MARTEN TRANSPORT LTD
Form 10-Q
August 09, 2007

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, 2007

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer x Non-accelerated filer o

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

Yes o No x

The number of shares outstanding of the Registrant s Common Stock, par value $.01 per share, was 21,811,837 as of August 6, 2007.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share information)	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash	$ 4,058	$ 2,988
Marketable securities	300	300
Receivables:		
Trade, net	54,779	48,005
Other	6,442	6,458
Prepaid expenses and other	12,270	14,227
Deferred income taxes	5,126	4,532
Total current assets	82,975	76,510
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	438,996	428,729
Accumulated depreciation	(109,895)	(98,841)
Net property and equipment	329,101	329,888
Other assets	3,185	4,424
TOTAL ASSETS	$ 415,261	$ 410,822
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Checks issued in excess of cash balances	$ 92	$ 804
Accounts payable and accrued liabilities	26,869	37,545
Insurance and claims accruals	16,281	16,073
Current maturities of long-term debt	5,000	5,000
Total current liabilities	48,242	59,422
Long-term debt, less current maturities	57,823	53,659
Deferred income taxes	77,421	75,835
Total liabilities	183,486	188,916
Minority interest	1,052	913
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; 21,811,837 shares at June 30, 2007, and 21,764,773 shares at December 31, 2006, issued and outstanding	218	218
Additional paid-in capital	74,393	73,601
Retained earnings	156,112	147,174
Total stockholders equity	230,723	220,993

TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	415,261	$	410,822

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

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MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except per share information)	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
OPERATING REVENUE	$ 138,821	$ 131,862	$ 270,237	$ 251,417
OPERATING EXPENSES (INCOME):				
Salaries, wages and benefits	38,565	35,820	76,978	70,239
Purchased transportation	24,679	21,712	46,499	40,880
Fuel and fuel taxes	37,126	35,350	69,938	64,934
Supplies and maintenance	8,966	8,131	17,916	16,006
Depreciation	11,727	10,892	23,450	21,566
Operating taxes and licenses	1,726	1,832	3,425	3,651
Insurance and claims	5,376	4,665	10,846	9,972
Communications and utilities	970	857	1,910	1,738
Gain on disposition of revenue equipment	(1,268)	(1,699)	(2,448)	(3,740)
Other	2,913	2,490	5,292	5,370
Total operating expenses	130,780	120,050	253,806	230,616
OPERATING INCOME	8,041	11,812	16,431	20,801
OTHER EXPENSES (INCOME):				
Interest expense	1,042	913	2,121	1,755
Interest income and other	(126)	(303)	(345)	(601)
Minority interest	79	242	229	350
	995	852	2,005	1,504
INCOME BEFORE INCOME TAXES	7,046	10,960	14,426	19,297
PROVISION FOR INCOME TAXES	2,702	3,420	5,488	6,704
NET INCOME	$ 4,344	$ 7,540	$ 8,938	$ 12,593
BASIC EARNINGS PER COMMON SHARE	$ 0.20	$ 0.35	$ 0.41	$ 0.58
DILUTED EARNINGS PER COMMON SHARE	$ 0.20	$ 0.34	$ 0.41	$ 0.57

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	Amount	Additional Paid-In Capital	Retained Earnings	Total Stock-holders Equity
Balance at December 31, 2005	21,573	$ 216	$ 71,045	$ 122,656	$ 193,917
Net income				12,593	12,593
Issuance of common stock from share-based payment arrangement exercises	183	2	751		753
Tax benefits from share-based payment arrangement exercises			1,288		1,288
Share-based payment arrangement compensation expense			261		261
Balance at June 30, 2006	21,756	218	73,345	135,249	208,812
Net income				11,925	11,925
Issuance of common stock from share-based payment arrangement exercises	9		60		60
Tax benefits from share-based payment arrangement exercises			10		10
Share-based payment arrangement compensation expense			186		186
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

