MARTEN TRANSPORT LTD
Form 10-Q
November 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 September 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 o 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 November 6, 2007.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

MARTEN TRANSPORT, LTD.

CONSOLIDATED CONDENSED BALANCE SHEETS

(Unaudited)

(In thousands, except share information)	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash	$ 3,690	$ 2,988
Marketable securities	300	300
Receivables:		
Trade, net	59,967	48,005
Other	5,663	6,458
Prepaid expenses and other	11,468	14,227
Deferred income taxes	5,492	4,532
Total current assets	86,580	76,510
Property and equipment:		
Revenue equipment, buildings and land, office equipment and other	452,106	428,729
Accumulated depreciation	(118,886)	(98,841)
Net property and equipment	333,220	329,888
Other assets	2,672	4,424
TOTAL ASSETS	$ 422,472	$ 410,822
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Checks issued in excess of cash balances	$ 544	$ 804
Accounts payable and accrued liabilities	36,752	37,545
Insurance and claims accruals	17,061	16,073
Current maturities of long-term debt	5,000	5,000
Total current liabilities	59,357	59,422
Long-term debt, less current maturities	51,986	53,659
Deferred income taxes	75,945	75,835
Total liabilities	187,288	188,916
Minority interest	1,301	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 September 30, 2007, and 21,764,773 shares at December 31, 2006, issued and outstanding	218	218
Additional paid-in capital	74,488	73,601
Retained earnings	159,177	147,174
Total stockholders equity	233,883	220,993
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 422,472	$ 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 September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
OPERATING REVENUE	$ 144,969	$ 135,812	$ 415,206	$ 387,229
OPERATING EXPENSES (INCOME):				
Salaries, wages and benefits	38,808	36,216	115,786	106,455
Purchased transportation	27,891	22,051	74,390	62,931
Fuel and fuel taxes	39,586	37,744	109,524	102,678
Supplies and maintenance	10,448	8,386	28,364	24,392
Depreciation	11,867	11,257	35,317	32,823
Operating taxes and licenses	1,736	1,884	5,161	5,535
Insurance and claims	5,946	4,630	16,792	14,602
Communications and utilities	938	962	2,848	2,700
Gain on disposition of revenue equipment	(435)	(1,983)	(2,883)	(5,723)
Other	2,488	2,952	7,780	8,322
Total operating expenses	139,273	124,099	393,079	354,715
OPERATING INCOME	5,696	11,713	22,127	32,514
OTHER EXPENSES (INCOME):				
Interest expense	943	928	3,064	2,683
Interest income and other	(186)	(260)	(531)	(861)
Minority interest	301	261	530	611
	1,058	929	3,063	2,433
INCOME BEFORE INCOME TAXES	4,638	10,784	19,064	30,081
PROVISION FOR INCOME TAXES	1,573	4,048	7,061	10,752
NET INCOME	$ 3,065	$ 6,736	$ 12,003	$ 19,329
BASIC EARNINGS PER COMMON SHARE	$ 0.14	$ 0.31	$ 0.55	$ 0.89
DILUTED EARNINGS PER COMMON SHARE	$ 0.14	$ 0.31	$ 0.55	$ 0.88

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, 2005	21,573	$ 216	$ 71,045	$ 122,656	$ 193,917
Net income				19,329	19,329
Issuance of common stock from share-based payment arrangement exercises	184	2	759		761
Tax benefits from share-based payment arrangement exercises			1,265		1,265
Share-based payment arrangement compensation expense			354		354
Balance at September 30, 2006	21,757	218	73,423	141,985	215,626
Net income				5,189	5,189
Issuance of common stock from share-based payment arrangement exercises	8		52		52
Tax benefits from share-based payment arrangement exercises			33		33
Share-based payment arrangement compensation expense			93		93
Balance at December 31, 2006	21,765	218	73,601	147,174	220,993
Net income				12,003	12,003
Issuance of common stock from share-based payment arrangement exercises	47		303		303
Tax benefits from share-based payment arrangement exercises			205		205
Share-based payment arrangement compensation expense			379		379
Balance at September 30, 2007	21,812	$ 218	$ 74,488	$ 159,177	$ 233,883

