MARTEN TRANSPORT LTD
Form 10-Q
August 11, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d)

of the Securities Exchange Act of 1934

For the Quarter ended June 30, 2008

Commission File Number 0-15010

MARTEN TRANSPORT, LTD.

(Exact name of registrant as specified in its charter)

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

129 Marten Street, Mondovi, Wisconsin 54755

(Address of principal executive offices)

715-926-4216

(Registrant s telephone number)

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

Yes x No o

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

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2).

Yes ¨ No x

The number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, was 21,765,289 as of August 6, 2008.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share information)	June 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash	$ 1,074	$ 3,618
Marketable securities	320	350
Receivables:		
Trade, net	63,477	51,539
Other	11,366	6,175
Prepaid expenses and other	12,646	13,823
Deferred income taxes	5,629	4,653
Total current assets	94,512	80,158
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	429,350	447,430
Accumulated depreciation	(129,938)	(122,246)
Net property and equipment	299,412	325,184
Other assets	1,131	2,048
TOTAL ASSETS	$ 395,055	$ 407,390
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Checks issued in excess of cash balances	$ 11	$
Accounts payable and accrued liabilities	35,353	32,384
Insurance and claims accruals	19,183	17,431
Current maturities of long-term debt	5,000	5,000
Total current liabilities	59,547	54,815
Long-term debt, less current maturities	13,239	39,643
Deferred income taxes	77,631	74,719
Total liabilities	150,417	169,177
Minority interest	1,849	1,283
Stockholders equity:		
Preferred stock, $.01 par value per share; 2,000,000 shares authorized; no shares issued and outstanding		
Common stock, $.01 par value per share; 48,000,000 shares authorized; 21,765,289 shares at June 30, 2008, and 21,811,837 shares at December 31, 2007, issued and outstanding	218	218
Additional paid-in capital	74,307	74,570
Retained earnings	168,264	162,142
Total stockholders equity	242,789	236,930
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 395,055	$ 407,390

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

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share information)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
OPERATING REVENUE	$ 159,994	$ 138,821	$ 303,368	$ 270,237
OPERATING EXPENSES (INCOME):				
Salaries, wages and benefits	37,755	38,565	74,437	76,978
Purchased transportation	31,285	24,679	59,289	46,499
Fuel and fuel taxes	51,785	37,126	93,714	69,938
Supplies and maintenance	9,378	8,966	18,710	17,916
Depreciation	12,346	11,727	24,308	23,450
Operating taxes and licenses	1,762	1,726	3,474	3,425
Insurance and claims	6,653	5,376	12,218	10,846
Communications and utilities	909	970	1,870	1,910
Gain on disposition of revenue equipment	(927)	(1,268)	(1,986)	(2,448)
Other	2,620	2,913	5,424	5,292
Total operating expenses	153,566	130,780	291,458	253,806
OPERATING INCOME	6,428	8,041	11,910	16,431
OTHER EXPENSES (INCOME):				
Interest expense	302	1,042	836	2,121
Interest income and other	(37)	(126)	(114)	(345)
Minority interest	225	79	605	229
	490	995	1,327	2,005
INCOME BEFORE INCOME TAXES	5,938	7,046	10,583	14,426
PROVISION FOR INCOME TAXES	2,469	2,702	4,461	5,488
NET INCOME	$ 3,469	$ 4,344	$ 6,122	$ 8,938
BASIC EARNINGS PER COMMON SHARE	$ 0.16	$ 0.20	$ 0.28	$ 0.41
DILUTED EARNINGS PER COMMON SHARE	$ 0.16	$ 0.20	$ 0.28	$ 0.41

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

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited)

(In thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Total Stock-holders Equity
Balance at December 31, 2006	21,765	$ 218	$ 73,601	$ 147,174	$ 220,993
Net income				8,938	8,938
Issuance of common stock from share-based payment arrangement exercises	47		303		303
Tax benefits from share-based payment arrangement exercises			207		207
Share-based payment arrangement compensation expense			282		282
Balance at June 30, 2007	21,812	218	74,393	156,112	230,723
Net income				6,030	6,030
Tax benefits from share-based payment arrangement exercises			(1)		(1)
Share-based payment arrangement compensation expense			178		178
Balance at December 31, 2007	21,812	218	74,570	162,142	236,930
Net income				6,122	6,122
Repurchase and retirement of common stock	(67)		(810)		(810)
Issuance of common stock from share-based payment arrangement exercises	20		98		98
Tax benefits from share-based payment arrangement exercises			91		91
Share-based payment arrangement compensation expense			358		358
Balance at June 30, 2008	21,765	$ 218	$ 74,307	$ 168,264	$ 242,789

