

PAM TRANSPORTATION SERVICES INC
Form 10-Q
November 02, 2018

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

For the transition period from _____ to _____

Commission File Number: 0-15057

P.A.M. TRANSPORTATION SERVICES, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: PAM TRANSPORTATION SERVICES INC - Form 10-Q

Delaware 71-0633135
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification no.)

297 West Henri De Tonti, Tontitown, Arkansas 72770

(Address of principal executive offices) (Zip Code)

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

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 |
| Non-accelerated filer (Do not check if a smaller reporting company) | Smaller reporting company |
| | Emerging growth company |

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

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

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

| Class | Outstanding at October 29, 2018 |
|-------------------------------|---------------------------------|
| Common Stock, \$.01 Par Value | 5,973,270 |

Table of Contents

P.A.M. TRANSPORTATION SERVICES, INC.

Form 10-Q

For The Quarter Ended September 30, 2018

Table of Contents

Part I. Financial Information

| | | |
|---------|----------------------------------------------------------------------------------------------------------------------------------|----|
| Item 1. | <u>Financial Statements (unaudited).</u> | 3 |
| | <u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u> | 3 |
| | <u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u> | 4 |
| | <u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2018 and 2017</u> | 5 |
| | <u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u> | 6 |
| | <u>Condensed Consolidated Statement of Shareholders' Equity for the Nine Months Ended September 30, 2018</u> | 7 |
| | <u>Notes to Condensed Consolidated Financial Statements as of September 30, 2018</u> | 8 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u> | 17 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk.</u> | 23 |
| Item 4. | <u>Controls and Procedures.</u> | 24 |

Part II. Other Information

| | | |
|--|---------------------------|----|
| | <u>Legal Proceedings.</u> | 24 |
|--|---------------------------|----|

| | | |
|------|---------------------------------------------------------------------|----|
| Item | | |
| 1. | | |
| Item | | |
| 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u> | 24 |
| Item | | |
| 6. | <u>Exhibits.</u> | 26 |
| | <u>Signatures</u> | 27 |

Table of Contents

PART I. FINANCIAL INFORMATION

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

(unaudited)

(in thousands, except
share and per share
data)

| | September 30, 2018 (unaudited) | December 31, 2017 (audited) |
|------------------------------------------------------------|--------------------------------------------------|-----------------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 275 | \$ 224 |
| Accounts receivable-net: | | |
| Trade, less allowance of \$2,012 and \$1,335, respectively | 75,834 | 59,055 |
| Other | 4,122 | 3,028 |
| Inventories | 1,620 | 1,660 |
| Prepaid expenses and deposits | 9,078 | 10,112 |
| Marketable equity securities | 28,710 | 26,664 |
| Income taxes refundable | 1,351 | 1,499 |
| Total current assets | 120,990 | 102,242 |
| Property and equipment: | | |
| Land | 5,374 | 5,374 |
| Structures and improvements | 18,882 | 18,927 |
| Revenue equipment | 446,018 | 375,817 |
| Office furniture and equipment | 10,139 | 9,761 |
| Total property and equipment | 480,413 | 409,879 |
| Accumulated depreciation | (138,794) | (122,935) |

Edgar Filing: PAM TRANSPORTATION SERVICES INC - Form 10-Q

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Net property and equipments | 341,619 | 286,944 |
| Other assets | 3,053 | 2,999 |
| TOTAL ASSETS | \$ 465,662 | \$ 392,185 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 42,142 | \$ 19,645 |
| Accrued expenses and other liabilities | 21,822 | 17,609 |
| Current maturities of long-term debt | 62,413 | 73,641 |
| Total current liabilities | 126,377 | 110,895 |
| Long-term debt-less current portion | 143,046 | 98,995 |
| Deferred income taxes | 59,919 | 54,691 |
| Total liabilities | 329,342 | 264,581 |
| SHAREHOLDERS' EQUITY | | |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued | - | - |
| Common stock, \$.01 par value, 40,000,000 shares authorized; 11,610,644 and 11,529,124 shares issued; 6,012,081 and 6,160,889 shares outstanding at September 30, 2018 and December 31, 2017, respectively | 116 | 115 |
| Additional paid-in capital | 82,601 | 81,559 |
| Accumulated other comprehensive income | - | 7,444 |
| Treasury stock, at cost; 5,598,563 and 5,368,235 shares at September 30, 2018 and December 31, 2017, respectively | (139,434) | (129,183) |
| Retained earnings | 193,037 | 167,669 |
| Total shareholders' equity | 136,320 | 127,604 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 465,662 | \$ 392,185 |

See notes to condensed consolidated financial statements.

Table of Contents

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

**Condensed
Consolidated
Statements of
Operations**

(unaudited)

(in thousands, except
per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------------------|-------------------------------------------------|---------------|--------------------------------------------|-----------------|
| | 2018 | 2017 | 2018 | 2017 |
| OPERATING REVENUES: | | | | |
| Revenue, before fuel surcharge | \$117,259 | \$93,457 | \$329,244 | \$280,157 |
| Fuel surcharge | 23,066 | 15,442 | 65,842 | 46,792 |
| Total operating revenues | 140,325 | 108,899 | 395,086 | 326,949 |
| OPERATING EXPENSES AND COSTS: | | | | |
| Salaries, wages and benefits | 30,389 | 24,718 | 88,999 | 75,885 |
| Operating supplies and expenses | 24,026 | 19,502 | 70,203 | 59,144 |
| Rent and purchased transportation | 53,108 | 44,000 | 151,100 | 130,840 |
| Depreciation | 12,168 | 10,177 | 36,526 | 31,333 |
| Insurance and claims | 4,310 | 4,232 | 13,029 | 13,367 |
| Other | 3,262 | 2,371 | 8,910 | 6,791 |
| (Gain) loss on disposition of equipment | (91) | 131 | (607) | 261 |
| Total operating expenses and costs | 127,172 | 105,131 | 368,160 | 317,621 |
| OPERATING INCOME | 13,153 | 3,768 | 26,926 | 9,328 |
| NON-OPERATING INCOME | 935 | 2,767 | 688 | 5,469 |
| INTEREST EXPENSE | (1,711) | (920) | (4,226) | (2,832) |
| INCOME BEFORE INCOME TAXES | 12,377 | 5,615 | 23,388 | 11,965 |
| FEDERAL AND STATE INCOME TAX EXPENSE: | | | | |
| Current | 142 | 116 | 319 | 249 |
| Deferred | 2,987 | 2,053 | 5,145 | 4,378 |

Edgar Filing: PAM TRANSPORTATION SERVICES INC - Form 10-Q

| | | | | |
|--------------------------------------------|----------------|----------------|-----------------|----------------|
| Total federal and state income tax expense | 3,129 | 2,169 | 5,464 | 4,627 |
| NET INCOME | \$9,248 | \$3,446 | \$17,924 | \$7,338 |
| INCOME PER COMMON SHARE: | | | | |
| Basic | \$1.53 | \$0.54 | \$2.93 | \$1.15 |
| Diluted | \$1.52 | \$0.54 | \$2.89 | \$1.14 |
| AVERAGE COMMON SHARES OUTSTANDING: | | | | |
| Basic | 6,034 | 6,326 | 6,120 | 6,368 |
| Diluted | 6,088 | 6,373 | 6,203 | 6,413 |

See notes to condensed consolidated financial statements.

Table of Contents

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

**Condensed
Consolidated
Statements of
Comprehensive
Income**

(unaudited)

(in thousands)

| | Three Months Ended September 30 2018 | | Nine Months Ended September 30 2018 | |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------|--------------------------------------------------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| NET INCOME | \$9,248 | \$3,446 | \$17,924 | \$7,338 |
| Other comprehensive income, net of tax: | | | | |
| Reclassification adjustment for realized gains on marketable equity securities included in net income (1)(4) | - | (1,265) | - | (2,308) |
| Reclassification adjustment for unrealized losses on marketable securities included in net income, net of income taxes (2)(4) | - | 9 | - | 26 |
| Changes in fair value of marketable securities (3)(4) | - | 437 | - | 277 |
| COMPREHENSIVE INCOME | \$9,248 | \$2,627 | \$17,924 | \$5,333 |

(1) Net of deferred income taxes of \$0, \$(774), \$0 and \$(1,412), respectively.

(2) Net of deferred income taxes of \$0, \$6, \$0 and \$16, respectively.

(3) Net of deferred income taxes of \$0, \$266, \$0 and \$168, respectively.

