MARTEN TRANSPORT LTD
Form 10-K
March 15, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 0R 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

Commission file number 0-15010

MARTEN TRANSPORT, LTD.

(Exact name of registrant as specified in its charter)

DELAWARE	**39-1140809**
(State of incorporation)	(I.R.S. Employer Identification no.)

129 MARTEN STREET		
MONDOVI, WISCONSIN	**54755**	**(715) 926-4216**
(Address of principal executive offices)	(Zip Code)	(Registrant's telephone number)

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

Title of each class:	**Name of each exchange on which registered:**
COMMON STOCK, PAR VALUE $.01 PER SHARE	**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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer Accelerated filer Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

As of June 30, 2016 (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 $495,512,000.

As of February 28, 2017, 32,649,665 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 9, 2017, or 2017 Proxy Statement.

TABLE OF CONTENTS

FORWARD-LOOKING INFORMATION

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

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

PART I

ITEM 1. ***BUSINESS***

Overview

We are one of the leading temperature-sensitive truckload carriers in the United States. We specialize in transporting and distributing food and other consumer packaged goods that require a temperature-controlled or insulated environment, along with dry freight. In 2016, we generated $671.1 million in operating revenue, which consists of revenue from our Truckload, Dedicated, Intermodal and Brokerage operations. Approximately 67% of our Truckload and Dedicated revenue resulted from hauling temperature-sensitive products and 33% 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 2016, our average length of haul was 476 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 2,785 company and independent contractor tractors, we are able to offer service levels that include up to 99% on-time performance and delivery within the narrow time windows often required when shipping perishable commodities.

We have four reporting segments – Truckload, Dedicated, Intermodal and Brokerage. Financial information regarding these segments can be found in Footnote 15 to the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K.

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

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

Our Intermodal segment transports our customers' freight within the United States primarily utilizing our temperature-controlled trailers and also, previously, our dry containers on railroad flatcars for portions of trips, with the balance of the trips using our tractors or, to a lesser extent, contracted carriers. In March 2015, we disposed of the overhead-intensive dry containers that were used in a portion of our intermodal operations.

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.

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. Our emphasis in marketing is directed to the temperature-sensitive market, which is generally service-sensitive, as opposed to being solely price competitive. We target food and consumer packaged goods companies whose products require temperature-sensitive services and who ship multiple truckloads per week. By emphasizing high-quality service, we seek to become a core carrier for our customers. In 2016, our largest customer was Wal-Mart.

Our marketing efforts are conducted by a staff of 212 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 and satellite-based tracking and messaging that allows us to communicate with our drivers, obtain load position updates, provide our customers with freight visibility, and download operating information such as fuel mileage and idling time for the tractor engines and temperature setting and run time for the temperature-control units on our trailers.

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

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

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

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

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

We believe this integrated approach to our marketing and operations, coupled with our use of technology, has allowed us to provide our customers with a high level of service and support our revenue growth in an efficient manner. For example, we produced a non-revenue mile percentage of 6.8% during 2016, 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 2016, our top 30 customers accounted for approximately 63% of our revenue, and our top ten customers accounted for 44% 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, and our top ten customers accounted for 52% of our revenue. Each of our top ten customers has been a significant customer of ours for the last ten years. 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, 2016, 137 of our drivers have driven more than one million miles for us without a preventable accident, while 43 of our drivers have driven more than two million miles and 13 have driven more than three million miles for us without a preventable accident.

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

We primarily pay company-employed drivers a fixed rate per mile. The rate increases based on length of service. 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, 2016, we had 3,622 employees. This total consists of 2,762 drivers, 311 mechanics and maintenance personnel, and 549 support personnel, which includes management and administration. As of that date, we also contracted with 68 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, 2016, we operated a fleet of 2,785 tractors, including 2,717 company-owned tractors and 68 tractors supplied by independent contractors. The average age of our company-owned tractor fleet at December 31, 2016 was approximately 1.4 years. In 2016, we replaced our company-owned tractors within an average of 4.2 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.

The EPA adopted revised emissions control regulations, which required progressive reductions in exhaust emissions from diesel engines through 2010, for engines manufactured in October 2002 and thereafter. The revised regulations decrease the amount of emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. The last of three stepped reductions in exhaust emissions was effective for engines manufactured in January 2010 and thereafter. As of December 31, 2016, all of the company-owned tractors in our fleet have tractor engines which were manufactured in January 2010 or thereafter and, therefore, were required to meet the revised design requirements. Compliance with these regulations has increased the cost of new tractors as manufacturers have significantly increased new equipment prices, in part to meet the more stringent engine design requirements imposed by the EPA.

