

MARTEN TRANSPORT LTD
Form 10-Q
November 05, 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 September 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, a 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
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 54,462,924 as of October 26, 2018.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.****MARTEN TRANSPORT, LTD.****CONSOLIDATED CONDENSED BALANCE SHEETS**

(In thousands, except share information)	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 35,739	\$ 15,791
Receivables:		
Trade, net	84,055	74,886
Other	6,993	6,131
Prepaid expenses and other	18,816	19,810
Total current assets	145,603	116,618
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	820,523	783,648
Accumulated depreciation	(223,087)	(211,728)
Net property and equipment	597,436	571,920
Other assets	2,281	1,865
Total assets	\$ 745,320	\$ 690,403
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 48,259	\$ 38,100
Insurance and claims accruals	25,295	26,177
Total current liabilities	73,554	64,277
Deferred income taxes	107,696	100,626
Total liabilities	181,250	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; 54,662,924 shares at September 30, 2018, and 54,533,455 shares at December 31, 2017, issued and outstanding	547	545
Additional paid-in capital	79,304	76,413

Retained earnings	484,219	448,542
Total stockholders' equity	564,070	525,500
Total liabilities and stockholders' equity	\$ 745,320	\$ 690,403

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

MARTEN TRANSPORT, LTD.**CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

(In thousands, except per share information)	Three Months		Nine Months	
	Ended September 30, 2018	2017	Ended September 30, 2018	2017
Operating revenue	\$199,649	\$170,679	\$583,633	\$515,349
Operating expenses (income):				
Salaries, wages and benefits	64,051	53,594	186,123	166,709
Purchased transportation	35,867	28,668	105,941	85,546
Fuel and fuel taxes	31,658	26,143	92,444	77,106
Supplies and maintenance	10,574	10,381	31,261	31,912
Depreciation	22,272	21,186	66,280	63,875
Operating taxes and licenses	2,404	2,314	7,055	6,813
Insurance and claims	8,567	11,336	27,798	29,098
Communications and utilities	1,663	1,463	4,993	4,531
Gain on disposition of revenue equipment	(1,835)	(1,908)	(5,206)	(4,882)
Other	5,435	4,480	16,134	12,112
Total operating expenses	180,656	157,657	532,823	472,820
Operating income	18,993	13,022	50,810	42,529
Other	(120)	14	(447)	280
Income before income taxes	19,113	13,008	51,257	42,249
Income taxes expense	3,856	5,153	11,967	17,039
Net income	\$15,257	\$7,855	\$39,290	\$25,210
Basic earnings per common share	\$0.28	\$0.14	\$0.72	\$0.46
Diluted earnings per common share	\$0.28	\$0.14	\$0.71	\$0.46
Dividends declared per common share	\$0.025	\$0.025	\$0.075	\$0.055

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		Additional	Retained	Total
	Shares	Amount	Paid-In Capital	Earnings	Stock- holders' Equity
Balance at December 31, 2016	54,392	\$ 544	\$ 74,175	\$ 362,619	\$ 437,338
Net income	-	-	-	25,210	25,210
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	130	1	961	-	962
Employee taxes paid in exchange for shares withheld	-	-	(47)	-	(47)
Share-based payment arrangement compensation expense	-	-	916	-	916
Dividends on common stock	-	-	-	(2,999)	(2,999)
Cash in lieu of fractional shares from stock split	-	-	(54)	-	(54)
Balance at September 30, 2017	54,522	545	75,951	384,830	461,326
Net income	-	-	-	65,074	65,074
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	11	-	128	-	128
Share-based payment arrangement compensation expense	-	-	334	-	334
Dividends on common stock	-	-	-	(1,362)	(1,362)
Balance at December 31, 2017	54,533	545	76,413	448,542	525,500
Adoption of accounting standard (Note 2)	-	-	-	485	485
Net income	-	-	-	39,290	39,290
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	130	2	893	-	895
Employee taxes paid in exchange for shares withheld	-	-	(104)	-	(104)
Share-based payment arrangement compensation expense	-	-	2,102	-	2,102
Dividends on common stock	-	-	-	(4,098)	(4,098)
Balance at September 30, 2018	54,663	\$ 547	\$ 79,304	\$ 484,219	\$ 564,070