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, 2007**	**2006**
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Operations:		
Net income	$ 8,938	$ 12,593
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	23,450	21,566
Gain on disposition of revenue equipment	(2,448)	(3,740)
Deferred tax provision	992	3,537
Tax benefits from share-based payment arrangement exercises	207	1,288
Excess tax benefits from share-based payment arrangement exercises	(168)	(1,152)
Share-based payment arrangement compensation expense	282	261
Minority interest in undistributed earnings of affiliate	139	264
Changes in other current operating items	(1,898)	(3,887)
Net cash provided by operating activities	29,494	30,730
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Revenue equipment additions	(50,208)	(59,127)
Proceeds from revenue equipment dispositions	16,641	21,085
Buildings and land, office equipment and other additions	(628)	(648)
Proceeds from buildings and land, office equipment and other dispositions	609	
Net change in other assets	1,239	942
Purchases of marketable securities		(1,798)
Sales of marketable securities		1,690
Net cash used for investing activities	(32,347)	(37,856)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Borrowings under credit facility and long-term debt	72,170	63,798
Repayment of borrowings under credit facility and long-term debt	(68,006)	(56,034)
Issuance of common stock from share-based payment arrangement exercises	303	753
Excess tax benefits from share-based payment arrangement exercises	168	1,152
Change in checks issued in excess of cash balances	(712)	(1,238)
Net cash provided by financing activities	3,923	8,431
NET CHANGE IN CASH	1,070	1,305
CASH:		
Beginning of period	2,988	1,080
End of period	$ 4,058	$ 2,385
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for:		
Interest	$ 2,164	$ 1,564
Income taxes	$ 1,643	$ 301
Non-cash investing activities:		
Change in revenue equipment not yet paid for	$ (13,371)	$

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

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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2007

(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 2006 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 effective March 31, 2004. All material intercompany accounts and transactions have been eliminated in consolidation.

We adopted the provisions of Financial Accounting Standards Board, or FASB, Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48), on January 1, 2007. The implementation of FIN 48 did not have a significant impact on our results of operations or financial position. Our reserves for uncertain tax positions were $24,000 as of June 30, 2007.

(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, 2007, 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, 2007 was $195,000 ($133,000 net of income tax benefit) and $282,000 ($196,000 net of income tax benefit). Total share-based compensation expense recorded in the three-month and six-month periods ended June 30, 2006 was $199,000 ($134,000 net of income tax benefit) and $261,000 ($183,000 net of income tax benefit). See Note 9 to our consolidated financial statements in our 2006 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:

(In thousands, except per share amounts)	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Numerator:				
Net income	$ 4,344	$ 7,540	$ 8,938	$ 12,593
Denominator:				
Basic earnings per common share - weighted-average shares	21,789	21,747	21,778	21,711
Effect of dilutive stock options	182	216	184	247
Diluted earnings per common share - weighted-average shares and assumed conversions	21,971	21,963	21,962	21,958
Basic earnings per common share	$ 0.20	$ 0.35	$ 0.41	$ 0.58
Diluted earnings per common share	$ 0.20	$ 0.34	$ 0.41	$ 0.57

Options totaling 231,000 and 226,000 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, 2007 and June 30, 2006, respectively, 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.

(4) Business Segments

Beginning with fiscal 2007, our presentation includes two reportable segments Truckload and Logistics. Information for prior periods has been shown in the same two segments for comparison purposes. 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 accessorial services.

Our operating revenue also includes revenue reported within our Logistics segment, which consists of revenue from our internal brokerage and intermodal operations initiated in 2005, and from revenue associated with 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 movement of our trailers on railroad flatcars for a portion of each load, with the balance of each load transported by our tractors or, to a lesser extent, by 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 revenue, net of fuel surcharges. We provide this additional disclosure because management believes removing this source of 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.

(Dollars in thousands)	**Three Months Ended June 30, 2007**	**2006**	**Six Months Ended June 30, 2007**	**2006**
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$ 103,354	$ 101,823	$ 204,631	$ 198,896
Truckload fuel surcharge revenue	20,357	20,415	37,227	36,208
Total Truckload revenue	123,711	122,238	241,858	235,104
Logistics revenue, net of intermodal fuel surcharge revenue(1)	14,388	9,167	27,100	15,602
Intermodal fuel surcharge revenue	722	457	1,279	711
Total Logistics revenue	15,110	9,624	28,379	16,313
Total operating revenue	$ 138,821	$ 131,862	$ 270,237	$ 251,417
Operating income:				
Truckload	$ 7,065	$ 10,921	$ 14,412	$ 19,343
Logistics	976	891	2,019	1,458
Total operating income	$ 8,041	$ 11,812	$ 16,431	$ 20,801
Operating ratio(2):				
Truckload	94.3 %	91.1 %	94.0 %	91.8 %
Logistics	93.5	90.7	92.9	91.1
Consolidated operating ratio	94.2 %	91.0 %	93.9 %	91.7 %

(1) Logistics revenue is net of $3.5 million and $7.0 million of inter-segment revenue in the three-month and six-month periods ended June 30, 2007, respectively, for loads transported by our tractors and arranged by MWL which have been eliminated in consolidation. Inter-segment revenue was $4.0 million and $8.1 million for the three-month and six-month periods ended June 30, 2006.

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

(5) Reclassifications

The tax benefits from share-based payment arrangement exercises in our 2006 consolidated condensed statement of cash flows have been reclassified to be consistent with the 2007 presentation. This reclassification does not have a material effect on our consolidated condensed financial statements.

