

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

FORM 10-Q

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

For the quarterly period ended June 30, 2006

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-15057



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

(Exact name of registrant as specified in its charter)

Delaware

\_\_\_\_\_  
(State or other jurisdiction of incorporation)

71-0633135

\_\_\_\_\_  
(I.R.S. Employer Identification no.)

297 West Henri De Tonti, Tontitown, Arkansas 72770

(Address of principal executive offices) (Zip Code)

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

N/A

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

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

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Yes

No

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

Class

\_\_\_\_\_  
Common Stock, \$.01 Par Value

Outstanding at July 31, 2006

\_\_\_\_\_  
10,301,607

P.A.M. TRANSPORTATION SERVICES, INC.  
Form 10-Q  
For The Quarter Ended June 30, 2006  
Table of Contents

Part I. Financial Information

Item 1. Financial Statements.

Condensed Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005

Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2006 and 2005

Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2006 and 2005

Condensed Consolidated Statements of Stockholders' Equity for the Six Months Ended June 30, 2006

Notes to Condensed Consolidated Financial Statements as of June 30, 2006

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Item 4. Controls and Procedures.

Part II. Other Information

Item 1. Legal Proceedings.

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

Item 6. Exhibits.

Signatures

Exhibits

## PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

**P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Balance Sheets**  
(in thousands, except share and per share data)

	<b>June 30, 2006</b>	<b>December 31, 2005</b>
	(unaudited)	(see note)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,467	\$ 1,129
Accounts receivable-net:		
Trade	70,767	65,433
Other	1,268	1,392
Inventories	836	749
Prepaid expenses and deposits	8,943	15,095
Marketable equity securities available-for-sale	11,883	10,999
Income taxes refundable	360	225
<b>Total current assets</b>	<b>95,524</b>	<b>95,022</b>
Property and equipment:		
Land	2,674	2,674
Structures and improvements	9,355	9,319
Revenue equipment	256,334	250,664
Office furniture and equipment	6,719	6,692
<b>Total property and equipment</b>	<b>275,082</b>	<b>269,349</b>
Accumulated depreciation	(95,241)	(87,854)
<b>Net property and equipment</b>	<b>179,841</b>	<b>181,495</b>
Other assets:		
Goodwill	15,413	15,413
Non-compete agreements	317	417
Other	1,091	1,094
<b>Total other assets</b>	<b>16,821</b>	<b>16,924</b>
<b>TOTAL ASSETS</b>	<b>\$ 292,186</b>	<b>\$ 293,441</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 25,657	\$ 22,055
Accrued expenses and other liabilities	12,749	10,507
Current maturities of long-term debt	720	1,859
Deferred income taxes-current	7,646	7,134
<b>Total current liabilities</b>	<b>46,772</b>	<b>41,555</b>
Long-term debt-less current portion	21,919	39,693
Deferred income taxes-less current portion	47,334	47,197
Other	134	234
<b>Total liabilities</b>	<b>116,159</b>	<b>128,679</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; none issued	-	-
Common stock, \$.01 par value, 40,000,000 shares authorized; 11,352,207 and 11,344,207 shares issued; 10,293,607 and 10,285,607 shares outstanding at June 30, 2006 and December 31, 2005, respectively	114	113
Additional paid-in capital	76,840	76,429
Accumulated other comprehensive income	2,149	1,721
Treasury stock, at cost; 1,058,600 shares	(17,869)	(17,869)
Retained earnings	114,793	104,368
<b>Total shareholders' equity</b>	<b>176,027</b>	<b>164,762</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 292,186</b>	<b>\$ 293,441</b>

Note: The consolidated balance sheet at December 31, 2005 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. See notes to condensed consolidated financial statements.

**P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Operations**  
(unaudited)  
(in thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
<b>OPERATING REVENUES:</b>				
Revenue, before fuel surcharge	\$ 89,692	\$ 83,321	\$ 180,541	\$ 163,430
Fuel surcharge	13,673	7,706	23,349	13,789
Total operating revenues	<u>103,365</u>	<u>91,027</u>	<u>203,890</u>	<u>177,219</u>
<b>OPERATING EXPENSES AND COSTS:</b>				
Salaries, wages and benefits	31,886	31,645	65,115	62,650
Fuel expense	25,964	19,423	48,219	36,476
Rent and purchased transportation	11,640	9,424	22,989	19,256
Depreciation and amortization	8,428	7,656	16,794	15,122
Operating supplies and expenses	6,568	5,691	12,506	11,292
Operating taxes and license	4,114	4,050	8,171	8,004
Insurance and claims	4,092	4,532	8,288	8,631
Communications and utilities	629	643	1,323	1,342
Other	1,087	1,359	2,585	2,667
(Gain) loss on disposition of equipment	(33)	56	(142)	74
Total operating expenses and costs	<u>94,375</u>	<u>84,479</u>	<u>185,848</u>	<u>165,514</u>
NET OPERATING INCOME	8,990	6,548	18,042	11,705
NON-OPERATING INCOME	116	108	173	299
INTEREST EXPENSE	<u>(353)</u>	<u>(474)</u>	<u>(817)</u>	<u>(918)</u>
NET INCOME BEFORE INCOME TAXES	8,753	6,182	17,398	11,086
<b>FEDERAL AND STATE INCOME TAXES:</b>				
Current	3,314	498	6,585	750
Deferred	198	2,004	388	3,753
Total federal and state income taxes	<u>3,512</u>	<u>2,502</u>	<u>6,973</u>	<u>4,503</u>
NET INCOME	<u>\$ 5,241</u>	<u>\$ 3,680</u>	<u>\$ 10,425</u>	<u>\$ 6,583</u>
<b>EARNINGS PER COMMON SHARE:</b>				
Basic	<u>\$ 0.51</u>	<u>\$ 0.33</u>	<u>\$ 1.01</u>	<u>\$ 0.59</u>
Diluted	<u>\$ 0.51</u>	<u>\$ 0.33</u>	<u>\$ 1.01</u>	<u>\$ 0.59</u>
<b>AVERAGE COMMON SHARES OUTSTANDING:</b>				
Basic	<u>10,293</u>	<u>11,114</u>	<u>10,290</u>	<u>11,209</u>
Diluted	<u>10,301</u>	<u>11,130</u>	<u>10,295</u>	<u>11,227</u>

See notes to condensed consolidated financial statements.