(4) In accordance with the adoption of ASU 2016-01 on January 1, 2018 unrealized market gains and losses on equity securities have been reclassified to income for the current period and to retained earnings for historical amounts

recorded in Other Comprehensive Income for periods prior to December 31, 2017- (see Note B)

See notes to condensed consolidated financial statements.

5

Table of Contents

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

**Condensed
Consolidated
Statements of Cash
Flows**

(unaudited)

(in thousands)

| | Nine Months Ended September 30, | |
|-----------------------------------------------------------------------------------|--------------------------------------------|-------------|
| | 2018 | 2017 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 17,924 | \$ 7,338 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 36,526 | 31,333 |
| Bad debt expense | 677 | 186 |
| Stock compensation-net of excess tax benefits | 557 | 446 |
| Provision for deferred income taxes | 5,145 | 4,378 |
| Reclassification of unrealized loss on marketable equity securities | - | 42 |
| Recognized loss (gain) on marketable equity securities | 223 | (4,669) |
| (Gain) loss on sale or disposition of equipment | (607) | 261 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (18,547) | (7,191) |
| Prepaid expenses, deposits, inventories, and other assets | 1,020 | 70 |
| Income taxes refundable | 148 | 99 |
| Income taxes payable | 83 | - |
| Trade accounts payable | 11,790 | 9,086 |
| Accrued expenses and other liabilities | 2,564 | 2,296 |
| Net cash provided by operating activities | 57,503 | 43,675 |
| INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (51,365) | (38,578) |
| Proceeds from disposition of equipment | 13,043 | 16,485 |
| Sales of marketable equity securities | - | 6,007 |
| Purchases of marketable equity securities, net of return of capital | (2,269) | (1,988) |
| Net cash used in investing activities | (40,591) | (18,074) |
| FINANCING ACTIVITIES: | | |

Edgar Filing: PAM TRANSPORTATION SERVICES INC - Form 10-Q

| | | |
|------------------------------------------------------------------------|--------------|--------------|
| Borrowings under line of credit | 447,523 | 341,106 |
| Repayments under line of credit | (429,402) | (342,190) |
| Borrowings of long-term debt | 35,146 | 17,598 |
| Repayments of long-term debt | (62,012) | (35,554) |
| Borrowings under margin account | 2,512 | 2,133 |
| Repayments under margin account | (863) | (6,785) |
| Repurchases of common stock | (10,251) | (1,961) |
| Exercise of stock options | 486 | 122 |
| Net cash used in financing activities | (16,861) | (25,531) |
| NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH | 51 | 70 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH -Beginning of period | 224 | 137 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH -End of period | \$275 | \$207 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION- | | |
| Cash paid during the period for: | | |
| Interest | \$4,104 | \$2,860 |
| Income taxes | \$88 | \$151 |
| NONCASH INVESTING AND FINANCING ACTIVITIES- | | |
| Purchases of property and equipment included in accounts payable | \$13,680 | \$7,819 |

See notes to condensed consolidated financial statements.

Table of Contents

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

**Condensed
Consolidated
Statement of
Shareholders' Equity**

(unaudited)

(in thousands)

| | Common Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income | Treasury Stock | Retained Earnings | Total |
|---------------------------------------------------------------------------------|--------------------|---------------|----------------------------------|-------------------------------------------------|--------------------|----------------------|------------------|
| | Shares / Amount | | | | | | |
| Balance at January 1, 2018 | 6,161 | \$ 115 | \$ 81,559 | \$ 7,444 | \$(129,183) | \$167,669 | \$127,604 |
| Net Income | | | | | | 17,924 | 17,924 |
| Exercise of stock options and stock awards-shares issued including tax benefits | 81 | 1 | 485 | | | | 486 |
| Treasury stock repurchases | (230) | | | | (10,251) | | (10,251) |
| Share-based compensation | | | 557 | | | | 557 |
| Cumulative effect adjustment – ASU 2016-01 | | | | (7,444) | | 7,444 | - |
| Balance at September 30, 2018 | 6,012 | \$ 116 | \$ 82,601 | - | \$(139,434) | \$193,037 | \$136,320 |

See notes to
condensed
consolidated
financial

statements.

7

Table of Contents

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

Notes to Condensed Consolidated Financial Statements (unaudited)

September 30, 2018

NOTE A: BASIS OF PRESENTATION

Unless the context otherwise requires, all references in this Quarterly Report on Form 10-Q to “P.A.M.,” the “Company,” “we,” “our,” or “us” mean P.A.M. Transportation Services, Inc. and its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In management’s opinion, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included. The consolidated balance sheet at December 31, 2017 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Operating results for the nine month period ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and the footnotes thereto included in the Company’s annual report on Form 10-K for the year ended December 31, 2017.

NOTE B: RECENT ACCOUNTING PRONOUNCEMENTS

In July 2018, the Financial Accounting Standards Board, (“FASB”) issued ASU No. 2018-09, (“ASU 2018-09”), *Codification Improvements*. ASU 2018-09 was issued to update codification on multiple topics, and includes updates for technical corrections, clarifications and other minor improvements. ASU 2018-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the new guidance, but does not expect it to have a material impact on its financial condition, results of operations, or cash flows.

In July 2018, the FASB issued ASU No. 2018-10, (“ASU 2018-10”), *Codification Improvements to Topic 842, Leases*. ASU 2018-10 was issued to update codification specific to Topic 842, and includes updates for technical corrections, clarifications and other minor improvements. ASU 2018-10 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. The Company is evaluating the new

guidance, but does not expect it to have a material impact on its financial condition, results of operations, or cash flows.

In May 2017, the FASB issued ASU No. 2017-09, (“ASU 2017-09”), *Compensation – Stock Compensation (Topic 718)* which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. ASU 2017-09 is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years, and early adoption was permitted, including in an interim period. ASU 2017-09 is to be applied on a prospective basis to an award modified on or after the adoption date. The adoption of this guidance on January 1, 2018 did not have a material impact on the Company’s financial condition, results of operations, or cash flows.

In November 2016, the FASB issued ASU No. 2016-18, (“ASU 2016-18”), *Statement of Cash Flows (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This standard is intended to reduce diversity in practice in how restricted cash or restricted cash equivalents are presented and classified in the statement of cash flows. ASU No. 2016-18 is effective for fiscal years and interim periods beginning after December 15, 2017, with early adoption permitted. The standard requires application using a retrospective transition method. The adoption of this guidance on January 1, 2018 changed the presentation and classification of restricted cash and restricted cash equivalents in our consolidated statements of cash flows but did not have a material impact on our financial condition, results of operations, or cash flows.

In August 2016, the FASB issued ASU No. 2016-15, (“ASU 2016-15”), *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 amends the guidance in ASC 230, Statement of Cash Flows, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption was permitted. The adoption of this guidance on January 1, 2018 did not have a material impact on the Company’s financial condition, results of operations, or cash flows.

Table of Contents

In June 2016, the FASB issued ASU No. 2016-13, (“ASU 2016-13”), *Accounting for Credit Losses (Topic 326)*. ASU 2016-13 requires the use of an “expected loss” model on certain types of financial instruments. The standard also amends the impairment model for available-for-sale debt securities and requires estimated credit losses to be recorded as allowances instead of reductions to amortized cost of the securities. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, with early adoption permitted. The Company is evaluating the new guidance, but does not expect it to have a material impact on its financial condition, results of operations, or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, (“ASU 2016-09”), *Compensation – Stock Compensation (Topic 718)*. ASU 2016-09 identifies areas for simplification involving several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. ASU 2016-09 is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted. The adoption of this guidance on January 1, 2017, did not have a material impact on the Company’s financial condition, results of operations, or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, (“ASU 2016-02”), *Leases (Topic 842)*. This update seeks to increase the transparency and comparability among entities by requiring public entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. To satisfy the standard’s objective, a lessee will recognize a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability for the obligation to make lease payments. Both the right-of-use asset and lease liability will initially be measured at the present value of the lease payments, with subsequent measurement dependent on the classification of the lease as either a finance or an operating lease. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset to not recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Accounting by lessors will remain mostly unchanged from current U.S. GAAP.

In transition, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that companies may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases, leveraged leases, and amounts previously recognized in accordance with the business combinations guidance for leases. The new standard is effective for public companies for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company has evaluated the new guidance and does not expect it to have a material impact on its financial condition, results of operations, or cash flows.

In January 2016, the FASB issued ASU No. 2016-01, (“ASU 2016-01”), *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure.

