
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2019
Commission file number 0-15010

MARTEN TRANSPORT, LTD.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

39-1140809
(I.R.S. Employer Identification no.)

129 Marten Street
Mondovi, Wisconsin
(Address of principal executive offices)

54755
(Zip Code)

(715) 926-4216
(Registrant's telephone number)

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

<u>Title of each class:</u>	<u>Trading symbol:</u>	<u>Name of each exchange on which registered:</u>
COMMON STOCK, PAR VALUE \$.01 PER SHARE	MRTN	THE NASDAQ STOCK MARKET LLC (NASDAQ GLOBAL SELECT MARKET)

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

NONE

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 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

As of June 28, 2019 (the last business day of the Registrant's most recently completed second fiscal quarter), the aggregate market value of the Common Stock of the Registrant (based upon the closing price of the Common Stock at that date as reported by the NASDAQ Global Select Market), excluding outstanding shares beneficially owned by directors and executive officers, was \$771,402,000.

As of February 17, 2020, 54,766,814 shares of Common Stock of the Registrant were outstanding.

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to in this Report) from the Registrant's Proxy Statement for the annual meeting to be held May 5, 2020, or 2020 Proxy Statement.

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FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains certain forward-looking statements. Such statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Any statements not of historical fact may be considered forward-looking statements. Written words such as “may” “expect,” “believe,” “anticipate,” “plan,” “goal,” or “estimate,” or other variations of these or similar words, identify such statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially from those expressed in such forward-looking statements. Important factors known to us that could cause such material differences are identified in this Annual Report on Form 10-K under the heading “Risk Factors” beginning on page 5. We undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future filings with the Securities and Exchange Commission.

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

PART I

ITEM 1. BUSINESS

Overview

We have strategically transitioned from a refrigerated long-haul carrier to a multifaceted business offering a network of refrigerated and dry truck-based transportation capabilities across our five distinct business platforms – Truckload, Dedicated, Intermodal, Brokerage and MRTN de Mexico. We are one of the leading temperature-sensitive truckload carriers in the United States, specializing in transporting and distributing food and other consumer packaged goods that require a temperature-controlled or insulated environment. Our dry freight services are expanding, with 1,650 dry vans operating as of December 31, 2019. In 2019, we generated \$843.3 million in operating revenue. Approximately 57% of our Truckload and Dedicated revenue in 2019 resulted from hauling temperature-sensitive products and 43% from hauling dry freight. We operate throughout the United States and in parts of Canada and Mexico, with substantially all of our revenue generated from within the United States. We provide regional truckload carrier services in the Southeast, West Coast, Midwest, South Central and Northeast regions. Our primary medium-to-long-haul traffic lanes are between the Midwest and the West Coast, Southwest, Southeast, and the East Coast, as well as from California to the Pacific Northwest. In 2019, our average length of haul was 420 miles.

Our growth strategy is to expand our business organically by offering shippers a high level of service and significant freight capacity. We market primarily to shippers that offer consistent volumes of freight in the lanes we prefer and are willing to compensate us for a high level of service. With our fleet of 3,212 company and independent contractor tractors, we offer service levels that include up to 99% on-time performance and delivery within the narrow time windows often required when shipping perishable commodities.

We have four reporting segments – Truckload, Dedicated, Intermodal and Brokerage. Financial information regarding these segments can be found in Footnote 18 to the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K.

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 agreements with customers are typically for one year.

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.

Our Intermodal segment transports our customers' freight within the United States utilizing our temperature-controlled trailers and, beginning in September 2019, our refrigerated containers, each on railroad flatcars for portions of trips, with the balance of the trips using our tractors or, to a lesser extent, contracted carriers.

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.

Operating results of our MRTN de Mexico business which offers our customers door-to-door service between the United States and Mexico with our Mexican partner carriers is reported within our Truckload and Brokerage segments.

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

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

Marketing and Operations

We approach our business as an integrated effort of marketing and operations. We target food and consumer packaged goods companies whose products require temperature-sensitive services and who ship multiple truckloads per week. By emphasizing high-quality service, we seek to become a core carrier for our customers. In 2019, our largest customer was Walmart.

Our marketing efforts are conducted by a staff of 253 sales, customer service and support personnel under the supervision of our senior management team. Marketing personnel travel within their regions to solicit new customers and maintain contact with existing customers. Customer service managers regularly contact customers to solicit additional business on a load-by-load basis.

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

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

- Terrestrial based tracking and messaging that allows us to communicate with our drivers, obtain load position updates, provide our customers with freight visibility, and download operating information such as fuel mileage and idling time for the tractor engines and temperature setting and run time for the temperature-control units on our trailers.
- Electronic data interchange and internet communication with customers concerning freight tendering, invoices, shipment status, and other information.
- Electronic logging devices in our tractors to monitor drivers' hours of service.
- Auxiliary power units installed on our company-owned tractors that allow us to decrease fuel costs associated with idling our tractors.
- Fuel-routing software that optimizes the fuel stops for each trip to take advantage of volume discounts available in our fuel network.

We believe this integrated approach to our marketing and operations, coupled with our use of technology, has allowed us to provide our customers with a high level of service and support our revenue growth in an efficient manner. For example, we produced a non-revenue mile percentage of 7.1% during 2019, which points to the efficiency of our operations and we believe compares favorably to other temperature-sensitive and dry van trucking companies.

Major Customers

A significant portion of our revenue is generated from our major customers. In 2019, our top 30 customers accounted for approximately 69% of our revenue, and our top ten customers accounted for 50% of our revenue. We have emphasized increasing our customer diversity which is shown by the decrease in the portion of our revenue with our top customers. In 2010, our top 30 customers accounted for approximately 78% of our revenue. Five of our top ten customers have been significant customers of ours for the last ten years. We believe we are the largest or second largest temperature-sensitive carrier for five of our top ten customers. We believe our relationships with these key customers are sound, but we are dependent upon them and the loss of some or all of their business could have a materially adverse effect on our results.

Drivers and Other Personnel

We believe that maintaining a safe and productive professional driver group is essential to providing excellent customer service and achieving profitability. As of December 31, 2019, 176 of our drivers have driven more than one million miles for us without a preventable accident, while 46 of our drivers have driven more than two million miles, 12 of our drivers have driven more than three million miles and one of our drivers has driven more than four million miles for us without a preventable accident.

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

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

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

As of December 31, 2019, we had 4,087 employees. This total consists of 3,127 drivers, 328 mechanics and maintenance personnel, and 632 support personnel, which includes management and administration. As of that date, we also contracted with 92 independent contractors. None of our employees are represented by a collective bargaining unit. We consider relations with our employees to be good.

Revenue Equipment

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

As of December 31, 2019, we operated a fleet of 3,212 tractors, including 3,120 company-owned tractors and 92 tractors supplied by independent contractors. The average age of our company-owned tractor fleet at December 31, 2019 was approximately 1.8 years. In 2019, we replaced our company-owned tractors within an average of 4.0 years after purchase.

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

We historically have contracted with independent contractors to provide and operate a portion of our tractor fleet. Independent contractors own their own tractors and are responsible for all associated expenses, including financing costs, fuel, maintenance, insurance, and taxes. The percentage of our fleet provided by independent contractors was 2.9% at December 31, 2019, 1.7% at December 31, 2018 and 2.2% at December 31, 2017.

As of December 31, 2019, we operated a fleet of 5,464 trailers, consisting of 3,814 refrigerated trailers and 1,650 dry vans. Most of our refrigerated trailers are equipped with Thermo-King refrigeration units, air ride suspensions, and anti-lock brakes. The average age of our trailer fleet at December 31, 2019 was approximately 2.4 years. In 2019, we replaced our company-owned trailers within an average of 5.0 years after purchase.

As of December 31, 2019, we operated a fleet of 237 refrigerated containers for use on railroad flatcars.

Insurance and Claims

We self-insure for a portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as employees' health insurance. We are responsible for our proportionate share of the legal expenses relating to such claims as well. We reserve currently for anticipated losses and expenses. We periodically evaluate and adjust our insurance and claims reserves to reflect our experience. We have \$15.7 million in standby letters of credit to guarantee settlement of claims under agreements with our insurance carriers and regulatory authorities. We maintain insurance coverage for per-incident and total losses in excess of the amounts for which we self-insure up to specified policy limits with licensed insurance carriers. Insurance carriers have raised premiums for many businesses, including trucking companies, which increases our insurance and claims expense, along with other factors. We believe that our policy of self-insuring up to set limits, together with our safety and loss prevention programs, are effective means of managing insurance costs.

Fuel

Our operations are heavily dependent upon the use of diesel fuel. The price and availability of diesel fuel can vary and are subject to political, economic, and market factors that are beyond our control. Fuel prices fluctuated dramatically and quickly at various times during the last three years. We actively manage our fuel costs by purchasing fuel in bulk in Mondovi, Wisconsin and at a number of our other maintenance facilities throughout the country and have volume purchasing arrangements with national fuel centers that allow our drivers to purchase fuel at a discount while in transit. During 2019, nearly 100% of our fuel purchases were made at these designated locations. To help further reduce fuel consumption, we have equipped our company-owned tractors with auxiliary power units since 2007. These units reduce fuel consumption by providing quiet climate control and electrical power for our drivers without idling the tractor engine. We have also invested in satellite tracking equipment for the temperature-control units on our trailers that has improved fuel usage through management of required temperature settings and run time of the units.

We further manage our exposure to changes in fuel prices through fuel surcharge programs with our customers and other measures that we have implemented. We have historically been able to pass through a significant portion of long-term increases in fuel prices and related taxes to customers in the form of fuel surcharges. These fuel surcharges, which adjust with the cost of fuel, enable us to recover a substantial portion of the higher cost of fuel as prices increase, except for non-revenue miles, out-of-route miles or fuel used while the tractor is idling. As of December 31, 2019, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

Competition

We are one of the leading carriers operating in the temperature-sensitive segment of the truckload market, and our dry freight services are expanding. These markets are highly competitive, and we compete with many other truckload carriers of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads, and other transportation companies, many of which have more equipment, a wider range of services, and greater capital resources than we do or have other competitive advantages. We also compete with other motor carriers for the services of drivers, independent contractors, and management employees. We believe that the principal competitive factors in our business are service, freight rates, capacity, use of technology and financial stability, which positions us well to compete in these segments.

Regulation

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

The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. In December 2010, the FMCSA introduced the Compliance, Safety, Accountability, or CSA, system to measure and evaluate the on-road safety performance of commercial carriers and individual drivers. CSA's Motor Carrier Safety Measurement System replaced the former SafeStat system and has removed a number of drivers from the industry as carriers are less willing to hire and retain drivers with marginal ratings, which has increased competition for qualified drivers. The FMCSA is currently evaluating a new statistical model known as the Item Response Theory, or IRT, model to replace the current system utilizing CSA scores in order to better evaluate the safety of motor carriers. A final decision is expected in 2020.

The FMCSA issued proposed revisions to the hours-of-service requirements for drivers in August 2019. The proposal allows drivers more flexibility with their 30-minute rest breaks and with dividing their time in the sleeper berth. It would also increase by two hours the duty time for drivers encountering adverse weather and extend by two hours the maximum duty time allowed by a short haul exemption. A final decision is expected in 2020.

In January 2011, the FMCSA issued a regulatory proposal requiring commercial carriers to track compliance with hours-of-service regulations using electronic logging devices, or ELD's, which was vacated and sent back to the FMCSA for further analysis and review in September 2011 by the 7th U.S. Circuit Court of Appeals. The Moving Ahead for Progress in the 21st Century Act, or MAP-21 Act, included a provision directing the FMCSA to develop a final ELD rule in 2013, which was delayed until its issuance in December 2015. The final rule required compliance beginning in December 2017 which was strictly enforced beginning in April 2018. Carriers using automatic on-board recording devices, or AOBRD's, which were installed and in use prior to December 2017 were allowed until December 2019 to convert to ELD's. Our entire fleet has been equipped with AOBRD's since early 2011 and converted to ELD's prior to December 2019.

The FMCSA has established a Commercial Driver's License Drug and Alcohol Clearinghouse, which is a database of drivers who have violations including failed or refused drug and alcohol tests. Beginning in January 2020, all carriers must run queries in the clearinghouse for all prospective drivers and annually for all drivers currently employed. All testing violations must also be reported to the clearinghouse. Also effective in January 2020, all carriers must perform random drug tests at a rate of at least 50% of the average number of driver positions. The rate was at least 25% previously. We have been testing at a rate in excess of 50%, including when the requirement was at least 25%.

We are also subject to various environmental laws and regulations dealing with the handling of hazardous materials, fuel storage tanks, air emissions from our facilities, engine idling, and discharge and retention of storm water. These regulations did not have a significant impact on our operations or financial results in 2017 through 2019.

ITEM 1A. RISK FACTORS

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

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

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

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

We operate in a highly competitive and fragmented industry, and numerous competitive factors could impair our ability to maintain our current profitability. We compete with many other truckload carriers that provide temperature-sensitive service and dry freight of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads and other transportation companies, many of which have more equipment, a wider range of services and greater capital resources than we do or have other competitive advantages. Many of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase freight rates or maintain significant growth in our business. In addition, many customers reduce the number of carriers they use by selecting so-called "core carriers" as approved service providers, or conduct bids from multiple carriers for their shipping needs, and in some instances, we may not be selected as a core carrier or to provide service under such bids.

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

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

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

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

We derive a significant portion of our revenue from our major customers, the loss of one or more of which could have a materially adverse effect on our business. A significant portion of our revenue is generated from our major customers. For 2019, our top 30 customers, based on revenue, accounted for approximately 69% of our revenue; our top ten customers accounted for approximately 50% of our revenue; our top five customers accounted for approximately 40% of our revenue; our top two customers accounted for approximately 31% of our revenue; and our largest customer accounted for approximately 17% of our revenue. Generally, other than for our Dedicated operations, we enter into one-year contracts with our major customers, the majority of which do not contain any firm obligations to ship with us. We cannot ensure that, upon expiration of existing contracts, these customers will continue to use our services or that, if they do, they will continue at the same levels. Many of our customers periodically solicit bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in loss of business to our competitors. Some of our customers also operate their own private trucking fleets, and they may decide to transport more of their own freight. A reduction in or termination of our services by one or more of our major customers could have a materially adverse effect on our business and operating results.

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

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

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

The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. In December 2010, the FMCSA introduced the Compliance, Safety, Accountability, or CSA, system to measure and evaluate the on-road safety performance of commercial carriers and individual drivers. CSA's Motor Carrier Safety Measurement System replaced the former SafeStat system and has removed a number of drivers from the industry as carriers are less willing to hire and retain drivers with marginal ratings, which has increased competition for qualified drivers. The FMCSA is currently evaluating a new statistical model known as the Item Response Theory, or IRT, model to replace the current system utilizing CSA scores in order to better evaluate the safety of motor carriers. A final decision is expected in 2020.

The FMCSA issued proposed revisions to the hours-of-service requirements for drivers in August 2019. The proposal allows drivers more flexibility with their 30-minute rest breaks and with dividing their time in the sleeper berth. It would also increase by two hours the duty time for drivers encountering adverse weather and extend by two hours the maximum duty time allowed by a short haul exemption. A final decision is expected in 2020.