**P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
(unaudited)  
(in thousands)

	Six Months Ended	
	June 30,	
	<u>2006</u>	<u>2005</u>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 10,425	\$ 6,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	16,794	15,122
Bad debt expense	37	257
Stock compensation	311	-
Non-compete agreement amortization-net of payments	-	38
Provision for deferred income taxes	388	3,753
(Gain) loss on sale or disposal of equipment	(142)	74
Changes in operating assets and liabilities:		
Accounts receivable	(5,247)	(13,035)
Prepaid expenses, inventories, and other assets	6,067	6,499
Income taxes payable	(134)	122
Trade accounts payable	2,309	(6,208)
Accrued expenses	2,242	1,607
Net cash provided by operating activities	<u>33,050</u>	<u>14,812</u>
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(20,992)	(30,436)
Proceeds from sale or disposal of equipment	7,319	7,448
Purchase of marketable equity securities	(227)	(733)
Other	-	(20)
Net cash used in investing activities	<u>(13,900)</u>	<u>(23,741)</u>
<b>FINANCING ACTIVITIES:</b>		
Borrowings under line of credit	209,928	201,856
Repayments under line of credit	(227,504)	(200,644)
Repayments of long-term debt	(1,337)	(1,587)
Repurchases of common stock	-	(7,460)
Exercise of stock options	101	361
Net cash used in financing activities	<u>(18,812)</u>	<u>(7,474)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>338</b>	<b>(16,403)</b>
<b>CASH AND CASH EQUIVALENTS -Beginning of period</b>	<b><u>1,129</u></b>	<b><u>19,659</u></b>
<b>CASH AND CASH EQUIVALENTS -End of period</b>	<b><u>\$ 1,467</u></b>	<b><u>\$ 3,256</u></b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -</b>		
Cash paid during the period for:		
Interest	\$ 860	\$ 969
Income taxes	\$ 6,742	\$ 750

See notes to condensed consolidated financial statements.

**P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Stockholders' Equity**  
(unaudited)  
(in thousands)

	Common Stock Shares / Amount	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Retained Earnings	Total
Balance at December 31, 2005	10,285	\$ 113	\$ 76,429	\$ 1,721	\$ (17,869)	\$ 104,368	\$ 164,762
<b>Components of comprehensive income:</b>							
Net income			\$ 10,425			10,425	10,425
<b>Other comprehensive gain:</b>							
Unrealized gain on hedge, net of tax of \$13			19	19			19
Unrealized gain on marketable securities, net of tax of \$248			409	409			409
Total comprehensive income			\$ 10,853				
<b>Exercise of stock options-shares issued including tax benefits</b>							
	8	1	100				101
<b>Share-based compensation</b>							
			311				311
<b>Balance at June 30, 2006</b>	<b>10,293</b>	<b>\$ 114</b>	<b>\$ 76,840</b>	<b>\$ 2,149</b>	<b>\$ (17,869)</b>	<b>\$ 114,793</b>	<b>\$ 176,027</b>

See notes to condensed consolidated financial statements.

**P.A.M. TRANSPORTATION SERVICES, INC. AND SUBSIDIARIES**  
**Notes to Condensed Consolidated Financial Statements (unaudited)**  
**June 30, 2006**

**NOTE A: BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In management's opinion, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and the footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2005.

**Reclassifications** - Fuel expense for the three and six months ended June 30, 2005 has been reclassified from operating supplies and expenses to conform to the 2006 presentation.

**NOTE B: RECENT ACCOUNTING PRONOUNCEMENTS**

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition and is effective for fiscal years beginning after December 15, 2006. Management is currently evaluating the impact that FIN 48 might have on the Company's consolidated financial statements.

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140* ("SFAS No. 155"). SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation in accordance with the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"). The provisions of this statement apply to all financial instruments acquired or issued by the Company after December 31, 2006 and is not expected to have a material effect on the Company's consolidated financial statements.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS No. 154"). SFAS No. 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement applies to all voluntary changes in accounting principle as well as to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS No. 154 further requires a change in depreciation, amortization or depletion method for long-lived, non-financial assets to be accounted for as a change in accounting estimate effected by a change in accounting principle. Corrections of errors in the application of accounting principles will continue to be reported by retroactively restating the affected financial statements. The provisions of this statement are effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. Adoption of this statement did not have a material effect on the Company's consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment*, ("SFAS No. 123(R)") which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123(R) requires compensation costs relating to share-based payment transactions be recognized in financial statements. The pro forma disclosure previously permitted under SFAS No. 123 will no longer be an acceptable alternative to recognition of expenses in the financial statements. SFAS No. 123(R) was originally to be effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005, with early adoption encouraged. In April 2005, the Securities and Exchange Commission announced the adoption of a new rule that amends the effective date of SFAS No. 123(R). The Company adopted this standard on January 1, 2006 and now reports in its financial statements the share-based compensation expense for reporting periods beginning in 2006.