We historically have contracted with independent contractors to provide and operate a portion of our tractor fleet. Independent contractors own their own tractors and are responsible for all associated expenses, including financing costs, fuel, maintenance, insurance, and taxes. The percentage of our fleet provided by independent contractors was 2.4% at each of December 31, 2016 and December 31, 2015, and 2.1% as of December 31, 2014.

As of December 31, 2016, we operated a fleet of 4,854 trailers, consisting of 3,933 refrigerated trailers and 921 dry trailers. Most of our 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, 2016 was approximately 2.7 years. In 2016, we replaced our company-owned trailers within an average of 5.3 years after purchase.

Insurance and Claims

We self-insure for a portion of our claims exposure resulting from workers’ compensation, auto liability, general liability, cargo and property damage claims, as well as employees’ health insurance. We are responsible for our proportionate share of the legal expenses relating to such claims as well. We reserve currently for anticipated losses and expenses. We periodically evaluate and adjust our insurance and claims reserves to reflect our experience. We have $11.2 million in standby letters of credit to guarantee settlement of claims under agreements with our insurance carriers and regulatory authorities. We maintain insurance coverage for per-incident and total losses in excess of the amounts for which we self-insure up to specified policy limits with licensed insurance carriers. Insurance carriers have raised premiums for many businesses, including trucking companies. As a result, our insurance and claims expense has increased. 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 2016, 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, 2016, 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. This market is highly competitive and fragmented. We compete with many other truckload carriers that provide temperature-sensitive service of varying sizes and, to a lesser extent, with less-than-truckload carriers, railroads, and other transportation companies, many of which have more equipment, a wider range of services, and greater capital resources than we do or have other competitive advantages. In particular, several of the largest truckload carriers that offer primarily dry-van service also offer temperature-sensitive service, and these carriers could attempt to increase their business in the temperature-sensitive market. We also compete with other motor carriers for the services of drivers, independent contractors, and management employees. We believe that the principal competitive factors in our business are service, freight rates, capacity, use of technology and financial stability. As one of the largest and best-capitalized carriers focused on the temperature-sensitive segment, we believe we are well positioned to compete in that segment.

Regulation

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

The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. In December 2010, the FMCSA introduced 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 issued in January 2016 a proposed Safety Fitness Determination rule that would replace the current system utilizing CSA scores. The proposed methodology would integrate on-road safety data from inspections with the results of carrier investigations and accident reports. A final rule is expected after 2017.

The FMCSA issued a regulatory rule effective in July 2013 that revised the hours-of-service requirements for drivers, which designate the length of time that drivers are allowed to drive and work. The rule retained the 11-hour driving maximum under which the industry has been operating since 2004. However, changes to the "34-hour restart" provision and required breaks effectively reduced the maximum workweek for drivers. These changes reduced on-duty non-driving time and moderately decreased industry productivity. Omnibus bills adopted in each of December 2014, December 2015 and December 2016 have suspended the additional restrictions effective in July 2013 to the "34-hour restart" provision. The restart rules are required by law to remain suspended until a comprehensive study on the impact of the rules is presented to Congress, who will determine any policy changes based on their review. This review is expected to take place in 2017 or 2018.

In January 2011, the FMCSA issued a regulatory proposal that would require commercial carriers to track compliance with hours-of-service regulations using electronic logging devices, or ELD's, which was vacated and sent back to the FMCSA for further analysis and review in September 2011 by the 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 requires compliance beginning in December 2017. Our entire tractor fleet has been equipped with ELD's since early 2011.

The EPA adopted revised emissions control regulations, which required progressive reductions in exhaust emissions from diesel engines through 2010, for engines manufactured in October 2002 and thereafter. The revised regulations decrease the amount of emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. The last of three stepped reductions in exhaust emissions was effective for engines manufactured in January 2010 and thereafter. As of December 31, 2016, all of the company-owned tractors in our fleet have tractor engines which were manufactured in January 2010 or thereafter and, therefore, were required to meet the revised design requirements. Compliance with these regulations has increased the cost of new tractors as manufacturers have significantly increased new equipment prices, in part to meet the more stringent engine design requirements imposed by the EPA.

