PAM TRANSPORTATION SERVICES INC
Form 10-K
March 14, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2007
or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 0-15057

P.A.M. TRANSPORTATION SERVICES, INC.
(Exact name of registrant as specified in its charter)

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

297 West Henri De Tonti Blvd, Tontitown, Arkansas 72770
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act):

Large accelerated filer o	Accelerated filer þ
Non-accelerated filer o	Smaller reporting company o

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

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant computed by reference to the average of the closing bid and asked prices of the common stock as of the last business day of the registrant's most recently completed second quarter was $88,311,474. Solely for the purposes of this response, executive officers, directors and beneficial owners of more than five percent of the registrant’s common stock are considered the affiliates of the registrant at that date.

The number of shares outstanding of the issuer’s common stock, as of March 10, 2008: 9,709,607 shares of $.01 par value common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement for its Annual Meeting of Stockholders to be held in 2008 are incorporated by reference in answer to Part III of this report, with the exception of information regarding executive officers required under Item 10 of Part III, which information is included in Part I, Item 1.

FORWARD-LOOKING STATEMENTS

This Report contains forward-looking statements, including statements about our operating and growth strategies, our expected financial position and operating results, industry trends, our capital expenditure and financing plans and similar matters. Such forward-looking statements are found throughout this Report, including under Item 1, Business, Item 1A, Risk Factors, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Item 7A, Quantitative and Qualitative Disclosures About Market Risk. In those and other portions of this Report, the words “believe,” “may,” “will,” “estimate,” “continue,” “anticipate,” “intend,” “expect,” “project” a expressions, as they relate to us, our management, and our industry are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. Actual results may differ materially. Some of the risks, uncertainties and assumptions about P.A.M. that may cause actual results to differ from these forward-looking statements are described under the headings “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Quantitative and Qualitative Disclosures About Market Risk.”

All forward-looking statements attributable to us, or to persons acting on our behalf, are expressly qualified in their entirety by this cautionary statement.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this Report might not transpire.

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PART I

Item 1. Business.

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

We are a truckload dry van carrier transporting general commodities throughout the continental United States, as well as in certain Canadian provinces. We also provide transportation services in Mexico under agreements with Mexican carriers. Our freight consists primarily of automotive parts, consumer goods, such as general retail store merchandise, and manufactured goods, such as heating and air conditioning units.

P.A.M. Transportation Services, Inc. is a holding company organized under the laws of the State of Delaware in June 1986 which conducts operations through the following wholly owned subsidiaries: P.A.M. Transport, Inc., T.T.X., Inc., P.A.M. Dedicated Services, Inc., P.A.M. Logistics Services, Inc., Choctaw Express, Inc., Choctaw Brokerage, Inc., Transcend Logistics, Inc., Allen Freight Services, Inc., Decker Transport Co., Inc., East Coast Transport and Logistics, LLC, S & L Logistics, Inc., P.A.M. International, Inc., P.A.M. Canada, Inc. and McNeill Express, Inc. Our operating authorities are held by P.A.M. Transport, Inc., P.A.M. Dedicated Services, Inc., Choctaw Express, Inc., Choctaw Brokerage, Inc., Allen Freight Services, Inc., T.T.X., Inc., Decker Transport Co., Inc., East Coast Transport and Logistics, LLC, and McNeill Express, Inc.

We are headquartered and maintain our primary terminal and maintenance facilities and our corporate and administrative offices in Tontitown, Arkansas, which is located in northwest Arkansas, a major center for the trucking industry and where the support services (including warranty repair services) for most major truck and trailer equipment manufacturers are readily available.

In order to conform to industry practice, the Company began to classify fuel surcharges charged to customers as revenue rather than as a reduction of operating supplies expense as had been presented in reports prior to the period ended June 30, 2004. During 2006, the Company began to separately display as a line item “Fuel expense” for amounts paid for fuel which previously had been aggregated with other operating supplies and included in the line item “Operating supplies”. These reclassifications have had no effect on operating income, net income or earnings per share. The Company has made corresponding reclassifications to comparative periods shown.

Segment Financial Information

The Company's operations are all in the motor carrier segment and are aggregated into a single operating segment in accordance with the aggregation criteria presented in SFAS 131.

Operations

Our operations can generally be classified into truckload services or brokerage and logistics services. Truckload services include those transportation services in which we utilize company owned trucks or owner-operator owned trucks for the pickup and delivery of freight. The brokerage and logistics services consists of services such as transportation scheduling, routing, mode selection, transloading and other value added services related to the transportation of freight which may or may not involve the usage of company owned or owner-operator owned equipment. Both our truckload operations and our brokerage and logistics operations have similar economic characteristics and are impacted by virtually the same economic factors as discussed elsewhere in this Report. Truckload services operating revenues, before fuel surcharges represented 90.4%, 87.8%, and 88.0% of total operating revenues for the years ended December 31, 2007, 2006, and 2005, respectively. The remaining operating revenues, before fuel surcharge for the same periods were generated by brokerage and logistics services, representing 9.6%, 12.2%, and 12.0%, respectively. Approximately 99% of the Company's revenues are generated by operations conducted in the United States and all of the Company's assets are located or based in the United States.

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Business and Growth Strategy

Our strategy focuses on the following elements:

Maintaining Dedicated Fleets in High Density Lanes. We strive to maximize utilization and increase revenue per truck while minimizing our time and empty miles between loads. In this regard, we seek to provide dedicated equipment to our customers where possible and to concentrate our equipment in defined regions and disciplined traffic lanes. Dedicated fleets in high density lanes enable us to:

- maintain more consistent equipment capacity;
- provide a high level of service to our customers, including time-sensitive delivery schedules;
- attract and retain drivers; and
- maintain a sound safety record as drivers travel familiar routes.

Providing Superior and Flexible Customer Service. Our wide range of services includes dedicated fleet services, logistics services, "just-in-time" delivery, two-man driving teams, cross-docking and consolidation programs, specialized trailers, and Internet-based customer access to delivery status. These services, combined with a decentralized regional operating strategy, allow us to quickly and reliably respond to the diverse needs of our customers, and provide an advantage in securing new business. We also maintain ISO 9002 certification to ensure that we operate in accordance with approved quality assurance standards.

Many of our customers depend on us to make delivery on a "just-in-time" basis, meaning that parts or raw materials are scheduled for delivery as they are needed on the manufacturer's production line. The need for this service is a product of modern manufacturing and assembly methods that are designed to drastically decrease inventory levels and handling costs. Such requirements place a premium on the freight carrier's delivery performance and reliability.

Employing Stringent Cost Controls. We focus intently on controlling our costs while not sacrificing customer service. We maintain this balance by scrutinizing all expenditures, minimizing non-driver personnel, operating a late-model fleet of trucks and trailers to minimize maintenance costs, and adopting new technology only when proven and cost justified.

Making Strategic Acquisitions. We continually evaluate strategic acquisition opportunities, focusing on those that complement our existing business or that could profitably expand our business or services. Our operational integration strategy is to centralize administrative functions of acquired businesses at our headquarters, while maintaining the localized operations of acquired businesses. We believe that allowing acquired businesses to continue to operate under their pre-acquisition names and in their original regions allows such businesses to maintain driver loyalty and customer relationships.

Industry

According to the American Trucking Association's "American Trucking Trends 2007-2008" report, the trucking industry transported approximately 70% of the total volume of freight transported in the United States during 2006, which equates to an all-time high carrying load of 10.7 billion tons, and $645.6 billion in revenue, representing 83.8% of the nation's freight bill. The truckload industry is highly fragmented and is impacted by several economic and business factors, many of which are beyond the control of individual carriers. The state of the economy, coupled with equipment capacity levels, can impact freight rates. Volatility of various operating expenses, such as fuel and insurance, make the predictability of profit levels uncertain. Availability, attraction, retention and compensation for drivers affect operating costs, as well as equipment utilization. In addition, the capital requirements for equipment, coupled with potential uncertainty of used equipment values, impact the ability of many carriers to expand their operations. The current operating environment is characterized by the following:

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- Price increases by truck and trailer equipment manufacturers, rising fuel costs, and intense competition for drivers.

- In the last few years, many less profitable or undercapitalized carriers have been forced to consolidate or to exit the industry.

Competition

The trucking industry is highly competitive and includes thousands of carriers, none of which dominates the market in which the Company operates. The Company's market share is less than 1% and we compete primarily with other irregular route medium- to long-haul truckload carriers, with private carriage conducted by our existing and potential customers, and, to a lesser extent, with the railroads. Increased competition has resulted from deregulation of the trucking industry. We compete on the basis of quality of service and delivery performance, as well as price. Many of the other irregular route long-haul truckload carriers have substantially greater financial resources, own more equipment or carry a larger total volume of freight.

Marketing and Significant Customers

Our marketing emphasis is directed to that portion of the truckload market which is generally service-sensitive, as opposed to being solely price competitive. We seek to become a “core carrier” for our customers in order to maintain high utilization and capitalize on recurring revenue opportunities. Our marketing efforts are diversified and designed to gain access to dedicated fleet services (including those in Mexico and Canada), domestic regional freight traffic, and cross-docking and consolidation programs.

Our marketing efforts are conducted by a sales staff of 12 employees who are located in our major markets and supervised from our headquarters. These individuals work to improve profitability by maintaining an even flow of freight traffic (taking into account the balance between originations and destinations in a given geographical area) and high utilization, and minimizing movement of empty equipment.

Our five largest customers, for which we provide carrier services covering a number of geographic locations, accounted for approximately 56%, 59% and 57% of our total revenues in 2007, 2006 and 2005, respectively. General Motors Corporation accounted for approximately 38%, 41% and 39% of our revenues in 2007, 2006 and 2005, respectively.

We also provide transportation services to other manufacturers who are suppliers for automobile manufacturers. Approximately 49%, 52% and 52% of our revenues were derived from transportation services provided to the automobile industry during 2007, 2006 and 2005, respectively. This portion of our business, however, is spread over 18 assembly plants and over 60 suppliers/vendors located throughout North America, which we believe reduces the risk of a material loss of business.