**NOTE C: MARKETABLE EQUITY SECURITIES**

The Company accounts for its marketable securities in accordance with Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (“SFAS No. 115”). SFAS No. 115 requires companies to classify their investments as either trading, available-for-sale or held-to-maturity. The Company’s investments in marketable securities are classified as available-for-sale and consist of equity securities. Management determines the appropriate classification of these securities at the time of purchase and re-evaluates such designation as of each balance sheet date. During the first six months of 2006, there were no sales or reclassifications of marketable securities. These securities are carried at fair value, with the unrealized gains and losses, net of tax, included as a component of accumulated other comprehensive income in shareholders’ equity. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in non-operating income. Realized gains and losses, and declines in value judged to be other-than-temporary on available-for-sale securities, if any, are included in the determination of net income as gains (losses) on the sale of securities.

As of June 30, 2006, these equity securities had a combined original cost of approximately \$8,655,000 and a combined fair market value of approximately \$11,883,000. For the six months ended June 30, 2006, the Company had net unrealized gains in market value of approximately \$409,000, net of deferred income taxes. As of June 30, 2006, these securities had gross unrealized gains of approximately \$3,717,000 and gross unrealized losses of approximately \$130,000. As of June 30, 2006, the total net unrealized gain, net of deferred income taxes, in accumulated other comprehensive income was approximately \$2,149,000.

The following table shows the investments that were in a loss position at June 30, 2006 and 2005 and their related fair value at June 30, 2006 and 2005. These investments are all classified as available-for-sale and consist of equity securities. As of June 30, 2006 and 2005 there were no investments that had been in a continuous unrealized loss position for twelve months or longer.

	2006		2005	
	(in thousands)			
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Equity securities with unrealized losses	\$ 1,255	\$ 130	\$ 1,073	\$ 140
Totals	\$ 1,255	\$ 130	\$ 1,073	\$ 140

**NOTE D: STOCK BASED COMPENSATION**

The Company maintains a stock option plan under which incentive stock options and nonqualified stock options may be granted. The plan provides for the issuance of options to directors, officers, key employees and others. The option price under these plans is the fair market value of the stock at the date the options were granted, ranging from \$16.99 to \$26.73 as of June 30, 2006. At June 30, 2006, approximately 734,000 shares were available for granting future options.

Outstanding incentive stock options at June 30, 2006, must be exercised within six years from the date of grant and vest in increments of 20% each year. Outstanding nonqualified stock options at June 30, 2006, must be exercised within five to ten years from the date of grant.

In August 2002, the Company granted performance-based variable stock options for 300,000 shares to certain key executives. The exercise price for these awards was fixed at the grant date and was equal to the fair market value of the stock on that date. On the date of grant, options for 60,000 shares vested immediately and vesting of the options for the remaining 240,000 shares was scheduled to occur on a straight-line basis each year from March 15, 2003 through March 15, 2008 upon meeting performance criteria. In order to meet the performance criteria, net income for each fiscal year must be at least equal to 1.05 times net income for the preceding fiscal year, unless net income for the preceding fiscal year was zero or negative, in which case net income for the fiscal year must be at least 90% of net income for the most recent year with positive income. The number of shares for which options vest each fiscal year will not be known until the date the performance criteria is measured. As of June 30, 2006, options for 140,000 shares have vested under this 300,000 share option grant (including those options which immediately vested upon grant) while options for 80,000 shares have been forfeited as the performance criteria were not met for the fiscal years 2003 and 2004.

Effective January 1, 2006, the Company adopted FASB Statement No. 123(R), *Share-Based Payment*, (“SFAS No. 123(R)”) utilizing the “modified prospective” method as described in SFAS No. 123(R). In the “modified prospective” method, compensation cost is recognized for all share-based payments granted after the effective date and for all unvested awards granted prior to the effective date. In accordance with SFAS No. 123(R), prior period amounts were not restated.

[Table of Contents](#)

At June 30, 2006, the Company had stock-based compensation plans with total unvested stock-based compensation expense of approximately \$1.0 million which is being amortized on a straight-line basis over the remaining vesting period. As a result, the Company expects to recognize approximately \$200,000 in additional compensation expense related to unvested option awards during the remainder of 2006 and to recognize approximately \$400,000 of expense in each of the years 2007 and 2008. Total pre-tax stock-based compensation expense, recognized in Salaries, wages and benefits was approximately \$311,000 during the first six months of 2006 and includes approximately \$111,000 recognized as a result of the annual grant of 2,000 shares to each non-employee director during the second quarter of 2006. The weighted average grant date fair value of options granted during the first six months of 2006 was \$6.93. The recognition of stock-based compensation expense decreased diluted and basic earnings per common share by approximately \$0.01 and \$0.02 during the first three and six months of 2006, respectively.

Prior to the effective date, the stock-based compensation plans were accounted for based on the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (“APB Opinion No. 25”) and related interpretations. Pro-forma information regarding the impact of total stock-based compensation on net income and income per share for prior periods is required by SFAS No. 123(R). Such pro-forma information, determined as if the Company had accounted for its employee stock options under the fair value method during the first three and six months of 2005, is illustrated in the following table:

	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
	(in thousands, except per share data)	
Net income-as reported	\$ 3,680	\$ 6,583
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(74)	(148)
Pro-forma net income	<u>\$ 3,606</u>	<u>\$ 6,435</u>
Earnings per common share:		
Basic-as reported	\$ 0.33	\$ 0.59
Basic-pro-forma	\$ 0.32	\$ 0.57
Diluted-as reported	\$ 0.33	\$ 0.59
Diluted-pro-forma	\$ 0.32	\$ 0.57