The provisions of ASU 2016-01 require, among other things, that the Company:

- Categorize securities as equity securities or debt securities
- Eliminate the classification of equity securities as trading or available for sale
- Determine which securities have readily determinable fair values
- Use the exit price notion when measuring the fair value of financial instruments for disclosure purposes
- Consider the need for a valuation allowance related to a deferred tax asset on available-for-sale securities in combination with the Company’s other deferred tax assets, and
- Recognize changes in the fair market value of equity securities in net income

ASU 2016-01 is effective for annual and interim periods beginning after December 15, 2017. With certain exceptions, early adoption was not permitted. The adoption of this guidance on January 1, 2018, did not have a significant impact on the Company’s financial condition or cash flows, but did impact the Company’s results of operations, as the current guidance requires changes in market value related to equity securities to be recognized in net income, rather than being recognized as other comprehensive income. Upon adoption, approximately \$7.4 million in accumulated changes in the fair market value of the Company’s equity securities, net of deferred tax, that were presented at December 31, 2017 as Accumulated Other Comprehensive Income were reclassified to Retained Earnings.

Table of Contents

In May 2014, the FASB issued Accounting Standards Update, (“ASU”) No. 2014-09, (“ASU 2014-09”), *Revenue from Contracts with Customers*. The objective of ASU 2014-09 and subsequent amendments is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract’s performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification, (“ASC”).

The adoption of this guidance on January 1, 2018 did not have a material impact on the Company’s financial condition, results of operations, cash flows or internal controls. See Note C, “Revenue Recognition,” for more information.

With the exception of the new standards discussed above, there have been no recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2018, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017, that are of significance or potential significance to the Company.

NOTE C: REVENUE RECOGNITION

Company revenue is generated from freight transportation services performed utilizing heavy tractor trailer combinations. While various ownership arrangements may exist for the equipment utilized to perform these services, including Company owned or leased, owner-operator owned, and third party carriers, revenue is generated from the same base of customers. Contracts with these customers establish rates for services performed, which are predominantly rates that will be paid to pick up, transport and drop off freight at various locations. In addition to transportation, revenue is also awarded for various accessorial services performed in conjunction with the base transportation service. The Company also has other revenue categories that are not discussed in this note or broken out in our Statements of Operations due to their non-material amounts.

We are obligated to pick up from shippers, transport, and deliver the freight in good condition in a timely manner. Control of freight is transferred to us at the point it has been loaded into our trailer, the doors are sealed and we have signed a bill of lading, which is the basic transportation agreement that establishes the nature, quantity and condition of the freight loaded, responsibility for payment of our invoice, and pickup and delivery locations. Our revenue is generated, and our customer receives benefit, as the freight progresses towards delivery locations. In the event our customer cancels the shipment at some point prior to the final delivery location and re-consigns the shipment to an alternate delivery location, we are entitled to receive payment for services performed for the partial shipment. Shipments are generally conducted over a relatively short time span, generally one to three days; however, freight is

sometimes stored temporarily in our trailer at one of our drop yard locations or at a location designated by a customer. Our revenue is categorized as either Freight Revenue or Fuel Surcharge Revenue, and both are earned by performing the same freight transportation services, discussed further below.

Freight Revenue – revenue generated by the performance of the freight transportation service, including any accessorial service, provided to customers.

Fuel Surcharge Revenue – revenue designed to adjust freight revenue rates to an agreed upon base cost for diesel fuel. Diesel fuel prices can fluctuate widely during the term of a contract with a customer. At the point that freight revenue rates are negotiated with customers, a sliding scale is agreed upon that approximately adjusts diesel fuel costs to an agreed upon base amount. In general, as fuel prices increase, revenue from fuel surcharge increases, so that diesel fuel cost is adjusted to the approximate base amount agreed upon.

Revenue is recognized in full upon completion of delivery to the receiver’s location. For freight in transit at the end of a reporting period, the Company recognizes revenue on a pro rata basis that is based on relative transit time completed as a portion of the estimated total transit time. Expenses are recognized as incurred. There are no assets or liabilities recorded in conjunction with revenue recognized, other than Accounts Receivable and Allowance for doubtful accounts.

NOTE D: MARKETABLE EQUITY SECURITIES

The Company accounts for its marketable equity securities in accordance with ASC Topic 321, (“ASC Topic 321”), *Investments- Equity Securities*. ASC Topic 321 requires companies to measure equity investments at fair value, with changes in fair value recognized in net income. The Company’s investments in marketable securities consist of equity securities with readily determinable fair values. The cost of securities sold is based on the specific identification method, and interest and dividends on securities are included in non-operating income (expense).

Table of Contents

Marketable equity securities are carried at fair value, with gains and losses in fair market value included in the determination of net income. The fair value of marketable equity securities is determined based on quoted market prices in active markets, as described in Note J.

The following table sets forth market value, cost, and unrealized gains on equity securities as of September 30, 2018 and December 31, 2017.

| | September 30, 2018 | December 31, 2017 |
|-------------------|--------------------------|----------------------|
| | (in thousands) | |
| Fair market value | \$28,710 | \$ 26,664 |
| Cost | 21,223 | 16,640 |
| Unrealized gain | \$7,487 | \$ 10,024 |

Prior to the Company's January 1, 2018 adoption of ASU 2016-01, unrealized gains and losses in fair market value were presented as a component of Accumulated Other Comprehensive Income in shareholders' equity, and only realized gains and losses and declines in value judged to be other-than-temporary on available-for-sale securities were included in the determination of net income. The cost of securities determined to be in an other-than-temporary loss position were required to be presented net of the amount of the other-than-temporary impairment calculated. Subsequent to adoption of ASU 2016-01, cost is no longer presented net of other-than-temporary impairment. The December 31, 2017 cost reflected in the table above was presented net of approximately \$2,314,000 of other-than-temporary impairment.

The following table sets forth the gross unrealized gains and losses on the Company's marketable securities as of September 30, 2018 and December 31, 2017.

| | September 30, 2018 | December 31, 2017 |
|--|--------------------------|----------------------|
| | (in thousands) | |

Edgar Filing: PAM TRANSPORTATION SERVICES INC - Form 10-Q

| | | |
|-------------------------|---------|-----------|
| Gross unrealized gains | \$8,780 | \$ 10,150 |
| Gross unrealized losses | 1,293 | 126 |
| Net unrealized gains | \$7,487 | \$ 10,024 |

The following table shows the Company's net realized gains during the three and nine months ended September 30, 2018 and 2017 on certain marketable equity securities.

| | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2017 |
|-----------------------------|------------------------------------------------------|-----------------------------------------------------|
| | (in thousands) | |
| Sales proceeds | \$- \$2,928 | \$- \$6,007 |
| Cost of securities sold | - 405 | - 1,338 |
| Realized gain | \$- \$2,523 | \$- \$4,669 |
| Realized gain, net of taxes | \$- \$1,546 | \$- \$2,862 |

For the quarter ended September 30, 2018, the Company recognized dividends of approximately \$308,000 in non-operating income in its statements of operations. For the quarter ended September 30, 2017, the Company recognized dividends of approximately \$225,000 in non-operating income in its statements of operations.

For the nine months ended September 30, 2018, the Company recognized dividends of approximately \$780,000 in non-operating income in its statements of operations. For the nine months ended September 30, 2017, the Company recognized dividends of approximately \$718,000 in non-operating income in its statements of operations.

Table of Contents

The market value of the Company's equity securities are periodically used as collateral against any outstanding margin account borrowings. As of September 30, 2018 and December 31, 2017, the Company had outstanding borrowings of approximately \$7,552,000 and \$5,903,000, respectively, under its margin account. Margin account borrowings are used for the purchase of marketable equity securities and as a source of short-term liquidity and are included in Accrued expenses and other liabilities on our balance sheets.

During the third quarter of 2018, our marketable equity securities portfolio had a net unrealized pre-tax gain in market value of approximately \$586,000, which was reported as non-operating income for the period.

NOTE E: STOCK-BASED COMPENSATION

The Company maintains a stock incentive plan under which incentive and nonqualified stock options and other stock awards may be granted. On March 2, 2006, the Company's Board of Directors (the "Board") adopted, and shareholders later approved, the 2006 Stock Option Plan (the "2006 Plan"). Under the 2006 Plan, 750,000 shares were reserved for the issuance of stock options to directors, officers, key employees, and others. The option exercise price under the 2006 Plan is the fair market value of the stock on the date the option is granted. The fair market value is determined by the average of the highest and lowest sales prices for a share of the Company's common stock, on its primary exchange, on the same date that the option is granted. On March 13, 2014, the Board adopted, and on May 29, 2014 our shareholders approved, the 2014 Amended and Restated Stock Option and Incentive Plan (the "2014 Plan") which replaced the 2006 Plan. The shares which remained reserved under the 2006 Plan were carried over to the 2014 Plan and are reserved for the issuance of stock awards to directors, officers, key employees, and others. The stock option exercise price and the restricted stock purchase price under the 2014 Plan shall not be less than 85% of the fair market value of the Company's common stock on the date the award is granted. The fair market value is determined by the closing price of the Company's common stock, on its primary exchange, on the same date that the option or award is granted.