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

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our consolidated condensed financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those included in our Form 10-K, Part 1, Item 1A for the year ended December 31, 2006, as supplemented by Item 1A to Part II of this report. 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 accessorial 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 initiated in 2005, and from revenue associated with 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 movement of our trailers on railroad flatcars for a portion of each load, with the balance of each load transported by our tractors or, to a lesser extent, by contracted carriers. The Logistics segment was identified as a new reportable segment for our first quarter of 2007 since our Logistics operations have become a more significant part of our business.

In the first six months of 2007, we increased our operating revenue by $18.8 million, or 7.5%. Our operating revenue, net of fuel surcharges, increased $17.2 million, or 8.0%, compared with the first six months of 2006. Our average truckload revenue, net of fuel surcharges, per tractor per week decreased 0.1%, due to a 1.0% decrease in average miles per tractor offset by a 1.0% increase in average truckload revenue, net of fuel surcharges, per total mile. We were able to increase our truckload revenue by increasing our rates, where justified, and increasing the size of our fleet and our business with existing and new customers. The slight reduction in tractor productivity within a more challenging freight environment, along with an increase in our overall cost structure, resulted in decreased profitability from the first six months of 2006. Our logistics revenue, which represented 10.5% of our operating revenue in the first six months of 2007, increased $12.1 million, or 74.0%, compared with the first six months of 2006 primarily due to continued volume growth in each of our internal brokerage and intermodal services and in the logistics services provided by MWL.

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. Although certain factors affecting our expenses are beyond our control, we monitor them closely and attempt to anticipate changes in these factors in managing our business. For example, fuel prices have fluctuated dramatically and quickly at various times during the last several years. We manage our exposure to changes in fuel prices primarily through fuel surcharge programs with our customers, as well as volume fuel purchasing arrangements with national fuel centers and bulk purchases of fuel at our terminals. In order to control increases in insurance premiums, we have increased our self-insured retention levels periodically during the last several years. We are responsible for the first $1.0 million on each auto liability claim and up to $1.0 million in the aggregate for all auto liability claims between $1.0 million and $2.0 million. We are also responsible for the first $750,000 on each workers compensation claim.

Our operating expenses as a percentage of operating revenue, or operating ratio, was 93.9% in the first six months of 2007 compared with 91.7% in the first six months of 2006. Our earnings per diluted share decreased to $0.41 in the first six months of 2007 from $0.57 in the first six months of 2006.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At June 30, 2007, we had approximately $62.8 million of long-term debt, including current maturities, and $230.7 million in stockholders equity. In the first six months of 2007, we added approximately $20.2 million of new revenue equipment, net of proceeds from dispositions, and recognized a gain of $2.4 million on the disposition of used equipment. We also decreased our accounts payable and accrued liabilities relating to revenue equipment by $13.4 million during the first six months of 2007. These capital expenditures were primarily funded with cash flows from operations and borrowings under our revolving credit facility. We estimate that capital expenditures, net of proceeds from dispositions, will be approximately $37 million for the remainder of 2007, primarily for new revenue equipment. Assuming net capital expenditures in that amount and that operating margins for the remainder of 2007 will be similar to the first six months of 2007 and in 2006, we expect to generate cash flows to retire a substantial amount of our debt in the remainder of 2007 or provide flexibility for other purposes. Based on our current operating performance, the market for used tractors, our liquidity and our expectations concerning tractors manufactured in 2007, we decided to accelerate our tractor fleet replacement during the last two years to allow us greater flexibility in our decisions to purchase tractors manufactured in 2007 now that the current round of diesel emissions reduction directives of the EPA has gone into effect. This acceleration of our tractor fleet replacement has not impacted the useful lives of our tractors or caused impairment to the carrying amount reflected in our consolidated balance sheet.

This Management s Discussion and Analysis of Financial Condition and Results of Operations includes discussions of revenue, net of fuel surcharges. We provide this additional disclosure because management believes removing this source of revenue provides a more consistent basis for comparing results of operations from period to period. This financial measure in this quarterly report 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.