In January 2011, the Food Safety Modernization Act, or FSMA, was signed into law and has given the United States Food and Drug Administration, or FDA, new authority to regulate food safety from the farms to consumers, including shippers, carriers, loaders and receivers involved in the sanitary transportation of food. We are prepared for the requirements of the FSMA, which are effective April 6, 2017, with our state-of-the-art equipment, monitoring systems, orientation training program and recordkeeping and retention procedures.

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 2014 through 2016.

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

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

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.

The EPA adopted revised emissions control regulations, which required progressive reductions in exhaust emissions from diesel engines through 2010, for engines manufactured in October 2002 and thereafter. The revised regulations decrease the amount of emissions that can be released by tractor engines and affect tractors produced after the effective date of the regulations. The last of three stepped reductions in exhaust emissions was effective for engines manufactured in January 2010 and thereafter. As of December 31, 2016, all of the company-owned tractors in our fleet have tractor engines which were manufactured in January 2010 or thereafter and, therefore, were required to meet the revised design requirements. Compliance with these regulations has increased the cost of new tractors as manufacturers have significantly increased new equipment prices, in part to meet the more stringent engine design requirements imposed by the EPA.

We 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 2016, our top 30 customers, based on revenue, accounted for approximately 63% of our revenue; our top ten customers accounted for approximately 44% of our revenue; our top five customers accounted for approximately 34% of our revenue; our top two customers accounted for approximately 25% 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 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 and hours-of-service. We also may become subject to new or more restrictive regulations relating to fuel emissions, ergonomics, or other matters affecting safety or operating methods. Other agencies, such as the EPA and the Department of Homeland Security, or DHS, also regulate our equipment, operations, and drivers. Future laws and regulations may be more stringent and require changes in our operating practices, influence the demand for transportation services, or require us to incur significant additional costs. Higher costs incurred by us or by our suppliers who pass the costs onto us through higher prices could adversely affect our results of operations.

The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. In December 2010, the FMCSA introduced 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 issued in January 2016 a proposed Safety Fitness Determination rule that would replace the current system utilizing CSA scores. The proposed methodology would integrate on-road safety data from inspections with the results of carrier investigations and accident reports. A final rule is expected after 2017.

The FMCSA issued a regulatory rule effective in July 2013 that revised the hours-of-service requirements for drivers, which designate the length of time that drivers are allowed to drive and work. The rule retained the 11-hour driving maximum under which the industry has been operating since 2004. However, changes to the "34-hour restart" provision and required breaks effectively reduced the maximum workweek for drivers. These changes reduced on-duty non-driving time and moderately decreased industry productivity. Omnibus bills adopted in each of December 2014, December 2015 and December 2016 have suspended the additional restrictions effective in July 2013 to the "34-hour restart" provision. The restart rules are required by law to remain suspended until a comprehensive study on the impact of the rules is presented to Congress, who will determine any policy changes based on their review. This review is expected to take place in 2017 or 2018.

In January 2011, the FMCSA issued a regulatory proposal that would require commercial carriers to track compliance with hours-of-service regulations using electronic logging devices, or ELD's, which was vacated and sent back to the FMCSA for further analysis and review in September 2011 by the 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 requires compliance beginning in December 2017. Our entire tractor fleet has been equipped with ELD's since early 2011.

In January 2011, the Food Safety Modernization Act, or FSMA, was signed into law and has given the United States Food and Drug Administration, or FDA, new authority to regulate food safety from the farms to consumers, including shippers, carriers, loaders and receivers involved in the sanitary transportation of food. We are prepared for the requirements of the FSMA, which are effective April 6, 2017, with our state-of-the-art equipment, monitoring systems, orientation training program and recordkeeping and retention procedures.

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.

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

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

Lack of capacity 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, 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.

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. 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 will 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.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

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

Company Locations	Owned or Leased	Office	Maintenance
Mondovi, Wisconsin	Owned	X	X
Phoenix, Arizona	Owned	X	X
Jurupa Valley, California	Owned		X
Tampa, Florida	Owned	X	X
Atlanta, Georgia	Owned	X	X
Indianapolis, Indiana	Owned	X	X
Kansas City, Kansas	Owned	X	X
Portland, Oregon	Owned	X	X
Memphis, Tennessee	Owned	X	X
Desoto, Texas	Owned	X	X
Laredo, Texas	Owned	X	X
Colonial Heights, Virginia	Owned	X	X
Otay Mesa, California	Leased	X	
Carlisle, Pennsylvania	Leased	X	X
McAllen, Texas	Leased	X	

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. ***EXECUTIVE OFFICERS OF THE REGISTRANT***

Our executive officers, with their ages and the offices held as of February 28, 2017, are as follows:

Name	Age	Position
Randolph L. Marten	64	Chairman of the Board, Chief Executive Officer and Director
Timothy M. Kohl	69	President
Timothy P. Nash	65	Executive Vice President of Sales and Marketing
James J. Hinnendael	53	Executive Vice President and Chief Financial Officer
John H. Turner	55	Senior Vice President of Sales

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

Timothy M. Kohl has been our President since June 2008 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.