In January 2011, the FMCSA issued a regulatory proposal requiring commercial carriers to track compliance with hours-of-service regulations using electronic logging devices, or ELD's, which was vacated and sent back to the FMCSA for further analysis and review in September 2011 by the 7th U.S. Circuit Court of Appeals. The Moving Ahead for Progress in the 21st Century Act, or MAP-21 Act, included a provision directing the FMCSA to develop a final ELD rule in 2013, which was delayed until its issuance in December 2015. The final rule required compliance beginning in December 2017 which was strictly enforced beginning in April 2018. Carriers using automatic on-board recording devices, or AOB RD's, which were installed and in use prior to December 2017 were allowed until December 2019 to convert to ELD's. Our entire fleet has been equipped with AOB RD's since early 2011 and converted to ELD's prior to December 2019.

The FMCSA has established a Commercial Driver's License Drug and Alcohol Clearinghouse, which is a database of drivers who have violations including failed or refused drug and alcohol tests. Beginning in January 2020, all carriers must run queries in the clearinghouse for all prospective drivers and annually for all drivers currently employed. All testing violations must also be reported to the clearinghouse. Also effective in January 2020, all carriers must perform random drug tests at a rate of at least 50% of the average number of driver positions. The rate was at least 25% previously. We have been testing at a rate in excess of 50%, including when the requirement was at least 25%.

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

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

If demand declines for our used revenue equipment, it could result in decreased equipment sales, resale values, and gains on sales of assets. The market for used revenue equipment is subject to a number of factors, including fluctuations in demand and prices. We do not have any agreements with tractor manufacturers pursuant to which they agree to repurchase our tractors or guarantee a residual value. As such, we are sensitive to changes in used equipment prices and demand, especially with respect to tractors. Reduced demand for used equipment could result in a lower volume of sales or lower sales prices, either of which could negatively affect our gains on sales of assets.

We depend on the stability, availability and security of the technology related to our management information and communication systems, which may prove to be inadequate. We depend upon our management information and communication systems for the efficient operation of our business. Our systems are used for receiving, planning and optimizing loads, communicating with and monitoring our drivers, tractors and trailers, billing customers and financial reporting. In addition, some of our key software has been developed internally by our programmers or by adapting purchased software to our needs and this software may not be easily modified or integrated with other software and systems. Our operations are potentially vulnerable to interruption by natural disasters, power loss, telecommunications failure, terrorist attacks, internet failures, computer viruses, malware, hacking, and other events beyond our control. Although we have taken steps to prevent and mitigate service interruptions and data security threats, the operational and security risks associated with information technology systems have increased in recent years because of the complexity of the systems and the sophistication and amount of cyber attacks. Our business would be materially and adversely affected if our management information and communication systems are compromised or disrupted by a failure or security breach or if we are unable to improve, upgrade, integrate or expand our systems as we continue to execute our growth strategy.

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

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

Lack of capacity, changes in equipment requirements and service instability in the railroad industry could increase our operating costs and reduce our ability to offer intermodal services, which could adversely affect our revenue, results of operations, and customer relationships. Our Intermodal segment is dependent on railroad services and their capacity to transport freight for our customers. We expect our dependence on railroads will continue to increase as we expand our Intermodal services. We compete for the availability of railroad services with other intermodal operators as well as certain industries reliant on the use of rail cars, such as oil and agricultural, whose consumption of railroad capacity has significantly fluctuated over the past several years. In most markets, rail service is limited to a few railroads or even a single railroad. Any capacity constraints, changes in equipment requirements, service problems or reduction in service by the railroads with which we have, or in the future may have, relationships is likely to increase the cost of the rail-based services we provide and reduce the reliability, timeliness, and overall attractiveness of our rail-based services, which could adversely affect our revenue, results of operations and customer relationships. Furthermore, railroads are relatively free to adjust shipping rates up or down as market conditions permit. Price increases could result in higher costs to our customers and reduce or eliminate our ability to offer Intermodal services. In addition, we cannot assure you that we will be able to negotiate additional contracts with railroads to expand our capacity, add additional routes, or obtain multiple providers, which could limit our ability to provide this service.

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

If we are unable to retain our executive officers and key management employees, our business, financial condition and results of operations could be adversely affected. We are highly dependent upon the services of our executive officers and key management employees, including our Chief Executive Officer. Currently, we do not have employment agreements with these employees and the loss of their services for any reason could have a materially adverse effect on our operations and future profitability. We have entered into agreements with our executive officers that require us to provide compensation to them in the event of termination of their employment without cause in connection with or within a certain period of time after a “change in control” of our Company. In addition, we must continue to develop and retain a core group of managers if we are to realize our goal of expanding our operations and continuing our growth. While our Board regularly engages in succession planning for our Chief Executive Officer and executive leadership team, there is no guarantee that a candidate or plan will be successful. Although we strive to reduce the potential negative impact of any such changes, the loss of any executive officers or key management employees could result in disruptions to our operations. In addition, hiring, training, and successfully integrating replacement personnel, whether internal or external, could be time consuming, may cause additional disruptions to our operations, and may be unsuccessful, which could negatively impact our business, financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

- Mondovi, Wisconsin
- Phoenix, Arizona
- Jurupa Valley, California
- Otay Mesa, California
- Tampa, Florida
- Atlanta, Georgia
- Indianapolis, Indiana
- Kansas City, Kansas
- Portland, Oregon
- Carlisle, Pennsylvania
- Memphis, Tennessee
- Desoto, Texas
- Laredo, Texas
- Colonial Heights, Virginia
- Rio Grande Valley, Texas

Our Truckload, Dedicated and Brokerage segments operate out of a majority of our facilities while our Intermodal segment operates out of a small number of our locations. We believe the nature, size and location of our properties are suitable and adequate for our current business needs.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 4A. INFORMATION ABOUT OUR EXECUTIVE OFFICERS

Our executive officers, with their ages and the offices held as of February 17, 2020, are as follows:

Name	Age	Position
Randolph L. Marten	67	Chairman of the Board, Chief Executive Officer and Director
Timothy M. Kohl	72	President
James J. Hinnendael	56	Executive Vice President and Chief Financial Officer
John H. Turner	58	Executive Vice President of Sales and Marketing

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

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

James J. Hinnendael has been our Executive Vice President since May 2015 and our Chief Financial Officer since January 2006 and served as our Controller from January 1992 to December 2005. Mr. Hinnendael served in various professional capacities with Ernst & Young LLP, a public accounting firm, from 1987 to December 1991. Mr. Hinnendael is a certified public accountant.

John H. Turner has been our Executive Vice President of Sales and Marketing since December 2019, Senior Vice President of Sales from December 2013 to December 2019, our Vice President of Sales from January 2007 to December 2013 and an executive officer since August 2007. He also served as our Vice President of Sales from October 2000 to February 2005, and as an executive officer from January 2002 to February 2005. Mr. Turner also served as our Director of Sales from July 1999 to October 2000 and in various professional capacities in our sales and marketing area from August 1991 to July 1999 and as our Operations Manager-West from October 1990 to August 1991. Previously, Mr. Turner served as a vice president for Naterra Land, Inc., a recreational land developer, from 2005 to 2006 and as the western fleet general manager and area sales manager for Munson Transportation, Inc., a long-haul truckload carrier, from 1986 to 1990.

PART II

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

Our common stock is listed on the NASDAQ Global Select Market under the symbol "MRTN." On February 17, 2020, we had 140 record stockholders, and approximately 14,035 beneficial stockholders of our common stock. 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 2/3% stock dividend. The following cash dividends and share amounts have been adjusted to give retroactive effect to the stock split for all periods presented.

Dividend Policy

In 2010, we announced a regular cash dividend program to our stockholders, subject to approval each quarter. We paid cash dividends totaling \$42.1 million in 2019 which consisted of a special dividend of \$0.65 per share of common stock in September, along with quarterly cash dividends of \$0.03 per share of common stock in each quarter of 2019. Quarterly cash dividends of \$0.025 per share of common stock were declared in each quarter of 2018 and totaled \$5.5 million. Quarterly cash dividends of \$0.015 per share of common stock were declared in each of the first two quarters of 2017 along with dividends of \$0.025 per share in each of 2017's last two quarters, which totaled \$4.4 million. We currently expect to continue to pay quarterly cash dividends in the future. The payment of cash dividends in the future, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors. Our ability to pay cash dividends is currently limited by restrictions contained in our revolving credit facility, which prohibits us from paying, in any fiscal year, stock redemptions and dividends in excess of 25% of our net income from the prior fiscal year. A waiver allowing stock redemptions and dividends in excess of the 25% limitation in a total amount of up to \$65 million in 2019 was obtained from the lender in August 2019.

Share Repurchase Program

In 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 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. In August 2019, our Board of Directors approved and we announced an increase in our existing share repurchase program providing for the repurchase of up to \$34 million, or approximately 1.8 million shares, of our common stock. 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.

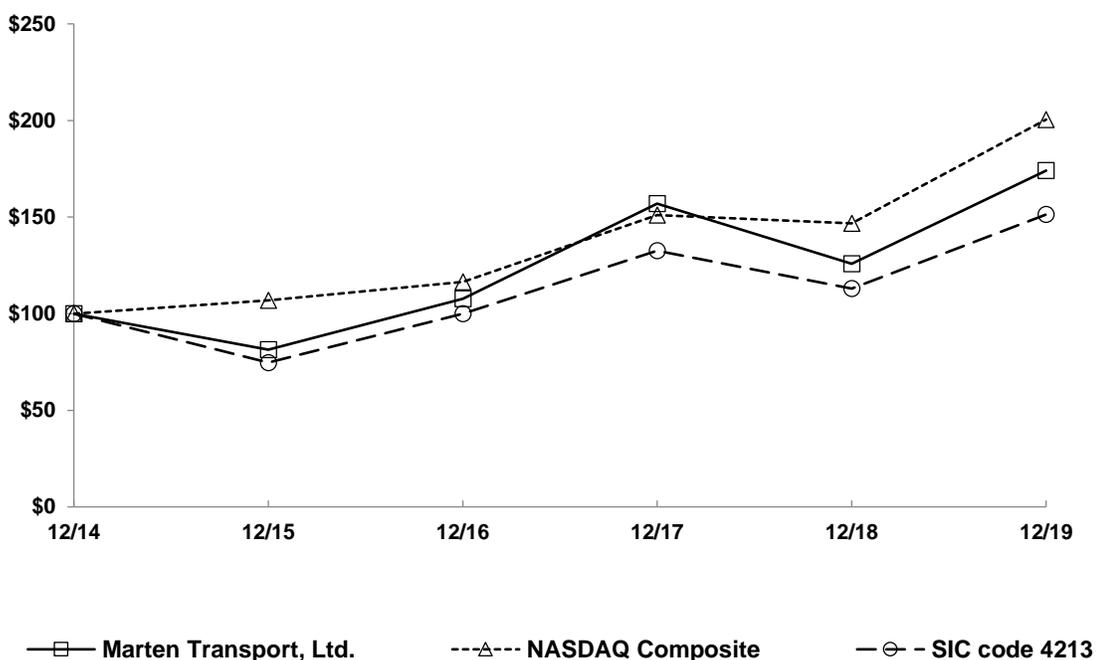
We repurchased and retired 200,000 shares of common stock for \$3.8 million in the fourth quarter of 2018. We did not repurchase any shares in 2019 or 2017. As of December 31, 2019, future repurchases of up to \$34 million, or 1.8 million shares, were available in the share repurchase program.

Comparative Stock Performance

The graph below compares the cumulative total stockholder return on our common stock with the NASDAQ Market index and the SIC code 4213 (trucking, except local) line-of-business index for the last five years. Research Data Group, Inc. prepared the line-of-business index. The graph assumes \$100 is invested in our common stock, the NASDAQ Stock Market index and the line-of-business index on December 31, 2014, with reinvestment of dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of our common stock. The information in the graph below shall be deemed “furnished” and not “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Marten Transport, Ltd., the NASDAQ Composite Index,
and SIC code 4213



*\$100 invested on 12/31/14 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

ITEM 6. SELECTED FINANCIAL DATA

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

<i>(Dollars in thousands, except per share amounts)</i>	2019	2018	2017	2016	2015
FOR THE YEAR					
Operating revenue	\$ 843,271	\$ 787,594	\$ 698,120	\$ 671,144	\$ 664,994
Operating income	76,498	70,348	56,862	58,303	61,063
Net income	61,071	55,027	90,284	33,464	35,745
Net income – excluding 2017 deferred income taxes benefit ⁽¹⁾	61,071	55,027	33,819	33,464	35,745
Operating ratio ⁽²⁾	90.9%	91.1%	91.9%	91.3%	90.8%
PER-SHARE DATA ⁽³⁾					
Basic earnings per common share	\$ 1.12	\$ 1.01	\$ 1.66	\$ 0.62	\$ 0.64
Basic earnings per common share – excluding 2017 deferred income taxes benefit ⁽¹⁾	1.12	1.01	0.62	0.62	0.64
Diluted earnings per common share	1.11	1.00	1.65	0.61	0.64
Diluted earnings per common share – excluding 2017 deferred income taxes benefit ⁽¹⁾	1.11	1.00	0.62	0.61	0.64
Dividends declared per common share	0.77	0.10	0.08	0.06	0.06
Book value	10.92	10.57	9.64	8.04	7.50
AT YEAR END					
Total assets	\$ 796,586	\$ 753,904	\$ 690,403	\$ 653,748	\$ 631,528
Long-term debt	—	—	—	7,886	37,867
Stockholders' equity	597,589	575,954	525,500	437,338	409,421

(1) Net income and basic and diluted earnings per common share for 2017 are presented for comparative purposes excluding the \$56.5 million deferred income taxes benefit recorded to recognize the impact on our federal net deferred tax liability of the reduction of the federal corporate statutory income tax rate from 35% to 21% related to the Tax Cuts and Jobs Act of 2017.

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

(3) The amounts for 2015 and 2016 have been restated to reflect the five-for-three stock split effected in the form of a 66 2/3% stock dividend on July 7, 2017.

Note We account for our revenue in accordance with Financial Accounting Standards Board, or FASB, Accounting Standards Codification, or ASC, 606, which we adopted on January 1, 2018 using the modified retrospective method. Prior years have not been restated and continue to be reported under the accounting standards in effect for those periods.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our consolidated financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those under the heading "Risk Factors" beginning on page 5. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this report.

Overview

We have strategically transitioned from a refrigerated long-haul carrier to a multifaceted business offering a network of refrigerated and dry truck-based transportation capabilities across our five distinct business platforms – Truckload, Dedicated, Intermodal, Brokerage and MRTN de Mexico.

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 agreements with customers are typically for one year.

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 accessorial 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 and, beginning in September 2019, our refrigerated containers, each 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.

Operating results of our MRTN de Mexico business which offers our customers door-to-door service between the United States and Mexico with our Mexican partner carriers is reported within our Truckload and Brokerage segments.

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 \$55.7 million, or 7.1%, in 2019 from 2018. Our operating revenue, net of fuel surcharges, increased \$58.5 million, or 8.6%, compared with 2018. Truckload segment revenue, net of fuel surcharges, increased 2.2% from 2018 primarily due to an increase in our average number of tractors. Dedicated segment revenue, net of fuel surcharges, increased 19.7% from 2018, primarily due to fleet growth driven by an increase in the number of Dedicated contracts we have with our customers and an increase in our average revenue per tractor. Intermodal segment revenue, net of fuel surcharges, decreased 9.1% due to a reduced load volume. Brokerage segment revenue increased 26.1% due to an increase in load volume in 2019. Fuel surcharge revenue decreased to \$103.4 million in 2019 from \$106.2 million in 2018.

A shift of a portion of line haul revenue to fuel surcharge revenue, which began in mid-first quarter of 2018 as a result of changes in a number of customer agreements, reduced our revenue excluding fuel surcharges by \$17.5 million in 2019 and by \$12.9 million in 2018, while increasing our fuel surcharge revenue by the same amounts.