Revenue Equipment

At December 31, 2007, we operated a fleet of 2,055 trucks and 4,882 trailers. We operate late-model, well-maintained premium trucks to help attract and retain drivers, promote safe operations, minimize maintenance and repair costs, and improve customer service by minimizing service interruptions caused by breakdowns. We evaluate our equipment decisions based on factors such as initial cost, useful life, warranty terms, expected maintenance costs, fuel economy, driver comfort, customer needs, manufacturer support, and resale value. Our current policy is to replace most of our trucks at 500,000 miles, which normally occurs 30 to 48 months after purchase.

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We historically have contracted with owner-operators to provide and operate a small portion of our truck fleet. Owner-operators provide their own trucks and are responsible for all associated expenses, including financing costs, fuel, maintenance, insurance, and taxes. We believe that a combined fleet complements our recruiting efforts and offers greater flexibility in responding to fluctuations in shipper demand. At December 31, 2007 the Company's truck fleet included 55 owner-operator trucks.

During 1999, the U.S. Environmental Protection Agency (“EPA”) proposed a three-phase strategy to reduce engine emissions from heavy-duty vehicles through a combination of advanced emissions control technologies and diesel fuel with a reduced sulfur content. Each phase and its effect on the Company’s operations, if known, are described below.

The first phase (Phase I) mandated new engine emission standards for all model year 2004 heavy-duty trucks, however, through agreements with heavy-duty diesel engine manufacturers, the effective date was accelerated to October 1, 2002. Therefore, effective October 1, 2002, all newly manufactured truck engines had to comply with the new engine emission standards. All truck engines manufactured prior to October 1, 2002 were not subject to these new standards. As of December 31, 2007, the majority of our Company-owned truck fleet consisted of trucks with engines that comply with these emission standards. The Company has experienced a reduction in fuel efficiency and increased depreciation expense due to the higher cost of trucks with these new engines.

In the second phase (Phase II), effective January 1, 2007, the EPA mandated a new set of more stringent emissions standards for vehicles powered by diesel fuel engines manufactured in 2007 through 2009. These new engines have been designed for and require the use of a more costly type of fuel known as ultra-low-sulfur-diesel (“ULSD”) which, according to EPA estimates, will cost from $0.04 to $0.05 more per gallon due to increased refining costs. The EPA has also mandated that refiners and importers nationwide must ensure that at least 80% of the volume of the highway diesel fuel they produce or import is ULSD-compliant by June 1, 2006, however, the EPA does not require service stations and truck stops to sell ULSD fuel. Therefore, it is possible that ULSD fuel might not be available in a particular area in which the Company operates. A majority of the Company’s current truck fleet can be fueled with either ULSD or low-sulfur diesel (“LSD”) but additional future purchases of trucks which contain 2007 or later diesel engines will require the use of ULSD fuel which may result in lower fuel economy as the process that removes sulfur can also reduce the energy content of the fuel. As of December 31, 2007, 163 trucks in our Company-owned truck fleet consisted of trucks with engines that comply with the Phase II emission standards and require the use of ULSD. During 2008, the Company expects to take delivery of 550 new trucks, all of which will contain engines compliant with the Phase II emission standards requiring the use of ULSD. As compared to our current Company-owned truck fleet which contain primarily Phase I diesel engines, trucks powered by the Phase II compliant diesel engines have a higher purchase price and as a result, we expect that depreciation expense will increase as we continue to replace older trucks with trucks powered by the Phase II diesel engines. We also expect that these engines will result in higher maintenance costs and be less fuel efficient. To the extent we are unable to offset these anticipated increased costs with rate increases charged to customers or offsetting cost savings in other areas, our results of operations would be adversely affected.

During the third phase (Phase III), effective in 2010, final emission standards become effective and LSD fuel will no longer be available for highway use. The EPA requires that by June 1, 2010 all diesel fuel imported or produced must be ULSD-compliant as it phases out low-sulfur-diesel fuel availability by December 1, 2010 when all highway diesel fuel must be ULSD fuel. We are unable at this time to determine the increase in acquisition and operating costs of trucks powered by the Phase III compliant engines but we expect that the engines produced under the final standards will be less fuel-efficient and have higher acquisition and maintenance costs than either the 2002 or 2007 engines.

Technology

We have installed Qualcomm Omnitracs™ display units in all of our trucks. The Omnitracs system is a satellite-based global positioning and communications system that allows fleet managers to communicate directly with drivers. Drivers can provide location status and updates directly to our computer which increases productivity and convenience. The Omnitracs system provides us with accurate estimated time of arrival information, which optimizes load selection and service levels to our customers. In order to optimize our truck-to-trailer ratio, we have also installed Qualcomm TrailerTracs™ tracking units in all of our trailers. The TrailerTracs system is a trailer tracking product that enables us to more efficiently track the location of trailers in our inventory. During 2006, the Company began replacing its tethered TrailerTracs units, which were unable to transmit data unless connected to Qualcomm-equipped trucks, with more advanced untethered TrailerTracs units which are able to operate and transmit data independent of a truck connection. At December 31, 2007, substantially all of the Company's trailer fleet has been fitted with these new untethered devices.

Our computer system manages the information provided by the Qualcomm devices to provide us real-time information regarding the location, status and load assignment of all of our equipment, which permits us to better meet delivery schedules, respond to customer inquiries and match equipment with the next available load. Our system also provides electronically to our customers real-time information regarding the status of freight shipments and anticipated arrival times. This system provides our customers flexibility and convenience by extending supply chain visibility through electronic data interchange, the Internet and e-mail.

Maintenance

We have a strictly enforced comprehensive preventive maintenance program for our trucks and trailers. Inspections and various levels of preventive maintenance are performed at set mileage intervals on both trucks and trailers. A maintenance and safety inspection is performed on all vehicles each time they return to a terminal.

Our trucks carry full warranty coverage for at least three years or 350,000 miles. Extended warranties are negotiated with the truck manufacturer and manufacturers of major components, such as engine, transmission and differential manufacturers, for up to four years or 500,000 miles. Trailers carry full warranties by the manufacturer and major component manufacturers for up to five years.

Employees

At December 31, 2007, we employed 3,181 persons, of whom 2,667 were drivers, 178 were maintenance personnel, 178 were employed in operations, 17 were employed in marketing, 71 were employed in safety and personnel, and 70 were employed in general administration and accounting. None of our employees are represented by a collective bargaining unit and we believe that our employee relations are good.

Drivers

At December 31, 2007, we utilized 2,667 company drivers in our operations. We also had 55 owner-operators under contract compensated on a per mile basis. Our drivers are compensated on the basis of miles driven, loading and unloading, extra stops and layovers in transit. Drivers can earn bonuses by recruiting other qualified drivers who become employed by us and both cash and non-cash prizes are awarded for consecutive periods of safe, accident-free driving. All of our drivers are recruited, screened, drug tested and trained and are subject to the control and supervision of our operations and safety departments. Our driver training program stresses the importance of safety and reliable, on-time delivery. Drivers are required to report to their driver managers daily and at the earliest possible moment when any condition en route occurs that might delay their scheduled delivery time.

In addition to strict application screening and drug testing, before being permitted to operate a vehicle our drivers must undergo classroom instruction on our policies and procedures, safety techniques as taught by the Smith System of Defensive Driving, the proper operation of equipment, and must pass both written and road tests. Instruction in defensive driving and safety techniques continues after hiring, with seminars at several of our terminals. At December 31, 2007, we employed 71 persons on a full-time basis in our driver recruiting, training and safety instruction programs.

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Intense competition in the trucking industry for qualified drivers over the last several years, along with difficulties and added expense in recruiting and retaining qualified drivers, has had a negative impact on the industry. Our operations have also been impacted and from time to time we have experienced under-utilization and increased expenses due to a shortage of qualified drivers. We place a high priority on the recruitment and retention of an adequate supply of qualified drivers.

Executive Officers of the Registrant

Our executive officers are as follows:

Name	Age	Position	Years of service
Robert W. Weaver	58	President and Chief Executive Officer	25
W. Clif Lawson	54	Executive Vice President and Chief Operating Officer	23
Larry J. Goddard	49	Vice President - Finance, Chief Financial Officer, Secretary and Treasurer	20

Each of our executive officers has held his present position with the Company for at least the last five years. The Company has entered into an employment agreement with Robert W. Weaver that expires on July 10, 2009. The Company has the option to extend the employment agreement for two consecutive years following the July 10, 2009 expiration date for an additional one year at a time. The Company has also entered into employment agreements with both W. Clif Lawson and Larry J. Goddard which each expire on June 1, 2010. The Company has the option to extend these employment agreements for one additional year following the June 1, 2010 expiration date.

Internet Web Site

The Company maintains a web site where additional information concerning its business can be found. The address of that web site is www.pamt.com. The Company makes available free of charge on its Internet web site its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) as soon as reasonably practicable after it electronically files or furnishes such materials to the Securities and Exchange Commission.

Seasonality

Our revenues do not exhibit a significant seasonal pattern due primarily to our varied customer mix. Operating expenses can be somewhat higher in the winter months primarily due to decreased fuel efficiency and increased maintenance costs associated with inclement weather. In addition, the automobile plants for which we transport a large amount of freight typically utilize scheduled shutdowns of two weeks in July and one week in December and the volume of freight we ship is reduced during such scheduled plant shutdowns.

Regulation

We are a common and contract motor carrier regulated by various federal and state agencies. We are subject to safety requirements prescribed by the U.S. Department of Transportation (“DOT”). Such matters as weight and dimension of equipment are also subject to federal and state regulations. All of our drivers are required to obtain national driver’s licenses pursuant to the regulations promulgated by the DOT. Also, DOT regulations impose mandatory drug and alcohol testing of drivers. We believe that we are in compliance in all material respects with applicable regulatory requirements relating to our trucking business and operate with a “satisfactory” rating (the highest of three grading categories) from the DOT.