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

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

PART II

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

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

	Common Stock Price	
	High	Low
Year ended December 31, 2016		
Fourth Quarter	**$26.95**	**$16.00**
Third Quarter	**22.27**	**16.97**
Second Quarter	**20.62**	**15.89**
First Quarter	**19.02**	**13.88**
Year ended December 31, 2015		
Fourth Quarter	$18.54	$14.50
Third Quarter	22.87	9.03
Second Quarter	24.88	10.30
First Quarter	23.77	16.52

The prices do not include adjustments for retail mark-ups, mark-downs or commissions. On February 28, 2017, we had 141 record stockholders, and approximately 7,509 beneficial stockholders of our common stock.

Dividend Policy

In August 2010, we announced a regular cash dividend program to our stockholders, subject to approval each quarter. Quarterly cash dividends of $0.025 per share of common stock were declared in each quarter of 2016, 2015 and 2014, and totaled $3.3 million in each of the three years respectively. 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 of the 25%

limitation for 2015 and 2016 was obtained from the lender.

Share Repurchase Program

In December 2007, our Board of Directors approved and we announced a share repurchase program to repurchase up to one million shares of our common stock either through purchases on the open market or through private transactions and in accordance with Rule 10b-18 of the Exchange Act. In November 2015, our Board of Directors approved and we announced an increase in the share repurchase program, providing for the repurchase of up to $40 million, or approximately 2 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 455,581 shares of our common stock for $7.5 million in the first quarter of 2016 and did not repurchase any shares in the last three quarters of 2016. In the fourth quarter of 2015 we repurchased and retired 941,024 shares of our common stock for $16.2 million.

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, 2011, 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.

16

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.

(*Dollars in thousands, except per share amounts)*	**2016**	2015	2014	2013	2012
FOR THE YEAR					
Operating revenue	**$671,144**	$664,994	$672,929	$659,214	$638,456
Operating income	**58,303**	61,063	51,006	51,995	45,853
Net income	**33,464**	35,745	29,834	30,147	27,267
Operating ratio(1)	**91.3 %**	90.8 %	92.4 %	92.1 %	92.8 %
PER-SHARE DATA(2)					
Basic earnings per common share	**$1.03**	$1.07	$0.89	$0.91	$0.82
Diluted earnings per common share	**1.02**	1.06	0.89	0.90	0.82
Dividends declared per common share	**0.10**	0.10	0.10	0.083	0.563
Book value	**13.40**	12.50	11.61	10.78	10.01
AT YEAR END					
Total assets(3)	**$653,748**	$631,528	$576,461	$522,387	$487,468
Long-term debt	**7,886**	37,867	24,373	—	2,726
Stockholders' equity	**437,338**	409,421	387,926	359,137	331,923

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

(2) The amounts for December 31, 2012 have been restated to reflect the three-for-two stock split effected in the form of a 50% stock dividend on June 14, 2013.

(3) The amounts for December 31, 2012 through 2014 have been restated to reflect the reclassification of current deferred income tax assets to be consistent with the current presentation upon adoption of Financial Accounting Standards Board Accounting Standards Update No. 2015-17, "Income Taxes" effective December 31, 2015.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our consolidated financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those under the heading "Risk Factors" beginning on page 7. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this report.

Overview

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

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

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

Our Intermodal segment transports our customers' freight within the United States primarily utilizing our temperature-controlled trailers and also, through March 2015, our dry containers on railroad flatcars for portions of trips, with the balance of the trips using our tractors or, to a lesser extent, contracted carriers. The main factors that affect our Intermodal revenue are the rate per mile and other charges we receive from our customers.

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

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

Our operating revenue increased $6.2 million, or 0.9%, in 2016, despite a 26.4% decrease in fuel surcharge revenue to $53.2 million from $72.3 million in 2015 due to lower fuel prices. Our operating revenue, net of both fuel surcharges and revenue from our dry container service discontinued in March 2015, increased $26.6 million, or 4.5%, compared with 2015. Truckload segment revenue, net of fuel surcharges, decreased 2.3% from 2015 primarily due to a decrease in our average revenue per tractor. Dedicated segment revenue, net of fuel surcharges, increased 37.1% primarily due to an increase in our average fleet size of 36.7% from 2015. Intermodal segment revenue, net of both fuel surcharges and revenue from our discontinued dry container service, decreased $49,000 from 2015 due to a decrease in volume. Brokerage segment revenue decreased 7.0% in 2016 due to a decrease in revenue per load, primarily caused by lower fuel surcharges.