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 statements of operations.

Our operating income improved 8.7% to \$76.5 million in 2019 from \$70.3 million in 2018. Our operating expenses as a percentage of operating revenue, or “operating ratio,” improved to 90.9% in 2019 from 91.1% in 2018. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharges, were 89.7% in both 2019 and 2018. Our net income improved 11.0% to \$61.1 million, or \$1.11 per diluted share, in 2019 from \$55.0 million, or \$1.00 per diluted share, in 2018.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At December 31, 2019, we had \$31.5 million of cash and cash equivalents, \$597.6 million in stockholders’ equity and no long-term debt outstanding. In 2019, net cash flows provided by operating activities of \$153.2 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of \$133.7 million, to pay cash dividends of \$42.1 million, and to upgrade regional operating facilities in the amount of \$2.9 million, resulting in a \$25.3 million decrease in cash and cash equivalents. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$153 million in 2020. We paid cash dividends totaling \$42.1 million in 2019 which consisted of a special dividend of \$0.65 per share of common stock in September, along with quarterly cash dividends of \$0.03 per share of common stock in each quarter of 2019. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, existing cash and cash equivalents balances, current borrowing availability and other sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

We continue to invest considerable time and capital resources to actively implement and promote long-term environmentally sustainable solutions that drive reductions in our fuel and electricity consumption and decrease our carbon footprint. These initiatives include (i) reducing idle time for our tractors by installing and tightly managing the use of auxiliary power units, which are powered by solar panels and provide climate control and electrical power for our drivers without idling the tractor engine, (ii) improving the energy efficiency of our newer, more aerodynamic and well-maintained tractor and trailer fleets by optimizing the equipment’s specifications, weight and tractor speed, equipping our tractors with automatic transmissions, converting the refrigeration units in our refrigerated trailers to the new, more-efficient CARB refrigeration units along with increasing the insulation in the trailer walls and installing trailer skirts, and using ultra-fuel efficient and wide-based tires, and (iii) upgrading all of our facilities to indoor and outdoor LED lighting along with converting all of our facilities to solar power by 2020. Additionally, we are an active participant in the United States EPA SmartWay Transport Partnership, in which freight shippers, carriers, logistics companies and other voluntary stakeholders partner with the EPA to measure, benchmark and improve logistics operations to reduce their environmental footprint.

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 2/3% stock dividend. Our consolidated financial statements, related notes, and other financial data contained in this report have been adjusted to give retroactive effect to the stock split for all periods presented.

Results of Operations

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

	2019	2018	2017
Truckload Segment:			
Revenue (in thousands)	\$ 378,000	\$ 375,340	\$ 380,210
Average revenue, net of fuel surcharges, per tractor per week ⁽¹⁾	\$ 3,797	\$ 3,833	\$ 3,514
Average tractors ⁽¹⁾	1,663	1,613	1,837
Average miles per trip	548	573	599
Total miles (in thousands)	155,177	153,514	178,760
Dedicated Segment:			
Revenue (in thousands)	\$ 265,984	\$ 223,852	\$ 166,881
Average revenue, net of fuel surcharges, per tractor per week ⁽¹⁾	\$ 3,378	\$ 3,300	\$ 3,481
Average tractors ⁽¹⁾	1,272	1,088	847
Average miles per trip	315	309	297
Total miles (in thousands)	108,814	93,269	77,102
Intermodal Segment:			
Revenue (in thousands)	\$ 90,394	\$ 102,025	\$ 80,621
Loads	36,309	42,425	40,196
Average tractors	91	88	79
Brokerage Segment:			
Revenue (in thousands)	\$ 108,893	\$ 86,377	\$ 70,408
Loads	63,200	51,104	48,271

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 92, 46 and 60 tractors as of December 31, 2019, 2018 and 2017, respectively.

Comparison of Year Ended December 31, 2019 to Year Ended December 31, 2018

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

(Dollars in thousands)	2019	2018	Dollar	Percentage
			Change	Change
			2019 vs.	2019 vs.
			2018	2018
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	\$ 329,304	\$ 322,324	\$ 6,980	2.2%
Truckload fuel surcharge revenue	48,696	53,016	(4,320)	(8.1)
Total Truckload revenue	378,000	375,340	2,660	0.7
Dedicated revenue, net of fuel surcharge revenue	223,935	187,137	36,798	19.7
Dedicated fuel surcharge revenue	42,049	36,715	5,334	14.5
Total Dedicated revenue	265,984	223,852	42,132	18.8
Intermodal revenue, net of fuel surcharge revenue	77,750	85,572	(7,822)	(9.1)
Intermodal fuel surcharge revenue	12,644	16,453	(3,809)	(23.2)
Total Intermodal revenue	90,394	102,025	(11,631)	(11.4)
Brokerage revenue	108,893	86,377	22,516	26.1
Total operating revenue	\$ 843,271	\$ 787,594	\$ 55,677	7.1%
Operating income:				
Truckload	\$ 29,666	\$ 35,067	\$ (5,401)	(15.4)%
Dedicated	31,245	18,589	12,656	68.1
Intermodal	6,612	11,150	(4,538)	(40.7)
Brokerage	8,975	5,542	3,433	61.9
Total operating income	\$ 76,498	\$ 70,348	\$ 6,150	8.7%
Operating ratio ⁽¹⁾ :				
Truckload	92.2%	90.7%		
Dedicated	88.3	91.7		
Intermodal	92.7	89.1		
Brokerage	91.8	93.6		
Consolidated operating ratio	90.9%	91.1%		

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

Our operating revenue increased \$55.7 million, or 7.1%, to \$843.3 million in 2019 from \$787.6 million in 2018. Our operating revenue, net of fuel surcharges, increased \$58.5 million, or 8.6%, to \$739.9 million in 2019 from \$681.4 million in 2018. This increase was due to a \$36.8 million increase in Dedicated revenue, net of fuel surcharges, a \$22.5 million increase in Brokerage revenue, and a \$7.0 million increase in Truckload revenue, net of fuel surcharges, partially offset by a \$7.8 million decrease in Intermodal revenue, net of fuel surcharges. Fuel surcharge revenue decreased to \$103.4 million in 2019 from \$106.2 million in 2018. A shift of a portion of line haul revenue to fuel surcharge revenue, which began in mid-first quarter of 2018 as a result of changes in a number of customer agreements, reduced our revenue excluding fuel surcharges by \$17.5 million in 2019 and by \$12.9 million in 2018, while increasing our fuel surcharge revenue by the same amounts.

Truckload segment revenue increased \$2.7 million, or 0.7%, to \$378.0 million in 2019 from \$375.3 million in 2018. Truckload segment revenue, net of fuel surcharges, increased \$7.0 million, or 2.2%, to \$329.3 million in 2019 from \$322.3 million in 2018 primarily due to an increase in our average number of tractors. The shift from line haul revenue to fuel surcharge revenue as a result of changes in a number of customer agreements decreased our Truckload revenue excluding fuel surcharges by \$3.4 million in 2019 and by \$2.8 million in 2018, while increasing our fuel surcharge revenue by the same amounts. The increase in the operating ratio in 2019 was primarily due to an increase in salaries and wages as a percentage of revenue.

Dedicated segment revenue increased \$42.1 million, or 18.8%, to \$266.0 million in 2019 from \$223.9 million in 2018. Dedicated segment revenue, net of fuel surcharges, increased 19.7% primarily due to fleet growth driven by an increase in the number of Dedicated contracts we have with our customers and an increase in our average revenue per tractor. The shift from line haul revenue to fuel surcharge revenue as a result of changes in a number of customer agreements decreased our Dedicated revenue excluding fuel surcharges by \$14.1 million in 2019 and by \$10.1 million in 2018, while increasing our fuel surcharge revenue by the same amounts. The improvement in the operating ratio for our Dedicated segment was primarily due to an increase in our average revenue per tractor, startup costs associated with new business that began in 2018 and multiple cost control measures.

Intermodal segment revenue decreased \$11.6 million, or 11.4%, to \$90.4 million in 2019 from \$102.0 million in 2018. Intermodal segment revenue, net of fuel surcharges, decreased 9.1% from 2018 due to a decrease in load volume. The increase in the operating ratio in 2019 was primarily due to increases in salaries and wages, fuel expense and amounts payable to railroads as a percentage of revenue.

Brokerage segment revenue increased \$22.5 million, or 26.1%, to \$108.9 million in 2019 from \$86.4 million in 2018 due to an increase in load volume. The improvement in the operating ratio in 2019 was due to multiple cost control measures.

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

(Dollars in thousands)	Dollar	Percentage	Percentage of	
	Change	Change	Operating Revenue	
	2019 vs.	2019 vs.	2019	2018
	2018	2018		
Operating revenue	\$ 55,677	7.1%	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	22,109	8.8	32.5	32.0
Purchased transportation	14,337	9.9	18.8	18.4
Fuel and fuel taxes	(292)	(0.2)	14.4	15.4
Supplies and maintenance	5,884	14.4	5.5	5.2
Depreciation	6,552	7.4	11.3	11.2
Operating taxes and licenses	627	6.6	1.2	1.2
Insurance and claims	(456)	(1.2)	4.5	4.9
Communications and utilities	1,075	16.2	0.9	0.8
Gain on disposition of revenue equipment	(1,436)	(19.8)	(1.0)	(0.9)
Other	1,127	5.1	2.7	2.8
Total operating expenses	49,527	6.9	90.9	91.1
Operating income	6,150	8.7	9.1	8.9
Other	(509)	(74.7)	(0.1)	(0.1)
Income before income taxes	6,659	9.4	9.2	9.0
Income taxes expense	615	3.8	2.0	2.0
Net income	\$ 6,044	11.0%	7.2%	7.0%

Salaries, wages and benefits consist of compensation for our employees, including both driver and non-driver employees, employees' health insurance, 401(k) plan contributions and other fringe benefits. These expenses vary depending upon the size of our Truckload, Dedicated and Intermodal tractor fleets, the ratio of company drivers to independent contractors, our efficiency, our experience with employees' health insurance claims, changes in health care premiums and other factors. Salaries, wages and benefits expense increased \$22.1 million, or 8.8%, in 2019 from 2018. This increase resulted primarily from additional company driver compensation expense of \$20.5 million, partially offset by a \$4.7 million decrease in bonus compensation expense for our non-driver employees.

Purchased transportation consists of amounts payable to railroads and carriers for transportation services we arrange in connection with Brokerage and Intermodal operations and to independent contractor providers of revenue equipment. This category will vary depending upon the amount and rates, including fuel surcharges, we pay to third-party railroad and motor carriers, the ratio of company drivers versus independent contractors and the amount of fuel surcharges passed through to independent contractors. Purchased transportation expense increased \$14.3 million in total, or 9.9%, in 2019 from 2018. Amounts payable to carriers for transportation services we arranged in our Brokerage segment increased \$18.3 million to \$90.7 million in 2019 from \$72.3 million in 2018, primarily due to an increase in brokerage revenue. Amounts payable to railroads and drayage carriers for transportation services within our Intermodal segment decreased \$5.8 million to \$59.3 million in 2019 from \$65.0 million in 2018. This decrease was due to decreased intermodal revenue. The portion of purchased transportation expense related to independent contractors within our Truckload and Dedicated segments, including fuel surcharges, increased \$1.8 million in 2019. We expect our purchased transportation expense to increase as we grow our Intermodal and Brokerage segments.

Fuel and fuel taxes decreased by \$292,000, or 0.2%, in 2019 from 2018. Net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors, outside drayage carriers and railroads) increased \$644,000, or 2.2%, to \$30.1 million in 2019 from \$29.4 million in 2018. Fuel surcharges passed through to independent contractors, outside drayage carriers and railroads decreased to \$12.1 million from \$14.0 million in 2018. The United States Department of Energy, or DOE, national average cost of fuel decreased to \$3.06 per gallon from \$3.18 per gallon in 2018. Net fuel expense also decreased to 4.8% of Truckload, Dedicated and Intermodal segment revenue, net of fuel surcharges, from 4.9% in 2018. We have worked diligently to control fuel usage and costs by improving our volume purchasing arrangements and optimizing our drivers' fuel purchases with national fuel centers, focusing on shorter lengths of haul, installing and tightly managing the use of auxiliary power units in our tractors to minimize engine idling and improving fuel usage in the temperature-control units on our trailers. Auxiliary power units, which we have installed in our company-owned tractors, provide climate control and electrical power for our drivers without idling the tractor engine.

Supplies and maintenance consist of repairs, maintenance, tires, parts, oil and engine fluids, along with load-specific expenses including loading/unloading, tolls, pallets and trailer hostling. Our supplies and maintenance expense increased \$5.9 million, or 14.4%, from 2018 primarily due to higher outside repair and parts costs associated, in part, with operating a larger fleet.

Depreciation relates to owned tractors, trailers, containers, auxiliary power units, communication units, terminal facilities and other assets. The \$6.6 million increase in depreciation was primarily due to an increase in the size of our fleet of tractors and trailers. We expect our annual cost of tractor and trailer ownership will increase in future periods as a result of higher prices of new equipment, which will result in greater depreciation over the useful life.

Insurance and claims consist of the costs of insurance premiums and accruals we make for claims within our self-insured retention amounts, primarily for personal injury, property damage, physical damage to our equipment, cargo claims and workers' compensation claims. These expenses will vary primarily based upon the frequency and severity of our accident experience, our self-insured retention levels and the market for insurance. The \$456,000 decrease in insurance and claims in 2019 was primarily due to a decrease in the cost of our self-insured workers' compensation claims, partially offset by increases in the cost of auto liability and physical damage claims related to our tractors and trailers. Our significant self-insured retention exposes us to the possibility of significant fluctuations in claims expense between periods which could materially impact our financial results depending on the frequency, severity and timing of claims.

Gain on disposition of revenue equipment increased to \$8.7 million in 2019 from \$7.2 million in 2018 primarily due to an increase in our average gain for each tractor and trailer sold. Future gains or losses on dispositions of revenue equipment will be impacted by the market for used revenue equipment, which is beyond our control.

As a result of the foregoing factors, our operating income improved 8.7% to \$76.5 million in 2019 from \$70.3 million in 2018. Our operating expenses as a percentage of operating revenue, or “operating ratio,” was 90.9% in 2019 and 91.1% in 2018. The operating ratio for our Truckload segment was 92.2% in 2019 and 90.7% in 2018, for our Dedicated segment was 88.3% in 2019 and 91.7% in 2018, for our Intermodal segment was 92.7% in 2019 and 89.1% in 2018, and for our Brokerage segment was 91.8% in 2019 and 93.6% in 2018. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharges, were 89.7% in both 2019 and 2018.

The increase in our other non-operating income was primarily due to additional interest income earned in 2019.

Our effective income tax rate decreased to 21.4% in 2019 from 22.5% in 2018 primarily due to a reduction in non-deductible expenses.

As a result of the factors described above, net income improved 11.0% to \$61.1 million, or \$1.11 per diluted share, in 2019 from \$55.0 million, or \$1.00 per diluted share, in 2018.