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The Federal Motor Carrier Safety Administration (“FMCSA”), a separate administration within the DOT charged with regulating motor carrier safety, issued a final rule on April 24, 2003 (“2003 rule”) that made several changes to the regulations that govern truck drivers' hours-of-service (“HOS”). These new federal regulations became effective on January 4, 2004. On July 16, 2004, the U.S. Circuit Court of Appeals for the District of Columbia (the “Court”) rejected these new hours of service rules for truck drivers that had been in place since January 2004 because it agreed that the FMCSA had failed to address the impact of the rules on the health of drivers as required by Congress. In addition, the Court’s ruling noted other areas of concern including the increase in driving hours from 10 hours to 11 hours, the exception that allows drivers in trucks with sleeper berths to split their required rest periods, the new rule allowing drivers to reset their 70-hour clock to 0 hours after 34 consecutive hours off duty, and the decision by the FMCSA not to require the use of electronic onboard recorders to monitor driver compliance. However, to avoid industry disruption and burden on the state enforcement, Congress enacted section 7(f) of the Surface Transportation Extension Act of 2004. This section provided that the 2003 rule would remain in effect until a new rule addressed the Court’s issues or until September 30, 2005, whichever occurred first. On January 24, 2005, the FMCSA re-proposed its April 2003 HOS rules, adding references to how the rules would affect driver health, but made no other changes to the regulations. The FMCSA sought public comments by March 10, 2005 on what changes to the rule, if any, were necessary to respond to the concerns raised by the court, and to provide data or studies that would support changes to, or continued use of, the 2003 rule. On August 25, 2005, the FMCSA published a final HOS rule (“2005 rule”) that retained most of the provisions of the 2003 rule with the most significant exception being that of requiring drivers that utilize the sleeper berth provision to take at least eight consecutive hours in the sleeper berth during their ten hours off-duty. Under the 2003 rule, drivers were allowed to split their ten hour off-duty time in the sleeper berth into two periods, provided neither period was less than two hours.

The 2005 rule was later challenged in court on several grounds and in July 2007 the Court vacated the 11-hour driving time and 34-hour restart provisions stating that the FMCSA methodologies, used in the studies regarding how the 2003 rules affected driver health, were not disclosed in time for public comment and that the explanation for some of its critical elements were not provided. In an order filed on September 28, 2007, the Court granted a 90-day stay of the mandate and directed that issuance of the mandate be withheld until December 27, 2007. In an effort to prevent disruption to enforcement and compliance with HOS rules when the stay expires, as well as possible effects on timely delivery of essential goods and services, the FMCSA issued an interim final rule (“IFR”) effective December 27, 2007 which allows commercial motor vehicle drivers up to 11 hours of driving time within a 14-hour, non-extendable window from the start of the workday, following 10 consecutive hours off duty (11-hour limit). This IFR also allows motor carriers and drivers to restart calculations of the weekly on-duty time limits after the driver has at least 34 consecutive hours off duty (34-hour restart provision). The FMCSA expects to issue a final rule in 2008.

In general, more restrictive sleeper berth provisions may impact multiple-stop shipments and those shipments incurring delays in loading or unloading. Improper planning on such shipments could result in delivery delays and equipment utilization inefficiencies.

Our motor carrier operations are also subject to environmental laws and regulations, including laws and regulations dealing with underground fuel storage tanks, the transportation of hazardous materials and other environmental matters, and our operations involve certain inherent environmental risks. We maintain four bulk fuel storage and fuel islands. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. We have instituted programs to monitor and control environmental risks and assure compliance with applicable environmental laws. As part of our safety and risk management program, we periodically perform internal environmental reviews so that we can achieve environmental compliance and avoid environmental risk. We transport a minimum amount of environmentally hazardous substances and, to date, have experienced no significant claims for hazardous materials shipments. If we should fail to comply with applicable regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

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Company operations conducted in industrial areas, where truck terminals and other industrial activities are conducted, and where groundwater or other forms of environmental contamination have occurred, potentially expose us to claims that we contributed to the environmental contamination.

We believe we are currently in material compliance with applicable laws and regulations and that the cost of compliance has not materially affected results of operations.

In addition to environmental regulations directly affecting our business, we are also subject to the effects of new truck engine design requirements implemented by the EPA. See "Revenue Equipment" above.

Item 1A. Risk Factors.

Set forth below and elsewhere in this Report and in other documents we file with the SEC are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report.

Our business is subject to general economic and business factors that are largely beyond our control, any of which could have a material adverse effect on our operating results.

These factors include significant increases or rapid fluctuations in fuel prices, excess capacity in the trucking industry, surpluses in the market for used equipment, interest rates, fuel taxes, license and registration fees, insurance premiums, self-insurance levels, and difficulty in attracting and retaining qualified drivers and independent contractors.

We are also affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries, such as the automotive industry, where we have a significant concentration of customers. Economic conditions may adversely affect our customers and their ability to pay for our services.

We operate in a highly competitive and fragmented industry, and our business may suffer if we are unable to adequately address downward pricing pressures and other factors that may adversely affect our ability to compete with other carriers.

Numerous competitive factors could impair our ability to maintain our current profitability. These factors include, but are not limited to, the following:

- we compete with many other truckload carriers of varying sizes and, to a lesser extent, with less-than-truckload carriers and railroads, some of which have more equipment and greater capital resources than we do;

- some of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase freight rates, maintain our margins or maintain significant growth in our business;

- many customers reduce the number of carriers they use by selecting so-called "core carriers" as approved service providers, and in some instances we may not be selected;

- many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in the loss of some of our business to competitors;

- the trend toward consolidation in the trucking industry may create other large carriers with greater financial resources and other competitive advantages relating to their size and with whom we may have difficulty competing;

· advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher freight rates to cover the cost of these investments;

· competition from Internet-based and other logistics and freight brokerage companies may adversely affect our customer relationships and freight rates; and

· economies of scale that may be passed on to smaller carriers by procurement aggregation providers may improve their ability to compete with us.

We are highly dependent on our major customers, the loss of one or more of which could have a material adverse effect on our business.

A significant portion of our revenue is generated from our major customers. For 2007, our top five customers, based on revenue, accounted for approximately 56% of our revenue, and our largest customer, General Motors Corporation, accounted for approximately 38% of our revenue. We also provide transportation services to other manufacturers who are suppliers for automobile manufacturers. As a result, concentration of our business within the automobile industry is greater than the concentration in a single customer. Approximately 49% of our revenues for 2007 were derived from transportation services provided to the automobile industry.

Generally, we do not have long-term contractual relationships with our major customers, and we cannot assure that our customer relationships will continue as presently in effect. A reduction in or termination of our services by our major customers could have a material adverse effect on our business and operating results.

Ongoing insurance and claims expenses could significantly reduce our earnings.

Our future insurance and claims expenses might exceed historical levels, which could reduce our earnings. The Company is self insured for health and workers compensation insurance coverage up to certain limits. If medical costs continue to increase, or if the severity or number of claims increase, and if we are unable to offset the resulting increases in expenses with higher freight rates, our earnings could be materially and adversely affected.

We may be unable to successfully integrate businesses we acquire into our operations.

Integrating businesses we acquire may involve unanticipated delays, costs or other operational or financial problems. Successful integration of the businesses we acquire depends on a number of factors, including our ability to transition acquired companies to our management information systems. In integrating businesses we acquire, we may not achieve expected economies of scale or profitability or realize sufficient revenues to justify our investment. We also face the risk that an unexpected problem at one of the companies we acquire will require substantial time and attention from senior management, diverting management's attention from other aspects of our business. We cannot be certain that our management and operational controls will be able to support us as we grow.

Difficulty in attracting drivers could affect our profitability and ability to grow.

Periodically, the transportation industry experiences difficulty in attracting and retaining qualified drivers, including independent contractors, resulting in intense competition for drivers. We have from time to time experienced under-utilization and increased expenses due to a shortage of qualified drivers. If we are unable to continue to attract drivers and contract with independent contractors, we could be required to further adjust our driver compensation package or let trucks sit idle, which could adversely affect our growth and profitability.

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If we are unable to retain our key employees, our business, financial condition and results of operations could be harmed.

We are highly dependent upon the services of the following key employees: Robert W. Weaver, our President and Chief Executive Officer; W. Clif Lawson, our Executive Vice President and Chief Operating Officer; and Larry J. Goddard, our Vice President and Chief Financial Officer. We do not maintain key-man life insurance on any of these executives. The loss of any of their services could have a material adverse effect on our operations and future profitability. We must continue to develop and retain a core group of managers if we are to realize our goal of expanding our operations and continuing our growth. We cannot assure that we will be able to do so.

We have significant ongoing capital requirements that could affect our profitability if we are unable to generate sufficient cash from operations.

The trucking industry is capital intensive. If we are unable to generate sufficient cash from operations in the future, we may have to limit our growth, enter into financing arrangements, or operate our revenue equipment for longer periods, any of which could have a material adverse affect on our profitability.

Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.

We are subject to various environmental laws and regulations dealing with the handling of hazardous materials, underground fuel storage tanks, and discharge and retention of storm-water. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination could occur. We also maintain bulk fuel storage and fuel islands at four of our facilities. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable laws or regulations, it could have a materially adverse effect on our business and operating results. If we should fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

We operate in a highly regulated industry and increased costs of compliance with, or liability for violation of, existing or future regulations could have a material adverse effect on our business.

The U.S. Department of Transportation and various state agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety, and financial reporting. We may also become subject to new or more restrictive regulations relating to fuel emissions, drivers' hours in service, and ergonomics. Compliance with such regulations could substantially impair equipment productivity and increase our operating expenses.

The EPA adopted new emissions control regulations, which require progressive reductions in exhaust emissions from diesel engines through 2010. In part to offset the costs of compliance with the new EPA engine design requirements, some manufacturers have increased new equipment prices and eliminated or sharply reduced the price of repurchase or trade-in commitments. If new equipment prices were to increase, or if the price of repurchase commitments by equipment manufacturers were to decrease more than anticipated, we may be required to increase our depreciation and financing costs and/or retain some of our equipment longer, which may result in an increase in maintenance expenses. To the extent we are unable to offset any such increases in expenses with rate increases or cost savings, our results of operations would be adversely affected. If our fuel or maintenance expenses were to increase as a result of our use of the new, EPA-compliant engines, and we are unable to offset such increases with fuel surcharges or higher freight rates, our results of operations would be adversely affected. Further, our business and operations could be adversely impacted if we experience problems with the reliability of the new engines. Although we have not experienced any significant reliability issues with these engines to date, the expenses associated with the trucks containing these engines have been slightly elevated, primarily as a result of lower fuel efficiency and higher depreciation.

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Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

Our executive offices and primary terminal facilities, which we own, are located in Tontitown, Arkansas. These facilities are located on approximately 49.3 acres and consist of 114,403 square feet of office space and maintenance and storage facilities.