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

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)	Six Months Ended June 30, 2008		2007	
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:				
Operations:				
Net income	$	6,122	$	8,938
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation		24,308		23,450
Gain on disposition of revenue equipment		(1,986)		(2,448)
Deferred income taxes		1,936		992
Tax benefits from share-based payment arrangement exercises		91		207
Excess tax benefits from share-based payment arrangement exercises		(73)		(168)
Share-based payment arrangement compensation expense		358		282
Minority interest in earnings of affiliate, net of distributions		566		139
Changes in other current operating items		(9,604)		(1,898)
Net cash provided by operating activities		21,718		29,494
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:				
Revenue equipment additions		(14,487)		(50,208)
Proceeds from revenue equipment dispositions		17,524		16,641
Buildings and land, office equipment and other additions		(1,216)		(628)
Proceeds from buildings and land, office equipment and other dispositions		2		609
Net change in other assets		917		1,239
Sales of marketable securities		30		
Net cash provided by (used for) investing activities		2,770		(32,347)
CASH FLOWS (USED FOR) PROVIDED BY FINANCING ACTIVITIES:				
Borrowings under credit facility and long-term debt		81,925		72,170
Repayment of borrowings under credit facility and long-term debt		(108,329)		(68,006)
Repurchase and retirement of common stock		(810)		
Issuance of common stock from share-based payment arrangement exercises		98		303
Excess tax benefits from share-based payment arrangement exercises		73		168
Change in net checks issued in excess of cash balances		11		(712)
Net cash (used for) provided by financing activities		(27,032)		3,923
NET CHANGE IN CASH		(2,544)		1,070
CASH:				
Beginning of period		3,618		2,988
End of period	$	1,074	$	4,058
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	$	864	$	2,164
Income taxes	$	3,575	$	1,643
Non-cash investing activities:				
Change in revenue equipment not yet paid for	$	(1,627)	$	(13,371)

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

4

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2008

(Unaudited)

(1) Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial statements, and therefore do not include all information and disclosures required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, such statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to fairly present our consolidated financial condition, results of operations and cash flows for the interim periods presented. The results of operations for any interim period do not necessarily indicate the results for the full year. The unaudited interim consolidated financial statements should be read with reference to the consolidated financial statements and notes to consolidated financial statements in our 2007 Annual Report on Form 10-K.

The accompanying unaudited consolidated condensed financial statements include the accounts of Marten Transport, Ltd. and its 45% owned affiliate, MW Logistics, LLC (MWL). MWL is a third-party provider of logistics services to the transportation industry. We have applied the provisions of FASB Interpretation No. 46, Consolidation of Variable Interest Entities, as revised, to our investment in MWL. All material intercompany accounts and transactions have been eliminated in consolidation.

(2) Accounting for Share-based Payment Arrangement Compensation

We account for share-based payment arrangements in accordance with Statement of Financial Accounting Standards No. 123R, Share-Based Payment as interpreted by SEC Staff Accounting Bulletin No. 107. During the three-month and six-month periods ended June 30, 2008, there was no significant activity with our share-based payment arrangements. Total share-based compensation expense recorded in the three-month and six-month periods ended June 30, 2008 was $257,000 ($163,000 net of income tax benefit) and $358,000 ($231,000 net of income tax benefit). Total share-based compensation expense recorded in the three-month and six-month periods ended June 30, 2007 was $195,000 ($133,000 net of income tax benefit) and $282,000 ($196,000 net of income tax benefit). See Note 9 to our consolidated financial statements in our 2007 Annual Report on Form 10-K for a detailed description of stock-based awards under our 2005 Stock Incentive Plan and 1995 Stock Incentive Plan.