Comparison of Year Ended December 31, 2018 to Year Ended December 31, 2017

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

(Dollars in thousands)	2018	2017	Dollar	Percentage
			Change	Change
			2018 vs.	2018 vs.
			2017	2017
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	\$ 322,324	\$ 336,596	\$ (14,272)	(4.2)%
Truckload fuel surcharge revenue	53,016	43,614	9,402	21.6
Total Truckload revenue	375,340	380,210	(4,870)	(1.3)
Dedicated revenue, net of fuel surcharge revenue	187,137	153,691	33,446	21.8
Dedicated fuel surcharge revenue	36,715	13,190	23,525	178.4
Total Dedicated revenue	223,852	166,881	56,971	34.1
Intermodal revenue, net of fuel surcharge revenue	85,572	70,282	15,290	21.8
Intermodal fuel surcharge revenue	16,453	10,339	6,114	59.1
Total Intermodal revenue	102,025	80,621	21,404	26.5
Brokerage revenue	86,377	70,408	15,969	22.7
Total operating revenue	\$ 787,594	\$ 698,120	\$ 89,474	12.8%
Operating income:				
Truckload	\$ 35,067	\$ 26,326	\$ 8,741	33.2%
Dedicated	18,589	17,074	1,515	8.9
Intermodal	11,150	8,303	2,847	34.3
Brokerage	5,542	5,159	383	7.4
Total operating income	\$ 70,348	\$ 56,862	\$ 13,486	23.7%
Operating ratio ⁽¹⁾ :				
Truckload	90.7%	93.1%		
Dedicated	91.7	89.8		
Intermodal	89.1	89.7		
Brokerage	93.6	92.7		
Consolidated operating ratio	91.1%	91.9%		

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

Our operating revenue increased \$89.5 million, or 12.8%, to \$787.6 million in 2018 from \$698.1 million in 2017. Our operating revenue, net of fuel surcharges, increased \$50.4 million, or 8.0%, to \$681.4 million in 2018 from \$631.0 million in 2017. This increase was due to a \$33.4 million increase in Dedicated revenue, net of fuel surcharges, a \$16.0 million increase in Brokerage revenue, and a \$15.3 million increase in Intermodal revenue, net of fuel surcharges, partially offset by a \$14.3 million decrease in Truckload revenue, net of fuel surcharges. Fuel surcharge revenue increased to \$106.2 million in 2018 from \$67.1 million in 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 \$12.9 million in 2018 and increased our fuel surcharge revenue by the same amount.

Truckload segment revenue decreased \$4.9 million, or 1.3%, to \$375.3 million in 2018 from \$380.2 million in 2017. Truckload segment revenue, net of fuel surcharges, decreased \$14.3 million, or 4.2%, to \$322.3 million in 2018 from \$336.6 million in 2017, primarily due to a reduction in our average number of tractors, partially offset by an increase in our average revenue per tractor. The shift from line haul revenue to fuel surcharge revenue as a result of changes in a number of customer agreements decreased our Truckload revenue excluding fuel surcharges by \$2.8 million, or \$32 per tractor per week, in 2018, and increased our fuel surcharge revenue by the same amount. The improvement in the operating ratio in 2018 was primarily due to the increase in our average revenue per tractor driven by increased rates with our customers.

Dedicated segment revenue increased \$57.0 million, or 34.1%, to \$223.9 million in 2018 from \$166.9 million in 2017. Dedicated segment revenue, net of fuel surcharges, increased 21.8% primarily due to fleet growth driven by an increase in the number of Dedicated contracts we have with our customers. The shift from line haul revenue to fuel surcharge revenue as a result of changes in a number of customer agreements decreased our Dedicated revenue excluding fuel surcharges by \$10.1 million, or \$179 per tractor per week, in 2018, and increased our fuel surcharge revenue by the same amount. The increase in the operating ratio for our Dedicated segment was primarily due to an increase in driver wages, an increase in bonus compensation expense for our non-driver employees and increased depreciation expense.

Intermodal segment revenue increased \$21.4 million, or 26.5%, to \$102.0 million in 2018 from \$80.6 million in 2017. Intermodal segment revenue, net of fuel surcharges, increased 21.8% from 2017 due to increases in revenue per load and in volume. The improvement in the operating ratio in 2018 was primarily due to a decrease in the amounts payable to railroads as a percentage of our revenue and increased rates with our customers.

Brokerage segment revenue increased \$16.0 million, or 22.7%, to \$86.4 million in 2018 from \$70.4 million in 2017 due to an increase in volume and rates with our customers. The increase in the operating ratio in 2018 was primarily due to an increase in the amounts payable to carriers for transportation services which we arranged as a percentage of our Brokerage revenue.

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

(Dollars in thousands)	Dollar	Percentage	Percentage of	
	Change	Change	Operating Revenue	
	2018 vs. 2017	2018 vs. 2017	2018	2017
Operating revenue	\$ 89,474	12.8%	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	25,956	11.5	32.0	32.4
Purchased transportation	26,262	22.2	18.4	17.0
Fuel and fuel taxes	16,243	15.4	15.4	15.1
Supplies and maintenance	(760)	(1.8)	5.2	6.0
Depreciation	3,465	4.1	11.2	12.2
Operating taxes and licenses	480	5.3	1.2	1.3
Insurance and claims	72	0.2	4.9	5.5
Communications and utilities	587	9.7	0.8	0.9
Gain on disposition of revenue equipment	(1,745)	(31.7)	(0.9)	(0.8)
Other	5,428	32.8	2.8	2.4
Total operating expenses	75,988	11.8	91.1	91.9
Operating income	13,486	23.7	8.9	8.1
Other	(1,070)	(275.1)	(0.1)	0.1
Income before income taxes	14,556	25.8	9.0	8.1
Income taxes expense (benefit)	49,813	(147.3)	2.0	(4.8)
Net income	\$ (35,257)	(39.1)%	7.0%	12.9%

Salaries, wages and benefits expense increased \$26.0 million, or 11.5%, in 2018 from 2017. The increase in salaries, wages and benefits from 2017 resulted primarily from an increase in company driver compensation expense of \$11.1 million, an increase in bonus compensation expense for our non-driver employees of \$5.4 million, and an increase in employees' health insurance expense of \$3.3 million due to an increase in our self-insured medical claims.

Purchased transportation expense increased \$26.3 million in total, or 22.2%, in 2018 from 2017. Amounts payable to carriers for transportation services we arranged in our Brokerage segment increased \$13.7 million to \$72.3 million in 2018 from \$58.6 million in 2017, primarily due to an increase in brokerage revenue. Amounts payable to railroads and drayage carriers for transportation services within our Intermodal segment increased \$13.6 million to \$65.0 million in 2018 from \$51.5 million in 2017. This increase was due to increased intermodal revenue along with increased fuel surcharges to the railroads due to higher fuel prices. The portion of purchased transportation expense related to our independent contractors within our Truckload and Dedicated segments, including fuel surcharges, decreased \$1.1 million in 2018.

Fuel and fuel taxes increased by \$16.2 million, or 15.4%, in 2018 from 2017. Net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors, outside drayage carriers and railroads) decreased \$17.4 million, or 37.2%, to \$29.4 million in 2018 from \$46.8 million in 2017. Fuel surcharges passed through to independent contractors, outside drayage carriers and railroads increased to \$14.0 million from \$8.6 million in 2017. Despite an increase in the DOE national average cost of fuel to \$3.18 per gallon from \$2.65 per gallon in 2017, net fuel expense decreased to 4.9% of Truckload, Dedicated and Intermodal segment revenue, net of fuel surcharges, from 8.4% in 2017. The net fuel expense to revenue improved primarily due to a \$12.9 million shift during 2018 of a portion of line haul revenue to fuel surcharge revenue as a result of changes in a number of customer agreements. Increases in our miles per gallon and in our revenue rate per mile in 2018 further improved this ratio. We have worked diligently to control fuel usage and costs by improving our volume purchasing arrangements and optimizing our drivers' fuel purchases with national fuel centers, focusing on shorter lengths of haul, installing and tightly managing the use of auxiliary power units in our tractors to minimize engine idling and improving fuel usage in the temperature-control units on our trailers.

Our supplies and maintenance expense decreased \$760,000, or 1.8%, from 2017 primarily due to a decrease in our loading/unloading expense.

The increase in depreciation was primarily due to a continued increase in the cost of revenue equipment.

Gain on disposition of revenue equipment increased to \$7.2 million in 2018 from \$5.5 million in 2017 primarily due to an increase in the number of trailers sold, along with an increase in our average gain for each tractor and trailer sold.

The \$5.4 million increase in other operating expenses in 2018 was due in part to proceeds received in 2017 from the settlement of a lawsuit, net of 2017 legal expenses, of \$1.0 million, and increased costs associated with recruiting and retaining drivers.

As a result of the foregoing factors, our operating income improved 23.7% to \$70.3 million in 2018 from \$56.9 million in 2017. Our operating expenses as a percentage of operating revenue, or "operating ratio," improved to 91.1% in 2018 from 91.9% in 2017. The operating ratio for our Truckload segment was 90.7% in 2018 and 93.1% in 2017, for our Dedicated segment was 91.7% in 2018 and 89.8% in 2017, for our Intermodal segment was 89.1% in 2018 and 89.7% in 2017, and for our Brokerage segment was 93.6% in 2018 and 92.7% in 2017. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharges, improved to 89.7% in 2018 from 91.0% in 2017.

The increase in our non-operating income was primarily due to improved operating results in 2018 by MW Logistics, LLC, or MWL, a 45% owned affiliate. We sold our entire membership interest in MWL effective October 31, 2019.

Our effective income tax rate increased to 22.5% in 2018 from (59.9)% in 2017. We recorded a \$56.5 million deferred income taxes benefit in 2017 to recognize the impact on our federal net deferred tax liability of the reduction of the federal corporate statutory income tax rate from 35% to 21% related to the Tax Cuts and Jobs Act of 2017, which was enacted prior to December 31, 2017. Excluding that benefit, our effective tax rate was 40.1% in 2017, which exceeds our effective tax rate in 2018 primarily due to the reduction of the federal corporate tax rate in 2018 under the Tax Cuts and Jobs Act of 2017. The Tax Cuts and Jobs Act of 2017 makes broad and complex changes to the U.S. tax code including, but not limited to, reducing the federal corporate income tax rate as noted above and allowing bonus depreciation with full expensing of qualified property placed in service after September 27, 2017.

As a result of the factors described above, net income was \$55.0 million, or \$1.00 per diluted share, in 2018 and \$90.3 million, or \$1.65 per diluted share, in 2017. Excluding the \$56.5 million deferred income taxes benefit recorded in 2017, net income in 2018 improved 62.7% from 2017 earnings of \$33.8 million, or \$0.62 per diluted share.

Liquidity and Capital Resources

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. Our primary sources of liquidity are funds provided by operations and our revolving credit facility. A portion of our tractor fleet is provided by independent contractors who own and operate their own equipment. We have no capital expenditure requirements relating to those drivers who own their tractors or obtain financing through third parties.

The table below reflects our net cash flows provided by operating activities, net cash flows used for investing activities and net cash flows used for financing activities for the years indicated.

(In thousands)	2019	2018	2017
Net cash flows provided by operating activities	\$ 153,180	\$ 150,623	\$ 121,879
Net cash flows used for investing activities	(137,229)	(101,270)	(95,318)
Net cash flows used for financing activities	(41,253)	(8,381)	(11,258)

In 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 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. In August 2019, our Board of Directors approved and we announced an increase in our existing share repurchase program providing for the repurchase of up to \$34 million, or approximately 1.8 million shares, of our common stock. 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 repurchased and retired 200,000 shares of common stock for \$3.8 million in the fourth quarter of 2018. We did not repurchase any shares in 2019 or 2017. As of December 31, 2019, future repurchases of up to \$34 million, or 1.8 million shares, were available in the share repurchase program.

In 2019, net cash flows provided by operating activities of \$153.2 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of \$133.7 million, to pay cash dividends of \$42.1 million, and to upgrade regional operating facilities in the amount of \$2.9 million, resulting in a \$25.3 million decrease in cash and cash equivalents. In 2018, net cash flows provided by operating activities of \$150.6 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of \$93.9 million, to acquire and upgrade regional operating facilities in the amount of \$5.9 million, to pay cash dividends of \$5.5 million, and to repurchase and retire 200,000 shares of our common stock for \$3.8 million, resulting in a \$41.0 million increase in cash and cash equivalents. In 2017, net cash flows provided by operating activities of \$121.9 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of \$87.6 million, to repay, net of borrowings, \$7.9 million of long-term debt, to partially construct regional operating facilities in the amount of \$5.8 million, and to pay cash dividends of \$4.4 million, resulting in a \$15.3 million increase in cash and cash equivalents. Beginning in 2018, our net cash flows have been increased by the new tax laws established by the Tax Cuts and Jobs Act of 2017, which reduces the federal corporate statutory income tax rate and establishes bonus depreciation that allows for full expensing of qualified assets.

We estimate that capital expenditures, net of proceeds from dispositions, will be approximately \$153 million in 2020. We paid cash dividends totaling \$42.1 million in 2019 which consisted of a special dividend of \$0.65 per share of common stock in September, along with quarterly cash dividends of \$0.03 per share of common stock in each quarter of 2019. Quarterly cash dividends of \$0.025 per share of common stock was declared in each quarter of 2018 and totaled \$5.5 million. Quarterly cash dividends of \$0.015 per share of common stock were declared in each of the first two quarters of 2017 along with dividends of \$0.025 per share in each of 2017's last two quarters, which totaled \$4.4 million. We currently expect to continue to pay quarterly cash dividends in the future. The payment of cash dividends in the future, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors. 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.

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 December 31, 2019, 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 \$15.7 million and remaining borrowing availability of \$14.3 million. This facility bears interest at a variable rate based on the London Interbank Offered Rate or the lender's Prime Rate, in each case plus/minus applicable margins.

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. A waiver allowing stock redemptions and dividends in excess of the 25% limitation in a total amount of up to \$65 million in 2019 was obtained from the lender in August 2019. 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 December 31, 2019 and 2018.

The following is a summary of our contractual obligations as of December 31, 2019.

(In thousands)	Payments Due by Period					Total
	2020	2021 And 2022	2022 And 2024	Thereafter		
Purchase obligations for revenue equipment	\$ 90,859	\$ —	\$ —	\$ —	\$ 90,859	
Operating lease obligations	547	493	208	—	1,248	
Total	\$ 91,406	\$ 493	\$ 208	\$ —	\$ 92,107	

Due to uncertainty with respect to the timing of future cash flows, the obligation under our nonqualified deferred compensation plan at December 31, 2019 of 275,957 shares of Company common stock with a value of \$5.9 million has been excluded from the above table.

Off-balance Sheet Arrangements

Other than standby letters of credit maintained in connection with our self-insurance programs in the amount of \$15.7 million along with purchase obligations and operating leases summarized above in our summary of contractual obligations, we did not have any other material off-balance sheet arrangements at December 31, 2019.

Inflation and Fuel Costs

Most of our operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. During the past three years, the most significant effects of inflation have been on revenue equipment prices, accident claims, health insurance and employee compensation. We attempt to limit the effects of inflation through increases in freight rates and cost control efforts.

In addition to inflation, fluctuations in fuel prices can affect our profitability. We require substantial amounts of fuel to operate our tractors and power the temperature-control units on our trailers. Substantially all of our contracts with customers contain fuel surcharge provisions. Although we historically have been able to pass through a significant portion of long-term increases in fuel prices and related taxes to customers in the form of fuel surcharges and higher rates, such increases usually are not fully recovered. These fuel surcharge provisions are not effective in mitigating the fuel price increases related to non-revenue miles or fuel used while the tractor is idling.

Seasonality

Our tractor productivity generally decreases during the winter season because inclement weather impedes operations and some shippers reduce their shipments. At the same time, operating expenses generally increase, with harsh weather creating higher accident frequency, increased claims, lower fuel efficiency and more equipment repairs.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue and expenses in our consolidated financial statements and related notes. We base our estimates, assumptions and judgments on historical experience, current trends and other factors believed to be relevant at the time our consolidated financial statements are prepared. However, because future events and their effects cannot be determined with certainty, actual results could differ from our estimates and assumptions, and such differences could be material. We believe that the following critical accounting policies affect our more significant estimates, assumptions and judgments used in the preparation of our consolidated financial statements.