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 expenses as a percentage of operating revenue, or “operating ratio,” increased to 91.3% in 2016 from 90.8% in 2015. Operating expenses as a percentage of operating revenue, with both amounts net of fuel surcharges, was 90.6% in 2016. Our operating ratio for 2015, net of both the facility disposition gain of $4.1 million and fuel surcharges, was 90.4%. Our net income was $33.5 million, or $1.02 per diluted share, in 2016 and $35.7 million, or $1.06 per diluted share, in 2015. Net income in 2016 improved 0.4% over earnings of $33.3 million, or $0.99 per diluted share, in 2015 excluding the facility disposition gain, due to increased operating income in our Dedicated, Intermodal and Brokerage segments, partially offset by decreased operating income in our Truckload segment.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At December 31, 2016, we had $7.9 million of long-term debt outstanding and $437.3 million in stockholders’ equity. In 2016, net cash flows provided by operating activities of $133.6 million were primarily used to purchase new revenue equipment, net of proceeds from dispositions, in the amount of $89.9 million, to partially construct regional operating facilities in the amount of $5.1 million, to repay, net of borrowings, $30.0 million of long-term debt, to repurchase and retire 455,581 shares of our common stock for $7.5 million, and to pay cash dividends of $3.3 million. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately $88 million in 2017. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, existing cash and cash equivalents balances, current borrowing availability and other sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes discussions of operating revenue, net of fuel surcharge revenue; Truckload, Dedicated and Intermodal revenue, net of fuel surcharge revenue; operating revenue and Intermodal revenue, each net of fuel surcharge revenue and revenue from our dry container service discontinued in March 2015; operating expenses as a percentage of operating revenue, each net of fuel surcharge revenue and the sum of fuel surcharge revenue and the facility disposition gain; 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.

Results of Operations

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

	2016	2015	2014
Truckload Segment:			
Revenue (in thousands)	**$375,851**	$398,361	$448,273
Average revenue, net of fuel surcharges, per tractor per week(1)	**$3,427**	$3,529	$3,618
Average tractors(1)	**1,898**	1,892	1,900
Average miles per trip	**623**	666	682
Total miles (in thousands)	**184,281**	186,268	199,168
Dedicated Segment:			
Revenue (in thousands)	**$157,370**	$118,272	$70,352
Average revenue, net of fuel surcharges, per tractor per week(1)	**$3,432**	$3,433	$3,322
Average tractors(1)	**819**	599	327
Average miles per trip	**301**	347	337
Total miles (in thousands)	**75,333**	57,381	31,543
Intermodal Segment:			
Revenue (in thousands)	**$71,490**	$76,958	$97,092

Loads	**35,947**	36,404	44,336
Average tractors	**76**	89	110
Brokerage Segment:			
Revenue (in thousands)	**$66,433**	$71,403	$57,212
Loads	**49,721**	48,060	36,712

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 68, 65 and 52 tractors as of December 31, 2016, 2015 and 2014, respectively.

Comparison of Year Ended December 31, 2016 to Year Ended December 31, 2015

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)	**2016**	2015	Dollar Change 2016 vs. 2015	Percentage Change 2016 vs. 2015
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	**$339,967**	$348,101	$(8,134)	(2.3)%
Truckload fuel surcharge revenue	**35,884**	50,260	(14,376)	(28.6)
Total Truckload revenue	**375,851**	398,361	(22,510)	(5.7)
Dedicated revenue, net of fuel surcharge revenue	**147,007**	107,264	39,743	37.1
Dedicated fuel surcharge revenue	**10,363**	11,008	(645)	(5.9)
Total Dedicated revenue	**157,370**	118,272	39,098	33.1
Intermodal revenue, net of fuel surcharge revenue	**64,508**	65,877	(1,369)	(2.1)
Intermodal fuel surcharge revenue	**6,982**	11,081	(4,099)	(37.0)
Total Intermodal revenue	**71,490**	76,958	(5,468)	(7.1)
Brokerage revenue	**66,433**	71,403	(4,970)	(7.0)
Total operating revenue	**$671,144**	$664,994	$6,150	0.9%
Operating income:				
Truckload	**$27,438**	$35,517	$(8,079)	(22.7)%
Dedicated	**19,550**	12,818	6,732	52.5
Intermodal	**7,131**	4,832	2,299	47.6
Brokerage	**4,184**	3,792	392	10.3
Total operating income before gain on disposition of facilities	**58,303**	56,959	1,344	2.4
Gain on disposition of facilities	**-**	4,104	(4,104)	(100.0)
Total operating income	**$58,303**	$61,063	$(2,760)	(4.5)%
Operating ratio[1]:				
Truckload	**92.7%**	91.1%		
Dedicated	**87.6**	89.2		
Intermodal	**90.0**	93.7		
Brokerage	**93.7**	94.7		
Consolidated operating ratio before gain on disposition of facilities	**91.3%**	91.4%		