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)		**Nine Months Ended September 30, 2007**		**2006**
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:				
Operations:				
Net income	$	12,003	$	19,329
Adjustments to reconcile net income to net cash flows from operating activities:				
Depreciation		35,317		32,823
Gain on disposition of revenue equipment		(2,883)		(5,723)
Deferred tax provision		(850)		7,298
Tax benefits from share-based payment arrangement exercises		205		1,265
Excess tax benefits from share-based payment arrangement exercises		(166)		(1,131)
Share-based payment arrangement compensation expense		379		354
Minority interest in undistributed earnings of affiliate		388		473
Changes in other current operating items		8		(9,871)
Net cash provided by operating activities		44,401		44,817
CASH FLOWS USED FOR INVESTING ACTIVITIES:				
Revenue equipment additions		(62,718)		(85,654)
Proceeds from revenue equipment dispositions		20,282		29,556
Buildings and land, office equipment and other additions		(2,160)		(962)
Proceeds from buildings and land, office equipment and other dispositions		609		
Net change in other assets		1,752		1,693
Purchases of marketable securities				(1,803)
Sales of marketable securities				1,690
Net cash used for investing activities		(42,235)		(55,480)
CASH FLOWS (USED FOR) PROVIDED BY FINANCING ACTIVITIES:				
Borrowings under credit facility and long-term debt		102,491		97,198
Repayment of borrowings under credit facility and long-term debt		(104,164)		(85,716)
Issuance of common stock from share-based payment arrangement exercises		303		761
Excess tax benefits from share-based payment arrangement exercises		166		1,131
Change in checks issued in excess of cash balances		(260)		(1,180)
Net cash (used for) provided by financing activities		(1,464)		12,194
NET CHANGE IN CASH		702		1,531
CASH:				
Beginning of period		2,988		1,080
End of period	$	3,690	$	2,611
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	$	3,097	$	2,738
Income taxes	$	5,688	$	995
Non-cash investing activities:				
Change in revenue equipment not yet paid for	$	(8,221)	$	

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

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 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. 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 $18,000 as of September 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 nine-month periods ended September 30, 2007, there was no significant activity with our share-based payment arrangements. Total share-based compensation expense recorded in the three-month and nine-month periods ended September 30, 2007 was $97,000 ($68,000 net of income tax benefit) and $379,000 ($264,000 net of income tax benefit), respectively. Total share-based compensation expense recorded in the three-month and nine-month periods ended September 30, 2006 was $94,000 ($68,000 net of income tax benefit) and $355,000 ($251,000 net of income tax benefit), respectively. 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 September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Numerator:				
Net income	$ 3,065	$ 6,736	$ 12,003	$ 19,329
Denominator:				
Basic earnings per common share - weighted-average shares	21,812	21,756	21,789	21,726
Effect of dilutive stock options	156	190	174	229
Diluted earnings per common share - weighted-average shares and assumed conversions	21,968	21,946	21,963	21,955
Basic earnings per common share	$ 0.14	$ 0.31	$ 0.55	$ 0.89
Diluted earnings per common share	$ 0.14	$ 0.31	$ 0.55	$ 0.88

Options totaling 280,000 and 226,000 shares were outstanding but were not included in the calculation of diluted earnings per share for the three-month and nine-month periods ended September 30, 2007 and September 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. The 280,000 and 226,000 shares above include 90,000 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 decreased to 33.9% for the three months ended September 30, 2007 from 37.5% for the three months ended September 30, 2006, primarily because we decreased our deferred income tax liability by $205,000, or 4.4% of income before income taxes in 2007. This decrease was primarily due to state income tax law changes and a change in income apportionment for several states which produced a lower effective state income tax rate, net of federal impact.