Revenue Recognition. We account for our revenue in accordance with FASB ASC 606, *Revenue from Contracts with Customers*, which we adopted on January 1, 2018 using the modified retrospective method. The current 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.

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 statements of operations.

Accounts Receivable. We are dependent upon a limited number of customers, and, as a result, our trade accounts receivable are highly concentrated. Trade accounts receivable are recorded at the invoiced amounts, net of an allowance for doubtful accounts. Our allowance for doubtful accounts was \$382,000 as of December 31, 2019 and \$348,000 as of December 31, 2018. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. In order to assess the collectibility of these receivables, we perform ongoing credit evaluations of our customers' financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The allowance for doubtful accounts is based on the best information available to us and is reevaluated and adjusted as additional information is received. We evaluate the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts and the overall national economy. We review the adequacy of our allowance for doubtful accounts monthly.

Property and Equipment. The transportation industry requires significant capital investments. Our net property and equipment was \$640.4 million as of December 31, 2019 and \$588.2 million as of December 31, 2018. Our depreciation expense was \$95.1 million in 2019, \$88.6 million in 2018 and \$85.1 million in 2017. We compute depreciation of our property and equipment for financial reporting purposes based on the cost of each asset, reduced by its estimated salvage value, using the straight-line method over its estimated useful life. We determine and periodically evaluate our estimate of the projected salvage values and useful lives primarily by considering the market for used equipment, prior useful lives and changes in technology. We have not changed our policy regarding salvage values as a percentage of initial cost or useful lives of tractors and trailers within the last ten years. We believe that our policies and past estimates have been reasonable. Actual results could differ from these estimates. A 5% decrease in estimated salvage values would have decreased our net property and equipment as of December 31, 2019 by approximately \$12.3 million, or 1.9%.

Impairment of Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets were considered to be impaired, the impairment to be recognized would be measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell.

Insurance and Claims. 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. However, we could suffer a series of losses within our self-insured retention limits or losses over our policy limits, which could negatively affect our financial condition and operating results. We are responsible for the first \$1.0 million on each auto liability claim and for the first \$750,000 on each workers' compensation claim. We have \$15.7 million in standby letters of credit to guarantee settlement of claims under agreements with our insurance carriers and regulatory authorities. The insurance and claims accruals in our consolidated balance sheets were \$31.7 million as of December 31, 2019 and \$28.1 million as of December 31, 2018. We reserve currently for the estimated cost of the uninsured portion of pending claims. We periodically evaluate and adjust these reserves based on our evaluation of the nature and severity of outstanding individual claims and our estimate of future claims development based on historical development. Actual results could differ from these current estimates. In addition, to the extent that claims are litigated and not settled, jury awards are difficult to predict.

Share-based Payment Arrangement Compensation. We have granted stock options to certain employees and non-employee directors. We recognize compensation expense for all stock options net of an estimated forfeiture rate and only record compensation expense for those shares expected to vest on a straight-line basis over the requisite service period (normally the vesting period). Determining the appropriate fair value model and calculating the fair value of stock options require the input of highly subjective assumptions, including the expected life of the stock options and stock price volatility. We use the Black-Scholes model to value our stock option awards. We believe that future volatility will not materially differ from our historical volatility. Thus, we use the historical volatility of our common stock over the expected life of the award. The assumptions used in calculating the fair value of stock options represent our best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change and we use different assumptions, stock option compensation expense could be materially different in the future.

We have also granted performance unit awards to certain employees which are subject to vesting requirements over a five-year period, primarily based on our earnings growth. The fair value of each performance unit is based on the closing market price on the date of grant. We recognize compensation expense for these awards based on the estimated number of units probable of achieving the performance and service vesting requirements of the awards, net of an estimated forfeiture rate.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market risks, most importantly the effects of the price and availability of diesel fuel. We require substantial amounts of diesel fuel to operate our tractors and power the temperature-control units on our trailers. The price and availability of diesel fuel can vary, and are subject to political, economic and market factors that are beyond our control. Significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition. Based upon our fuel consumption in 2019, a 5% increase in the average cost of diesel fuel would have increased our fuel expense by \$6.0 million.

We have historically been able to pass through a significant portion of long-term increases in diesel fuel prices and related taxes to customers in the form of fuel surcharges. Fuel surcharge programs are widely accepted among our customers, though they can vary somewhat from customer-to-customer. These fuel surcharges, which adjust weekly with the cost of fuel, enable us to recover a substantial portion of the higher cost of fuel as prices increase. These fuel surcharge provisions are not effective in mitigating the fuel price increases related to non-revenue miles or fuel used while the tractor is idling. In addition, we have worked diligently to control fuel usage and costs by improving our volume purchasing arrangements and optimizing our drivers' fuel purchases with national fuel centers, focusing on shorter lengths of haul, installing and tightly managing the use of auxiliary power units in our tractors to minimize engine idling and improving fuel usage in our trailers' refrigeration units.

While we do not currently have any outstanding hedging instruments to mitigate this market risk, we may enter into derivatives or other financial instruments to hedge a portion of our fuel costs in the future.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining an adequate system of internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, for Marten Transport, Ltd. and subsidiaries (the "Company"). This system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even when determined to be effective, can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projection of any evaluation of the effectiveness of internal control over financial reporting to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree or compliance with the policies or procedures may deteriorate.

Management, with the participation of the Company's Chairman of the Board and Chief Executive Officer and Executive Vice President and Chief Financial Officer, evaluated the effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this evaluation, management used the criteria established in the 2013 *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2019. Further, the Company's independent registered public accounting firm, Grant Thornton LLP, has issued a report on the Company's internal controls over financial reporting on page 30 of this Report.

February 28, 2020

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Marten Transport, Ltd.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Marten Transport, Ltd. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2019, and our report dated February 28, 2020 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP
Minneapolis, Minnesota
February 28, 2020

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
Marten Transport, Ltd.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Marten Transport, Ltd. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 28, 2020 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Auto and workers’ compensation self-insurance reserves

As described further in Note 1 and Note 17 of the consolidated financial statements, the Company self-insures for a portion of their claims exposure resulting from workers’ compensation claims and auto liability claims. The Company maintains insurance coverage for per-incident and total losses in excess of their risk retention levels in amounts they consider adequate based upon historical experience and their ongoing review. The Company reserves for the estimated cost of the uninsured portion of pending claims, including legal costs. These reserves are periodically evaluated and adjusted based on the Company’s evaluation of the nature and severity of outstanding individual claims and an estimate of future claims development based on historical development. Insurance and claims expenses, including the related insurance and claims reserves, will vary primarily based upon the frequency and severity of the Company’s accident experience.

We identified the estimation of auto liability and workers' compensation claims accruals as a critical audit matter. Auto liability and workers' compensation unpaid claim liabilities are determined by projecting the estimated ultimate loss related to a claim, less actual costs paid to date. These estimates rely on the assumption that historical claim patterns are an accurate representation for future claims that have been incurred, but not completely paid. The principal considerations for assessing auto liability and workers' compensation claims as a critical audit matter are the high level of estimation uncertainty and the level of audit effort and expertise required to audit the reserve related to determining the severity of these types of claims, as well as the inherent subjectivity in management's judgment in estimating the total costs to settle or dispose of these claims.

Our audit procedures related to the accuracy of insurance claims reserves for auto liability and workers' compensation liability claims included the following, among others.

- We tested the effectiveness of controls over auto liability and workers' compensation claims, including the completeness and accuracy of claim expenses and payments and management's review over actuarial calculations.
- We tested management's process for determining the auto liability and workers' compensation reserves including evaluating the reasonableness of the methods and assumptions used in estimating the ultimate claim losses with the assistance of an actuarial specialist.
- We tested the claims data used in the actuarial calculation by selecting samples of historical claims data and inspecting source documents to test key attributes of the claims data.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2014.

Minneapolis, Minnesota
February 28, 2020

MARTEN TRANSPORT, LTD.
Consolidated Balance Sheets

	December 31,	
<i>(In thousands, except share information)</i>	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 31,461	\$ 56,763
Receivables:		
Trade, less allowances of \$382 and \$348, respectively	90,712	83,033
Other	11,055	3,808
Prepaid expenses and other	20,938	19,924
Total current assets	154,166	163,528
Property and equipment:		
Revenue equipment	764,419	679,667
Buildings and land	88,414	85,578
Office equipment and other	51,404	51,185
Less accumulated depreciation	(263,843)	(228,200)
Net property and equipment	640,394	588,230
Other noncurrent assets		
Total assets	\$ 796,586	\$ 753,904
 LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 22,917	\$ 15,704
Insurance and claims accruals	31,729	28,103
Accrued and other current liabilities	21,680	28,166
Total current liabilities	76,326	71,973
Deferred income taxes		
	122,022	105,977
Noncurrent operating lease liabilities		
	649	—
Total liabilities	198,997	177,950
Commitments and contingencies (Note 17)		
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; 54,703,466 shares at December 31, 2019, and 54,466,691 shares at December 31, 2018, issued and outstanding	547	545
Additional paid-in capital	79,465	76,814
Retained earnings	517,577	498,595
Total stockholders' equity	597,589	575,954
Total liabilities and stockholders' equity	\$ 796,586	\$ 753,904

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

MARTEN TRANSPORT, LTD.
Consolidated Statements of Operations

<i>(In thousands, except per share information)</i>	For the years ended December 31,		
	2019	2018	2017
Operating revenue	\$ 843,271	\$ 787,594	\$ 698,120
Operating expenses (income):			
Salaries, wages and benefits	274,156	252,047	226,091
Purchased transportation	158,948	144,611	118,349
Fuel and fuel taxes	121,341	121,633	105,390
Supplies and maintenance	46,737	40,853	41,613
Depreciation	95,137	88,585	85,120
Operating taxes and licenses	10,100	9,473	8,993
Insurance and claims	38,201	38,657	38,585
Communications and utilities	7,709	6,634	6,047
Gain on disposition of revenue equipment	(8,680)	(7,244)	(5,499)
Other	23,124	21,997	16,569
Total operating expenses	766,773	717,246	641,258
Operating income	76,498	70,348	56,862
Other	(1,190)	(681)	389
Income before income taxes	77,688	71,029	56,473
Income taxes expense (benefit)	16,617	16,002	(33,811)
Net income	\$ 61,071	\$ 55,027	\$ 90,284
Basic earnings per common share	\$ 1.12	\$ 1.01	\$ 1.66
Diluted earnings per common share	\$ 1.11	\$ 1.00	\$ 1.65
Dividends declared per common share	\$ 0.77	\$ 0.10	\$ 0.08

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

MARTEN TRANSPORT, LTD.
Consolidated Statements of Stockholders' Equity

<i>(In thousands)</i>	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In Capital	Earnings	Stockholders' Equity
Balance at December 31, 2016	54,392	\$ 544	\$ 74,175	\$ 362,619	\$ 437,338
Net income	—	—	—	90,284	90,284
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	141	1	1,089	—	1,090
Employee taxes paid in exchange for shares withheld	—	—	(47)	—	(47)
Share-based payment arrangement compensation expense	—	—	1,250	—	1,250
Dividends on common stock	—	—	—	(4,361)	(4,361)
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	—	—	—	485	485
Net income	—	—	—	55,027	55,027
Repurchase and retirement of common stock	(200)	(2)	(3,754)	—	(3,756)
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	134	2	936	—	938
Employee taxes paid in exchange for shares withheld	—	—	(104)	—	(104)
Share-based payment arrangement compensation expense	—	—	3,323	—	3,323
Dividends on common stock	—	—	—	(5,459)	(5,459)
Balance at December 31, 2018	54,467	545	76,814	498,595	575,954
Net income	—	—	—	61,071	61,071
Issuance of common stock from share-based payment arrangement exercises and vesting of performance unit awards	236	2	1,618	—	1,620
Employee taxes paid in exchange for shares withheld	—	—	(784)	—	(784)
Share-based payment arrangement compensation expense	—	—	1,817	—	1,817
Dividends on common stock	—	—	—	(42,089)	(42,089)
Balance at December 31, 2019	54,703	\$ 547	\$ 79,465	\$ 517,577	\$ 597,589

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

MARTEN TRANSPORT, LTD.
Consolidated Statements of Cash Flows

<i>(In thousands)</i>	For the years ended December 31,		
	2019	2018	2017
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:			
Operations:			
Net income	\$ 61,071	\$ 55,027	\$ 90,284
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	95,137	88,585	85,120
Gain on disposition of revenue equipment	(8,680)	(7,244)	(5,499)
Deferred income taxes	16,045	5,351	(47,228)
Share-based payment arrangement compensation expense	1,817	3,323	1,250
Equity in loss (earnings) from affiliate	155	(493)	271
Distribution from affiliate	-	227	400
Adoption of accounting standard	-	485	-
Changes in other current operating items:			
Receivables	(13,638)	(8,131)	(5,974)
Prepaid expenses and other	(524)	(114)	(503)
Accounts payable	5,259	1,800	11
Insurance and claims accruals	3,626	1,926	6,737
Accrued and other current liabilities	(7,088)	9,881	(2,990)
Net cash provided by operating activities	153,180	150,623	121,879
CASH FLOWS USED FOR INVESTING ACTIVITIES:			
Revenue equipment additions	(184,680)	(161,160)	(148,856)
Proceeds from revenue equipment dispositions	51,025	67,262	61,227
Buildings and land, office equipment and other additions	(4,723)	(7,362)	(7,693)
Proceeds from buildings and land, office equipment and other dispositions	6	5	47
Disposition of investment in affiliate	1,168	-	-
Other	(25)	(15)	(43)
Net cash used for investing activities	(137,229)	(101,270)	(95,318)
CASH FLOWS USED FOR FINANCING ACTIVITIES:			
Dividends on common stock	(42,089)	(5,459)	(4,361)
Borrowings under credit facility and long-term debt	-	-	40,831
Repayment of borrowings under credit facility and long-term debt	-	-	(48,717)
Repurchase and retirement of common stock	-	(3,756)	-
Issuance of common stock from share-based payment arrangement exercises	1,620	938	1,090
Employee taxes paid in exchange for shares withheld	(784)	(104)	(47)
Cash in lieu of fractional shares from stock split	-	-	(54)
Net cash used for financing activities	(41,253)	(8,381)	(11,258)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(25,302)	40,972	15,303
CASH AND CASH EQUIVALENTS:			
Beginning of year	56,763	15,791	488
End of year	\$ 31,461	\$ 56,763	\$ 15,791
SUPPLEMENTAL NON-CASH DISCLOSURE:			
Change in property and equipment not yet paid	\$ 249	\$ (3,604)	\$ (1,559)
Operating lease assets and liabilities acquired	\$ 1,668	\$ -	\$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for:			
Income taxes	\$ 4,953	\$ 9,526	\$ 14,355
Interest	\$ 52	\$ 50	\$ 151

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

MARTEN TRANSPORT, LTD.
Notes to Consolidated Financial Statements
December 31, 2019, 2018 and 2017

1. Summary of Significant Accounting Policies

Nature of business: Marten Transport, Ltd. is a multifaceted business offering a network of refrigerated and dry truck-based transportation capabilities across our five distinct business platforms – Truckload, Dedicated, Intermodal, Brokerage and MRTN de Mexico. We are one of the leading temperature-sensitive truckload carriers in the United States, specializing in transporting and distributing food and other consumer packaged goods that require a temperature-controlled or insulated environment. Our dry freight services are expanding, with 1,650 dry vans operating as of December 31, 2019. We operate throughout the United States and into and out of Mexico and Canada.