The fair value of the Company’s employee stock options was estimated at the date of grant using a Black-Scholes-Merton (“BSM”) option-pricing model using the following assumptions:

	Six Months Ended June 30,	
	2006	2005
Dividend yield	0%	0%
Volatility range	33.34% - 38.54%	33.86% - 38.54%
Risk-free rate range	4.38% - 5.02%	4.08% - 4.38%
Expected life	2.5 years - 5 years	5 years
Fair value of options	\$6.93 - \$9.45	\$6.73 - \$9.45

The Company has never paid any cash dividends on our common stock and we do not anticipate paying any cash dividends in the foreseeable future. The estimated volatility is based on the historical volatility of our stock. The risk free rate for the periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life of the options are calculated using temporary guidance provided by the Securities and Exchange Commission which allows companies to elect a “simplified method” where the expected life is the average of the vesting period and the original contractual term. This simplified method is not available for share option grants after December 31, 2007.

Information related to option activity for the six months ended June 30, 2006 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value*
Outstanding-beginning of year	286,500	\$ 22.22		
Granted	16,000	26.73		
Exercised	(8,000)	12.62		
Cancelled/forfeited/expired	-	-		
Outstanding at June 30, 2006	<u>294,500</u>	<u>\$ 22.73</u>	<u>5.4</u>	<u>\$ 1,814,005</u>
Exercisable at June 30, 2006	<u>209,500</u>	<u>\$ 22.61</u>	<u>5.2</u>	<u>\$ 1,315,355</u>

\* The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The per share market value of our common stock, as determined by the closing price on June 30, 2006, was \$28.89.

The number, weighted average exercise price and weighted average remaining contractual life of options outstanding as of June 30, 2006 and the number and weighted average exercise price of options exercisable as of June 30, 2006 follow:

Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Term (in years)	Options Exercisable
\$16.99	10,000	2.7	10,000
\$18.27	14,000	3.7	14,000
\$19.88	12,500	2.3	7,500
\$20.79	8,000	0.7	8,000
\$22.68	14,000	1.7	14,000
\$23.22	220,000	6.3	140,000
\$26.73	16,000	5.0	16,000
	<u>294,500</u>	<u>5.4</u>	<u>209,500</u>

Cash received from option exercises totaled approximately \$100,960 and \$344,750 during the six months ended June 30, 2006 and June 30, 2005, respectively. The Company issues new shares upon option exercise.

**NOTE E: SEGMENT INFORMATION**

The Company considers the guidance provided by Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* ("SFAS No. 131"), in its identification of operating segments. The Company has determined that it has a total of eight operating segments whose primary operations can be characterized as either Truckload Services or Brokerage and Logistics Services, however in accordance with the aggregation criteria provided by SFAS No. 131 the Company has determined that the operations of the eight operating segments can be aggregated into a single reporting segment, motor carrier operations. Truckload Services revenues and Brokerage and Logistics Services revenues, each before fuel surcharges, were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2006		2005		2006		2005	
	Amount	%	Amount	%	Amount	%	Amount	%
	(in thousands, except percentage data)							
Truckload Services revenue	\$ 78,276	87.3	\$ 73,434	88.1	\$ 157,981	87.5	\$ 143,514	87.8
Brokerage and Logistics Services revenue	11,416	12.7	9,887	11.9	22,560	12.5	19,916	12.2
Total revenues	<u>\$ 89,692</u>	<u>100.0</u>	<u>\$ 83,321</u>	<u>100.0</u>	<u>\$ 180,541</u>	<u>100.0</u>	<u>\$ 163,430</u>	<u>100.0</u>

**NOTE F: TREASURY STOCK**

On April 11, 2005, the Company announced that the 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 accounts for Treasury stock using the cost method and as of June 30, 2006, 1,058,600 shares were held in the treasury at an aggregate cost of approximately \$17,869,000.

**NOTE G: COMPREHENSIVE INCOME**

Comprehensive income was comprised of net income plus or minus market value adjustments related to our interest rate swap agreement and marketable securities. The components of comprehensive income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands)			
Net income	\$ 5,241	\$ 3,680	\$ 10,425	\$ 6,583
Other comprehensive income (loss):				
Reclassification adjustment for losses (gains) on derivative instruments included in net income accounted for as hedges, net of income taxes	-	65	18	143
Reclassification adjustment for unrealized losses (gains) on marketable securities included in net income, net of income taxes	14	-	58	-
Change in fair value of interest rate swap agreements, net of income taxes	-	(13)	1	32
Change in fair value of marketable securities, net of income taxes	40	184	351	56
Total comprehensive income	\$ 5,295	\$ 3,916	\$ 10,853	\$ 6,814

**NOTE H: EARNINGS PER SHARE**

Diluted earnings per share computations assume the exercise of stock options to purchase shares of common stock. The shares assumed exercised are based on the weighted average number of shares under options outstanding during the period and only include those options for which the exercise price is less than the average share price during the period. The net additional shares issuable are calculated based on the treasury stock method and are added to the weighted average number of shares outstanding during the period.

A reconciliation of the basic and diluted income per share computations for the three and six months ended June 30, 2006 and 2005, respectively, is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(in thousands, except per share data)			
Net income	\$ 5,241	\$ 3,680	\$ 10,425	\$ 6,583
Basic weighted average common shares outstanding	10,293	11,114	10,290	11,209
Dilutive effect of common stock equivalents	8	16	5	18
Diluted weighted average common shares outstanding	10,301	11,130	10,295	11,227
Basic earnings per share	\$ 0.51	\$ 0.33	\$ 1.01	\$ 0.59
Diluted earnings per share	\$ 0.51	\$ 0.33	\$ 1.01	\$ 0.59

Options to purchase 232,500 and 277,782 shares of common stock were outstanding at June 30, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per share because to do so would have an anti-dilutive effect.