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)	Nine Months Ended September 30,	
	2018	2017
Cash flows provided by operating activities:		
Operations:		
Net income	\$39,290	\$25,210
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	66,280	63,875
Gain on disposition of revenue equipment	(5,206)	(4,882)
Deferred income taxes	7,070	1,992
Share-based payment arrangement compensation expense	2,102	916
Distribution from affiliate	45	400
Equity in (earnings) loss from affiliate	(433)	271
Adoption of accounting standard (Note 2)	485	-
Changes in other current operating items:		
Receivables	(8,103)	(3,065)
Prepaid expenses and other	994	3,044
Accounts payable and accrued liabilities	10,455	1,192
Insurance and claims accruals	(882)	5,757
Net cash provided by operating activities	112,097	94,710
Cash flows used for investing activities:		
Revenue equipment additions	(130,856)	(135,010)
Proceeds from revenue equipment dispositions	48,440	53,586
Buildings and land, office equipment and other additions	(6,398)	(2,557)
Other	(28)	(34)
Net cash used for investing activities	(88,842)	(84,015)
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	(4,098)	(2,999)
Issuance of common stock from share-based payment arrangement exercises	895	962
Employee taxes paid in exchange for shares withheld	(104)	(47)
Cash in lieu of fractional shares from stock split	-	(54)
Net cash used for financing activities	(3,307)	(10,024)
Net change in cash and cash equivalents	19,948	671

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Cash and cash equivalents:

Beginning of period	15,791	488
End of period	\$35,739	\$1,159

Supplemental non-cash disclosure:

Change in property and equipment not yet paid	\$(2,224)	\$(3,244)
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Supplemental disclosure of cash flow information:

Cash paid for:

Income taxes	\$2,805	\$11,031
Interest	\$36	\$41

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

MARTEN TRANSPORT, LTD.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 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:

	Balance at	Adjustments Due to	Balance at
(In thousands)	December 31, 2017	ASC 606	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:

(In thousands)	Three Months Ended September 30, 2018		
	Prior to	Adjustments	As Reported
	Adoption of ASC 606	Due to ASC 606	
Operating revenue	\$199,100	\$ 549	\$199,649
Operating expenses:			
Salaries, wages and benefits	63,935	116	64,051
Purchased transportation	35,568	299	35,867
Fuel and fuel taxes	31,627	31	31,658
Supplies and maintenance	10,551	23	10,574
Income taxes expense	3,835	21	3,856
Net income	15,198	59	15,257

(In thousands)	Nine Months Ended September 30, 2018		
	Prior to	Adjustments	As Reported
	Adoption of ASC 606	Due to ASC 606	
Operating revenue	\$583,268	\$ 365	\$583,633
Operating expenses:			
Salaries, wages and benefits	185,955	168	186,123
Purchased transportation	105,497	444	105,941
Fuel and fuel taxes	92,410	34	92,444
Supplies and maintenance	31,262	(1)	31,261
Income taxes expense	12,046	(79)	11,967
Net income	39,491	(201)	39,290

Balance at September 30, 2018

(In thousands)	Prior to	Adjustments	
	Adoption of	Due to	As Reported
	ASC 606	ASC 606	
Assets:			
Prepaid expenses and other	\$16,006	\$ 2,810	(a) \$18,816
Liabilities:			
Accounts payable and accrued liabilities	45,733	2,526	48,259
Stockholders' equity:			
Retained earnings	483,935	284	484,219

(a) Contract assets balance at September 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 September 30, 2018. We had no impairment losses on contract assets in the nine months ended September 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.

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	\$80,563	\$81,836	\$241,304	\$251,127
Truckload fuel surcharge revenue	13,357	10,172	40,037	31,453
Total Truckload revenue	93,920	92,008	281,341	282,580
Dedicated revenue, net of fuel surcharge revenue	48,500	39,154	138,096	114,654
Dedicated fuel surcharge revenue	10,291	2,995	26,499	9,274
Total Dedicated revenue	58,791	42,149	164,595	123,928
Intermodal revenue, net of fuel surcharge revenue	21,735	17,423	63,834	51,111
Intermodal fuel surcharge revenue	4,204	2,472	12,227	7,085
Total Intermodal revenue	25,939	19,895	76,061	58,196
Brokerage revenue	20,999	16,627	61,636	50,645
Total operating revenue	\$199,649	\$170,679	\$583,633	\$515,349
Operating income:				
Truckload	\$10,026	\$5,764	\$25,530	\$19,249
Dedicated	5,249	4,514	13,321	14,075
Intermodals	2,507	1,588	7,997	5,777
Brokerage	1,211	1,156	3,962	3,428
Total operating income	\$18,993	\$13,022	\$50,810	\$42,529

Truckload segment depreciation expense was \$12.8 million and \$14.1 million, Dedicated segment depreciation expense was \$7.8 million and \$5.6 million, Intermodal segment depreciation expense was \$1.4 million and \$1.2 million, and Brokerage segment depreciation expense was \$337,000 and \$328,000 in the three-month periods ended September 30, 2018 and 2017, respectively.