There were no outstanding nonqualified stock options at September 30, 2018.

During the first nine months of 2018, 1,932 shares of common stock were granted to non-employee directors under the 2014 Plan. The stock awarded to non-employee directors had a grant date fair value of \$36.35 per share, based on the closing price of the Company's stock on the date of grant, and vested immediately.

The total grant date fair value of stock vested during the first nine months of 2018 was approximately \$655,000. Total pre-tax stock-based compensation expense, recognized in Salaries, wages and benefits, during the first nine months of 2018 was approximately \$557,000 and includes approximately \$70,000 recognized as a result of the grant of 276 shares to each non-employee director during the first quarter of 2018. The recognition of stock-based compensation expense decreased both diluted and basic earnings per common share by approximately \$0.02 during the third quarter

of 2018. The recognition of stock-based compensation expense decreased both diluted and basic earnings per common share by approximately \$0.07 during the nine months ended September 30, 2018. As of September 30, 2018, the Company had stock-based compensation plans with total unvested stock-based compensation expense of approximately \$846,000 which is being amortized on a straight-line basis over the remaining vesting period. As a result, the Company expects to recognize approximately \$157,000 in additional compensation expense related to unvested option awards during the remainder of 2018 and to recognize approximately \$552,000 and \$137,000 in additional compensation expense related to unvested option awards during the years 2019 and 2020, respectively.

The total grant date fair value of stock and stock options vested during the first nine months of 2017 was approximately \$186,000. Total pre-tax stock-based compensation expense, recognized in Salaries, wages and benefits, during the first nine months of 2017 was approximately \$446,000, and included approximately \$70,000 recognized as a result of the grant of 614 shares to each non-employee director during the first quarter of 2017. The recognition of stock-based compensation expense decreased both diluted and basic earnings per common share by approximately \$0.02 during the third quarter 2017. The recognition of stock-based compensation expense decreased both diluted and basic earnings per common share by approximately \$0.05 during the nine months ended September 30, 2017. As of September 30, 2017, the Company had stock-based compensation plans with total unvested stock-based compensation expense of approximately \$1,501,000, which was being amortized on a straight-line basis over the remaining vesting period.

Table of Contents

Information related to stock option activity for the nine months ended September 30, 2018 is as follows:

| | Shares | Weighted- Average Exercise Price (per share) | Weighted- Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value* |
|-----------------------------------|----------|--------------------------------------------------------------|------------------------------------------------------------------------|----------------------------------|
| Outstanding-January 1, 2018 | 45,068 | \$ 10.79 | | |
| Granted | - | - | | |
| Exercised | (45,005) | 10.79 | | |
| Cancelled/forfeited/expired | (63) | 10.90 | | |
| Outstanding at September 30, 2018 | - | \$ - | - | \$ - |
| Exercisable at September 30, 2018 | - | \$ - | - | \$ - |

* The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The per share market value of our common stock, as determined by the closing price on September 28, 2018,

was \$65.09.

The Company had no unvested options at September 30, 2018. A summary of the status of the Company's non-vested restricted stock as of September 30, 2018 and changes during the nine months ended September 30, 2018, is as follows:

| | Restricted Stock Number of Shares | Weighted- Average Grant Date Fair Value* |
|----------------------------------|--------------------------------------------|------------------------------------------------------|
| Non-vested at January 1, 2018 | 104,150 | \$ 17.14 |
| Granted | 1,932 | 36.35 |
| Canceled/forfeited/expired | - | - |
| Vested | (36,515) | 17.93 |
| Non-vested at September 30, 2018 | 69,567 | \$ 17.26 |

* The weighted-average grant date fair value was based on the closing price of the Company's stock on the date of the grant.

Cash received from option exercises totaled approximately \$486,000 and \$122,000 during the nine months ended September 30, 2018 and September 30, 2017, respectively. The Company issued new shares upon option exercise.

NOTE F: SEGMENT INFORMATION

The Company follows the guidance provided by ASC Topic 280, *Segment Reporting*, in its identification of operating segments. The Company has determined that it has a total of two operating segments whose primary operations can be characterized as either Truckload Services or Brokerage and Logistics Services; however, in accordance with the aggregation criteria provided by FASB ASC Topic 280, the Company has determined that the operations of the two operating segments can be aggregated into a single reporting segment, motor carrier operations. Truckload Services revenues and Brokerage and Logistics Services revenues, each before fuel surcharges, were as follows:

| Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|------|---------------------------------|------|
| 2018 | 2017 | 2018 | 2017 |

Edgar Filing: PAM TRANSPORTATION SERVICES INC - Form 10-Q

| | Amount | % | Amount | % | Amount | % | Amount | % |
|------------------------------------------|----------------------------------------|-------|----------|-------|-----------|-------|-----------|-------|
| | (in thousands, except percentage data) | | | | | | | |
| Truckload Services revenue | \$92,842 | 79.2 | \$79,736 | 85.3 | \$262,497 | 79.7 | \$244,311 | 87.2 |
| Brokerage and Logistics Services revenue | 24,417 | 20.8 | 13,721 | 14.7 | 66,747 | 20.3 | 35,846 | 12.8 |
| Total revenues | \$117,259 | 100.0 | \$93,457 | 100.0 | \$329,244 | 100.0 | \$280,157 | 100.0 |

13

Table of Contents**NOTE G: TREASURY STOCK**

The Company's stock repurchase program has been extended and expanded several times, most recently in April 2017, when the Board of Directors reauthorized 500,000 shares of common stock for repurchase under the initial September 2011 authorization. During the nine months ended September 30, 2018 the Company repurchased 44,731 shares of its common stock at an aggregate cost of approximately \$2.8 million under this program.

On May 8, 2018, the Company commenced a tender offer to repurchase up to 100,000 shares of the Company's outstanding common stock at a price of not greater than \$43.00 nor less than \$39.00 per share. Following the expiration of the tender offer on June 7, 2018, the Company accepted 185,597 shares of its common stock for purchase at \$40.00 per share, including 85,597 oversubscribed shares tendered, at an aggregate purchase price of approximately \$7.4 million, excluding fees and expenses related to the offer.

The Company accounts for Treasury stock using the cost method, and as of September 30, 2018, 5,598,563 shares were held in the treasury at an aggregate cost of approximately \$139.4 million.

NOTE H: EARNINGS PER SHARE

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|----------------------------------------------------|------------------------------------------------|---------|-----------------------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | (in thousands, except per share data) | | | |
| Net income | \$9,248 | \$3,446 | \$17,924 | \$7,338 |
| Basic weighted average common shares outstanding | 6,034 | 6,326 | 6,120 | 6,368 |
| Dilutive effect of common stock equivalents | 54 | 47 | 83 | 45 |
| Diluted weighted average common shares outstanding | 6,088 | 6,373 | 6,203 | 6,413 |
| Basic earnings per share | \$1.53 | \$0.54 | \$2.93 | \$1.15 |

| | | | | |
|----------------------------|--------|--------|--------|--------|
| Diluted earnings per share | \$1.52 | \$0.54 | \$2.89 | \$1.14 |
|----------------------------|--------|--------|--------|--------|

As of September 30, 2018 and September 30, 2017, there were no options outstanding to purchase shares of common stock that had an anti-dilutive effect on the computation of diluted earnings per share.

NOTE I: INCOME TAXES

The Company and its subsidiaries are subject to U.S. and Canadian federal income tax laws as well as the income tax laws of multiple state jurisdictions. The major tax jurisdictions in which the Company operates generally provide for a deficiency assessment statute of limitation period of three years, and as a result, the Company's tax years 2014 and forward remain open to examination in those jurisdictions.

In determining whether a tax asset valuation allowance is necessary, management, in accordance with the provisions of ASC 740-10-30, weighs all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is necessary. If negative conditions exist which indicate a valuation allowance might be necessary, consideration is then given to what effect the future reversals of existing taxable temporary differences and the availability of tax strategies might have on future taxable income to determine the amount, if any, of the required valuation allowance. As of September 30, 2018, management determined that the future reversals of existing taxable temporary differences and available tax strategies would generate sufficient future taxable income to realize its tax assets and therefore a valuation allowance was not necessary.