(3) Earnings Per Common Share

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In thousands, except per share amounts)	**2008**	**2007**	**2008**	**2007**

Numerator:								
Net income	$	3,469	$	4,344	$	6,122	$	8,938
Denominator:								
Basic earnings per common share - weighted-average shares		21,764		21,789		21,760		21,778
Effect of dilutive stock options		154		182		152		184
Diluted earnings per common share - weighted-average shares and assumed conversions		21,918		21,971		21,912		21,962
Basic earnings per common share	$	0.16	$	0.20	$	0.28	$	0.41
Diluted earnings per common share	$	0.16	$	0.20	$	0.28	$	0.41

Options totaling 404,600 and 231,000 shares were outstanding but were not included in the calculation of diluted earnings per share for the three-month and six-month periods ended June 30, 2008 and June 30, 2007, respectively, primarily because their exercise prices were greater than the average market price of the common shares and, therefore, including the options in the denominator would be antidilutive, or decrease the number of weighted-average shares. The 404,600 and 231,000 shares above include 90,500 and 78,000 shares, respectively, of performance-based option awards for which the performance condition was not considered probable of achievement.

(4) Income Taxes

Our effective income tax rate increased to 42.2% for the first six months of 2008 from 38.0% for the first six months of 2007 primarily because of the nondeductible effect of a per diem pay structure for our drivers adopted in the first quarter of 2008.

Our reserves for unrecognized tax benefits were $88,000 as of June 30, 2008 and $69,000 as of December 31, 2007. The $19,000 increase in the amount reserved in the first six months of 2008 relates to current period tax positions. If recognized, $57,000 of the unrecognized tax benefits as of June 30, 2008 would impact our effective tax rate. No potential interest or penalties related to unrecognized tax benefits were recognized in our financial statements as of June 30, 2008. We do not expect the reserves for unrecognized tax benefits to change significantly within the next twelve months.

The federal statute of limitations remains open for 2004 and forward. We file tax returns in numerous state jurisdictions with varying statutes of limitations.

(5) Share Repurchase Program

In December 2007, our Board of Directors approved a share repurchase program to repurchase up to one million shares of our common stock either through purchases on the open market or through private transactions. The timing and extent to which we will repurchase shares depends on market conditions and other corporate considerations. In the first quarter of 2008 we repurchased and retired 67,500 shares of our common stock for $810,000. We made no purchases in 2007 or in the second quarter of 2008. The repurchase program does not have an expiration date.

(6) Business Segments

Our presentation includes two reportable segments Truckload and Logistics. The primary source of our operating revenue is truckload revenue, which we generate by transporting freight for our customers and report within our Truckload segment. Generally, we are paid by the mile for our services. We also derive truckload revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services.

Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations, both launched in 2005, and through our 45% interest in MWL, a third-party provider of logistics services to the transportation industry. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the transport of our trailers on railroad flatcars for a portion of a trip, with the balance of the trip using our tractors or, to a lesser extent, contracted carriers.

The following table sets forth for the periods indicated our operating revenue, operating income and operating ratio by segment. The table below presents truckload and logistics revenue, net of fuel surcharges. We provide this additional disclosure because management believes removing fuel surcharge revenue provides a more consistent basis for comparing results of operations from period to period. This financial measure in the table below has not been determined in accordance with U.S. generally accepted accounting principles (GAAP). Pursuant to Item 10(e) of Regulation S-K, we have included a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating revenue. We evaluate the performance of our business segments based on operating income and operating ratio. We do not prepare separate balance sheets by segment and, as a result, assets are not separately identifiable by segment.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	**2008**	**2007**	**2008**	**2007**
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$ 96,506	$ 103,354	$ 191,137	$ 204,631
Truckload fuel surcharge revenue	37,568	20,357	64,066	37,227
Total Truckload revenue	134,074	123,711	255,203	241,858
Logistics revenue, net of intermodal fuel surcharge revenue(1)	23,366	14,388	44,111	27,100
Intermodal fuel surcharge revenue	2,554	722	4,054	1,279
Total Logistics revenue	25,920	15,110	48,165	28,379
Total operating revenue	$ 159,994	$ 138,821	$ 303,368	$ 270,237
Operating income:				
Truckload	$ 4,634	$ 7,065	$ 8,361	$ 14,412
Logistics	1,794	976	3,549	2,019
Total operating income	$ 6,428	$ 8,041	$ 11,910	$ 16,431
Operating ratio(2):				
Truckload	96.5%	94.3%	96.7%	94.0%
Logistics	93.1	93.5	92.6	92.9
Consolidated operating ratio	96.0%	94.2%	96.1%	93.9%

(1) Logistics revenue is net of $4.3 million and $8.6 million of inter-segment revenue in the three-month and six-month periods ended June 30, 2008, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation. Inter-segment revenue was $3.5 million and $7.0 million for the three-month and six-month periods ended June 30, 2007.