Our subsidiaries lease facilities in Jacksonville, Florida; Breese and Effingham, Illinois; Parsippany and Paulsboro, New Jersey; North Jackson, Ohio; Oklahoma City, Oklahoma; and Laredo and El Paso, Texas. Our terminal facilities in Columbia, Mississippi; Irving, Texas; North Little Rock, Arkansas; and Willard, Ohio are owned. The leased facilities are leased primarily on contractual terms ranging from one to five years. As of December 31, 2007, the following provides a summary of the ownership and types of activities conducted at each location:

Location	Own/ Lease	Dispatch Office	Maintenance Facility	Safety Training
Tontitown, Arkansas	Own	Yes	Yes	Yes
North Little Rock, Arkansas	Own	Yes	Yes	No
Jacksonville, Florida	Lease	Yes	Yes	Yes
Breese, Illinois	Lease	Yes	No	No
Effingham, Illinois	Lease	No	Yes	No
Columbia, Mississippi	Own	No	No	No
Parsippany, New Jersey	Lease	No	No	No
Paulsboro, New Jersey	Lease	Yes	No	No
North Jackson, Ohio	Lease	Yes	Yes	Yes
Willard, Ohio	Own	Yes	Yes	Yes
Oklahoma City, Oklahoma	Lease	Yes	Yes	Yes
El Paso, Texas	Lease	Yes	Yes	No
Irving, Texas	Own	Yes	Yes	Yes
Laredo, Texas	Lease	Yes	Yes	No

We also have access to trailer drop and relay stations in various other locations across the country. We lease certain of these facilities on a month-to-month basis from an affiliate of our largest shareholder.

We believe that all of the properties that we own or lease are suitable for their purposes and adequate to meet our needs.

Item 3. Legal Proceedings.

During 2007, the Company experienced an adverse settlement and was found partly liable for an environmental remediation claim dating back to 1986 and was ordered to pay approximately $300,000 in damages.

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

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of our security holders during the fourth quarter ended December 31, 2007.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is traded on the NASDAQ Global Market under the symbol PTSI. The following table sets forth, for the quarters indicated, the range of the high and low sales prices per share for our common stock as reported on the NASDAQ Global Market.

Calendar Year Ended December 31, 2007

	High	Low
First Quarter	$25.19	$19.29
Second Quarter	22.48	16.98
Third Quarter	19.31	17.43
Fourth Quarter	18.69	13.80

Calendar Year Ended December 31, 2006

	High	Low
First Quarter	$25.18	$17.51
Second Quarter	28.96	23.24
Third Quarter	31.50	23.78
Fourth Quarter	26.68	20.90

As of February 29, 2008, there were approximately 166 holders of record of our common stock.

Dividends

We have never declared or paid any cash dividends on our common stock. The policy of our Board of Directors is to retain earnings for the expansion and development of our business and the payment of our debt service obligations. Future dividend policy and the payment of dividends, if any, will be determined by the Board of Directors in light of circumstances then existing, including our earnings, financial condition and other factors deemed relevant by the Board of Directors.

Repurchases of Common Stock

On April 11, 2005, the Company announced that its Board of Directors had authorized the Company to repurchase up to 600,000 shares of its common stock during the six month period ending October 11, 2005. These 600,000 shares were all repurchased by September 30, 2005. On September 6, 2005, the Company announced that its Board of Directors had authorized the Company to extend the stock repurchase program until September 6, 2006 and to include up to an additional 900,000 shares of its common stock. The Company repurchased 458,600 shares of these additional shares prior to the September 6, 2006 program expiration date.

On May 30, 2007, the Company announced that its Board of Directors had authorized the Company to repurchase up to 600,000 shares of its common stock during the twelve month period following the announcement. Subsequent to the date of the announcement and through the remainder of 2007, the Company repurchased 471,500 shares of its common stock, with 422,700 shares being repurchased during the fourth quarter of 2007.

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The following table summarizes the Company's common stock repurchases during the fourth quarter of 2007. No shares were purchased during the quarter other than through this program, and all purchases were made by or on behalf of the Company and not by any “affiliated purchaser”.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
October 1-31, 2007	3,300	$16.47	3,300	547,900
November 1-30, 2007	308,100	15.07	308,100	239,800
December 1-31, 2007	111,300	15.46	111,300	128,500
Total	422,700	$15.18	422,700	128,500

Securities Authorized for Issuance Under Equity Compensation Plans

See Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this Annual Report for a presentation of compensation plans under which equity securities of the Company are authorized for issuance.

Performance Graph

Set forth below is a line graph comparing the yearly percentage change in the cumulative total stockholder return on our common stock against the cumulative total return of the CRSP Total Return Index for the Nasdaq Stock Market (U.S. companies) and the CRSP Total Return Index for the Nasdaq Trucking and Transportation Stocks for the period of five years commencing December 31, 2002 and ending December 31, 2007. The graph assumes that the value of the investment in our common stock and in each index was $100 on December 31, 2002 and that all dividends were reinvested.

Item 6. Selected Financial Data.

The following selected financial and operating data should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Report.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(in thousands, except earnings per share amounts)				
Statement of Operations Data:					
Operating revenues:					
Operating revenues, before fuel surcharge	$ 351,701	$ 351,373	$ 326,353	$ 309,475	$ 293,547
Fuel surcharge (1)	57,140	48,896	34,527	15,591	7,491
Total operating revenues	408,841	400,269	360,880	325,066	301,038
Operating expenses:					
Salaries, wages and benefits	135,606	127,539	122,005	119,519	119,350
Fuel expense (2)	114,242	97,286	81,017	55,645	42,883
Rent and purchased transportation	38,718	43,844	39,074	38,938	35,287
Depreciation and amortization	38,759	33,929	31,376	30,016	26,601
Operating supplies (1)(2)	30,845	25,682	23,114	21,718	20,358
Operating taxes and licenses	17,520	16,421	15,776	15,488	14,710
Insurance and claims	17,591	16,389	15,992	15,820	13,500
Communications and utilities	3,113	2,642	2,648	2,690	2,540
Other	7,130	5,426	6,205	5,131	4,755
(Gain) loss on sale or disposal of property	(48)	47	147	915	368
Total operating expenses	403,476	369,205	337,354	305,880	280,352
Operating income	5,365	31,064	23,526	19,186	20,686
Non-operating income	1,707	448	477	464	276
Interest expense	(2,453)	(1,475)	(1,881)	(1,758)	(1,667)
Income before income taxes	4,619	30,037	22,122	17,892	19,295
Income taxes	1,966	12,073	8,983	7,304	7,805
Net income	$ 2,653	$ 17,964	$ 13,139	$ 10,588	$ 11,490
Earnings per common share:					
Basic	$ 0.26	$ 1.74	$ 1.20	$ 0.94	$ 1.02
Diluted	$ 0.26	$ 1.74	$ 1.20	$ 0.94	$ 1.01
Average common shares outstanding – Basic	10,238	10,296	10,966	11,298	11,291
Average common shares outstanding – Diluted(3)	10,239	10,302	10,976	11,324	11,326

(1) In order to conform to industry practice, during 2004 the Company began to classify fuel surcharges charged to customers as revenue rather than as a reduction of operating supplies expense. This reclassification has no effect on net operating income, net income or earnings per share. The Company has made corresponding reclassifications to comparative periods shown.

(2) Because of the increased impact of fuel costs on the Company's results of operations in recent years, during 2006 the Company began to separately display as a line item "Fuel expense" for amounts paid for fuel which had previously been aggregated with other operating supplies and included in the line item "Operating supplies". This reclassification has no effect on net operating income, net income or earnings per share. The Company has made corresponding reclassifications to comparative periods shown.

(3) Diluted income per share for 2007, 2006, 2005, 2004 and 2003 assumes the exercise of stock options to purchase an aggregate of 19,213, 55,738, 22,297, 62,224 and 77,758 shares of common stock, respectively.

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	At December 31,				
	2007	2006	2005	2004	2003
Balance Sheet Data:			(in thousands)		
Total assets	$ 319,904	$ 314,246	$ 293,441	$ 285,349	$ 264,849
Long-term debt, excluding current portion	44,172	21,205	39,693	23,225	26,740
Stockholders' equity	179,377	185,028	164,762	168,543	156,875

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Operating Data:					
Operating ratio (1)	98.5%	91.2%	92.8%	93.8%	92.9%
Average number of truckloads per week	7,849	7,200	6,946	7,278	7,105
Average miles per trip	647	659	680	664	701
Total miles traveled (in thousands)	246,801	229,810	228,624	235,894	242,890
Average miles per truck	118,483	123,156	125,479	127,124	131,934
Average revenue, before fuel surcharge per truck per day	$ 695	$ 778	$ 740	$ 684	$ 653
Average revenue, before fuel surcharge per loaded mile	$ 1.38	$ 1.43	$ 1.33	$ 1.19	$ 1.13
Empty mile factor	6.5%	5.9%	5.5%	4.7%	4.5%
At end of period:					
Total company-owned/leased trucks	2,055(2)	1,998(3)	1,792(4)	1,857(5)	1,913(6)
Average age of trucks (in years)	1.75	1.55	1.43	1.70	1.94
Total trailers	4,882	4,540	4,406	4,257	4,175
Average age of trailers (in years)	4.44	4.16	3.92	4.69	5.15
Number of employees	3,181	3,062	3,035	2,736	2,765

(1) Total operating expenses, net of fuel surcharge as a percentage of operating revenues, before fuel surcharge.
(2) Includes 55 owner operator trucks; (3) Includes 49 owner operator trucks; (4) Includes 50 owner operator trucks.
(5) Includes 85 owner operator trucks; (6) Includes 103 owner operator trucks.

The Company has not declared or paid any cash dividends during any of the periods presented above.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Business Overview

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

For both operations, substantially all of our revenue is generated by transporting freight for customers and is predominantly affected by the rates per mile received from our customers, equipment utilization, and our percentage of non-compensated miles. These aspects of our business are carefully managed and efforts are continuously underway to achieve favorable results. Truckload services revenues, excluding fuel surcharges, represented 90.4%, 87.8%, and 88.0% of total revenues, excluding fuel surcharges for the twelve months ended December 31, 2007, 2006, and 2005, respectively.