Truckload segment depreciation expense was \$39.4 million and \$43.1 million, Dedicated segment depreciation expense was \$21.9 million and \$16.4 million, Intermodal segment depreciation expense was \$4.1 million and \$3.4 million, and Brokerage segment depreciation expense was \$960,000 and \$1.0 million in the nine-month periods ended September 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Net income	\$15,257	\$7,855	\$39,290	\$25,210
Denominator:				
Basic earnings per common share - weighted-average shares	54,661	54,517	54,615	54,479
Effect of dilutive stock options	533	373	536	324
Diluted earnings per common share - weighted-average shares and assumed conversions	55,194	54,890	55,151	54,803
Basic earnings per common share	\$0.28	\$0.14	\$0.72	\$0.46
Diluted earnings per common share	\$0.28	\$0.14	\$0.71	\$0.46

Options totaling 119,500 equivalent shares for each of the three-month and nine-month periods ended September 30, 2018, and 142,502 and 419,170 equivalent shares for the three-month and nine-month periods ended September 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 22,646 and 74,987 equivalent shares for the three-month and nine-month periods ended September 30, 2018, respectively, and 118,650 equivalent shares for each of the three-month and nine-month periods ended September 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

In August 2018, we entered into an amendment to our unsecured committed credit facility which reduces the aggregate principal amount of the facility from \$40.0 million to \$30.0 million and extends the term of the facility to August 2023. At September 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 \$15.4 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 3.0% at September 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 September 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 \$233,000 in the first nine months of 2018 and \$246,000 in the first nine months of 2017 for fuel, tires and related services. In addition, we paid \$2.0 million in the first nine months of 2018 and \$1.9 million in the first nine 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 in August 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 nine months of 2018. As of September 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 three quarters of 2018 and totaled \$4.1 million. A quarterly cash dividend of \$0.015 per share of common stock was declared in each of the first two quarters of 2017 along with a dividend of \$0.025 per share in the third quarter of 2017, which totaled \$3.0 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 nine 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 nine months of 2018 and 2017 was \$2.1 million and \$916,000, 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 \$4.6 million and \$810,000 of our revenue for loads transported by our tractors and arranged by MWL in the first nine months of 2018 and 2017, respectively. As of September 30, 2018, we also had a trade receivable in the amount of \$846,000 from MWL and an accrued liability of \$2.1 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 \$28.5 million of new revenue equipment through the remainder of 2018. Operating lease obligations through 2021 total \$490,000.

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. We have substantially completed our evaluation of the quantitative impact of the adoption of this standard and do not expect the standard to have a significant impact on our consolidated condensed balance sheets, statements of operations or statements of cash flows. We are still evaluating the additional required disclosures.

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 \$68.3 million, or 13.3%, from the first nine months of 2017 to the first nine months of 2018. Our operating revenue, net of fuel surcharges, increased \$37.3 million, or 8.0%, compared with the first nine months of 2017. Truckload segment revenue, net of fuel surcharges, decreased 3.9% from the first nine 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 20.4% from the first nine 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 24.9% due to increases in revenue per load and in volume. Brokerage segment revenue increased 21.7% due to increased revenue per load in the first nine months of 2018. Fuel surcharge revenue increased to \$78.8 million in the first nine months of 2018 from \$47.8 million in the first nine months of 2017 primarily due to higher fuel prices and 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 changes in a number of customer agreements. The change reduced our revenue excluding fuel surcharges by \$9.3 million in the first nine months of 2018 and increased our fuel surcharge revenue by the same amount.

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 income improved 19.5% to \$50.8 million in the first nine months of 2018 from \$42.5 million in the first nine months of 2017. Our operating expenses as a percentage of operating revenue, or “operating ratio,” improved to 91.3% in the first nine months of 2018 from 91.7% in the first nine months of 2017. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharges, improved to 89.9% in the first nine months of 2018 from 90.9% in the first nine months of 2017. Our net income increased 55.9% to \$39.3 million, or \$0.71 per diluted share, in the first nine months of 2018 from \$25.2 million, or \$0.46 per diluted share, in the first nine months of 2017.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At September 30, 2018, we had \$35.7 million of cash and cash equivalents, \$564.1 million in stockholders’ equity and no long-term debt outstanding. In the first nine months of 2018, net cash flows provided by operating activities of \$112.1 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of \$82.4 million, to acquire and upgrade regional operating facilities in the amount of \$5.4 million, and to pay cash dividends of \$4.1 million, resulting in a \$19.9 million increase in cash and cash equivalents. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$27 million for the remainder of 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Truckload Segment:				
Revenue (in thousands)	\$93,920	\$92,008	\$281,341	\$282,580
Average revenue, net of fuel surcharges, per tractor per week ⁽¹⁾	\$3,925	\$3,484	\$3,797	\$3,455
Average tractors ⁽¹⁾	1,561	1,787	1,629	1,863
Average miles per trip	564	592	578	598
Total miles (in thousands)	37,259	43,340		