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

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

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our consolidated condensed financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those included in our Form 10-K, Part I, Item 1A for the year ended December 31, 2007. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this report.

Overview

The primary source of our operating revenue is truckload revenue, which we generate by transporting freight for our customers and report within our Truckload segment. Generally, we are paid by the mile for our services. We also derive truckload revenue from fuel surcharges, loading and unloading activities, equipment detention and other ancillary services. The main factors that affect our truckload revenue are the rate per mile we receive from our customers, the percentage of miles for which we are compensated and the number of miles we generate with our equipment. These factors relate, among other things, to the United States economy, inventory levels, the level of truck capacity in the temperature-sensitive market and specific customer demand. We monitor our revenue production primarily through average truckload revenue, net of fuel surcharges, per tractor per week. We also analyze our average truckload revenue, net of fuel surcharges, per total mile, non-revenue miles percentage, the miles per tractor we generate, our accessorial revenue and our other sources of operating revenue.

Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations, both launched in 2005, and through our 45% interest in MWL, a third-party provider of logistics services to the transportation industry. Brokerage services involve arranging for another company to transport freight for our customers while we retain the billing, collection and customer management responsibilities. Intermodal services involve the transport of our trailers on railroad flatcars for a portion of a trip, with the balance of the trip using our tractors or, to a lesser extent, contracted carriers. The main factors that affect our logistics revenue are the rate per mile and other charges we receive from our customers and the rates charged by third-party providers. These factors relate, among other things, to the United States economy, inventory levels, the level of truck and rail capacity in the transportation market and specific customer demand.

In the first six months of 2008, we increased our operating revenue by $33.1 million, or 12.3%. Our operating revenue, net of fuel surcharges, increased $3.5 million, or 1.5%, compared with the first six months of 2007. Fuel surcharges increased $29.6 million, or 76.9%, in the first six months of 2008 due to the significant increase in the average cost of fuel from the first six months of 2007. Truckload segment revenue, net of fuel surcharges, decreased 6.6% due to a 7.8% decrease in our weighted average number of tractors, partially offset by slight increases in revenue per total mile and in tractor utilization. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.7% in the first six months of 2008 due to a 0.9% increase in average truckload revenue, net of fuel surcharges, per total mile and a 0.3% increase in average miles per tractor. The changes in our operating statistics are consistent with the growth of our regional temperature-controlled operations in the first six months of 2008. By focusing on shorter lengths of haul in certain defined areas, we are addressing customer trends toward regional distribution to lower their transportation expense, furthering our own objectives of reducing fuel consumption per load, and matching some of our drivers desires to stay closer to home. The concentration of a portion of our fleet in these markets is evident in a 5.2% reduction in average length of haul to 878 miles. In response to a challenging freight environment with industry-wide capacity exceeding freight demand, we decreased our fleet throughout 2007. As a result, our average fleet size was 199 tractors less in the first six months of 2008 than in the same period of 2007, but remained essentially the same as the end of 2007. The slight improvement in tractor productivity was more than offset by an increase in our overall cost structure, which resulted in decreased profitability from the first six months of 2007. Due to the difficult freight environment, we were not able to increase freight rates to cover higher costs. The 1.5% increase in our operating revenue, net of fuel surcharges, was entirely driven by continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL. Logistics revenue, which represented 15.9% of our operating revenue in the first six months of 2008, increased

$19.8 million, or 69.7%, compared with the first six months of 2007.