The Company recognizes a tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities, based on the technical merits of the position. As of September 30, 2018, an adjustment to the Company's consolidated financial statements for uncertain tax positions has not been required as management believes that the Company's tax positions taken in income tax returns filed or to be filed are supported by clear and unambiguous income tax laws. The Company recognizes interest and penalties related to uncertain income tax positions, if any, in income tax expense. During the nine months ended September 30, 2018 and 2017, the Company has not recognized or accrued any interest or penalties related to uncertain income tax positions.

Table of Contents

The Company's effective income tax rates were 23.4% and 38.7% for the nine months ended September 30, 2018 and 2017, respectively. Our effective tax rate for the nine months ended September 30, 2018 differs from amounts computed by applying the United States federal statutory rates to pre-tax income primarily due to state taxes and the tax benefits related to stock-based compensation.

NOTE J: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, marketable equity securities, accounts receivable, trade accounts payable, and borrowings.

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

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

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

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

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

At September 30, 2018, the following items are measured at fair value on a recurring basis:

| Total | Level 1 | Level 2 | Level 3 |
|-------|---------|---------|---------|
|-------|---------|---------|---------|

Edgar Filing: PAM TRANSPORTATION SERVICES INC - Form 10-Q

(in thousands)

Marketable equity securities \$28,710 \$28,710 - -

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

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

For long-term debt other than the lines of credit, the fair values are estimated using discounted cash flow analyses, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying value and estimated fair value of this other long-term debt at September 30, 2018 was as follows:

| | Carrying | Estimated |
|----------------|----------------|-----------|
| | Value | Fair |
| | (in thousands) | Value |
| Long-term debt | \$187,337 | \$184,011 |

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

NOTE K: LONG-TERM DEBT

Long-term debt as of September 30, 2018 and December 31, 2017:

| | September | December |
|--------------------------------|----------------|----------|
| | 30, 2018 | 31, 2017 |
| | (in thousands) | |
| Line of credit with a bank (1) | \$18,122 | - |
| Equipment Financing (2) | 187,337 | 172,636 |
| Total long-term debt | 205,459 | 172,636 |

| | | |
|--------------------------------------------|-----------|-----------|
| Less current maturities | (62,413) | (73,641) |
| Long-term debt – net of current maturities | \$143,046 | \$98,995 |

(1) Line of credit agreement with a bank provides for maximum borrowings of \$40.0 million and contains certain restrictive covenants that must be maintained by the Company on a consolidated basis. Borrowings on the line of credit are at an interest rate of LIBOR as of the first day of the month plus 1.50% (3.60% at September 30, 2018), are secured by our trade accounts receivable and mature on July 1, 2020. Monthly payments of interest are required under this agreement. Also, under the terms of the agreement the Company must maintain a debt to EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio of less than 4.00:1. The Company was in compliance with all provisions under this agreement throughout 2018.

(2) Equipment financings consist of installment obligations for revenue equipment purchases, payable in various monthly installments with various maturity dates through July 2025, at a weighted average interest rate of 3.30% as of September 30, 2018 and are collateralized by revenue equipment.

Table of Contents

NOTE L: LITIGATION

Other than the lawsuit discussed below, the Company is not a party to any pending legal proceeding which management believes to be material to the financial statements of the Company. The Company maintains liability insurance against risks arising out of the normal course of its business.

We are a defendant in a collective-action lawsuit which was re-filed on December 9, 2016, in the United States District Court for the Western District of Arkansas. The plaintiffs, who are former drivers who worked for the Company during the period of December 6, 2013, through the date of the filing, allege violations under the Fair Labor Standards Act and the Arkansas Minimum Wage Law. The plaintiffs, through their attorneys, have filed causes of action alleging “Failure to pay minimum wage during orientation, failure to pay minimum wage to team drivers after initial orientation, failure to pay minimum wage to solo-drivers after initial orientation, failure to pay for compensable travel time, Comdata card fees, unlawful deductions, and breach of contract.” The plaintiffs are seeking actual and liquidated damages to include court costs and legal fees. The lawsuit is being vigorously defended and we cannot reasonably estimate, at this time, the possible loss or range of loss, if any, that may arise from this lawsuit. Management has determined that any losses under this claim will not be covered by existing insurance policies.

NOTE M: NONCASH INVESTING AND FINANCING ACTIVITIES

The Company financed approximately \$41.6 million in equipment purchases during the first nine months of 2018 utilizing noncash financing.

NOTE N: SUBSEQUENT EVENTS

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

Table of Contents

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

FORWARD-LOOKING INFORMATION

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

CRITICAL ACCOUNTING POLICIES

There have been no material changes to our critical accounting policies and estimates from the information provided in Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, included in our Form 10-K for the fiscal year ended December 31, 2017.

BUSINESS OVERVIEW

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

For both operations, substantially all of our revenue is generated by transporting freight for customers and is predominantly affected by the rates per mile received from our customers, equipment utilization, and our percentage of non-compensated miles. These aspects of our business are carefully managed and efforts are continuously underway to achieve favorable results. Truckload services revenues, excluding fuel surcharges, represented 79.2% and 85.3% of total revenues, excluding fuel surcharges, for the three months ended September 30, 2018 and 2017, respectively. Truckload services revenues, excluding fuel surcharges, represented 79.7% and 87.2% of total revenues, excluding fuel surcharges, for the nine months ended September 30, 2018 and 2017, respectively. The remaining revenues, excluding fuel surcharges, were generated from brokerage and logistics services.

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

In discussing our results of operations, we use revenue, before fuel surcharge (and fuel expense, net of fuel surcharge), because management believes that eliminating the impact of this sometimes volatile source of revenue allows a more consistent basis for comparing our results of operations from period to period. During the three months ended September 30, 2018 and 2017, approximately \$23.1 million and \$15.4 million, respectively, of the Company's total revenue was generated from fuel surcharges. During the nine months ended September 30, 2018 and 2017, approximately \$65.8 million and \$46.8 million, respectively, of the Company's total revenue was generated from fuel surcharges. We may also discuss certain changes in our expenses as a percentage of revenue, before fuel surcharge, rather than absolute dollar changes. We do this because we believe the variable cost nature of certain expenses makes a comparison of changes in expenses as a percentage of revenue more meaningful than absolute dollar changes.

Table of Contents**RESULTS OF OPERATIONS – TRUCKLOAD SERVICES**

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

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|---------------------------------------------|------------------------------------------------|--------|-----------------------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | (percentages) | | | |
| Operating revenues, before fuel surcharge | 100.0 | 100.0 | 100.0 | 100.0 |
| Operating expenses: | | | | |
| Salaries, wages and benefits | 31.5 | 30.1 | 32.8 | 30.3 |
| Operating supplies and expenses | 1.0 | 5.1 | 1.6 | 5.1 |
| Rent and purchased transportation | 34.1 | 39.8 | 35.0 | 40.3 |
| Depreciation | 13.0 | 12.7 | 13.9 | 12.8 |
| Insurance and claims | 4.6 | 5.3 | 4.9 | 5.5 |
| Other | 3.3 | 2.8 | 3.1 | 2.6 |
| (Gain) loss on sale or disposal of property | (0.1) | 0.2 | (0.2) | 0.1 |
| Total operating expenses | 87.4 | 96.0 | 91.1 | 96.7 |
| Operating income | 12.6 | 4.0 | 8.9 | 3.3 |
| Non-operating income | 0.9 | 3.2 | 0.3 | 2.1 |
| Interest expense | (1.6) | (1.1) | (1.5) | (1.1) |
| Income before income taxes | 11.9 | 6.1 | 7.7 | 4.3 |

THREE MONTHS ENDED SEPTEMBER 30, 2018 VS. THREE MONTHS ENDED SEPTEMBER 30, 2017

During the third quarter of 2018, truckload services revenue, before fuel surcharges, increased 16.4% to \$92.8 million as compared to \$79.7 million during the third quarter of 2017. The increase in revenue was primarily the result of increases in the average rate per mile charged to our customers and in the average number of tractors in our fleet during the third quarter of 2018 compared to the third quarter of 2017. These increases were partially offset by a decrease in the total number of miles driven per tractor for the third quarter of 2018 compared to the third quarter of 2017.