(5) 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 ancillary 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 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.

(Dollars in thousands)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$ 103,831	$ 101,940	$ 308,462	$ 300,836
Truckload fuel surcharge revenue	21,666	21,847	58,893	58,055
Total Truckload revenue	125,497	123,787	367,355	358,891
Logistics revenue, net of intermodal fuel surcharge revenue(1)	18,580	11,334	45,680	26,936
Intermodal fuel surcharge revenue	892	691	2,171	1,402
Total Logistics revenue	19,472	12,025	47,851	28,338
Total operating revenue	$ 144,969	$ 135,812	$ 415,206	$ 387,229
Operating income:				
Truckload	$ 4,108	$ 10,493	$ 18,520	$ 29,836
Logistics	1,588	1,220	3,607	2,678
Total operating income	$ 5,696	$ 11,713	$ 22,127	$ 32,514
Operating ratio(2):				
Truckload	96.7%	91.5%	95.0%	91.7%
Logistics	91.8	89.9	92.5	90.5
Consolidated operating ratio	96.1%	91.4%	94.7%	91.6%

(1) Logistics revenue is net of $5.0 million and $12.0 million of inter-segment revenue in the three-month and nine-month periods ended September 30, 2007, respectively, for loads transported by our tractors and arranged by MWL that have been eliminated in consolidation. Inter-segment revenue was $4.9 million and $13.0 million for the three-month and nine-month periods ended September 30, 2006.

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

(6) 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 and has no effect on our cash flows provided by operating or financing activities.

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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 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 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 nine months of 2007, we increased our operating revenue by $28.0 million, or 7.2%. Our operating revenue, net of fuel surcharges, increased $26.4 million, or 8.0%, compared with the first nine months of 2006. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.2%, due to a 0.4% increase in average truckload revenue, net of fuel surcharges, per total mile partially offset by a 0.2% decrease in average miles per tractor. We were able to increase our truckload revenue by increasing the size of our fleet and our business with existing and new customers. 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 nine months of 2006. Due to a challenging freight environment, we were not able to increase freight rates to cover higher costs. Our logistics revenue, which represented 11.5% of our operating revenue in the first nine months of 2007, increased $19.5 million, or 68.9%, compared with the first nine 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 94.7% in the first nine months of 2007 compared with 91.6% in the first nine months of 2006. Our earnings per diluted share decreased to $0.55 in the first nine months of 2007 from $0.88 in the first nine months of 2006.

Our business requires substantial, ongoing capital investments, particularly for new tractors and trailers. At September 30, 2007, we had approximately $57.0 million of long-term debt, including current maturities, and $233.9 million in stockholders equity. In the first nine months of 2007, we added approximately $34.2 million of new revenue equipment, net of proceeds from dispositions, and recognized a gain of $2.9 million on the disposition of used equipment. We also decreased our accounts payable and accrued liabilities relating to revenue equipment by $8.2 million during the first nine 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 $5 million for the remainder of 2007, primarily for new revenue equipment. 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 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 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 September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Truckload Segment:				
Average truckload revenue, net of fuel surcharges, per total mile	$ 1.482	$ 1.492	$ 1.477	$ 1.471
Average miles per tractor(1)	27,874	27,468	81,956	82,099
Average truckload revenue, net of fuel surcharges, per tractor per week(1)	$ 3,142	$ 3,118	$ 3,103	$ 3,096
Average tractors (1)	2,514	2,488	2,549	2,491
Total miles company-employed drivers (in thousands)	58,188	56,303	173,717	165,763
Total miles independent contractors (in thousands)	11,891	12,029	35,188	38,771
Logistics Segment:				
Brokerage:				
Revenue (in thousands)	$ 13,887	$ 7,988	$ 33,312	$ 19,682
Loads	7,253	4,461	17,658	11,586
Intermodal:				
Revenue (in thousands)	$ 5,585	$ 4,037	$ 14,539	$ 8,656
Loads	1,848	1,253	4,762	2,784
Average tractors	34	23	28	18

(1) Includes tractors driven by both company-employed drivers and independent contractors. Independent contractors provided 358 and 366 tractors as of September 30, 2007, and 2006, respectively.