Our profitability on the expense side is impacted by variable costs of transporting freight for our customers, fixed costs and expenses containing both fixed and variable components. The variable costs include fuel expense, driver-related expenses, such as wages, benefits, training, and recruitment, and independent contractor costs, which are recorded under purchased transportation. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency and other factors. Our main fixed costs relate to the acquisition and financing of long-term assets, such as revenue equipment and operating terminals. We expect our annual cost of tractor and trailer ownership will increase in future periods as a result of higher prices of new equipment. Although certain factors affecting our expenses are beyond our control, we monitor them closely and attempt to anticipate changes in these factors in managing our business. For example, fuel prices fluctuated dramatically at various times during the last several years, with the average cost of fuel increasing to $3.79 per gallon in the first six months of 2008 from $2.58 per gallon in the first six months of 2007. We manage our exposure to changes in fuel prices primarily through fuel surcharge programs with our customers, as well as through volume fuel purchasing arrangements with national fuel centers and bulk purchases of fuel at our terminals. To help further reduce fuel expense, we began installing auxiliary power units in our tractors in 2007 to provide climate control and electrical power for our drivers without idling the tractor engine. For our Logistics segment, our profitability on the expense side is impacted by the percentage of logistics revenue we pay to providers for the transportation services we arrange.

Our operating expenses as a percentage of operating revenue, or operating ratio, was 96.1% in the first six months of 2008 compared with 93.9% in the first six months of 2007. Our earnings per diluted share decreased to $0.28 in the first six months of 2008 from $0.41 in the first six months of 2007.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At June 30, 2008, we had approximately $18.2 million of long-term debt, including current maturities, and $242.8 million in stockholders equity. In the first six months of 2008, our proceeds from revenue equipment dispositions exceeded our expenditures to purchase new revenue equipment by $3.0 million. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately $35 million for the remainder of 2008. Our projected net capital expenditures for the remainder of 2008 has increased from previously communicated levels primarily due to new tractor and trailer purchases to update our fleet. We recently negotiated additional equipment purchases with our tractor and trailer suppliers most of which will be replacement equipment. We believe our sources of liquidity are adequate to meet our current and anticipated needs for at least the next twelve months. Based upon anticipated cash flows, current borrowing availability and sources of financing we expect to be available to us, we do not anticipate any significant liquidity constraints in the foreseeable future.

This Management s Discussion and Analysis of Financial Condition and Results of Operations includes discussions of truckload and logistics revenue, net of fuel surcharges, and net fuel expense (fuel and fuel taxes net of fuel surcharge revenue and surcharges passed through to independent contractors). We provide these additional disclosures because management believes these measures provide a more consistent basis for comparing results of operations from period to period. These financial measures in this report have not been determined in accordance with U.S. generally accepted accounting principles (GAAP). Pursuant to Item 10(e) of Regulation S-K, we have included the amounts necessary to reconcile these non-GAAP financial measures to the most directly comparable GAAP financial measures, operating revenue and fuel and fuel taxes.

Results of Operations

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Truckload Segment:				
Average truckload revenue, net of fuel surcharges, per total mile	$ 1.497	$ 1.470	$ 1.488	$ 1.474
Average miles per tractor(1)	27,162	27,494	54,245	54,081
Average truckload revenue, net of fuel surcharges, per tractor per week(1)	$ 3,128	$ 3,108	$ 3,105	$ 3,083
Average tractors (1)	2,373	2,558	2,368	2,567
Average miles per trip	865	911	878	926
Total miles company-employed drivers (in thousands)	55,587	58,361	109,897	115,529
Total miles independent contractors (in thousands)	8,877	11,968	18,548	23,297
Logistics Segment:				
Brokerage:				
Revenue (in thousands)	$ 16,487	$ 10,376	$ 31,711	$ 19,425
Loads	7,978	5,657	15,591	10,405
Intermodal:				
Revenue (in thousands)	$ 9,433	$ 4,734	$ 16,454	$ 8,954
Loads	2,773	1,528	4,926	2,914
Average tractors	51	26	45	25

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 246 and 368 tractors as of June 30, 2008, and 2007, respectively.

Comparison of Three Months Ended June 30, 2008 to Three Months Ended June 30, 2007

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

(Dollars in thousands)	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Dollar Change Three Months Ended June 30, 2008 vs. 2007	Percentage Change Three Months Ended June 30, 2008 vs. 2007
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$ 96,506	$ 103,354	$ (6,848)	(6.6)%
Truckload fuel surcharge revenue	37,568	20,357	17,211	84.5
Total Truckload revenue	134,074	123,711	10,363	8.4
Logistics revenue, net of intermodal fuel surcharge revenue(1)	23,366	14,388	8,978	62.4
Intermodal fuel surcharge revenue	2,554	722	1,832	253.7
Total Logistics revenue	25,920	15,110	10,810	71.5
Total operating revenue	$ 159,994	$ 138,821	$ 21,173	15.3%
Operating income:				
Truckload	$ 4,634	$ 7,065	$ (2,431)	(34.4)%
Logistics	1,794	976	818	83.8
Total operating income	$ 6,428	$ 8,041	$ (1,613)	(20.1)%
Operating ratio(2):				
Truckload	96.5%	94.3%		(2.3)%
Logistics	93.1	93.5		0.4
Consolidated operating ratio	96.0%	94.2%		(1.9)%

(1) Logistics revenue is net of $4.3 million and $3.5 million of inter-segment revenue in the 2008 and 2007 periods, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation.