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

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In discussing our results of operations we use revenue, before fuel surcharge, (and fuel expense, net of surcharge), because management believes that eliminating the impact of this sometimes volatile source of revenue allows a more consistent basis for comparing our results of operations from period to period. During 2007, 2006 and 2005, approximately $57.1 million, $48.9 million and $34.5 million, respectively, of the Company's total revenue was generated from fuel surcharges. We also discuss certain changes in our expenses as a percentage of revenue, before fuel surcharge, rather than absolute dollar changes. We do this because we believe the high variable cost nature of certain expenses makes a comparison of changes in expenses as a percentage of revenue more meaningful than absolute dollar changes.

Results of Operations - Truckload Services

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

	Years Ended December 31,		
	2007	2006	2005
Operating revenues, before fuel surcharge	100.0%	100.0%	100.0%
Operating expenses:			
Salaries, wages and benefits	42.0	40.6	41.8
Fuel expense, net of fuel surcharge	18.2	16.0	16.6
Rent and purchased transportation	2.5	1.7	1.2
Depreciation and amortization	12.2	11.0	10.9
Operating supplies	9.7	8.3	8.0
Operating taxes and licenses	5.5	5.3	5.5
Insurance and claims	5.5	5.3	5.5
Communications and utilities	0.9	0.8	0.9
Other	2.0	1.6	1.8
Loss on sale or disposal of property	0.0	0.0	0.1
Total operating expenses	98.5	90.6	92.3
Operating income	1.5	9.4	7.7
Non-operating income	0.5	0.1	0.1
Interest expense	(0.7)	(0.4)	(0.5)
Income before income taxes	1.3%	9.1%	7.3%

2007 Compared to 2006

For the year ended December 31, 2007, truckload services revenue, before fuel surcharges, increased 3.0% to $317.9 million as compared to $308.7 million for the year ended December 31, 2006. The increase was primarily due to an 11.6% increase in the average size of the Company’s truck fleet from 1,866 units in 2006 to 2,083 units in 2007. However, a 4.1% decrease in the average rate per total mile charged to customers from approximately $1.34 during 2006 to approximately $1.29 during 2007 and a decrease in the average daily miles traveled per unit from 509 miles in

2006 to 488 miles in 2007 partially offset revenue growth attributable to fleet growth.

Salaries, wages and benefits increased from 40.6% of revenues, before fuel surcharges, in 2006 to 42.0% of revenues, before fuel surcharges, in 2007 which represents an increase from $125.4 million in 2006 to $133.5 million in 2007. The increase relates primarily to an increase in driver wages as the number of company driver compensated miles increased from 229.8 million miles in 2006 to 246.8 million miles in 2007. Also contributing to the increase was an increase in driver lease expense and amounts recorded for employee health insurance expense. Driver lease expense, which is a component of salaries, wages and benefits, increased from $6.2 million in 2006 to $7.8 million in 2007, as the average number of owner operators under contract increased from 45 during 2006 to 57 during 2007. Employee health insurance expense increased from $4.3 million in 2006 to $6.3 million in 2007 as a result of healthcare cost increases, in general, and to an increase in the number and severity of health claims reported during 2007 as compared to 2006. Partially offsetting the increases discussed above was a decrease in amounts accrued for employee bonus plans during 2007 as compared to 2006.

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Fuel expense increased from 16.0% of revenues, before fuel surcharges, in 2006 to 18.2% of revenues, before fuel surcharges, in 2007 which represents an increase from $49.4 million during 2006 to $57.8 million during 2007. The increase was primarily due to higher fuel prices as the average price paid per gallon of diesel fuel increased from $2.55 per gallon during 2006 to $2.76 per gallon during 2007. During periods of rising fuel prices the Company is often able to partially offset fuel cost increases through the use of fuel surcharges charged to customers. The Company collected fuel surcharges of approximately $47.8 million during 2006 compared to fuel surcharge collections of $56.4 million during 2007.

Rent and purchased transportation increased from 1.7% of revenues, before fuel surcharges, in 2006 to 2.5% of revenues, before fuel surcharges, in 2007. The increase relates primarily to an increase in amounts paid to third party transportation service providers for intermodal services.

Depreciation and amortization increased from 11.0% of revenues, before fuel surcharges, in 2006 to 12.2% of revenues, before fuel surcharges, in 2007 representing an increase from $33.9 million during 2006 to $38.7 million during 2007. Depreciation expense increased primarily due to an increase in the average size of the Company-owned truck fleet from 1,820 trucks during 2006 to 2,027 trucks during 2007. To a lesser extent, a larger trailer fleet and higher new trailer prices also contributed to the increase.

Operating supplies and expenses increased from 8.3% of revenues, before fuel surcharges, in 2006 to 9.7% of revenues, before fuel surcharges, in 2007. The increase relates primarily to an increase in amounts paid to third party driver training schools, driver layover pay, and for truck repairs expense.

Operating taxes and licenses increased from 5.3% of revenues, before fuel surcharges, in 2006 to 5.5% of revenues, before fuel surcharges, in 2007. Operating taxes and licenses, which consists primarily of fuel taxes, increased from $16.4 million during 2006 to $17.5 million during 2007. Fuel tax expense is primarily affected by the number of gallons of diesel fuel purchased which is primarily a factor of the number of miles traveled and the miles-per-gallon (“mpg”) achieved. During 2007, a decrease in the average mpg to 5.91 from an average mpg of 5.94 during 2006 combined with an increase in the number of miles traveled to 246.8 million in 2007 from 229.8 million miles in 2006, resulted in an increase in the number of diesel fuel gallons purchased.

Insurance and claims expense increased from 5.3% of revenues, before fuel surcharges, in 2006 to 5.5% of revenues, before fuel surcharges, in 2007. The increase represents an increase from $16.4 million during 2006 to $17.6 million during 2007. The increase relates primarily to an increase in auto liability insurance premiums which are determined based on a negotiated rate-per-mile (“NRPM”) with the Company’s insurance carrier. During 2007, the number of miles used to calculate the premiums increased to 246.8 million miles from 229.8 million miles which translated into increased auto liability insurance expense. During October 2007 the Company’s auto liability insurance policy was renewed at a rate which represented a 5.5% reduction in the NRPM and since that time this lower rate-per-mile has helped to partially offset the increase in auto liability insurance expense associated with the increase in miles traveled during 2007 as compared to 2006.

Other expenses increased from 1.6% of revenues, before fuel surcharges, in 2006 to 2.0% of revenues, before fuel surcharges, in 2007. The increase relates primarily to an increase in amounts paid for outsourcing shop employees at the Company’s terminals during 2007 as compared to 2006. Also contributing to the increase was a one-time expense accrual of approximately $300,000 during December 2007 to settle a 1986 environmental remediation claim in which the Company was found partly liable for remediation.

The truckload services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, increased to 98.6% for 2007 from 90.6% for 2006.

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2006 Compared to 2005

For the year ended December 31, 2006, truckload services revenue, before fuel surcharges, increased 7.5% to $308.7 million as compared to $287.1 million for the year ended December 31, 2005. The increase was primarily due to a 6.9% increase in the average rate per total mile charged to customers from approximately $1.26 during 2005 to approximately $1.34 during 2006. Also contributing to the increase was a slight increase in the average size of the Company’s truck fleet from 1,822 units in 2005 to 1,866 units in 2006, however, a decrease in the average daily miles traveled per unit from 519 miles in 2005 to 509 miles in 2006 partially offset revenue growth attributable to our fleet growth.

Salaries, wages and benefits decreased from 41.8% of revenues, before fuel surcharges, in 2005 to 40.6% of revenues, before fuel surcharges, in 2006. The decrease relates primarily to a decrease in driver lease expense, which is a component of salaries, wages and benefits, as the average number of owner operators under contract decreased from 66 during 2005 to 45 during 2006. The decrease associated with driver lease expense was partially offset by an increase in amounts paid to the corresponding company driver replacement, and in other costs normally absorbed by the owner operator such as repairs and fuel. The settlement of claims for amounts less than the estimated reserve under the Company’s self-insured workers’ compensation plan also contributed to the decrease. Although to a lesser degree, the effect of higher revenues without a corresponding increase in those wages with fixed cost characteristics, such as general and administrative wages, also contributed to the decrease in salaries, wages and benefits as a percentage of revenues, before fuel surcharges. Partially offsetting the decreases discussed above was an increase in amounts accrued for employee bonus plans and an increase in driver pay as a result of the modified driver pay plans implemented in January 2006. Management anticipates that salaries, wages and benefits will increase to the extent the Company is unable to pass the additional costs to customers in the form of rate increases.

Fuel expense decreased from 16.6% of revenues, before fuel surcharges, in 2005 to 16.0% of revenues, before fuel surcharges, in 2006. Fuel costs, net of fuel surcharges, increased from $47.6 million during 2005 to $49.4 million during 2006 primarily due to higher fuel prices. During periods of rising fuel prices the Company is often able to recoup a portion of the increase through fuel surcharges passed along to its customers. The Company collected approximately $34.5 million in fuel surcharges during 2005 and $48.9 million during 2006. Fuel costs were also affected by the replacement of owner operators with Company drivers as discussed above.

Rent and purchased transportation increased from 1.2% of revenues, before fuel surcharges, in 2005 to 1.7% of revenues, before fuel surcharges, in 2006. The increase relates primarily to an increase in amounts paid to third party transportation service providers for intermodal services.

Depreciation and amortization increased from 10.9% of revenues, before fuel surcharges, in 2005 to 11.0% of revenues, before fuel surcharges, in 2006. Depreciation expense increased from $31.3 million during 2005 to $33.9 million during 2006 primarily due to an increase in the size of the Company-owned truck fleet from 1,742 trucks in service at the end of 2005 to 1,949 trucks in service at the end of 2006. To a lesser extent, a larger trailer fleet and higher new trailer prices also contributed to the increase.

Operating supplies and expenses increased from 8.0% of revenues, before fuel surcharges, in 2005 to 8.3% of revenues, before fuel surcharges, in 2006. The increase relates to an increase in amounts paid to third party driver training schools and for truck repairs expense. Truck repairs expense increased in part as a result of the replacement of owner operators with Company drivers as discussed above.

Operating taxes and licenses decreased from 5.5% of revenues, before fuel surcharges, in 2005 to 5.3% of revenues, before fuel surcharges, in 2006. Operating taxes and licenses, which consists primarily of fuel taxes, increased slightly from $15.8 million during 2005 to $16.4 million during 2006. Fuel tax expense is primarily affected by both the number of miles traveled and the miles-per-gallon (mpg) achieved. During 2006 the Company experienced a lower mpg of 5.94 as compared to a mpg of 6.11 during 2005 as the Company continued the replacement of older trucks with new trucks containing the less efficient EPA-compliant engines originally mandated for all engines produced after October 1, 2002. Also contributing to the increase was an increase in the number of miles traveled from 228.6 million in 2005 to 229.8 million in 2006.