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, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Truckload Segment:				
Average truckload revenue, net of fuel surcharges, per total mile	$ 1.470	$ 1.472	$ 1.474	$ 1.460
Average miles per tractor(1)	27,494	28,407	54,081	54,631
Average truckload revenue, net of fuel surcharges, per tractor per week(1)	$ 3,108	$ 3,216	$ 3,083	$ 3,085
Average tractors (1)	2,558	2,435	2,567	2,493
Total miles company-employed drivers (in thousands)	58,361	56,016	115,529	109,460
Total miles independent contractors (in thousands)	11,968	13,164	23,297	26,742
Logistics Segment:				
Brokerage:				
Revenue (in thousands)	$ 10,376	$ 6,632	$ 19,425	$ 11,694
Loads	5,657	4,007	10,405	7,125
Intermodal:				
Revenue (in thousands)	$ 4,734	$ 2,992	$ 8,954	$ 4,619
Loads	1,528	994	2,914	1,531
Average tractors	26	20	25	15

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 368 and 388 tractors as of June 30, 2007, and 2006, respectively.

Comparison of Three Months Ended June 30, 2007 to Three Months Ended June 30, 2006

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, 2007	2006	Dollar Change Three Months Ended June 30, 2007 vs. 2006	Percentage Change Three Months Ended June 30, 2007 vs. 2006
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$ 103,354	$ 101,823	$ 1,531	1.5 %
Truckload fuel surcharge revenue	20,357	20,415	(58)	(0.3)
Total Truckload revenue	123,711	122,238	1,473	1.2
Logistics revenue, net of intermodal fuel surcharge revenue(1)	14,388	9,167	5,221	57.0
Intermodal fuel surcharge revenue	722	457	265	58.0
Total Logistics revenue	15,110	9,624	5,486	57.0
Total operating revenue	$ 138,821	$ 131,862	$ 6,959	5.3 %
Operating income:				
Truckload	$ 7,065	$ 10,921	$ (3,856)	(35.3)%
Logistics	976	891	85	9.5
Total operating income	$ 8,041	$ 11,812	$ (3,771)	(31.9)%
Operating ratio(2):				
Truckload	94.3 %	91.1 %		(3.5)%
Logistics	93.5	90.7		(3.1)
Consolidated operating ratio	94.2 %	91.0 %		(3.5)%

(1) Logistics revenue is net of $3.5 million and $4.0 million of inter-segment revenue in the 2007 and 2006 periods, respectively, for loads transported by our tractors and arranged by MWL which have been eliminated in consolidation.

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

Our operating revenue increased $7.0 million, or 5.3%, to $138.8 million in the 2007 period from $131.9 million in the 2006 period. Our operating revenue, net of fuel surcharges, increased $6.8 million, or 6.1%, to $117.7 million in the 2007 period from $111.0 million in the 2006 period.

Truckload segment revenue increased $1.5 million, or 1.2%, to $123.7 million in the 2007 period from $122.2 million in the 2006 period. Truckload segment revenue, net of fuel surcharges, increased 1.5%. We were able to increase our truckload revenue by increasing the size of our fleet and our business with existing and new customers, despite a decrease in average revenue per tractor within a more challenging freight environment during the 2007 period. Our average truckload revenue, net of fuel surcharges, per tractor per week decreased 3.4% in the 2007 period from the 2006 period, due to a 3.2% decrease in average miles per tractor combined with a 0.1% decrease in average truckload revenue, net of fuel surcharges, per total mile. Our weighted average number of tractors increased 5.1% in the 2007 period from the 2006 period. The reduction in tractor productivity within a more challenging freight environment, which less effectively covered fixed costs, along with an increase in our overall cost structure, resulted in decreased profitability from the 2006 period.

Logistics segment revenue increased $5.5 million, or 57.0%, to $15.1 million in the 2007 period from $9.6 million in the 2006 period. Logistics segment revenue, net of intermodal fuel surcharges, also increased 57.0%. 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 increase in the operating ratio for our Logistics segment in the 2007 period was primarily due to an increase as a percentage of Logistics revenue of the payments to carriers for transportation services which we arranged.

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, 2007 vs. 2006	Percentage Change Three Months Ended June 30, 2007 vs. 2006	Percentage of Operating Revenue Three Months Ended June 30, 2007	2006
Operating revenue	$ 6,959	5.3 %	100.0 %	100.0 %
Operating expenses (income):				
Salaries, wages and benefits	2,745	7.7	27.8	27.2
Purchased transportation	2,967	13.7	17.8	16.5
Fuel and fuel taxes	1,776	5.0	26.7	26.8
Supplies and maintenance	835	10.3	6.5	6.2
Depreciation	835	7.7	8.4	8.3
Operating taxes and licenses	(106)	(5.8)	1.2	1.4
Insurance and claims	711	15.2	3.9	3.5
Communications and utilities	113	13.2	0.7	0.6
Gain on disposition of revenue equipment	431	25.4	(0.9)	(1.3)
Other	423	17.0	2.1	1.9
Total operating expenses	10,730	8.9	94.2	91.0
Operating income	(3,771)	(31.9)	5.8	9.0
Other expenses (income):				