Salaries, wages and benefits increased from 30.1% of revenues, before fuel surcharges, in the third quarter of 2017 to 31.5% of revenues, before fuel surcharges, during the third quarter of 2018. The increase relates primarily to a per mile pay increase that went into effect during the last week of December 2017. This pay increase raised the average

rate per mile paid to company drivers, which increased driver pay by approximately \$1.7 million for the third quarter of 2018 compared to the third quarter of 2017. In addition, the proportion of total miles driven by company drivers increased as the number of company drivers increased year-over-year. Also contributing to the increase were salaries, wages and benefits paid to regional and short haul drivers, which increased by approximately \$1.5 million for the periods compared. This increase occurred as we expanded our local dedicated service offering during the third quarter of 2018.

Operating supplies and expenses decreased from 5.1% of revenues, before fuel surcharges, during the third quarter of 2017 to 1.0% of revenues, before fuel surcharges, during the third quarter of 2018. The decrease relates primarily to a decrease in the average surcharge-adjusted fuel price paid per gallon of diesel fuel, which was a result of increased fuel surcharge collections from customers. Fuel surcharge collections can fluctuate significantly from period to period as they are generally based on changes in fuel prices from period to period so that, during periods of rising fuel prices, fuel surcharge collections increase, while fuel surcharge collections decrease during periods of falling fuel prices. Fuel surcharge revenue generated from transportation services performed by owner-operators is reflected as a reduction in net operating supplies and expenses, while fuel surcharges paid to owner-operators for their services is reported along with their base rate of pay in the Rent and purchased transportation category. These categorizations have the effect of reducing our net operating supplies and expenses while increasing the Rent and purchased transportation category, as discussed below.

Rent and purchased transportation decreased from 39.8% of revenues, before fuel surcharges, during the third quarter of 2017 to 34.1% of revenues, before fuel surcharges, during the third quarter of 2018. The decrease was primarily due to a reduction in amounts paid for equipment leases as the scheduled expiration of our final truck operating lease occurred during the first quarter of 2018. Trucks leased under these operating leases were replaced with company owned trucks as the scheduled expirations occurred. Also contributing to the decrease was a decrease in the average number of owner-operators under contract from 648 during the third quarter of 2017 to 565 during the third quarter of 2018, partially offset by an increase in the average rate per mile, including fuel surcharges, paid to owner operators during the respective periods.

Table of Contents

Depreciation increased from 12.7% of revenues, before fuel surcharges, during the third quarter of 2017 to 13.0% of revenues, before fuel surcharges, during the third quarter of 2018. As previously discussed, new tractors were purchased to replace tractors returned under expiring operating leases. This transition resulted in the shift of expense from the Rent and purchased transportation category to the Depreciation category as leased tractors were replaced with owned tractors. Also contributing to the increase was an increase in the cost of new trailers and an increase in the size of our trailer fleet. Depreciating a larger quantity of trailers with a higher cost over the same length of time resulted in an increase in depreciation expense during the third quarter of 2018 compared to the third quarter of 2017.

Insurance and claims decreased from 5.3% of revenues, before fuel surcharges, during the third quarter 2017 to 4.6% of revenues, before fuel surcharges, during the third quarter 2018. This decrease as a percentage of revenue, before fuel surcharges, is attributable to the interaction of the increase in revenue with the decrease in total miles driven. Miles driven generally serve as the premium basis for the majority of our insurance coverage.

Other expenses increased from 2.8% of revenues, before fuel surcharges, during the third quarter 2017 to 3.3% of revenues, before fuel surcharges, during the third quarter 2018. This increase is primarily attributable to an increase in legal fees associated with the defense of a collective-action lawsuit filed against the Company (see Note L to the condensed consolidated financial statements).

Non-operating income decreased from 3.2% of revenues, before fuel surcharges, during the third quarter of 2017 to 0.9% of revenues, before fuel surcharges, during the third quarter of 2018. This decrease resulted primarily from the adoption of ASU 2016-01. As discussed in Note B to the condensed consolidated financial statements, this standard requires that equity investments be adjusted to market value each period with current period gains and losses in value recorded in net income. Previous guidance generally required that unrealized gains and losses be reported in Accumulated Other Comprehensive Income. During the third quarter of 2017, equity investments were sold with pre-tax realized gains of approximately \$2,523,000. During the third quarter of 2018, our marketable equity securities portfolio had a net unrealized pre-tax gain in market value of approximately \$565,000 which was reported as Non-operating income for the period.

Interest expense increased from 1.1% of revenues, before fuel surcharges, during the third quarter 2017 to 1.6% of revenues, before fuel surcharges during the third quarter 2018. This increase is attributable to market increases in interest rates, and to increases in amounts financed by the Company for new equipment. The increase in amounts financed was driven by the replacement of trucks operated under equipment leases during the third quarter of 2017 with company owned trucks, as discussed previously, and to overall growth in the number of company owned tractors and trailers operated within our fleet.

The truckload services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, improved from 96.0% for the third quarter of 2017 to 87.4% for the third quarter of 2018.

NINE MONTHS ENDED SEPTEMBER 30, 2018 VS. NINE MONTHS ENDED SEPTEMBER 30, 2017

For the nine months ended September 30, 2018, truckload services revenue, before fuel surcharges, increased 7.4% to \$262.5 million as compared to \$244.3 million for the nine months ended September 30, 2017. The increase in revenue was primarily the result of an increase in the average rate per mile charged to our customers during the first nine months of 2018 compared to first nine months of 2017. The increase in rates was partially offset by a decrease in average miles driven per tractor for the first nine months of 2018 compared to the first nine months of 2017, due to an expansion of shorter length of haul local and regional business added during 2018.

Salaries, wages and benefits increased from 30.3% of revenues, before fuel surcharges, in the first nine months of 2017 to 32.8% of revenues, before fuel surcharges, during the first nine months of 2018. The increase relates primarily to a per mile pay increase that went into effect the last week of December 2017. This pay increase raised the average rate per mile paid to company drivers, which increased driver pay by approximately \$5.1 million for the first nine months of 2018 compared to the first nine months of 2017. In addition, the proportion of total miles driven by company drivers increased as the number of company drivers increased year-over-year. Also contributing to the increase were salaries, wages and benefits paid to regional and short haul drivers, which increased by approximately \$3.9 million for the periods compared. This increase occurred as we expanded our local dedicated services offering during the first nine months of 2018.

Operating supplies and expenses decreased from 5.1% of revenues, before fuel surcharges, during the first nine months of 2017 to 1.6% of revenues, before fuel surcharges, during the first nine months of 2018. The decrease relates primarily to a decrease in the average surcharge-adjusted fuel price paid per gallon of diesel fuel, which decreased as a result of increased fuel surcharge collections from customers. Fuel surcharge collections can fluctuate significantly from period to period as they are generally based on changes in fuel prices from period to period so that, during periods of rising fuel prices, fuel surcharge collections increase, while fuel surcharge collections decrease during periods of falling fuel prices. Fuel surcharge revenue generated from transportation services performed by owner-operators is reflected as a reduction in net operating supplies and expenses, while fuel surcharges paid to owner-operators for their services is reported along with their base rate of pay in the Rent and purchased transportation category. These categorizations have the effect of reducing our net operating supplies and expenses while increasing the Rent and purchased transportation category, as discussed below.

Table of Contents

Rent and purchased transportation decreased from 40.3% of revenues, before fuel surcharges, during the first nine months of 2017 to 35.0% of revenues, before fuel surcharges, during the first nine months of 2018. The decrease was primarily due to a reduction in amounts paid for equipment leases as the scheduled expiration of our final truck operating lease occurred during the first quarter of 2018. Trucks leased under these operating leases were replaced with company owned trucks as the scheduled expirations occurred. Also contributing to the decrease was a decrease in the average number of owner-operators under contract from 650 during the first nine months of 2017 to 555 during the first nine months of 2018, partially offset by an increase in the average rate per mile, including fuel surcharges, paid during the respective periods.

Depreciation increased from 12.8% of revenues, before fuel surcharges, during the first nine months of 2017 to 13.9% of revenues, before fuel surcharges, during the first nine months of 2018. As discussed previously, new tractors were purchased to replace tractors returned under expiring operating leases. This transition resulted in the shift of expense from the Rent and purchased transportation classification to Depreciation as leased tractors were replaced with company owned tractors. Also contributing to the increase was an increase in the cost of new trailers and an increase in the size of our trailer fleet. Depreciating a larger quantity of trailers with a higher cost over the same length of time resulted in an increase in depreciation expense during the first nine months of 2018 compared to the first nine months of 2017.

Insurance and claims decreased from 5.5% of revenues, before fuel surcharges, during the first nine months of 2017 to 4.9% of revenues, before fuel surcharges, during the first nine months of 2018. This decrease as a percentage of revenue, before fuel surcharges, is attributable to the interaction of the increase in revenue with the decrease in total miles driven. Miles driven generally serve as the premium basis for the majority of our insurance coverage.