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

**FORWARD-LOOKING INFORMATION**

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

**CRITICAL ACCOUNTING POLICIES**

The Company's management makes estimates and assumptions in preparing the condensed consolidated financial statements that affect reported amounts and disclosures therein. In the opinion of management, the accounting policies that generally have the most significant impact on the financial position and results of operations of the Company include:

*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 tractors 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.

*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 due to the Company's profitable operations. 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.

*Share-Based Compensation.* The Company adopted Statement of Financial Accounting Standards No. 123(R), *Share-Based Payments*, effective January 1, 2006, utilizing the “modified prospective” method as described in the standard. Under the “modified prospective” method, compensation cost is recognized for all share-based payments granted after the effective date and for all unvested awards granted prior to the effective date. Prior to adoption, the Company accounted for share-based payments under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The Company uses historical volatility when estimating the expected volatility of its share price. For additional information with respect to share-based compensation, see Note D to our consolidated financial statements.

*Business Segment and Concentrations of Credit Risk.* The Company operates in one reporting segment, motor carrier operations. The Company provides transportation services to customers throughout the United States and portions of Canada and Mexico. The Company performs ongoing credit evaluations and generally does not require collateral from its customers. The Company maintains reserves for potential credit losses. In view of the concentration of the Company’s revenues and accounts receivable among a limited number of customers within the automobile industry, the financial health of this industry is a factor in the Company’s overall evaluation of accounts receivable.

*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, 2005 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*.

## **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 tractors or owner-operator owned tractors. 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. For the three and six month period ended June 30, 2006, truckload services revenues, excluding fuel surcharges, represented 87.3% and 87.5% of total revenues, excluding fuel surcharges, with remaining revenues, excluding fuel surcharges, being generated from brokerage and logistics services. For the three and six month period ended June 30, 2005, truckload services revenues, excluding fuel surcharges, represented 88.1% and 87.8% of total revenues, excluding fuel surcharges, with remaining revenues, excluding fuel surcharges, being generated from brokerage and logistics services.

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

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 the three and six months ending June 30, 2006, approximately \$13.7 million and \$23.3 million, respectively, of the Company’s total revenue was generated from fuel surcharges. During the three and six months ending June 30, 2005 approximately \$7.7 million and \$13.8 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(percentages)			
Operating revenues, before fuel surcharge	100.0	100.0	100.0	100.0
Operating expenses:				
Salaries, wages and benefits	40.0	42.4	40.6	42.9
Fuel expense, net of fuel surcharge	16.0	16.3	16.1	16.1
Rent and purchased transportation	1.7	0.8	1.5	0.9
Depreciation and amortization	10.7	10.4	10.6	10.5
Operating supplies and expenses	8.4	7.7	7.9	7.9
Operating taxes and license	5.3	5.5	5.2	5.6
Insurance and claims	5.2	6.2	5.3	6.0
Communications and utilities	0.8	0.8	0.8	0.9
Other	1.2	1.6	1.4	1.6
(Gain) loss on sale or disposal of property	0.0	0.1	(0.1)	0.1
Total operating expenses	89.3	91.8	89.3	92.5
Operating income	10.7	8.2	10.7	7.5
Non-operating income	0.1	0.1	0.1	0.2
Interest expense	(0.4)	(0.6)	(0.4)	(0.6)
Income before income taxes	10.4	7.7	10.4	7.1

**THREE MONTHS ENDED JUNE 30, 2006 VS. THREE MONTHS ENDED JUNE 30, 2005**

For the quarter ended June 30, 2006, truckload services revenue, before fuel surcharges, increased 6.6% to \$78.3 million as compared to \$73.4 million for the quarter ended June 30, 2005. The increase was primarily due to a 9.6% increase in the average rate per total mile charged to customers from approximately \$1.23 during the second quarter 2005 to approximately \$1.34 during the second quarter of 2006. Partially offsetting the increase in revenue was a decrease in the total number of miles traveled from 59.9 million during the second quarter of 2005 to 58.3 million during the second quarter of 2006.

Salaries, wages and benefits decreased from 42.4% of revenues, before fuel surcharges, in the second quarter of 2005 to 40.0% of revenues, before fuel surcharges, during the second quarter of 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 70 during the second quarter of 2005 to 45 during the second quarter of 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. Also contributing to the decrease was a decrease in the claims paid and estimated reserves under the Company's self-insured group health benefits plan and the settlement of claims for amounts less than the estimated reserve under the Company's self-insured workers' compensation plan. 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.

Fuel expense decreased from 16.3% of revenues, before fuel surcharges, during the second quarter of 2005 to 16.0% of revenues, before fuel surcharges, during the second quarter of 2006. Fuel costs, net of fuel surcharges, increased from \$11.9 million during the second quarter of 2005 to \$12.6 million during the second quarter of 2006 primarily due to higher fuel prices. During periods of rising fuel prices the Company is often able to recoup at least a portion of the increase through fuel surcharges passed along to its customers. The Company collected approximately \$7.5 million in fuel surcharges during the second quarter of 2005 and \$13.4 million during the second quarter of 2006. Fuel costs were also affected by the replacement of owner operators with Company drivers as discussed above.

Rent and purchased transportation increased from 0.8% of revenues, before fuel surcharges, during the second quarter of 2005 to 1.7% of revenues, before fuel surcharges, during the second quarter of 2006. The increase relates to an increase in amounts paid to third party transportation companies for intermodal services.