Insurance and claims expense decreased from 5.5% of revenues, before fuel surcharges, in 2005 to 5.3% of revenues, before fuel surcharges, in 2006. During the third quarter of 2005 the Company and one of its insurance providers renegotiated the method used in determining the Company’s auto liability insurance premiums which were previously based on a specified rate per one hundred dollars of revenue. This method had the unintended consequence of penalizing the Company with increased insurance costs solely from passing higher costs along to its customers in the form of rate increases. As a result of these renegotiations, the method of determining the Company’s auto liability insurance premium was amended to use the number of miles traveled instead of revenue generated which allowed the Company to recognize a credit of approximately $600,000 against insurance expense during the third quarter of 2005. Excluding the effect of this credit, insurance and claims expense decreased from 5.8% of revenues, before fuel surcharges, during 2005 to 5.3% of revenues, before fuel surcharges, during 2006. This decrease, as a percentage of revenue, was due to the effect of an increase in Company revenues due to rate increases which dilutes the impact of mileage based expenses. During the third quarter of 2006 the Company’s auto liability insurance policy renewal negotiations resulted in a rate increase of approximately 4.4% and management expects insurance expense to increase to the extent the Company is unable to pass the additional insurance costs to customers in the form of rate increases.

Other expenses decreased from 1.8% of revenues, before fuel surcharges, in 2005 to 1.6% of revenues, before fuel surcharges, in 2006. The decrease relates primarily to a decrease in amounts considered as uncollectible revenue during 2006 as compared to 2005. This decrease was partially offset by an increase in amounts paid for advertising expense during 2006 as compared to 2005.

The truckload services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, decreased to 90.6% for 2006 from 92.3% for 2005.

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Results of Operations - Logistics and Brokerage Services

The following table sets forth, for logistics and brokerage services, the percentage relationship of expense items to operating revenues, before fuel surcharges, for the periods indicated. Brokerage service operations occur specifically in certain divisions; however, brokerage operations occur throughout the Company in similar operations having substantially similar economic characteristics. Rent and purchased transportation, which includes costs paid to third party carriers, are shown net of fuel surcharges.

	Years Ended December 31,		
	2007	2006	2005
Operating revenues, before fuel surcharge	100.0%	100.0%	100.0%
Operating expenses:			
Salaries, wages and benefits	6.3	5.0	5.1
Fuel expense	0.0	0.0	0.0
Rent and purchased transportation, net of fuel surcharge	88.9	88.3	88.0
Depreciation and amortization	0.0	0.0	0.2
Operating supplies	0.0	0.0	0.0
Operating taxes and licenses	0.0	0.0	0.0
Insurance and claims	0.1	0.0	0.1
Communications and utilities	0.3	0.3	0.4
Other	2.1	1.4	2.5
Loss on sale or disposal of property	0.0	0.0	0.0
Total operating expenses	97.7	95.0	96.3
Operating income	2.3	5.0	3.7
Non-operating income	0.0	0.0	0.0
Interest expense	(0.4)	(0.4)	(0.6)
Income before income taxes	1.9%	4.6%	3.1%

2007 Compared to 2006

For the year ended December 31, 2007, logistics and brokerage services revenues, before fuel surcharges, decreased 20.9% to $33.8 million as compared to $42.7 million for the year ended December 31, 2006. The decrease was primarily the result of a 22.2% decrease in the number of loads brokered during 2007 as compared to 2006.

Rent and purchased transportation increased from 88.3% of revenues, before fuel surcharges, in 2006 to 88.9% of revenues, before fuel surcharges, in 2007. The increase relates to an increase in amounts charged by third party logistics and brokerage service providers primarily as a result of higher fuel costs.

Other expenses increased from 1.4% of revenues, before fuel surcharges, in 2006 to 2.1% of revenues, before fuel surcharges, in 2007. The increase relates primarily to an increase in amounts considered as uncollectible revenue during 2007 as compared to 2006.

The logistics and brokerage services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, increased to 97.7% for 2007 from 95.0% for 2006.

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2006 Compared to 2005

Logistics and brokerage services revenues, before fuel surcharges, increased 8.9% to $42.7 million for the year ended December 31, 2006 as compared to $39.2 million for the year ended December 31, 2005. The increase was primarily the result of rate increases charged to customers to recover increases in amounts charged by third party logistics and brokerage service providers, and to a lesser extent, an increase in the number of loads brokered.

Rent and purchased transportation increased from 88.0% of revenues, before fuel surcharges, in 2005 to 88.3% of revenues, before fuel surcharges, in 2006. The increase relates to an increase in amounts charged by third party logistics and brokerage service providers primarily as a result of higher fuel costs.

Other expenses decreased from 2.5% of revenues, before fuel surcharges, in 2005 to 1.4% of revenues, before fuel surcharges, in 2006. The decrease relates primarily to a decrease in amounts considered as uncollectible revenue during 2006 as compared to 2005.

The logistics and brokerage services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, decreased to 95.0% for 2006 from 96.3% for 2005.

Results of Operations - Combined Services

2007 Compared to 2006

Income tax expense was approximately $2.0 million in 2007 resulting in an effective rate of 42.6% as compared to income tax expense of approximately $12.1 million in 2006 which resulted in an effective rate of 40.2%. The effective tax rate differs from the statutory rate primarily due to the existence of partially non-deductible meal and incidental expense per-diem payments to company drivers. These per-diem payments may cause a significant difference in the Company’s effective tax rate from period-to-period as the proportion of non-deductible expenses to pre-tax net income increases or decreases.

We have determined, based on significant judgment, that a valuation allowance against our deferred tax assets has not been necessary. Management evaluates the realizability of its deferred tax assets based upon negative and positive evidence available and based on the evidence available at this time, management concludes that it is "more likely than not" that we will be able to realize the benefit of our deferred tax assets in the near future.

The Company adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109 (“FIN 48”), on January 1, 2007. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the position will be sustained on examination by taxing authorities, based on the technical merits of the position. Upon adoption and as of December 31, 2007, there were no unrecognized tax benefits and an adjustment to the Company’s consolidated financial statements for uncertain tax positions was not required as management believes that the Company’s significant tax positions taken in income tax returns filed or to be filed are supported by clear and unambiguous income tax laws.

The Company and its subsidiaries are subject to U.S. and Canadian federal income tax laws as well as the income tax laws of multiple state jurisdictions. The major tax jurisdictions in which we operate generally provide for a deficiency assessment statute of limitation period of three years and as a result, the Company’s tax years 2004 through 2006 remain open to examination in those jurisdictions. During 2007, the Company has not recognized or accrued any interest or penalties related to uncertain income tax positions and does not believe it is reasonably possible that our unrecognized tax benefits will significantly change within the next twelve months.

Net income for all divisions was $2.7 million, or 0.8% of revenues, before fuel surcharge for 2007 as compared to $18.0 million or 5.1% of revenues, before fuel surcharge for 2006. The decrease in net income combined with the effect of treasury stock repurchases resulted in a decrease in diluted earnings per share to $0.26 for 2007 compared to $1.74 for 2006.

2006 Compared to 2005

Net income for all divisions was $18.0 million, or 5.1% of revenues, before fuel surcharge for 2006 as compared to $13.1 million or 4.0% of revenues, before fuel surcharge for 2005. The increase in net income combined with the effect of treasury stock repurchases resulted in an increase in diluted earnings per share to $1.74 for 2006 compared to $1.20 for 2005.

Quarterly Results of Operations

The following table presents selected consolidated financial information for each of our last eight fiscal quarters through December 31, 2007. The information has been derived from unaudited consolidated financial statements that, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the quarterly information.

	Quarter Ended							
	Mar. 31, 2007	June 30, 2007	Sept. 30, 2007	Dec. 31, 2007	Mar. 31, 2006	June 30, 2006	Sept. 30, 2006	Dec. 31, 2006
	(unaudited) (in thousands, except earnings per share data)							
Operating revenues	$ 98,809	$ 106,700	$ 101,171	$ 102,162	$ 100,525	$ 103,365	$ 99,874	$ 96,505
Total operating expenses	96,475	102,528	100,688	103,785	91,473	94,375	94,202	89,154
Operating income (loss)	2,334	4,172	483	(1,623)	9,052	8,990	5,672	7,351
Net income (loss)	1,265	2,192	36	(840)	5,183	5,241	3,268	4,272
Earnings (loss) per common share:								
Basic	$ 0.12	$ 0.21	$ 0.00	$ (0.08)	$ 0.50	$ 0.51	$ 0.32	$ 0.41
Diluted	$ 0.12	$ 0.21	$ 0.00	$ (0.08)	$ 0.50	$ 0.51	$ 0.32	$ 0.41

Liquidity and Capital Resources

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

During 2007, we generated $45.2 million in cash from operating activities compared to $60.7 million and $23.7 million in 2006 and 2005, respectively. Investing activities used $61.7 million in cash during 2007 compared to $42.7 million and $41.0 million in 2006 and 2005, respectively. The cash used in all three years related primarily to the purchase of revenue equipment (trucks and trailers) used in our operations. Financing activities provided $15.9 million in cash during 2007 compared to financing activities in 2006 and 2005 which used $18.1 million and $1.2 million, respectively. See Consolidated Statements of Cash Flows.

Our primary use of funds is for the purchase of revenue equipment. We typically use our existing lines of credit on an interim basis, in addition to cash flows from operations, to finance capital expenditures and repay long-term debt.

During 2007 and 2006, we utilized cash on hand and our lines of credit to finance revenue equipment purchases for an aggregate of $72.6 million and $50.7 million, respectively.

Occasionally we finance the acquisition of revenue equipment through installment notes with fixed interest rates and terms ranging from 36 to 48 months, however as of December 31, 2007 and 2006, we had no outstanding indebtedness under such installment notes.

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In order to maintain our truck and trailer fleet count it is often necessary to purchase replacement units and place them in service before trade units are removed from service. The timing difference created during this process often requires the Company to pay for new units without any reduction in price for trade units. In this situation, the Company later receives payment for the trade units as they are delivered to the equipment vendor and have passed vendor inspection. During the twelve months ended December 31, 2007 and 2006, the Company received approximately $5.9 million and $9.9 million, respectively, for units delivered for trade.