Principles of consolidation: The accompanying consolidated financial statements include Marten Transport, Ltd. and its subsidiaries. All intercompany accounts and transactions are eliminated upon consolidation.

Cash and cash equivalents: Cash in excess of current operating requirements is invested in short-term, highly liquid investments. We consider all highly liquid investments purchased with original maturities of three months or less to be cash equivalents. We maintain our cash and cash equivalents in bank accounts which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts.

Trade accounts receivable: Trade accounts receivable are recorded at the invoiced amounts, net of an allowance for doubtful accounts. A considerable amount of judgment is required in assessing the realization of these receivables including the current creditworthiness of each customer and related aging of the past-due balances, including any billing disputes. In order to assess the collectibility of these receivables, we perform ongoing credit evaluations of our customers' financial condition. Through these evaluations, we may become aware of a situation where a customer may not be able to meet its financial obligations due to deterioration of its financial viability, credit ratings or bankruptcy. The allowance for doubtful accounts is based on the best information available to us and is reevaluated and adjusted as additional information is received. We evaluate the allowance based on historical write-off experience, the size of the individual customer balances, past-due amounts and the overall national economy. We review the adequacy of our allowance for doubtful accounts monthly. Invoice balances over 30 days after the contractual due date are considered past due per our policy and are reviewed individually for collectibility. Initial payments by new customers are monitored for compliance with contractual terms. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential recovery is considered remote.

Property and equipment: Additions and improvements to property and equipment are capitalized at cost. Maintenance and repair expenditures are charged to operations. Gains and losses on disposals of revenue equipment are included in operations as they are a normal, recurring component of our operations.

Depreciation is computed based on the cost of the asset, reduced by its estimated salvage value, using the straight-line method for financial reporting purposes. We begin depreciating assets in the month that each asset is placed in service and, therefore, is ready for its intended use, and depreciate each asset until it is taken out of service and available for sale. Accelerated methods are used for income tax reporting purposes. Following is a summary of estimated useful lives for financial reporting purposes:

	<u>Years</u>
Tractors	5
Trailers	7
Refrigerated containers	12
Service and other equipment	3 - 15
Buildings and improvements	20 - 40

In 2019, we replaced our company-owned tractors within an average of 4.0 years and our trailers within an average of 5.0 years after purchase. Our useful lives for depreciating tractors is five years, for trailers is seven years and for refrigerated containers is 12 years, with a 25% salvage value for tractors, a 35% salvage value for trailers and no salvage value for refrigerated containers. These salvage values are based upon the expected market values of the equipment after five years for tractors and seven years for trailers. Depreciation expense calculated in this manner approximates the continuing declining value of the revenue equipment, and continues at a consistent straight-line rate for units held beyond the normal replacement cycle.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less the costs to sell.

Tires in service: The cost of original equipment and replacement tires placed in service is capitalized. Amortization is calculated based on cost, less estimated salvage value, using the straight-line method over 24 months. Tire amortization, which is included within supplies and maintenance in our consolidated statements of operations, was \$6.9 million in 2019, \$7.0 million in 2018 and \$7.1 million in 2017. The current portion of capitalized tires in service is included in prepaid expenses and other in the accompanying consolidated balance sheets. The long-term portion of capitalized tires in service and the estimated salvage value are included in revenue equipment in the accompanying consolidated balance sheets. The cost of recapping tires is charged to operations as incurred.

Income taxes: Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We have reflected the necessary deferred tax assets and liabilities in the accompanying consolidated balance sheets. We believe the future tax deductions will be realized principally through future reversals of existing taxable temporary differences and future taxable income.

In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Potential accrued interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense.

Insurance and claims: 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 are responsible for the first \$1.0 million on each auto liability claim. We are also responsible for the first \$750,000 on each workers' compensation claim. We 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. We reserve currently for the estimated cost of the uninsured portion of pending claims, including legal costs. These reserves are periodically evaluated and adjusted based on our evaluation of the nature and severity of outstanding individual claims and an estimate of future claims development based on historical development. Under agreements with our insurance carriers and regulatory authorities, we have \$15.7 million in standby letters of credit to guarantee settlement of claims.

Revenue recognition: We account for our revenue in accordance with FASB ASC 606, *Revenue from Contracts with Customers*, which we adopted on January 1, 2018 using the modified retrospective method. The current 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.

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 statements of operations. See Note 18 for more information.

Our largest customer, Walmart, accounted for 17% of our revenue in 2019 and 21% of our trade receivables as of December 31, 2019, 15% of our revenue in 2018 and 12% of our trade receivables as of December 31, 2018, and 19% of our revenue in 2017. Our second largest customer, The Coca-Cola Company, accounted for 14% of our revenue in 2019 and 9% of our trade receivables as of December 31, 2019, and 13% of our revenue in 2018 and 7% of our trade receivables as of December 31, 2018. During each of 2019, 2018 and 2017, approximately 99% of our revenue was generated within the United States.

Share-based payment arrangement compensation: Under our stock incentive plans, all of our employees and any subsidiary employees, as well as all of our non-employee directors, may be granted stock-based awards, including incentive and non-statutory stock options and performance unit awards. We account for share-based payment arrangements in accordance with FASB ASC 718, *Compensation-Stock Compensation*, which requires all share-based payments to employees and non-employee directors, including grants of employee stock options and performance unit awards, to be recognized in the income statement based on their fair values at the date of grant.

Earnings per common share: Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per common share is computed by dividing net income by the sum of the weighted average number of common shares outstanding plus all additional common shares that would have been outstanding if potentially dilutive common shares related to stock options and performance unit awards had been issued using the treasury stock method.

Segment reporting: We report our operating segments in accordance with accounting standards codified in FASB ASC 280, *Segment Reporting*. We have five current operating segments that are aggregated into four reporting segments (Truckload, Dedicated, Intermodal and Brokerage) for financial reporting purposes. See Note 18 for more information.

Use of estimates: We must make estimates and assumptions to prepare the consolidated 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 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.

2. Adoption of New Accounting Standard

We adopted FASB Accounting Standards Update, or ASU, No. 2016-02, *Leases (ASC 842)*, as of January 1, 2019, using the modified retrospective approach. In addition, we elected the practical expedients permitted under the transition guidance within the new standard, which among other things, allowed us to carry forward the historical lease classification.

Adoption of the new standard resulted in the recording of additional operating lease assets and lease liabilities of approximately \$1.1 million, respectively, as of January 1, 2019. The standard did not impact our consolidated net earnings and had no impact on cash flows.

The cumulative effect of the changes made to our consolidated balance sheet on January 1, 2019 for the adoption of the new leasing standard was as follows:

(In thousands)	Balance at December 31, 2018	Adjustments due to ASC 842	Balance at January 1, 2019
Assets:			
Other noncurrent assets	\$ 2,146	\$ 1,135(a)	\$ 3,281
Liabilities:			
Accrued and other current liabilities	28,166	540	28,706
Noncurrent operating lease liabilities	-	595	595

(a) Operating lease assets balance at January 1, 2019.

The impact of the adoption of the new leasing standard on our consolidated balance sheet as of December 31, 2019 was as follows:

(In thousands)	Balance at December 31, 2019		
	Prior to Adoption of ASC 842	Adjustments due to ASC 842	As Reported
Assets:			
Other noncurrent assets	\$ 848	\$ 1,178(a)	\$ 2,026
Liabilities:			
Accrued and other current liabilities	21,151	529	21,680
Noncurrent operating lease liabilities	-	649	649

(a) Operating lease assets balance at December 31, 2019.

3. Details of Consolidated Balance Sheet Accounts

Prepaid expenses and other: As of December 31, prepaid expenses and other consisted of the following:

(In thousands)	2019	2018
License fees	\$ 5,321	\$ 4,760
Tires in service	4,972	5,011
Parts and tires inventory	3,394	3,528
Insurance premiums	2,356	1,831
Contract assets	1,729	1,823
Other	3,166	2,971
	<u>\$ 20,938</u>	<u>\$ 19,924</u>

Accrued and other current liabilities: As of December 31, accrued and other current liabilities consisted of the following:

(In thousands)	2019	2018
Accrued expenses	\$ 6,738	\$ 7,091
Vacation	6,558	5,895
Salaries and wages	5,438	9,744
Accrued liability to MWL	-	1,222
Other	2,946	4,214
	<u>\$ 21,680</u>	<u>\$ 28,166</u>

4. 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 December 31, 2019, 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 \$15.7 million and remaining borrowing availability of \$14.3 million. At December 31, 2018, there was also no outstanding principal balance on the facility. As of that date, we had outstanding standby letters of credit of \$14.6 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 2.5% at December 31, 2019.

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. A waiver allowing stock redemptions and dividends in excess of the 25% limitation in a total amount of up to \$65 million in 2019 was obtained from the lender in August 2019. 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 December 31, 2019 and 2018.

5. Related Party Transactions

The following related party transactions occurred during the three years ended December 31, 2019:

(a) We purchase fuel and tires and obtain related services from a company in which one of our directors is the chairman of the board, chief executive officer and the principal stockholder. We paid that company \$392,000 in 2019, \$341,000 in 2018 and \$328,000 in 2017 for fuel, tires and related services. In addition, we paid \$1.7 million in 2019 and \$2.5 million in each of 2018 and 2017 to tire manufacturers for tires that were provided by the same company. The same company received commissions from the tire manufacturers related to these purchases. We had payables to that company of \$19,000 as of December 31, 2019 and no payables at December 31, 2018.

(b) We provided transportation services to MW Logistics, LLC, or MWL, a 45% owned affiliate through October 31, 2019, as described in Note 12.

6. Income Taxes

We recorded a \$56.5 million deferred income taxes benefit in 2017 to recognize the impact on our federal net deferred tax liability of the reduction of the federal corporate statutory income tax rate from 35% to 21% related to the Tax Cuts and Jobs Act of 2017, which was enacted prior to December 31, 2017. Excluding that benefit, the 2017 federal deferred provision was \$8.0 million and the effective tax rate was 40.1%. The Tax Cuts and Jobs Act of 2017 makes broad and complex changes to the U.S. tax code including, but not limited to, reducing the federal corporate income tax rate as noted above beginning on January 1, 2018 and allowing bonus depreciation with full expensing of qualified property placed in service after September 27, 2017.

The components of the income taxes expense (benefit) consisted of the following:

<i>(In thousands)</i>	2019	2018	2017
Current:			
Federal	\$ (1,210)	\$ 7,575	\$ 12,427
State	1,782	3,076	990
Total current	<u>572</u>	<u>10,651</u>	<u>13,417</u>
Deferred:			
Federal	15,572	5,815	(48,424)
State	473	(464)	1,196
Total deferred	<u>16,045</u>	<u>5,351</u>	<u>(47,228)</u>
Total expense (benefit)	<u>\$ 16,617</u>	<u>\$ 16,002</u>	<u>\$ (33,811)</u>

The federal statutory income tax rate is reconciled to the effective income tax rate as follows:

	<u>2019</u>	2018	2017
Federal statutory income tax rate	21%	21%	35%
Increase in taxes arising from state income taxes, net of federal income tax benefit	2	3	3
Per diem and other non-deductible expenses	1	2	4
Decrease in federal deferred taxes due to decrease in statutory rate	—	—	(100)
Federal tax credits	(2)	(2)	(1)
Other, net	(1)	(1)	(1)
Effective tax rate	21%	23%	(60)%

As of December 31, the net deferred tax liability consisted of the following:

<i>(In thousands)</i>	<u>2019</u>	2018
Deferred tax assets:		
Reserves and accrued liabilities	\$ 9,050	\$ 7,986
Other	2,464	2,313
	<u>11,514</u>	<u>10,299</u>
Deferred tax liabilities:		
Depreciation	130,686	113,773
Prepaid expenses	2,850	2,503
	<u>133,536</u>	<u>116,276</u>
Net deferred tax liability	<u>\$ 122,022</u>	<u>\$ 105,977</u>

We have not provided a valuation allowance against deferred tax assets at December 31, 2019 or 2018. We believe the deferred tax assets will be realized principally through future reversals of existing taxable temporary differences (deferred tax liabilities) and future taxable income.

Our reserves for unrecognized tax benefits were \$3.0 million as of December 31, 2019 and \$1.9 million as of December 31, 2018. The \$1.1 million increase in the amount reserved in 2019 relates to current period tax positions and an amendment to prior periods' open returns for a current position less the removal of the reserve relating to 2014 tax positions, as that period has now closed. The amount reserved as of December 31, 2018 was added in 2014 through 2018 relating to current period tax positions. If recognized, \$2.9 million of the unrecognized tax benefits as of December 31, 2019 would favorably impact our effective tax rate. Potential interest and penalties related to unrecognized tax benefits of \$13,000 and \$12,000 were recognized in our financial statements as of December 31, 2019 and 2018, respectively. The federal statute of limitations remains open for 2016 and forward. We file tax returns in numerous state jurisdictions with varying statutes of limitations.

7. Earnings per Common Share

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

<i>(In thousands, except per share amounts)</i>	<u>2019</u>	2018	2017
Numerator:			
Net income	\$ 61,071	\$ 55,027	\$ 90,284
Denominator:			
Basic earnings per common share - weighted-average shares	54,630	54,590	54,492
Effect of dilutive stock options	483	559	358
Diluted earnings per common share - weighted-average shares and assumed conversions	<u>55,113</u>	<u>55,149</u>	<u>54,850</u>
Basic earnings per common share	<u>\$ 1.12</u>	<u>\$ 1.01</u>	<u>\$ 1.66</u>
Diluted earnings per common share	<u>\$ 1.11</u>	<u>\$ 1.00</u>	<u>\$ 1.65</u>

Options totaling 220,300, 153,500 and 145,169 equivalent shares were outstanding but were not included in the calculation of diluted earnings per share for 2019, 2018 and 2017, respectively, 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 (see Note 14) totaling 69,636, 1,638 and 124,046 equivalent shares for 2019, 2018 and 2017, respectively, 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.

8. 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 $\frac{2}{3}$ % stock dividend. Our consolidated 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.

9. Share Repurchase Program

In 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 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. In August 2019, our Board of Directors approved and we announced an increase in our existing share repurchase program providing for the repurchase of up to \$34 million, or approximately 1.8 million shares, of our common stock. 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 repurchased and retired 200,000 shares of common stock for \$3.8 million in the fourth quarter of 2018. We did not repurchase any shares in 2019 or 2017. As of December 31, 2019, future repurchases of up to \$34 million, or 1.8 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. We paid cash dividends totaling \$42.1 million in 2019 which consisted of a special dividend of \$0.65 per share of common stock in September, along with quarterly cash dividends of \$0.03 per share of common stock in each quarter of 2019. Quarterly cash dividends of \$0.025 per share of common stock were declared in each quarter of 2018 and totaled \$5.5 million. Quarterly cash dividends of \$0.015 per share of common stock were declared in each of the first two quarters of 2017 along with dividends of \$0.025 per share in each of 2017's last two quarters, which totaled \$4.4 million.

Our ability to pay cash dividends is currently limited by restrictions contained in our revolving credit facility, which prohibits us from paying, in any fiscal year, stock redemptions and dividends in excess of 25% of our net income from the prior fiscal year. A waiver allowing stock redemptions and dividends in excess of the 25% limitation in a total amount of up to \$65 million in 2019 was obtained from the lender in August 2019.

11. 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.