Depreciation and amortization increased from 10.4% of revenues, before fuel surcharges, during the second quarter of 2005 to 10.7% of revenues, before fuel surcharges, during the second quarter of 2006. Depreciation expense increased from \$7.6 million during the second quarter of 2005 to \$8.4 million during the second quarter of 2006 primarily due to higher new tractor and trailer prices coupled with decreased residual trade-in values guaranteed by the manufacturer.

Operating supplies and expenses increased from 7.7% of revenues, before fuel surcharges, during the second quarter of 2005 to 8.4% of revenues, before fuel surcharges, during the second quarter of 2006. The increase relates to an increase in amounts paid to third party driver training schools and for tractor repairs expense. Tractor repairs expense increased in part as a result of the replacement of owner operators with Company drivers as discussed above.

Insurance and claims expense decreased from 6.2% of revenues, before fuel surcharges, during the second quarter of 2005 to 5.2% of revenues, before fuel surcharges, during the second quarter of 2006. The decrease was the result of renegotiations with one of the Company's insurance providers to change the method of determining the Company's auto liability insurance premiums. Previously, the Company's auto liability premiums were determined using a specified rate per one hundred dollars of revenue including fuel surcharges. This method had the unintended consequence of penalizing the Company with increased insurance costs solely from passing higher fuel costs along to its customers in the form of fuel surcharges. The method of determining the Company's auto liability premium is now based on the number of miles traveled instead of revenue generated.

Other expenses decreased from 1.6% of revenues, before fuel surcharges, during the second quarter of 2005 to 1.2% of revenues, before fuel surcharges, during the second quarter of 2006. The decrease relates primarily to an increase in the recovery of amounts previously written-off as uncollectible revenues.

The truckload services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, decreased from 91.8% for the second quarter 2005 to 89.3% for the second quarter of 2006.

#### **SIX MONTHS ENDED JUNE 30, 2006 VS. SIX MONTHS ENDED JUNE 30, 2005**

For the first six months ended June 30, 2006, truckload services revenue, before fuel surcharges, increased 10.1% to \$158.0 million as compared to \$143.5 million for the first six months ended June 30, 2005. The increase was primarily due to an 11.0% increase in the average rate per total mile charged to customers from approximately \$1.22 during the first six months 2005 to approximately \$1.36 during the first six months of 2006. Partially offsetting the increase in revenue was a decrease in the total number of miles traveled from 117.4 million during the first six months of 2005 to 116.5 million during the first six months of 2006.

Salaries, wages and benefits decreased from 42.9% of revenues, before fuel surcharges, in the first six months of 2005 to 40.6% of revenues, before fuel surcharges, during the first six months of 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 72 during the first six months of 2005 to 47 during the first six months of 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. Also contributing to the decrease was a decrease in the claims paid and estimated reserves under the Company's self-insured group health benefits plan. 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. During January 2006 the Company implemented a driver pay increase ranging from \$0.01 to \$0.03 per mile depending on individual driver qualifications and 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 as a percentage of revenues, before fuel surcharges, remained constant at 16.1% during both the first six months of 2005 and 2006, however, fuel costs, net of fuel surcharges, increased from \$23.1 million during the first six months of 2005 to \$25.5 million during the first six months of 2006 primarily due to higher fuel prices. During periods of rising fuel prices the Company is often able to recoup at least a portion of the increase through fuel surcharges passed along to its customers. The Company collected approximately \$13.4 million in fuel surcharges during the first six months of 2005 and \$22.7 million during the first six months of 2006. Fuel costs were also affected by the replacement of owner operators with Company drivers as discussed above.

Rent and purchased transportation increased from 0.9% of revenues, before fuel surcharges, during the first six months of 2005 to 1.5% of revenues, before fuel surcharges, during the first six months of 2006. The increase relates to an increase in amounts paid to third party transportation companies for intermodal services.

Depreciation and amortization increased from 10.5% of revenues, before fuel surcharges, during the first six months of 2005 to 10.6% of revenues, before fuel surcharges, during the first six months of 2006. Depreciation expense increased from \$15.1 million during the first six months of 2005 to \$16.8 million during the first six months of 2006 primarily due to higher new tractor and trailer prices coupled with decreased residual trade-in values guaranteed by the manufacturer, however as a percentage of revenues, before fuel surcharges, a decrease results from the interaction of increased revenues from an increased rate per mile charged to customers and the fixed cost nature of depreciation expense.

Insurance and claims expense decreased from 6.0% of revenues, before fuel surcharges, during the first six months of 2005 to 5.3% of revenues, before fuel surcharges, during the first six months of 2006. The decrease was the result of renegotiations with one of the Company's insurance providers to change the method of determining the Company's auto liability insurance premiums. Previously, the Company's auto liability premiums were determined using a specified rate per one hundred dollars of revenue including fuel surcharges. This method had the unintended consequence of penalizing the Company with increased insurance costs solely from passing higher fuel costs along to its customers in the form of fuel surcharges. The method of determining the Company's auto liability premium is now based on the number of miles traveled instead of revenue generated.

The truckload services division operating ratio, which measures the ratio of operating expenses, net of fuel surcharges, to operating revenues, before fuel surcharges, decreased from 92.5% for the first six months 2005 to 89.3% for the first six months of 2006.