We maintain two separate $30.0 million revolving lines of credit (Line A and Line B, respectively) with separate financial institutions. Amounts outstanding under Line A bear interest at LIBOR (determined as of the first day of each month) plus 1.25% (6.48% at December 31, 2007), are secured by our accounts receivable and mature on May 31, 2009. At December 31, 2007 outstanding advances on line A were approximately $28.5 million, including $300,000 in letters of credit, with availability to borrow $1.5 million. Amounts outstanding under Line B bear interest at LIBOR (determined on the last day of the previous month) plus 1.15% (6.39% at December 31, 2007), are secured by revenue equipment and mature on June 30, 2008, however the Company has the intent and ability to extend the terms of this line of credit for an additional one year period until June 30, 2009. At December 31, 2007, $17.5 million, including $2.5 million in letters of credit were outstanding under Line B with availability to borrow $12.5 million. In an effort to reduce interest rate risk associated with these floating rate facilities, we entered into interest rate swap agreements in an aggregate notional amount of $20.0 million that terminated in 2006. For additional information regarding the interest rate swap agreements, see Item 7A of this Report.

Marketable equity securities available for sale at December 31, 2007 increased approximately $2.8 million as compared to December 31, 2006. During the year ended December 31, 2007, the Company purchased approximately $5.4 million of equity securities with the remaining increase or decrease attributable to changes in the market value of the investments, net of sales and other-than-temporary write-downs. These securities, combined with equity securities purchased in prior periods, have a combined cost basis of approximately $13.9 million and a combined fair market value of approximately $17.3 million. The Company has developed a strategy to invest in securities from which it expects to receive dividends that qualify for favorable tax treatment, as well as, appreciate in value. The Company anticipates that increases in the market value of the investments combined with dividend payments will exceed interest rates paid on borrowings for the same period. During 2007 the Company had net unrealized pre-tax losses of approximately $1.9 million and received dividends of approximately $655,000. The holding term of these securities depends largely on the general economic environment, the equity markets, borrowing rates and the Company's cash requirements.

Accounts receivable-other at December 31, 2007 increased approximately $4.0 million as compared to December 31, 2006. During 2007, the Company contracted with a third-party qualified intermediary in order to implement a like-kind exchange tax program. Under the program, dispositions of eligible trucks or trailers and acquisitions of replacement trucks or trailers are made in a form whereby any associated tax gains related to the disposal are deferred. To qualify for like-kind exchange treatment, we exchange, through our qualified intermediary, eligible trucks or trailers being disposed with trucks or trailers being acquired. At December 31, 2007 approximately $4.1 million of tractor and trailer sales proceeds were being held by the third-party qualified intermediary. The Company intends to use these $4.1 million in sales proceeds during 2008 to purchase qualified replacement tractors or trailers.

Revenue equipment, which generally consists of trucks, trailers, and revenue equipment accessories such as Qualcomm™ satellite tracking units, increased approximately $5.2 million as compared to December 31, 2006. The increase is primarily related to the net effect of purchasing approximately 610 trucks and 530 trailers during 2007 while only disposing of approximately 590 trucks and 340 trailers during 2007. Also contributing to the increase was an increase in the cost of new truck and trailer units as compared to the units they replaced and to the acquisition of additional Qualcomm™ satellite tracking units. At December 31, 2007, approximately 70 trucks included in revenue equipment had been placed in inactive status as they were prepared for sale or trade. The sale or trade of these trucks in 2008 will reduce the carrying amount of the Company’s revenue equipment and accumulated depreciation at the time of sale or trade.

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Accounts payable at December 31, 2007 decreased approximately $13.2 million as compared to December 31, 2006. The decrease is primarily related to $14.3 million in truck and trailer purchases made during December 2006 for which payment was made in January 2007 as the Company increased its December 2006 truck purchases in an effort to delay purchasing trucks with the 2007 model diesel engines. The 2007 model diesel engines are designed to meet stricter EPA emission standards and were discussed in this report above in “Part I, Item 1, Revenue Equipment”.

Long-term debt at December 31, 2007 increased approximately $23.0 million as compared to December 31, 2006. The increase relates primarily to borrowings against the Company’s two lines of credit in order to finance the purchase of replacement trucks and trailers. During 2007, purchases of revenue equipment, net of sales or trade proceeds received for retired revenue equipment, required the use of cash or borrowings against the lines of credit of approximately $50.4 million. Also, approximately $12.7 million of cash provided by operating activities, which would have been available to purchase revenue equipment, was used to purchase approximately $7.3 million of treasury stock and $5.4 million of marketable investments.

Treasury stock at December 31, 2007 increased approximately $7.3 million as the Company purchased 471,500 shares of its common stock at various times throughout 2007 as part of a stock repurchase plan approved by the Company’s Board of Directors during May 2007. The stock repurchase plan authorizes the purchase of up to 600,000 shares of the Company’s common stock and expires in May 2008.

For 2008, we expect to purchase approximately 550 new trucks and approximately 730 trailers while continuing to sell or trade older equipment, which we expect to result in net capital expenditures of approximately $45.1 million. Management believes we will be able to finance our near term needs for working capital over the next twelve months, as well as acquisitions of revenue equipment during such period, with cash balances, cash flows from operations, and borrowings believed to be available from financing sources. We will continue to have significant capital requirements over the long-term, which may require us to incur debt or seek additional equity capital. The availability of additional capital will depend upon prevailing market conditions, the market price of our common stock and several other factors over which we have limited control, as well as our financial condition and results of operations. Nevertheless, based on our anticipated future cash flows and sources of financing that we expect will be available to us, we do not expect that we will experience any significant liquidity constraints in the foreseeable future.

Contractual Obligations and Commercial Commitments

The following table sets forth the Company's contractual obligations and commercial commitments as of December 31, 2007:

	Payments due by period (in thousands)				
	Total	Less than 1 year	1 to 3 Years	4 to 5 Years	More than 5 Years
Long-term debt	$ 46,237	$ 2,065	$ 44,172	$ -	$ -
Operating leases (1)	1,741	520	762	379	80
Total	$ 47,978	$ 2,585	$ 44,934	$ 379	$ 80

(1) Represents building, facilities, and drop yard operating leases.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as defined in Regulation S-K 303 (a)(4)(ii) issued by the Securities and Exchange Commission.

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Insurance

With respect to physical damage for trucks, cargo loss and auto liability, the Company maintains insurance coverage to protect it from certain business risks. These policies are with various carriers and have per occurrence deductibles of $2,500, $10,000 and $2,500 respectively. The Company maintains workers’ compensation coverage in Arkansas, Ohio, Oklahoma, Mississippi, and Florida with a $500,000 self-insured retention and a $500,000 per occurrence excess policy. The Company has elected to opt out of workers' compensation coverage in Texas and is providing coverage through the P.A.M. Texas Injury Plan. The Company has reserved for estimated losses to pay such claims as well as claims incurred but not yet reported. The Company has not experienced any adverse trends involving differences in claims experienced versus claims estimates for workers’ compensation claims. Letters of credit aggregating $400,000 and certificates of deposit totaling $200,000 are held by banks as security for workers’ compensation claims. The Company self insures for employee health claims with a stop loss of $200,000 per covered employee per year and estimates its liability for claims incurred but not reported.

Inflation

Inflation has an impact on most of our operating costs. Recently, the effect of inflation has been minimal.

Competition for drivers has increased in recent years, leading to increased labor costs. While increases in fuel and driver costs affect our operating costs, we do not believe that the effects of such increases are greater for us than for other trucking concerns.

Adoption of Accounting Policies

See “Item 8. Financial Statements and Supplementary Data, Note 1 to the Consolidated Financial Statements - Recent Accounting Pronouncements.”

Critical Accounting Policies

The Company's significant accounting policies are described in Note 1 to the Consolidated Financial Statements. The policies described below represent those that are broadly applicable to the Company's operations and involve additional management judgment due to the sensitivity of the methods, assumptions and estimates necessary in determining the related amounts.

Accounts Receivable. We continuously monitor collections and payments from our customers, third parties and vendors and maintain a provision for estimated credit losses based upon our historical experience and any specific collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past.

Property and equipment. Management must use its judgment in the selection of estimated useful lives and salvage values for purposes of depreciating trucks and trailers which in some cases do not have guaranteed residual values. Estimates of salvage value at the expected date of trade-in or sale are based on the expected market values of equipment at the time of disposal which, in many cases include guaranteed residual values by the manufacturers.

Self Insurance. The Company is self-insured for health and workers' compensation benefits up to certain stop-loss limits. Such costs are accrued based on known claims and an estimate of incurred, but not reported (IBNR) claims. IBNR claims are estimated using historical lag information and other data either provided by outside claims administrators or developed internally. This estimation process is subjective, and to the extent that future actual results differ from original estimates, adjustments to recorded accruals may be necessary.

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Revenue Recognition. Revenue is recognized in full upon completion of delivery to the receiver's location. For freight in transit at the end of a reporting period, the Company recognizes revenue prorata based on relative transit miles completed as a portion of the estimated total transit miles. Expenses are recognized as incurred.

Prepaid Tires. Tires purchased with revenue equipment are capitalized as a cost of the related equipment. Replacement tires are included in prepaid expenses and deposits and are amortized over a 24-month period. Costs related to tire recapping are expensed when incurred.

Income Taxes. Significant management judgment is required to determine the provision for income taxes and to determine whether deferred income tax assets will be realized in full or in part. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When it is more likely that all or some portion of specific deferred income tax assets will not be realized, a valuation allowance must be established for the amount of deferred income tax assets that are determined not to be realizable. A valuation allowance for deferred income tax assets has not been deemed to be necessary. Accordingly, if the facts or financial circumstances were to change, thereby impacting the likelihood of realizing the deferred income tax assets, judgment would need to be applied to determine the amount of valuation allowance required in any given period.

Effective January 1, 2007, the Company adopted the provisions of FIN 48. FIN 48 contains a two-step approach to recognizing and measuring uncertain tax positions accounted for in accordance with SFAS No. 109. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating and estimating our tax positions and tax benefits, which may require periodic adjustments and which may not accurately anticipate actual outcomes.