Consolidated operating ratio	**91.3 %**	90.8 %

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

Our operating revenue increased $6.2 million, or 0.9%, to $671.1 million in 2016 from $665.0 million in 2015, despite a 26.4% decrease in fuel surcharge revenue to $53.2 million from $72.3 million in 2015 due to lower fuel prices. Our operating revenue, net of both fuel surcharges and revenue from our dry container service discontinued in March 2015, increased $26.6 million, or 4.5%, to $617.9 million in 2016 from $591.3 million in 2015. This increase was due to a $39.7 million increase in Dedicated revenue, net of fuel surcharges, partially offset by an $8.1 million decrease in Truckload revenue, net of fuel surcharges, a $5.0 million decrease in Brokerage revenue, and a $49,000 decrease in Intermodal revenue, net of both fuel surcharges and the discontinued dry container service.

Truckload segment revenue decreased $22.5 million, or 5.7%, to $375.9 million in 2016 from $398.4 million in 2015. Truckload segment revenue, net of fuel surcharges, decreased $8.1 million, or 2.3%, to $340.0 million in 2016 from $348.1 million in 2015, primarily due to a decrease in our average revenue per tractor. The increase in the operating ratio in 2016 was also primarily due to a decrease in our average revenue per tractor within a continued soft freight market.

Dedicated segment revenue increased $39.1 million, or 33.1%, to $157.4 million in 2016 from $118.3 million in 2015. Dedicated segment revenue, net of fuel surcharges, increased 37.1% primarily due to an increase in our average fleet size of 36.7% driven by a significant increase in the number of Dedicated contracts we have with customers. The improvement in the operating ratio in 2016 was achieved primarily through multiple cost control measures.

Intermodal segment revenue decreased $5.5 million, or 7.1%, to $71.5 million in 2016 from $77.0 million in 2015. Intermodal segment revenue, net of both fuel surcharges and $1.3 million of revenue from our discontinued dry container service, decreased $49,000 from 2015 due to a decrease in volume. The improvement in the operating ratio in 2016 was primarily due to the disposal of our dry container service, which produced a higher operating ratio than our temperature-controlled trailer service, and decreases in salaries, wages and benefits and depreciation expense, as the fleet size was reduced to optimize productivity.

Brokerage segment revenue decreased $5.0 million, or 7.0%, to $66.4 million in 2016 from $71.4 million in 2015, due to a decrease in revenue per load, primarily caused by lower fuel surcharges. The improvement in the operating ratio in 2016 was primarily driven by a decrease in the percentage of the amounts payable to carriers for transportation services which we arranged to 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 Change 2016 vs. 2015	Percentage Change 2016 vs. 2015	Percentage of Operating Revenue 2016	Percentage of Operating Revenue 2015
Operating revenue	$6,150	0.9 %	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	15,372	7.3	33.5	31.5
Purchased transportation	(7,311)	(6.2)	16.5	17.7
Fuel and fuel taxes	(10,507)	(10.0)	14.0	15.7
Supplies and maintenance	593	1.4	6.5	6.5
Depreciation	7,122	9.5	12.3	11.3
Operating taxes and licenses	185	2.1	1.4	1.3
Insurance and claims	2,971	10.2	4.8	4.4
Communications and utilities	401	6.8	0.9	0.9
Gain on disposition of revenue equipment	(4,918)	(88.1)	(1.6)	(0.8)
Gain on disposition of facilities	4,104	(100.0)	-	(0.6)
Other	898	4.8	2.9	2.8
Total operating expenses	8,910	1.5	91.3	90.8
Operating income	(2,760)	(4.5)	8.7	9.2
Other				