | $187,421 | $190,572 |
| Average revenue, net of fuel surcharges, per tractor per week[1] | $3,795 | $3,467 | $3,736 | $3,441 |
| Average tractors[1] | 1,632 | 1,875 | 1,664 | 1,903 |
| Average miles per trip | 568 | 589 | 585 | 602 |
| Total miles (in thousands) | 39,502 | 45,736 | | |