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

Our operating revenue increased $21.2 million, or 15.3%, to $160.0 million in the 2008 period from $138.8 million in the 2007 period. Our operating revenue, net of fuel surcharges, increased $2.1 million, or 1.8%, to $119.9 million in the 2008 period from $117.7 million in the 2007 period. The increase in operating revenue, net of fuel surcharges, was entirely driven by continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL. Fuel surcharges increased $19.0 million, or 90.3%, in the 2008 period due to the significant increase in the average cost of fuel from the 2007 period.

Truckload segment revenue increased $10.4 million, or 8.4%, to $134.1 million in the 2008 period from $123.7 million in the 2007 period. Truckload segment revenue, net of fuel surcharges, decreased 6.6% due to a 7.2% decrease in our weighted average number of tractors, partially offset by a 1.8% increase in average truckload revenue, net of fuel surcharges, per total mile. The increase in average truckload revenue, net of fuel surcharges, per total mile was the result of an improved freight mix, reduced average length of haul and an apparent reduction in overall truckload industry capacity. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.6% in the 2008 period from the 2007 period due to the increase in revenue per total mile, partially offset by a 1.2% decrease in average miles per tractor. The changes in our operating statistics are consistent with the continued growth of our regional temperature-controlled operations in the 2008 period. By focusing on shorter lengths of haul in certain defined areas, we are addressing customer trends toward regional distribution to lower their transportation expense, furthering our own objectives of reducing fuel consumption per load, and matching some of our drivers desires to stay closer to home. The concentration of a portion of our fleet in these markets is evident in a 5.0% reduction in average length of haul to 865 miles. In response to a challenging freight environment with industry-wide capacity exceeding freight demand, we decreased our fleet throughout 2007. As a result, our average fleet size was 185 tractors less in the 2008 period than in the 2007 period, but remained essentially the same as the end of 2007. The slight improvement in tractor productivity was more than offset by an increase in our overall cost structure, which resulted in decreased profitability from the 2007 period. Due to the difficult freight environment, we were not able to increase freight rates to cover higher costs.

Logistics segment revenue increased $10.8 million, or 71.5%, to $25.9 million in the 2008 period from $15.1 million in the 2007 period. Logistics segment revenue, net of intermodal fuel surcharges, increased 62.4%. The increase in logistics revenue primarily resulted from continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL. The improvement in the operating ratio for our Logistics segment in the 2008 period was primarily due to an increase of intermodal revenue as a percentage of logistics revenue from the 2007 period. The operating ratio for our intermodal services is lower than for our brokerage services.

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

(Dollars in thousands)	**Dollar Change Three Months Ended June 30, 2008 vs. 2007**	**Percentage Change Three Months Ended June 30, 2008 vs. 2007**	**Percentage of Operating Revenue Three Months Ended June 30, 2008**	**2007**
Operating revenue	$ 21,173	15.3%	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	(810)	(2.1)	23.6	27.8
Purchased transportation	6,606	26.8	19.6	17.8
Fuel and fuel taxes	14,659	39.5	32.4	26.7
Supplies and maintenance	412	4.6	5.9	6.5
Depreciation	619	5.3	7.7	8.4
Operating taxes and licenses	36	2.1	1.1	1.2
Insurance and claims	1,277	23.8	4.2	3.9
Communications and utilities	(61)	(6.3)	0.6	0.7
Gain on disposition of revenue equipment	341	26.9	(0.6)	(0.9)
Other	(293)	(10.1)	1.6	2.1
Total operating expenses	22,786	17.4	96.0	94.2
Operating income	(1,613)	(20.1)	4.0	5.8
Other expenses (income):				
Interest expense	(740)	(71.0)	0.2	0.8
Interest income and other	89	70.6		(0.1)
Minority interest	146			