Business Combinations and Goodwill. Upon acquisition of an entity, the cost of the acquired entity must be allocated to assets and liabilities acquired. Identification of intangible assets, if any, that meet certain recognition criteria is necessary. This identification and subsequent valuation requires significant judgments. The carrying value of goodwill is tested annually and as of December 31, 2007 the Company determined that there was no impairment. The impairment testing requires an estimate of the value of the Company as a whole, as the Company has determined it only has one reporting unit as defined in Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets.”

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

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

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

Equity Price Risk

We hold certain actively traded marketable equity securities which subjects the Company to fluctuations in the fair market value of its investment portfolio based on current market price. The recorded value of marketable equity securities increased to $17.3 million at December 31, 2007 from $14.4 million at December 31, 2006. The increase includes additional purchases, net of sales or write-downs, of approximately $4.8 million during 2007 and a decrease in the fair market value of approximately $1.9 million during 2007. A 10% decrease in the market price of our marketable equity securities would cause a corresponding 10% decrease in the carrying amounts of these securities, or approximately $1.7 million. For additional information with respect to the marketable equity securities, see Note 3 to our consolidated financial statements.

Interest Rate Risk

Our two lines of credit each bear interest at a floating rate equal to LIBOR plus a fixed percentage. Accordingly, changes in LIBOR, which are effected by changes in interest rates, will affect the interest rate on, and therefore our costs under, the lines of credit. In an effort to manage the risks associated with changing interest rates, we entered into interest rate swap agreements effective February 28, 2001 and May 31, 2001, on notional amounts of $15,000,000 and $5,000,000, respectively. The "pay fixed rates" under the $15,000,000 and $5,000,000 swap agreements were 5.08% and 4.83%, respectively. The "receive floating rate" for both swap agreements was "1-month" LIBOR. These interest rate swap agreements terminated on March 2, 2006 and June 2, 2006, respectively. Assuming $40.0 million of variable rate debt was outstanding under Line "A" and not covered by a hedge agreement for a full fiscal year, a hypothetical 100 basis point increase in LIBOR would result in approximately $400,000 of additional interest expense. For additional information with respect to the interest rate swap agreements, see Note 17 to our consolidated financial statements.

Commodity Price Risk

Prices and availability of all petroleum products are subject to political, economic and market factors that are generally outside of our control. Accordingly, the price and availability of diesel fuel, as well as other petroleum products, can be unpredictable. Because our operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition. Based upon our 2007 fuel consumption, a 10% increase in the average annual price per gallon of diesel fuel would increase our annual fuel expenses by $11.4 million.

In July 2001, we entered into an agreement to obtain price protection and reduce a portion of our exposure to fuel price fluctuations. Under this agreement, we were obligated to purchase minimum amounts of diesel fuel per month, with a price protection component, for the six-month period ended February 28, 2002. The agreement also provided that if during the twelve-month period commencing January 2005, the price of heating oil on the New York Mercantile Exchange ("NY MX HO") fell below $.58 per gallon, we would have been obligated to pay the contract holder the difference between $.58 per gallon and the NY MX HO average price, multiplied by 1,000,000 gallons. Accordingly, in any month in which the holder exercised such right, we would have been obligated to pay the holder $10,000 for each cent by which $.58 exceeded the average NY MX HO price for that month. For example, if the NY MX HO average price during March 2005 was approximately $.54, and if the holder were to exercise its payment right, we would have been obligated to pay the holder approximately $40,000. During the twelve-month period commencing January 2005 the average NY MX HO price remained well above the $.58 per gallon threshold and as of December 31, 2005 the agreement expired without any further obligation of either party. For the twelve-month period ended December 31, 2005 an adjustment of $500,000 was made to reflect the decline in fair value of the agreement which had the effect of reducing operating supplies expense and other current liabilities each by $500,000 in the accompanying consolidated financial statements. For the twelve-month period ended December 31, 2004 an adjustment of $250,000 was made to reflect the decline in fair value of the agreement which had the effect of reducing operating supplies expense and other current liabilities each by $250,000 in the accompanying consolidated financial statements, see Note 17 to our consolidated financial statements.

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Item 8. Financial Statements and Supplementary Data.

The following statements are filed with this report:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
P.A.M. Transportation Services, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of P.A.M. Transportation Services, Inc. (a Delaware corporation) and subsidiaries (collectively, the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and other comprehensive income, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of P.A.M. Transportation Services, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), P.A.M. Transportation Services, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2008 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma
March 12, 2008

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

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(in thousands, except share and per share data)

ASSETS	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 407	$ 1,040
Accounts receivable—net:		
Trade	58,397	61,469
Other	5,349	1,361
Inventories	905	819
Prepaid expenses and deposits	14,978	14,928
Marketable equity securities	17,269	14,437
Income taxes refundable	2,199	498
Total current assets	99,504	94,552
PROPERTY AND EQUIPMENT:		
Land	2,674	2,674
Structures and improvements	9,795	9,383
Revenue equipment	292,133	286,933
Office furniture and equipment	7,482	6,890
Total property and equipment	312,084	305,880
Accumulated depreciation	(107,841)	(102,566)
Net property and equipment	204,243	203,314
OTHER ASSETS:		
Goodwill	15,413	15,413
Non-compete agreements, net	17	217
Other	727	750
Total other assets	16,157	16,380
TOTAL ASSETS	$ 319,904	$ 314,246

(Continued)

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(in thousands, except share and per share data)

LIABILITIES AND SHAREHOLDERS' EQUITY	2007	2006
CURRENT LIABILITIES:		
Accounts payable	$ 25,346	$ 38,510
Accrued expenses and other liabilities	10,323	9,994
Current maturities of long-term debt	2,065	1,915
Deferred income taxes—current	5,117	5,658
Total current liabilities	42,851	56,077
Long-term debt—less current portion	44,172	21,205
Deferred income taxes—less current portion	53,504	51,902
Other	-	34
Total liabilities	140,527	129,218
COMMITMENTS AND CONTINGENCIES (Note 15)		
SHAREHOLDERS' EQUITY		
Preferred stock, $.01 par value, 10,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 40,000,000 shares authorized; 11,368,207 and 11,362,207 shares issued; 9,838,107 and 10,303,607 shares outstanding at December 31, 2007 and December 31, 2006, respectively	114	114
Additional paid-in capital	77,557	77,309
Accumulated other comprehensive income	1,921	3,142
Treasury stock, at cost; 1,530,100 and 1,058,600 shares, respectively	(25,200)	(17,869)
Retained earnings	124,985	122,332
Total shareholders' equity	179,377	185,028
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 319,904	$ 314,246

(Concluded)

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(in thousands, except per share data)

	2007	2006	2005
OPERATING REVENUES:			
Revenue, before fuel surcharge	$ 351,701	$ 351,373	$ 326,353
Fuel surcharge	57,140	48,896	34,527
Total operating revenues	408,841	400,269	360,880
OPERATING EXPENSES AND COSTS:			
Salaries, wages and benefits	135,606	127,539	122,005
Fuel expense	114,242	97,286	81,017
Rents and purchased transportation	38,718	43,844	39,074
Depreciation and amortization	38,759	33,929	31,376
Operating supplies and expenses	30,845	25,682	23,114
Operating taxes and licenses	17,520	16,421	15,776
Insurance and claims	17,591	16,389	15,992
Communications and utilities	3,113	2,642	2,648
Other	7,130	5,426	6,205
(Gain) loss on sale or disposal of equipment	(48)	47	147
Total operating expenses and costs	403,476	369,205	337,354
OPERATING INCOME	5,365	31,064	23,526
NON-OPERATING INCOME	1,707	448	477
INTEREST EXPENSE	(2,453)	(1,475)	(1,881)
INCOME BEFORE INCOME TAXES	4,619	30,037	22,122
FEDERAL AND STATE INCOME TAXES:			
Current	217	9,768	7,572
Deferred	1,749	2,305	1,411
Total federal and state income taxes	1,966	12,073	8,983
NET INCOME	$ 2,653	$ 17,964	$ 13,139
EARNINGS PER COMMON SHARE:			
Basic	$ 0.26	$ 1.74	$ 1.20
Diluted	$ 0.26	$ 1.74	$ 1.20
AVERAGE COMMON SHARES OUTSTANDING:			
Basic	10,238	10,296	10,966

Diluted	10,239	10,302	10,976

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Other Comprehensive Income	Accumulated Other Comprehensive Income	Treasury Stock	Retained Earnings	Total
BALANCE— January 1, 2005	11,303	$ 113	$ 76,050		$ 1,151	$ -	$ 91,229	$ 168,543
Components of comprehensive income:								
Net earnings				$ 13,139			13,139	13,139
Other comprehensive gain:								
Unrealized gain on hedge, net of tax of $195				282	282			282
Unrealized gain on marketable securities, net of tax of $189				288	288			288
Total comprehensive income				$ 13,709				
Treasury stock repurchases	(1,059)					(17,869)		(17,869)
Exercise of stock options-shares issued including tax benefits	41		379					379
BALANCE— December 31, 2005	10,285	113	76,429		1,721	(17,869)	104,368	164,762
Components of comprehensive income:								
Net earnings				$ 17,964			17,964	17,964
Other comprehensive gain:								
Unrealized gain on hedge, net of tax of $13				19	19			19

Unrealized gain on marketable securities, net of tax of $923				1,402	1,402			1,402
Total comprehensive income				$ 19,385				
Exercise of stock options-shares issued including tax benefits	18	1	369					370
Share-based compensation			511					511
BALANCE— December 31, 2006	10,303	114	77,309		3,142	(17,869)	122,332	185,028
Components of comprehensive income:								
Net earnings				$ 2,653			2,653	2,653
Other comprehensive gain:								
Realized gain on marketable securities, net of tax of $241				(359)	(359)			(359)
Unrealized loss on marketable securities, net of tax of $(448)				(862)	(862)			(862)
Total comprehensive income				$ 1,432				
Treasury stock repurchases	(471)					(7,331)		(7,331)
Exercise of stock options-shares issued including tax benefits	6		125					125
Share-based compensation			123					123
BALANCE— December 31, 2007	9,838	$ 114	$ 77,557		$ 1,921	$ (25,200)	$ 124,985	$ 179,377

See notes to consolidated financial statements.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(in thousands)

	2007	2006	2005
OPERATING ACTIVITIES:			