Comparison of Three Months Ended September 30, 2007 to Three Months Ended September 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 September 30, 2007	2006	Dollar Change Three Months Ended September 30, 2007 vs. 2006	Percentage Change Three Months Ended September 30, 2007 vs. 2006
Operating revenue:				
Truckload revenue, net of fuel surcharge revenue	$ 103,831	$ 101,940	$ 1,891	1.9%
Truckload fuel surcharge revenue	21,666	21,847	(181)	(0.8)
Total Truckload revenue	125,497	123,787	1,710	1.4
Logistics revenue, net of intermodal fuel surcharge revenue(1)	18,580	11,334	7,246	63.9
Intermodal fuel surcharge revenue	892	691	201	29.1
Total Logistics revenue	19,472	12,025	7,447	61.9
Total operating revenue	$ 144,969	$ 135,812	$ 9,157	6.7%
Operating income:				
Truckload	$ 4,108	$ 10,493	$ (6,385)	(60.9)%
Logistics	1,588	1,220	368	30.2
Total operating income	$ 5,696	$ 11,713	$ (6,017)	(51.4)%
Operating ratio(2):				
Truckload	96.7%	91.5%		(5.7)%
Logistics	91.8	89.9		(2.1)
Consolidated operating ratio	96.1%	91.4%		(5.1)%

(1) Logistics revenue is net of $5.0 million and $4.9 million of inter-segment revenue in the 2007 and 2006 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 $9.2 million, or 6.7%, to $145.0 million in the 2007 period from $135.8 million in the 2006 period. Our operating revenue, net of fuel surcharges, increased $9.1 million, or 8.1%, to $122.4 million in the 2007 period from $113.3 million in the 2006 period.

Truckload segment revenue increased $1.7 million, or 1.4%, to $125.5 million in the 2007 period from $123.8 million in the 2006 period. Truckload segment revenue, net of fuel surcharges, increased 1.9%. 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 total mile within a more challenging freight environment during the 2007 period. Our average truckload revenue, net of fuel surcharges, per tractor per week increased 0.8% in the 2007 period from the 2006 period, due to a 1.5% increase in average miles per tractor partially offset by a 0.7% decrease in average truckload revenue, net of fuel surcharges, per total mile. Our weighted average number of tractors increased 1.0% in the 2007 period from the 2006 period. 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 2006 period. Due to a challenging freight environment, we were not able to increase freight rates to cover higher costs.

Logistics segment revenue increased $7.4 million, or 61.9%, to $19.5 million in the 2007 period from $12.0 million in the 2006 period. Logistics segment revenue, net of intermodal fuel surcharges, increased 63.9%. 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 September 30, 2007 vs. 2006	Percentage Change Three Months Ended September 30, 2007 vs. 2006	Percentage of Operating Revenue Three Months Ended September 30, 2007	2006
Operating revenue	$ 9,157	6.7%	100.0%	100.0%
Operating expenses (income):				
Salaries, wages and benefits	2,592	7.2	26.8	26.7
Purchased transportation	5,840	26.5	19.2	16.2
Fuel and fuel taxes	1,842	4.9	27.3	27.8
Supplies and maintenance	2,062	24.6	7.2	6.2
Depreciation	610	5.4	8.2	8.3
Operating taxes and licenses	(148)	(7.9)	1.2	1.4
Insurance and claims	1,316	28.4	4.1	3.4
Communications and utilities	(24)	(2.5)	0.6	0.7
Gain on disposition of revenue equipment	1,548	78.1	(0.3)	(1.5)
Other	(464)	(15.7)	1.7	2.2
Total operating expenses	15,174	12.2	96.1	91.4
Operating income	(6,017)	(51.4)	3.9	8.6