**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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(percentages)			
Operating revenues, before fuel surcharge	100.0	100.0	100.0	100.0
Operating expenses:				
Salaries, wages and benefits	4.6	5.3	4.7	5.1
Fuel expense, net of fuel surcharge	0.0	0.0	0.0	0.0
Rent and purchased transportation	88.1	87.4	88.6	87.8
Depreciation and amortization	0.0	0.3	0.0	0.3
Operating supplies and expenses	0.0	0.0	0.0	0.0
Operating taxes and license	0.0	0.0	0.0	0.0
Insurance and claims	0.1	0.1	0.1	0.1
Communications and utilities	0.2	0.3	0.3	0.4
Other	1.5	1.5	1.5	1.6
(Gain) loss on sale or disposal of property	0.0	0.0	0.0	0.0
Total operating expenses	94.5	94.9	95.2	95.3
Operating income	5.5	5.1	4.8	4.7
Non-operating income	0.0	0.0	0.0	0.0
Interest expense	(0.4)	(0.6)	(0.4)	(0.6)
Income before income taxes	5.1	4.5	4.4	4.1

**THREE MONTHS ENDED JUNE 30, 2006 VS. THREE MONTHS ENDED JUNE 30, 2005**

For the quarter ended June 30, 2006, logistics and brokerage services revenue, before fuel surcharges, increased 15.5% to \$11.4 million as compared to \$9.9 million for the quarter ended June 30, 2005. The increase was primarily the result of rate increases, and to a lesser extent, an increase in the number of loads brokered.

Rent and purchased transportation increased from 87.4% of revenues, before fuel surcharges, during the second quarter of 2005 to 88.1% of revenues, before fuel surcharges during the second quarter of 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.

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 from 94.9% for the second quarter 2005 to 94.5% for the second quarter of 2006.

#### **SIX MONTHS ENDED JUNE 30, 2006 VS. SIX MONTHS ENDED JUNE 30, 2005**

For the first six months ended June 30, 2006, logistics and brokerage services revenue, before fuel surcharges, increased 13.3% to \$22.6 million as compared to \$19.9 million for the first six months ended June 30, 2005. The increase was primarily the result of rate increases, and to a lesser extent, an increase in the number of loads brokered.

Rent and purchased transportation increased from 87.8% of revenues, before fuel surcharges, during the first six months of 2005 to 88.6% of revenues, before fuel surcharges during the first six months of 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.

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 from 95.3% for the first six months of 2005 to 95.2% for the first six months of 2006.

#### **RESULTS OF OPERATIONS - COMBINED SERVICES**

##### **THREE MONTHS ENDED JUNE 30, 2006 VS. THREE MONTHS ENDED JUNE 30, 2005**

Net income for all divisions was \$5.2 million, or 5.8% of revenues, before fuel surcharge for the second quarter of 2006 as compared to \$3.7 million or 4.4% of revenues, before fuel surcharge for the second quarter of 2005. The increase in net income combined with the effect of treasury stock repurchases resulted in an increase in diluted earnings per share to \$0.51 for the second quarter of 2006 compared to \$0.33 for the second quarter of 2005.

##### **SIX MONTHS ENDED JUNE 30, 2006 VS. SIX MONTHS ENDED JUNE 30, 2005**

Net income for all divisions was \$10.4 million, or 5.8% of revenues, before fuel surcharge for the first six months of 2006 as compared to \$6.6 million or 4.0% of revenues, before fuel surcharge for the first six months of 2005. The increase in net income combined with the effect of treasury stock repurchases resulted in an increase in diluted earnings per share to \$1.01 for the first six months of 2006 compared to \$0.59 for the first six months of 2005.

#### **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 the first six months of 2006, we generated \$33.0 million in cash from operating activities. Investing activities used \$13.9 million in cash in the first six months of 2006. Financing activities used \$18.8 million in cash in the first six months of 2006.

Our primary use of funds is for the purchase of revenue equipment. We typically use our existing lines of credit on an interim basis, proceeds from the sale or trade of equipment, and cash flows from operations, to finance capital expenditures and repay long-term debt. During the first six months of 2006, we utilized cash on hand and our lines of credit to finance revenue equipment purchases of approximately \$20.7 million.

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 June 30, 2006, we had no outstanding indebtedness under such installment notes.

In order to maintain our tractor 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 six months ended June 30, 2006, the Company received approximately \$5.8 million for tractors delivered for trade and expects to receive approximately \$7.8 million during the remainder of the year.

[Table of Contents](#)

During the remainder of the year, we expect to purchase approximately 235 new tractors and approximately 450 trailers while continuing to sell or trade older equipment, which we expect to result in net capital expenditures of approximately \$22.1 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 recent operating results, current cash position, anticipated future cash flows, and sources of financing that we expect will be available to us, we do not expect that we will experience any significant liquidity constraints in the foreseeable future.

We maintain a \$20.0 million revolving line of credit and a \$30.0 million revolving line 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 1.40% (6.51% at June 30, 2006), are secured by our accounts receivable and mature on May 31, 2007, however the Company has the intent and ability to extend the terms of this line of credit for an additional one year period until May 31, 2008. At June 30, 2006 outstanding advances on line A were approximately \$7.4 million, including \$310,000 in letters of credit, with availability to borrow \$12.6 million. Amounts outstanding under Line B bear interest at LIBOR (determined on the last day of the previous month) plus 1.15% (6.29% at June 30, 2006), are secured by revenue equipment and mature on June 30, 2007, 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, 2008. At June 30, 2006, \$18.1 million, including \$5.6 million in letters of credit were outstanding under Line B with availability to borrow \$11.9 million.

Trade accounts receivable at June 30, 2006 increased approximately \$5.3 million as compared to December 31, 2005. The increase resulted from a general increase in revenues which flow through our accounts receivable account.

Prepaid expenses and deposits at June 30, 2006 decreased approximately \$6.2 million as compared to December 31, 2005. The decrease reflects the amortization of prepaid tractor and trailer license fees and auto liability insurance premiums. In December 2005 approximately \$2.8 million of the 2006 license fees and approximately \$3.0 million of the 2006 auto liability insurance premiums were paid in advance. These prepaid expenses will be amortized to expense through the remainder of the year.