Other expenses increased from 2.6% of revenues, before fuel surcharges, during the first nine months of 2017 to 3.1% of revenues, before fuel surcharges, during the first nine months of 2018. This increase is primarily attributable to an increase in legal fees associated with the defense of a collective-action lawsuit filed against the Company (see Note L to the condensed consolidated financial statements).

Non-operating income decreased from 2.1% of revenues, before fuel surcharges, during the first nine months of 2017 to 0.3% of revenues, before fuel surcharges, during the first nine months of 2018. This decrease resulted primarily from the adoption of ASU 2016-01. As discussed in Note B to the condensed consolidated financial statements, this standard requires that equity investments be adjusted to market value each period with current period gains and losses in value recorded in net income. Previous guidance generally required that unrealized gains and losses be reported in Accumulated Other Comprehensive Income. During the first nine months of 2017, equity investments were sold with pre-tax realized gains of approximately \$4,669,000. For the first nine months of 2018, our marketable equity securities portfolio had a net unrealized pre-tax loss in market value of approximately \$312,000 which was reported as non-operating expense for the period.

Interest expense increased from 1.1% of revenues, before fuel surcharges, during the first nine months of 2017 to 1.5% of revenues, before fuel surcharges during the first nine months of 2018. This increase is attributable to market increases in interest rates, and to increases in amounts financed by the Company for new equipment. The increase in amounts financed was driven by the replacement of trucks operated under equipment leases during the third quarter of 2017 with company owned trucks, as discussed previously, and to overall growth in the number of company owned tractors and trailers operated within our fleet.

The truckload services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, improved from 96.7% for the first nine months of 2017 to 91.1% for the first nine months of 2018.

Table of Contents**RESULTS OF OPERATIONS – LOGISTICS AND BROKERAGE SERVICES**

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

| | Three Months Ended September 30, 2018 2017 | | Nine Months Ended September 30, 2018 2017 | |
|-------------------------------------------|-----------------------------------------------------|--------|----------------------------------------------------|--------|
| | (percentages) | | | |
| Operating revenues, before fuel surcharge | 100.0 | 100.0 | 100.0 | 100.0 |
| Operating expenses: | | | | |
| Salaries, wages and benefits | 4.6 | 4.6 | 4.3 | 4.9 |
| Rent and purchased transportation | 88.4 | 90.1 | 89.3 | 90.6 |
| Other | 1.1 | 1.1 | 1.0 | 1.0 |
| Total operating expenses | 94.1 | 95.8 | 94.6 | 96.5 |
| Operating income | 5.9 | 4.2 | 5.4 | 3.5 |
| Non-operating income | 0.5 | 1.5 | 0.1 | 1.1 |
| Interest expense | (0.8) | (0.5) | (0.6) | (0.6) |
| Income before income taxes | 5.6 | 5.2 | 4.9 | 4.0 |

THREE MONTHS ENDED SEPTEMBER 30, 2018 VS. THREE MONTHS ENDED SEPTEMBER 30, 2017

During the third quarter of 2018, logistics and brokerage services revenue, before fuel surcharges, increased 78.0% to \$24.4 million as compared to \$13.7 million during the third quarter of 2017. The increase relates to an increase in the number of loads and to an increase in average rates charged during the third quarter of 2018 as compared to the third quarter of 2017.

Rent and purchased transportation decreased from 90.1% of revenues, before fuel surcharges, during the third quarter of 2017 to 88.4% of revenues, before fuel surcharges, during the third quarter of 2018. The decrease resulted from a decrease in amounts paid to third party carriers.

The logistics and brokerage services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, improved from 95.8% for the third quarter of 2017 to 94.1% for the third quarter of 2018.

NINE MONTHS ENDED SEPTEMBER 30, 2018 VS. NINE MONTHS ENDED SEPTEMBER 30, 2017

During the first nine months of 2018, logistics and brokerage services revenue, before fuel surcharges, increased 86.2% to \$66.7 million as compared to \$35.8 million during the first nine months of 2017. The increase relates to an increase in the number of loads hauled and to an increase in average rates charged during the first nine months of 2018 as compared to the first nine months of 2017.

Salaries, wages and benefits decreased from 4.9% of revenues, before fuel surcharges, during the first nine months of 2017 to 4.3% of revenues, before fuel surcharges, during the first nine months of 2018. The decrease relates primarily to increases in brokerage revenue outpacing the increase in employee resources assigned to the logistics and brokerage division during the first nine months of 2018 as compared to the first nine months of 2017. The percentage-based decrease reflects the interaction of expenses with fixed-cost characteristics, such as general and administrative wages, operations wages, and payroll taxes with an increase in revenues for the periods compared.

Rent and purchased transportation decreased from 90.6% of revenues, before fuel surcharges, during the first nine months of 2017 to 89.3% of revenues, before fuel surcharges, during the first nine months of 2018. The decrease resulted from a decrease in amounts paid to third party carriers.

The logistics and brokerage services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, improved from 96.5% for the first nine months of 2017 to 94.6% for the first nine months of 2018.

Table of Contents

RESULTS OF OPERATIONS – COMBINED SERVICES

THREE MONTHS ENDED SEPTEMBER 30, 2018 VS. THREE MONTHS ENDED SEPTEMBER 30, 2017

Net income for all divisions was approximately \$9.2 million, or 7.9% of revenues, before fuel surcharges for the third quarter of 2018 as compared to net income of \$3.4 million, or 3.7% of revenues, before fuel surcharges for the third quarter of 2017. The increase in net income resulted in diluted earnings per share of \$1.52 for the third quarter of 2018 as compared to diluted earnings per share of \$0.54 for the third quarter of 2017.

NINE MONTHS ENDED SEPTEMBER 30, 2018 VS. NINE MONTHS ENDED SEPTEMBER 30, 2017

Net income for all divisions was approximately \$17.9 million, or 5.4% of revenues, before fuel surcharges for the first nine months of 2018 as compared to net income of \$7.3 million, or 2.6% of revenues, before fuel surcharges for the first nine months of 2017. The increase in net income resulted in diluted earnings per share of \$2.89 for the first nine months of 2018 as compared to diluted earnings per share of \$1.14 for the first nine months of 2017.

LIQUIDITY AND CAPITAL RESOURCES

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

During the first nine months of 2018, we generated \$57.5 million in cash from operating activities. Investing activities used \$40.6 million in cash in the first nine months of 2018. Financing activities used \$16.9 million in cash in the first nine months of 2018.

Our primary use of funds is for the purchase of revenue equipment. We typically use installment notes, our existing line of credit on an interim basis, proceeds from the sale or trade of equipment, and cash flows from operations to finance capital expenditures and repay long-term debt. During the first nine months of 2018, we utilized cash on hand, installment notes, and our lines of credit to finance purchases of revenue equipment and other assets of approximately \$93.0 million.

We commonly finance the acquisition of revenue equipment through installment notes with fixed interest rates and terms ranging from 36 to 84 months. During the first nine months of 2018, the Company's subsidiary, P.A.M. Transport, Inc., entered into installment obligations totaling approximately \$76.7 million for the purpose of purchasing revenue equipment. These obligations are payable in monthly installments.

During the remainder of 2018, we expect to purchase approximately 260 new trucks and 500 new trailers while continuing to sell or trade older equipment, which we expect to result in net capital expenditures of approximately \$32.9 million. Management believes we will be able to finance our near term needs for working capital over the next twelve months, as well as any planned capital expenditures during such period, with cash balances, cash flows from operations, and borrowings believed to be available from financing sources. We will continue to have significant capital requirements over the long-term, which may require us to incur debt or seek additional equity capital. The availability of additional capital will depend upon prevailing market conditions, the market price of our common stock and several other factors over which we have limited control, as well as our financial condition and results of operations. Nevertheless, based on our recent operating results, current cash position, anticipated future cash flows, and sources of financing that we expect will be available to us, we do not expect that we will experience any significant liquidity constraints in the foreseeable future.

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

During the first nine months of 2018, we maintained a \$40.0 million revolving line of credit. Amounts outstanding under the line of credit bear interest at LIBOR (determined as of the first day of each month) plus 1.50% (3.60% at September 30, 2018), are secured by our accounts receivable and mature on July 1, 2020. At September 30, 2018 outstanding advances on the line of credit were approximately \$18.8 million, including approximately \$0.7 million in letters of credit, with availability to borrow \$21.2 million.