12. Equity Investment

We owned a 45% equity interest in MWL, a third-party provider of logistics services to the transportation industry, until October 31, 2019, at which time we sold our entire membership interest for approximately \$1.3 million. Prior to the sale of our interest, a non-related party owned the other 55% equity interest in MWL. We accounted for our ownership interest in MWL under the equity method of accounting. We received \$2.2 million, \$5.5 million and \$2.2 million of our revenue for loads transported by our tractors and arranged by MWL for the first ten months of 2019 and for the full years of 2018 and 2017, respectively.

13. Leases

We lease facilities, drop yards, office space, land, chassis and equipment. All leases are classified as operating leases. We do not have any financing leases. Payments for operating leases that extend beyond 12 months are fixed.

Some leases include options to renew, with renewal terms that can extend the lease term from six months to three years or more. The exercise of lease renewal options is at our sole discretion and is considered in the determination of the operating lease assets and lease liabilities once reasonably certain of exercise.

Management has elected to apply the short-term lease exemption to leases with an initial term of 12 months or less and these leases are not capitalized. This primarily affects drop yards and chassis, for which we recognize lease expense on a straight-line basis over the lease term.

The classification of operating leases in our consolidated balance sheet was as follows:

(In thousands)	Balance at December 31, 2019
Assets:	
Other noncurrent assets	\$ 1,178(a)
Liabilities:	
Accrued and other current liabilities	529
Noncurrent operating lease liabilities	<u>649</u>
Total liabilities	<u>\$ 1,178</u>

(a) Operating lease assets balance at December 31, 2019.

The maturity of the operating lease liabilities is as follows:

	Amount
Maturities:	
2020	\$ 547
2021	325
2022	168
2023 and 2024	<u>208</u>
Total lease payments	1,248
Adjust to present value	<u>(70)</u>
Total operating lease liabilities	<u>\$ 1,178</u>

The weighted-average remaining lease term at December 31, 2019 was 37 months and at January 1, 2019 was 29 months. The weighted-average discount rate was 2.4% at December 31, 2019 and 2.1% at January 1, 2019. The operating leases identified do not specify implicit rates, accordingly, we use our incremental borrowing rate at the time of lease inception to determine the present value of lease payments.

Operating lease assets obtained in exchange for lease obligations in 2019 totaled \$533,000. We paid \$579,000 of cash for capitalized operating leases during 2019.

Total operating lease expense for 2019 was \$1.9 million and is reported within other operating expenses in our consolidated statements of operations. This amount includes \$1.3 million of short-term lease expense with an initial term of 12 months or less.

14. Employee Benefits

Equity Incentive Plans - In May 2015, our stockholders approved our 2015 Equity Incentive Plan (the “2015 Plan”). Our Board of Directors adopted the 2015 Plan in March 2015. Under our 2015 Plan, all of our employees and any subsidiary employees, as well as all of our non-employee directors, may be granted stock-based awards, including non-statutory stock options, performance unit awards and shares of common stock, of which 1,133,362 shares have been awarded as of December 31, 2019. Stock options expire within 7 or 10 years after the date of grant and the exercise price must be at least the fair market value of our common stock on the date of grant. Stock options issued to employees are generally exercisable beginning one year from the date of grant in cumulative amounts of 20% per year. Performance unit awards are subject to vesting requirements over a five-year period, primarily based on our earnings growth. Options exercised and performance unit award shares issued represent newly issued shares.

At our 2019 Annual Meeting of Stockholders held on May 7, 2019, our stockholders approved an amendment to the Marten Transport, Ltd. 2015 Equity Incentive Plan, which was previously approved and adopted by our Board of Directors, subject to approval by our stockholders. The amendment increased the number of shares of common stock authorized for issuance under the 2015 Plan by 1.3 million shares and the number of shares of common stock authorized for issuance pursuant to full-value awards by 558,334 shares. The amendment also adjusted certain numbers to reflect the stock split that occurred in July 2017.

The maximum number of shares of common stock available for issuance under the 2015 Plan, as amended, is 2,633,333 shares. As of December 31, 2019, there were 587,672 shares reserved for issuance under options outstanding and 247,621 shares reserved for issuance under outstanding performance unit awards under the 2015 Plan. The 2015 Plan replaces our 2005 Stock Incentive Plan (the “2005 Plan”), which expired by its terms in May 2015.

Under the 2005 Plan, officers, directors and employees were granted non-statutory stock options and performance unit awards with similar terms to the options and awards under the 2015 Plan. As of December 31, 2019, there were 254,657 shares reserved for issuance under options outstanding, which will continue according to their terms. As of the same date, there were no shares reserved for issuance under outstanding performance unit awards under the 2005 Plan. No additional awards will be granted under the 2005 Plan.

We use the Black-Scholes option pricing model to calculate the grant-date fair value of option awards. The fair value of service-based option awards granted was estimated as of the date of grant using the following weighted average assumptions:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Expected option life in years ⁽¹⁾	6.0	6.0	6.0
Expected stock price volatility percentage ⁽²⁾	28%	26%	25%
Risk-free interest rate percentage ⁽³⁾	2.2%	2.8%	2.0%
Expected dividend yield ⁽⁴⁾	0.58%	0.48%	0.59%
Fair value as of the date of grant	\$ 5.89	\$ 6.19	\$ 4.34

- (1) Expected option life – We use historical employee exercise and option expiration data to estimate the expected life assumption for the Black-Scholes grant-date valuation. We believe that this historical data is currently the best estimate of the expected term of a new option. We use a weighted-average expected life for all awards.
- (2) Expected stock price volatility – We use our stock’s historical volatility for the same period of time as the expected life. We have no reason to believe that its future volatility will differ from the past.
- (3) Risk-free interest rate – The rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the same period of time as the expected life.
- (4) Expected dividend yield – The calculation is based on the total expected annual dividend payout divided by the average stock price.

Compensation costs associated with service-based option awards with graded vesting are recognized, net of an estimated forfeiture rate, on a straight-line basis over the requisite service period, which is the period between the grant date and the award's stated vesting term. Service-based option awards become immediately exercisable in full in the event of death or disability and upon a change in control with respect to all options that have been outstanding for at least six months.

In May 2013, we granted 104,250 performance unit awards under our 2005 Stock Incentive Plan to certain employees. This was our fourth grant of such awards. As of December 31, 2013 and each December 31st thereafter through December 31, 2017, each award vested and became the right to receive a number of shares of common stock equal to a total vesting percentage multiplied by the number of units subject to such award. The total vesting percentage for each of the five years was equal to the sum of a performance vesting percentage, which was the percentage increase, if any, in our diluted net income per share for the year being measured over the prior year, and a service vesting percentage of five percentage points. All payments were made in shares of our common stock. One half of the vested performance units were paid to the employees immediately upon vesting, with the other half being credited to the employees' accounts within the Marten Transport, Ltd. Deferred Compensation Plan, which restricts the sale of vested shares to the later of each employee's termination of employment or attainment of age 62.

In May 2014, we granted 60,668 performance unit awards with similar terms to the awards previously granted, and also granted 18,337 performance unit awards with similar terms to such awards, except that all vested performance units will be paid to the employees immediately upon vesting. All awards granted in 2014 vested from December 31, 2014 through 2018.

In May 2015, we granted 58,335 performance unit awards under our 2015 Equity Incentive Plan with similar terms to the awards previously granted, and also granted 32,500 performance unit awards with similar terms to such awards, except that all vested performance units will be paid to the employees immediately upon vesting. All awards granted in 2015 vested from December 31, 2015 through 2019.

In May 2016, we granted 57,669 performance unit awards under our 2015 Equity Incentive Plan with similar terms to the awards previously granted, except that the calculation of vesting shares is based on our increase in net income instead of our increase in diluted net income per share. As permitted in the performance unit award agreements granted in 2011 through 2015, the calculation of the performance vesting component beginning with the year 2015 was adjusted to be based on the increase in net income. We also granted 21,671 performance unit awards in May 2016 and 1,667 awards in August 2016 with similar terms to such awards, except that all vested performance units will be paid to the employees immediately upon vesting. All awards granted in 2016 vest from December 31, 2016 through 2020.

In May 2017, we granted 109,169 performance unit awards under our 2015 Equity Incentive Plan with similar terms to the awards granted in 2016, except that the service-based component was increased from five percent to ten percent per year. The Compensation Committee adjusted the equity vesting formula to better align it with our long-range growth plan. We also granted 43,342 performance unit awards in May 2017 and 2,000 awards in August 2017 with similar terms to such awards, except that all vested performance units will be paid to the employees immediately upon vesting. All awards granted in 2017 vest from December 31, 2017 through 2021.

In May 2018, we granted 45,700 performance unit awards under our 2015 Equity Incentive Plan with similar terms to the awards granted in 2017. We also granted 28,000 performance unit awards in May 2018 and 2,000 awards in August 2018 with similar terms to such awards, except that all vested performance units will be paid to the employees immediately upon vesting. These awards granted in 2018 vest from December 31, 2018 through 2022. We also granted 2,000 performance unit awards in December 2018 with similar terms to the awards granted in August 2018, except that the awards vest from December 31, 2019 through 2023.

In May 2019, we granted 40,000 performance unit awards under our 2015 Equity Incentive Plan with similar terms to awards granted in 2017. We also granted 30,000 performance unit awards in May 2019 with similar terms to such awards, except that all vested performance units will be paid to the employees immediately upon vesting. These awards granted in 2019 vest from December 2019 through 2023.

The fair value of each performance unit is based on the closing market price on the date of grant. We recognize compensation expense for these awards based on the estimated number of units probable of achieving the vesting requirements of the awards, net of an estimated forfeiture rate.

The amount of share-based compensation recognized during a period is based on the value of the portion of the awards that are ultimately expected to vest. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We currently expect, based on an analysis of our historical

forfeitures and known forfeitures on existing awards, that approximately 1.25% of unvested outstanding awards will be forfeited each year. This analysis will be re-evaluated quarterly and the forfeiture rate will be adjusted as necessary. Ultimately, the actual expense recognized over the vesting period will only be for those shares that vest.

Total share-based compensation expense recorded in 2019 was \$1.8 million (\$1.4 million net of income tax benefit, \$0.03 earnings per basic and diluted shares), in 2018 was \$3.3 million (\$2.6 million net of income tax benefit, \$0.05 earnings per basic and diluted share) and in 2017 was \$1.3 million (\$738,000 net of income tax benefit, \$0.01 of earnings per basic and diluted share). All share-based compensation expense was recorded in salaries, wages and benefits expense.

As of December 31, 2019, there was a total of \$1.4 million of unrecognized compensation expense related to unvested service-based option awards, which is expected to be recognized over a weighted-average period of 3.1 years, and \$2.4 million of unrecognized compensation expense related to unvested performance unit awards, which will be recorded based on the estimated number of units probable of achieving the vesting requirements of the awards through 2023.

Effective January 1, 2017, we adopted the provisions of FASB ASU No. 2016-09, *Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting* which simplifies several aspects of the accounting for share-based payment transactions. The adoption of this standard resulted in decreases to our provision for income taxes in 2019 of \$341,000, in 2018 of \$319,000 and in 2017 of \$176,000, as the actual increase in our stock price exceeded the grant-date fair value of the period's exercised options and vested performance unit awards. Excess tax benefits were recognized in additional paid-in capital through 2016.

Option activity in 2019 was as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2018	939,193	\$ 13.78
Granted	68,000	20.00
Exercised	(151,594)	10.68
Forfeited	(13,270)	15.73
Outstanding at December 31, 2019	842,329	\$ 14.81
Exercisable at December 31, 2019	523,677	\$ 12.69

The 842,329 options outstanding as of December 31, 2019 have a weighted average remaining contractual life of 3.4 years and an aggregate intrinsic value based on our closing stock price on December 31, 2019 for in-the-money options of \$5.8 million. The 523,677 options exercisable as of the same date have a weighted average remaining contractual life of 2.4 years and an aggregate intrinsic value similarly calculated of \$4.6 million.

The fair value of options granted in 2019, 2018 and 2017 was \$401,000, \$957,000 and \$592,000, respectively, for service-based options. The total intrinsic value of options exercised in 2019, 2018 and 2017 was \$1.4 million, \$1.5 million and \$830,000, respectively. Intrinsic value is the difference between the fair value of the acquired shares at the date of exercise and the exercise price, multiplied by the number of options exercised. Proceeds received from option exercises in 2019, 2018 and 2017 were \$1.6 million, \$938,000 and \$1.1 million, respectively.

Nonvested service-based option awards as of December 31, 2019 and changes during 2019 were as follows:

	Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (in Years)
Nonvested at December 31, 2018	393,480	\$ 4.72	5.2
Granted	68,000	5.89	6.5
Vested	(132,558)	4.29	3.5
Forfeited	(10,270)	4.37	3.6
Nonvested at December 31, 2019	318,652	\$ 5.18	5.1

The total fair value of options which vested during 2019, 2018 and 2017 was \$569,000, \$547,000 and \$515,000, respectively.

The following table summarizes our nonvested performance unit award activity in 2019:

	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2018	185,909	\$ 14.89
Granted	70,000	19.89
Vested	(78,305)(1)	15.88
Forfeited	(39,487)	14.33
Nonvested at December 31, 2019	138,117	\$ 17.16

- (1) This number of performance unit award shares vested based on our financial performance in 2019 and was distributed or credited to the Marten Transport, Ltd. Deferred Compensation Plan in March 2020. As permitted in the performance unit award agreements granted in 2015, the Compensation Committee of our Board of Directors adjusted the calculation of the performance vesting component for 2019 to be based on our increase in net income instead of our increase in diluted net income per share. The fair value of unit award shares that vested in 2019 was \$1.2 million.

Retirement Savings Plan - We sponsor a defined contribution retirement savings plan under Section 401(k) of the Internal Revenue Code. Employees are eligible for the plan after three months of service. Participants are able to contribute up to the limit set by law, which in 2019 was \$19,000 for participants less than age 50 and \$25,000 for participants age 50 and above. We contribute 35% of each participant's contribution, up to a total of 6% contributed. Our contribution vests at the rate of 20% per year for the first through fifth years of service. In addition, we may make elective contributions as determined by the Board of Directors. No elective contributions were made in 2019, 2018 or 2017. Total expense recorded for the plan was \$2.7 million in 2019, \$2.3 million in 2018 and \$2.1 million in 2017.

Stock Purchase Plans - An Employee Stock Purchase Plan and an Independent Contractor Stock Purchase Plan are sponsored to encourage employee and independent contractor ownership of our common stock. Eligible participants specify the amount of regular payroll or contract payment deductions and voluntary cash contributions that are used to purchase shares of our common stock. The purchases are made at the market price on the open market. We pay the broker's commissions and administrative charges for purchases of common stock under the plans.

15. Deferred Compensation Plan

In August 2010, our Board of Directors approved and adopted the Marten Transport, Ltd. Deferred Compensation Plan. The deferred compensation plan is an unfunded, nonqualified deferred compensation plan designed to allow board elected officers and other select members of our management designated by our Compensation Committee to save for retirement on a tax-deferred basis.

Under the terms of the plan, each participant is eligible to defer portions of their base pay, annual bonus, or receipt of common stock otherwise payable under a vested performance unit award. Each participant can elect a fixed distribution date for the participant's deferral account other than certain required performance unit award deferrals credited to the discretionary account, which will be distributed after the later of the date of the participant's termination of employment or the date the participant attains age 62. Upon termination of a participant's employment with the company, the plan requires a lump-sum distribution of the deferral account, excluding the required performance unit award deferrals, unless the participant had elected an installment distribution. Upon a participant's death, the plan provides that a participant's distributions accelerate and will be paid in a lump sum to the participant's beneficiary. We may terminate the plan and accelerate distributions to participants, but only to the extent and at the times permitted under the Internal Revenue Code. We may terminate the plan and accelerate distributions upon a change in control, which is not a payment event under the plan. In conjunction with the approval of the plan, our Board of Directors also adopted an amendment to the Marten Transport, Ltd. 2005 Stock Incentive Plan to allow for deferral of receipt of income from a performance unit award under the plan. Such deferral is also provided for within the Marten Transport, Ltd. 2015 Equity Incentive Plan. As of December 31, 2019, 275,957 shares of Company common stock with a value of \$5.9 million were credited to account balances within the plan. These shares were required performance unit award deferrals of vested awards, and dividends earned on such shares.

16. 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.

17. Commitments and Contingencies

We are committed to purchase \$90.9 million of new revenue equipment in 2020. Operating lease obligation expenditures total \$1.2 million through 2024.

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.

18. Revenue and Business Segments

We account for our revenue in accordance with FASB 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 FASB ASC 606.

We have strategically transitioned from a refrigerated long-haul carrier to a multifaceted business offering a network of refrigerated and dry truck-based transportation capabilities across our five distinct business platforms – Truckload, Dedicated, Intermodal, Brokerage and MRTN de Mexico.

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 agreements with customers are typically for one year.

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 accessorial 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 and, beginning in September 2019, our refrigerated containers, each 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.

Operating results of our MRTN de Mexico business which offers our customers door-to-door service between the United States and Mexico with our Mexican partner carriers is reported within our Truckload and Brokerage segments.

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 FASB 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 accessorial 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 which are classified within prepaid expenses and other within our consolidated balance sheet were \$1.7 million and \$1.8 million as of December 31, 2019 and 2018, respectively. We had no impairment losses on contract assets in 2019 or 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, as discussed in our revenue policy note.

The following table sets forth for the years 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.

<i>(Dollars in thousands)</i>	2019	2018	2017
Operating revenue:			
Truckload revenue, net of fuel surcharge revenue	\$ 329,304	\$ 322,324	\$ 336,596
Truckload fuel surcharge revenue	48,696	53,016	43,614
Total Truckload revenue	378,000	375,340	380,210
Dedicated revenue, net of fuel surcharge revenue	223,935	187,137	153,691
Dedicated fuel surcharge revenue	42,049	36,715	13,190
Total Dedicated revenue	265,984	223,852	166,881
Intermodal revenue, net of fuel surcharge revenue	77,750	85,572	70,282
Intermodal fuel surcharge revenue	12,644	16,453	10,339
Total Intermodal revenue	90,394	102,025	80,621
Brokerage revenue	108,893	86,377	70,408
Total operating revenue	\$ 843,271	\$ 787,594	\$ 698,120
Operating income:			
Truckload	\$ 29,666	\$ 35,067	\$ 26,326
Dedicated	31,245	18,589	17,074
Intermodal	6,612	11,150	8,303
Brokerage	8,975	5,542	5,159
Total operating income	\$ 76,498	\$ 70,348	\$ 56,862

Truckload segment depreciation expense was \$54.0 million, \$52.2 million and \$57.2 million, Dedicated segment depreciation expense was \$34.6 million, \$29.6 million and \$22.0 million, Intermodal segment depreciation expense was \$5.1 million, \$5.5 million and \$4.6 million, and Brokerage segment depreciation expense was \$1.5 million, \$1.3 million and \$1.3 million, in 2019, 2018 and 2017, respectively.

19. Quarterly Financial Data (Unaudited)

The following is a summary of the quarterly results of operations for 2019 and 2018:

2019 Quarters <i>(In thousands, except per share amounts)</i>	First	Second	Third	Fourth
Operating revenue	\$ 199,023	\$ 212,090	\$ 214,973	\$ 217,185
Operating income	17,733	19,944	20,034	18,787
Net income	13,546	15,190	16,587	15,748
Basic earnings per common share	0.25	0.28	0.30	0.29
Diluted earnings per common share	0.25	0.28	0.30	0.29
2018 Quarters <i>(In thousands, except per share amounts)</i>	First	Second	Third	Fourth
Operating revenue	\$ 186,960	\$ 197,024	\$ 199,649	\$ 203,961
Operating income	13,594	18,223	18,993	19,538
Net income	10,331	13,702	15,257	15,737
Basic earnings per common share	0.19	0.25	0.28	0.29
Diluted earnings per common share	0.19	0.25	0.28	0.29

The sum of the diluted earnings per common share for the 2019 and 2018 quarters exceeds the amounts for each year due to differences in rounding.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (“Exchange Act”), we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Executive Vice President and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and our Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019. There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting. We intend to periodically evaluate our disclosure controls and procedures as required by the Exchange Act Rules.

We have included Management’s Annual Report on Internal Control Over Financial Reporting in Item 8 above.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

A. Directors of the Registrant.

The information in the “Election of Directors--Information About Nominees” and “Election of Directors--Other Information About Nominees” sections of our 2020 Proxy Statement is incorporated in this Report by reference.

B. Executive Officers of the Registrant.

Information about our executive officers is included in this Report under Item 4A, “Information About our Executive Officers.”

C. Procedure for Director Nominations by Security Holders.

There have been no material changes to the procedures by which security holders may recommend nominees to our board of directors.

D. Audit Committee Financial Expert.

The information in the “Election of Directors—Board and Board Committees” section of our 2020 Proxy Statement is incorporated in this Report by reference.

E. Identification of the Audit Committee.

The information in the “Election of Directors—Board and Board Committees” section of our 2020 Proxy Statement is incorporated in this Report by reference.

F. Code of Ethics for Senior Financial Management.

Our Code of Ethics for Senior Financial Management applies to all of our executive officers, including our principal executive officer, principal financial officer and controller, and meets the requirements of the Securities and Exchange Commission. We have posted our Code of Ethics for Senior Financial Management on our website at www.marten.com. We intend to disclose any amendments to and any waivers from a provision of our Code of Ethics for Senior Financial Management on our website within five business days following such amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

The information in the “Election of Directors--Director Compensation,” “Compensation and Other Benefits” and “Compensation Discussion and Analysis” sections of our 2020 Proxy Statement is incorporated in this Report by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information in the “Security Ownership of Certain Beneficial Owners and Management” and “Compensation and Other Benefits--Equity Compensation Plan Information” sections of our 2020 Proxy Statement is incorporated in this Report by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the “Related Party Transactions” and “Election of Directors--Board and Board Committees” sections of our 2020 Proxy Statement is incorporated in this Report by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information in the “Fees of Independent Auditors” section of our 2020 Proxy Statement is incorporated in this Report by reference.

PART IV

ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*

(a) 1. <u>Financial Statements</u> (See Part II, Item 8 of this Report):	<u>Page</u>
Management’s Annual Report on Internal Control Over Financial Reporting	29
Reports of Independent Registered Public Accounting Firm	30
Consolidated Balance Sheets as of December 31, 2019 and 2018	33
Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017	34
Consolidated Statements of Stockholders’ Equity for the years ended December 31, 2019, 2018 and 2017	35
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	36
Notes to Consolidated Financial Statements	37
2. <u>Financial Statement Schedules</u> (Consolidated Financial Statement Schedule Included in Part IV of this Report):	
Schedule II – Valuation and Qualifying Accounts and Reserves	60
Schedules not listed above have been omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.	

3. Exhibits:

The exhibits to this Report are listed below. A copy of any of the exhibits listed will be sent at a reasonable cost to any shareholder as of March 9, 2020. Requests should be sent to James J. Hinnendael, Executive Vice President and Chief Financial Officer, at our corporate headquarters. The following exhibits are filed with or incorporated by reference into this Annual Report on Form 10-K:

<u>Item No.</u>	<u>Item</u>	<u>Filing Method</u>
3.1	<u>Amended and Restated Certificate of Incorporation effective August 11, 2003</u>	Incorporated by reference to Exhibit 4.1 of the Company's Amendment No. 2 to Registration Statement on Form S-2 (File No. 333-107367).
3.2	<u>Amendment to Amended and Restated Certificate of Incorporation effective May 25, 2005</u>	Incorporated by reference to Exhibit 3.3 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 0-15010).
3.3	<u>Second Amendment to Amended and Restated Certificate of Incorporation effective June 1, 2015</u>	Incorporated by reference to Exhibit 3.4 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (File No. 0-15010).
3.4	<u>Third Amendment to Amended and Restated Certificate of Incorporation effective May 18, 2018</u>	Incorporated by reference to Exhibit 3.5 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 (File No. 0-15010).
3.5	<u>Bylaws of the Company, as amended</u>	Incorporated by reference to Exhibit 3.3 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (File No. 0-15010).
4.1	Specimen form of the Company's Common Stock Certificate	Incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-1 (File No. 33-8108). (Filed on paper – hyperlink is not required pursuant to Rule 105 of Regulation S-T)
4.2	<u>Amended and Restated Certificate of Incorporation effective August 11, 2003</u>	See Exhibit 3.1 above.
4.3	<u>Amendment to Amended and Restated Certificate of Incorporation effective May 25, 2005</u>	See Exhibit 3.2 above.
4.4	<u>Second Amendment to Amended and Restated Certificate of Incorporation effective June 1, 2015</u>	See Exhibit 3.3 above.
4.5	<u>Third Amendment to Amended and Restated Certificate of Incorporation effective May 18, 2018</u>	See Exhibit 3.4 above.
4.6	<u>Bylaws of the Company, as amended</u>	See Exhibit 3.5 above.
4.7	Description of Company's Common Stock	Filed with this Report.
10.1	<u>Marten Transport, Ltd. 2005 Stock Incentive Plan</u>	Incorporated by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 0-15010).

<u>Item No.</u>	<u>Item</u>	<u>Filing Method</u>
10.2	<u>Credit Agreement, dated as of August 31, 2006, by and among Marten Transport, Ltd., as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed September 6, 2006.
10.3	<u>First Amendment to Credit Agreement, effective as of January 1, 2007, by and among Marten Transport, Ltd., as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 5, 2007.
10.4	<u>Form of Amended and Restated Change in Control Severance Agreement</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 15, 2007.
10.5	<u>Second Amendment to Credit Agreement, effective as of November 30, 2007, by and among Marten Transport, Ltd., as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 0-15010).
10.6	<u>Form of First Amendment to Amended and Restated Change in Control Severance Agreement</u>	Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 0-15010).
10.7	<u>Form of Indemnification Agreement</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed February 22, 2010.
10.8	<u>Amendment to the Marten Transport, Ltd. 2005 Stock Incentive Plan</u>	Incorporated by reference to Exhibit 10.17 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 0-15010).
10.9	<u>Marten Transport, Ltd. Deferred Compensation Plan</u>	Incorporated by reference to Exhibit 10.18 of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 (File No. 0-15010).
10.10	<u>Form of Second Amendment to Amended and Restated Change in Control Agreement</u>	Incorporated by Reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed March 8, 2011.
10.11	<u>Third Amendment to Credit Agreement, dated as of May 27, 2011, by and among Marten Transport, Ltd. as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 31, 2011.
10.12	<u>Executive Officer Performance Incentive Plan</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed March 5, 2012.

<u>Item No.</u>	<u>Item</u>	<u>Filing Method</u>
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10.13	<u>Fourth Amendment to Credit Agreement, dated as of December 10, 2012, between Marten Transport, Ltd. as borrower and U.S. Bank National Association</u>	Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (File No. 0-15010).
10.14	<u>Fifth Amendment to Credit Agreement, dated as of December 22, 2014, by and among Marten Transport, Ltd., as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 29, 2014.
10.15	<u>Form of Non-Statutory Stock Option Agreement for the 2015 Equity Incentive Plan</u>	Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed May 15, 2015.
10.16	<u>Form of Performance Unit Awards Agreement for the 2015 Equity Incentive Plan</u>	Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed May 15, 2015.
10.17	<u>Marten Transport, Ltd. 2015 Equity Incentive Plan</u>	Incorporated by reference to Exhibit 10.21 of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (File No. 0-15010).
10.18	<u>Sixth Amendment to Credit Agreement, dated as of November 4, 2015, by and among Marten Transport, Ltd., as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed November 6, 2015.
10.19	<u>Amended and Restated Executive Officer Performance Incentive Plan</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 4, 2015.
10.20	<u>Seventh Amendment to Credit Agreement, dated as of December 6, 2016, by and among Marten Transport, Ltd., as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed December 12, 2016.
10.21	<u>Second Amended and Restated Executive Officer Performance Incentive Plan</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 18, 2017.
10.22	<u>Eighth Amendment to Credit Agreement, dated as of August 24, 2018, by and among Marten Transport, Ltd., borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 28, 2018.
10.23	<u>Marten Transport, Ltd. 2015 Equity Incentive Plan, as amended</u>	Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed May 13, 2019.

Item No.

Item

Filing Method

10.24	<u>Named Executive Officer Compensation</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 13, 2019.
10.25	<u>Ninth Amendment to Credit Agreement, dated as of August 13, 2019, by and among Marten Transport, Ltd., as borrower, the banks party thereto as lenders, and U.S. Bank National Association, as agent for the lenders</u>	Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed August 14, 2019.
23.1	Consent of Grant Thornton LLP	Filed with this Report.
31.1	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Randolph L. Marten, the Registrant's Chief Executive Officer (Principal Executive Officer)	Filed with this Report.
31.2	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by James J. Hinnendael, the Registrant's Executive Vice President and Chief Financial Officer (Principal Financial Officer)	Filed with this Report.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Report.
101	The following financial information from Marten Transport, Ltd.'s Annual Report on Form 10-K for the period ended December 31, 2019, filed with the SEC on February 28, 2020, formatted in iXBRL, or Inline eXtensible Business Reporting Language: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.	Filed with this Report.
104	The cover page from Marten Transport, Ltd.'s Annual Report on Form 10-K for the period ended December 31, 2019, formatted in iXBRL, included in Exhibit 101	Filed with this Report.

ITEM 16: FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Marten Transport, Ltd., the Registrant, has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 28, 2020

MARTEN TRANSPORT, LTD.

By /s/ Randolph L. Marten
Randolph L. Marten
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on February 28, 2020, by the following persons on behalf of the Registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ Randolph L. Marten</u> Randolph L. Marten	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ James J. Hinnendael</u> James J. Hinnendael	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Larry B. Hagness</u> Larry B. Hagness	Director
<u>/s/ Thomas J. Winkel</u> Thomas J. Winkel	Director
<u>/s/ Jerry M. Bauer</u> Jerry M. Bauer	Director
<u>/s/ Robert L. Demorest</u> Robert L. Demorest	Director
<u>/s/ Ronald R. Booth</u> Ronald R. Booth	Director

SCHEDULE II
MARTEN TRANSPORT, LTD.

Valuation and Qualifying Accounts and Reserves
(In thousands)

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions	Balance at End of Year
Insurance and claims accruals:				
Year ended December 31, 2019	\$ 28,103	\$ 56,075	\$ (52,449) ⁽¹⁾	\$ 31,729
Year ended December 31, 2018	26,177	56,122	(54,196) ⁽¹⁾	28,103
Year ended December 31, 2017	19,440	53,609	(46,872) ⁽¹⁾	26,177
Allowance for doubtful accounts:				
Year ended December 31, 2019	348	65	(31) ⁽²⁾	382
Year ended December 31, 2018	300	163	(115) ⁽²⁾	348
Year ended December 31, 2017	275	33	(8) ⁽²⁾	300

(1) Claims payments

(2) Write-off of bad debts, net of recoveries

See report of independent registered public accounting firm.