Trade accounts receivable increased from \$59.1 million at December 31, 2017 to \$75.8 million at September 30, 2018. The increase relates to a 35% increase in freight revenues, which flow through the accounts receivable account, during September 2018 as compared to December 2017.

Table of Contents

Other accounts receivable increased from \$3.0 million at December 31, 2017 to \$4.1 million at September 30, 2018 primarily due to increases in amounts owed by owner-operators and third party carriers for payment advances not charged at the end of the periods compared. Outstanding payment advances fluctuate depending on the timing of settlement dates compared to the end of the period and to the volume of freight transported by these methods in each period.

Prepaid expenses and deposits decreased from \$10.1 million at December 31, 2017 to \$9.1 million at September 30, 2018. The decrease relates to the normal amortization of items prepaid as of December 31, 2017, partially offset by the annual prepayment of insurance premiums for various policies that renew on September 1st each year. Insurance prepayments will be amortized over the life of the insurance policies, which is generally September 2018 to August 2019.

Marketable equity securities increased from \$26.7 million at December 31, 2017 to \$28.7 million at September 30, 2018. The \$2.0 million increase was due to the purchase of marketable equity securities with a combined market value of approximately \$2.3 million offset by a net decline in market value of approximately \$0.3 million during the first nine months of 2018.

Accounts payable increased from \$19.6 million at December 31, 2017 to \$42.1 million at September 30, 2018. This increase was primarily attributable to an increase in accrued revenue equipment purchases from \$2.9 million at December 31, 2017 to \$13.7 million at September 30, 2018 and to increases in direct expenses such as fuel, purchased transportation and insurance that increase in direct correlation to increases in miles and revenue.

Long-term debt and current maturities of long term-debt are reviewed on an aggregate basis, as the classification of amounts in each category are typically affected merely by the passage of time. Long-term debt and current maturities of long-term debt, on an aggregate basis, increased from \$172.6 million at December 31, 2017 to \$205.5 million at September 30, 2018. The increase was primarily related to the addition of \$76.7 million in equipment installments notes, partially offset by note payments made during the first nine months of 2018.

NEW ACCOUNTING PRONOUNCEMENTS

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

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

Equity Price Risk

We hold certain actively traded marketable equity securities, which subjects the Company to fluctuations in the fair market value of its investment portfolio based on the current market price of such securities. The recorded value of marketable equity securities increased to \$28.7 million at September 30, 2018 from \$26.7 million at December 31, 2017. A 10% decrease in the market price of our marketable equity securities would cause a corresponding 10% decrease in the carrying amounts of these securities, or approximately \$2.9 million. For additional information with respect to the marketable equity securities, see Note D to our condensed consolidated financial statements.

Interest Rate Risk

Our line of credit bears interest at a floating rate equal to LIBOR plus a fixed percentage. Accordingly, changes in LIBOR, which are affected by changes in interest rates, will affect the interest rate on, and therefore our costs under, the line of credit. Assuming \$18.1 million of variable rate debt was outstanding, a hypothetical 100 basis point increase in LIBOR for a one year period would result in approximately \$1.8 million of additional interest expense.

Commodity Price Risk

Prices and availability of all petroleum products are subject to political, economic, and market factors that are generally outside of our control. Accordingly, the price and availability of diesel fuel, as well as other petroleum products, can be unpredictable. Because our operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition. Based upon our 2017 fuel consumption, a 10% increase in the average annual price per gallon of diesel fuel would increase our annual fuel expenses by \$4.1 million.

Table of Contents

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk related to the activities of our branch office located in Mexico. Currently, we do not hedge our exchange rate exposure through any currency forward contracts, currency options, or currency swaps as all of our revenues, and substantially all of our expenses and capital expenditures, are transacted in U.S. dollars. However, certain operating expenditures and capital purchases related to our Mexico branch office are incurred in or exposed to fluctuations in the exchange rate between the U.S. dollar and the Mexican peso. Based on 2017 expenditures denominated in pesos, a 10% increase in the exchange rate would increase our annual operating expenses by \$57,000.

Item 4. Controls and Procedures.

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

Based on management’s evaluation, our chief executive officer and chief financial officer concluded that, as of September 30, 2018, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The nature of our business routinely results in litigation, primarily involving claims for personal injuries and property damage incurred in the transportation of freight. We believe that all such routine litigation is adequately covered by insurance and that adverse results in one or more of those cases would not have a material adverse effect on our financial condition.

We are a defendant in a collective-action lawsuit which was re-filed on December 9, 2016, in the United States District Court for the Western District of Arkansas. The plaintiffs, who are former drivers who worked for the Company during the period of December 6, 2013, through the date of the filing, allege violations under the Fair Labor Standards Act and the Arkansas Minimum Wage Law. The plaintiffs, through their attorneys, have filed causes of action alleging “Failure to pay minimum wage during orientation, failure to pay minimum wage to team drivers after initial orientation, failure to pay minimum wage to solo-drivers after initial orientation, failure to pay for compensable travel time, Comdata card fees, unlawful deductions, and breach of contract.” The plaintiffs are seeking actual and liquidated damages to include court costs and legal fees. The lawsuit is being vigorously defended and we cannot reasonably estimate, at this time, the possible loss or range of loss, if any, that may arise from this lawsuit. Management has determined that any losses under this claim will not be covered by existing insurance policies.

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

The Company’s stock repurchase program has been extended and expanded several times, most recently in April 2017, when the Board of Directors reauthorized 500,000 shares of common stock for repurchase under the initial September 2011 authorization. Since the reauthorization, the Company has repurchased 111,316 shares of its common stock under this repurchase program.

Table of Contents

The following table summarizes the Company's common stock repurchases during the third quarter of 2018 made pursuant to the stock repurchase program. No shares were purchased during the quarter other than through this program, and all purchases were made by or on behalf of the Company and not by any "affiliated purchaser".

Issuer Purchases of Equity Securities

| Period | Total number of shares purchased | Average price paid per share | Total number of shares purchased as part of publicly announced plans or programs | Maximum number of shares that may yet be purchased under the plans or programs ⁽¹⁾ |
|----------------------|-------------------------------------------|------------------------------------------|----------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|
| July 1-31, 2018 | -- | -- | -- | 388,684 |
| August 1-31, 2018 | 36,000 | \$ 62.00 | 36,000 | 352,684 |
| September 1-30, 2018 | 7,731 | 62.99 | 7,731 | 344,953 |
| Total | 43,731 | \$ 62.17 | 43,731 | |

(1) The Company's stock repurchase program does not have an expiration date.

Table of Contents

Item 6. Exhibits.

| Exhibit Number | Exhibit Description |
|-------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | <u>Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on May 15, 2002.)</u> |
| 3.2 | <u>Amended and Restated By-Laws of the Registrant (incorporated by reference to Exhibit 3.2 of the Company's Form 8-K filed on December 11, 2007.)</u> |
| 4.1 | <u>Amended and Restated Loan Agreement, dated March 28, 2016, by and among P.A.M. Transport, Inc., First Tennessee Bank National Association and the Company (incorporated by reference to Exhibit 4.1 of the Company's Form 8-K filed on April 1, 2016.)</u> |
| 4.2 | <u>Fourth Amended and Restated Consolidated Revolving Credit Note, dated March 28, 2016, by P.A.M. Transport, Inc. in favor of First Tennessee Bank National Association (incorporated by reference to Exhibit 4.2 of the Company's Form 8-K filed on April 1, 2016.)</u> |
| 4.3 | <u>Amended and Restated Security Agreement, dated March 28, 2016, by and between P.A.M. Transport, Inc. and First Tennessee Bank National Association (incorporated by reference to Exhibit 4.3 of the Company's Form 8-K filed on April 1, 2016.)</u> |
| 4.4 | <u>Fourth Amended and Restated Guaranty Agreement of the Company, dated March 28, 2016, in favor of First Tennessee Bank National Association (incorporated by reference to Exhibit 4.4 of the Company's Form 8-K filed on April 1, 2016.)</u> |
| 31.1 | <u>Rule 13a-14(a) Certification of Principal Executive Officer</u> |
| 31.2 | <u>Rule 13a-14(a) Certification of Principal Financial Officer</u> |
| 32.1 | <u>Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Labels Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

Table of Contents

SIGNATURES

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

P.A.M. TRANSPORTATION SERVICES, INC.

Dated: November 02, 2018 By: /s/ Daniel H. Cushman
Daniel H. Cushman
President and Chief Executive Officer
(principal executive officer)

Dated: November 02, 2018 By: /s/ Allen W. West
Allen W. West
Vice President-Finance, Chief Financial
Officer, Secretary and Treasurer
(principal accounting and financial officer)