Accounts payable at June 30, 2006 increased approximately \$3.6 million as compared to December 31, 2005. Approximately \$1.3 million of the increase is related to an increase in amounts payable to vendors for tractors received by the Company before the end of the period for which payment was not due until the next period. The net increase also reflects an increase of approximately \$1.0 million in amounts accrued for third party commissions and approximately \$1.4 million in amounts accrued under employee bonus plans.

Accrued expenses and other liabilities at June 30, 2006 increased approximately \$2.2 million as compared to December 31, 2005. The increase is primarily related to an increase in amounts accrued at the end of the period for employee wages and benefits which can vary significantly throughout the year depending on many factors, including the timing of actual date employees are paid in relation to the last day of the reporting period.

Long-term debt at June 30, 2006 decreased approximately \$17.8 million as compared to December 31, 2005. The decrease is primarily related to a decrease in the balance due on the Company's lines of credit at June 30, 2006 as compared to December 31, 2005. During the first six months of 2006 the Company repaid approximately \$17.6 million more than it borrowed under its lines of credit using idle cash and cash generated from operating activities.

**NEW ACCOUNTING PRONOUNCEMENTS**

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

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Our primary market risk exposures include equity price risk, interest rate risk, and commodity price risk (the price paid to obtain diesel fuel for our tractors). 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 \$11.9 million at June 30, 2006 from \$11.0 million at December 31, 2005. The increase reflects additional purchases of approximately \$227,000 during the first six months of 2006 and an increase in the fair market value of approximately \$657,000 during the first six months of 2006. 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 \$1.2 million. For additional information with respect to the marketable equity securities, see Note C 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 are 5.08% and 4.83%, respectively. The "receive floating rate" for both swap agreements was "1-month" LIBOR. The interest rate swap agreement on the notional amount of \$15,000,000 terminated on March 2, 2006 while the interest rate swap agreement on the notional amount of \$5,000,000 terminated on June 2, 2006. Assuming \$20.0 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 \$200,000 of additional interest expense

**Commodity Price Risk**

Prices and availability of all petroleum products are subject to political, economic and market factors that are generally outside of our control. Accordingly, the price and availability of diesel fuel, as well as other petroleum products, can be unpredictable. Because our operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition. Based upon our 2005 fuel consumption, a 10% increase in the average annual price per gallon of diesel fuel would increase our annual fuel expenses by \$8.1 million.

**Item 4. Controls and Procedures.**

**Evaluation of disclosure controls and procedures.** In accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management evaluated, with the participation of the Company's President and Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2006. Based upon that evaluation of these disclosure controls and procedures, the President and Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures were effective as of June 30, 2006 so that material information relating to the Company, including its consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this quarterly report on Form 10-Q was being prepared.

**Changes in internal controls over financial reporting.** There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

Our annual meeting of stockholders was held on May 24, 2006. The matters voted on at the meeting and the votes cast with respect to each matter were as follows:

	Votes FOR	Votes WITHHELD	Broker NON-VOTES
(1) Proposal to increase the size of the Board of Directors from eight members to nine members	9,886,188	117,512	0
(2) Proposal to elect nine directors:			
Frederick P. Calderone	9,176,533	827,167	0
Frank L. Conner	9,933,683	70,017	0
Thomas H. Cooke	9,888,632	115,068	0
Manual J. Moroun	9,158,770	844,930	0
Matthew T. Moroun	9,103,122	900,578	0
Daniel C. Sullivan	9,886,768	116,932	0
Robert W. Weaver	9,149,130	854,570	0
Charles F. Wilkins	9,933,483	70,217	0
Christopher L. Ellis	9,798,785	204,915	0
(3) Proposal to amend the Bylaws to authorize the Board of Directors, in addition to the stockholders, to establish the number of directors that constitute the full Board of Directors	8,193,253	1,810,447	0
(4) Proposal to approve the 2006 Stock Option Plan	8,932,454	165,876	905,370

Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-K:

- 3.1 Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q filed on May 15, 2002)
- 3.2 Amended and Restated By-Laws of the Registrant
- 10.1 2006 Stock Option Plan (incorporated by reference to Appendix B of the Company's proxy statement for its May 24, 2006 annual meeting of stockholders that was filed with the Securities and Exchange Commission on April 19, 2006)
- 10.2 Executive Incentive Plan
- 10.3 Non-Qualified Stock Option Agreement for Non-Employee Director stock options that are granted under the 2006 Stock Option Plan (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on May 31, 2006)
- 10.4 Employment Agreement dated July 10, 2006 between the Registrant and Robert W. Weaver (incorporated by reference to Exhibit 10.1 of the Company's Form 8-K filed on July 28, 2006)
- 10.5 Employment Agreement dated June 1, 2006 between the Registrant and W. Clif Lawson (incorporated by reference to Exhibit 10.2 of the Company's Form 8-K filed on July 28, 2006)
- 10.6 Employment Agreement dated June 1, 2006 between the Registrant and Larry J. Goddard (incorporated by reference to Exhibit 10.3 of the Company's Form 8-K filed on July 28, 2006)
- 31.1 Rule 13a-14(a) Certification of Principal Executive Officer
- 31.2 Rule 13a-14(a) Certification of Principal Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

SIGNATURES

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

P.A.M. TRANSPORTATION SERVICES, INC.

Dated: August 3, 2006

By: /s/ Robert W. Weaver

Robert W. Weaver

President and Chief Executive Officer

(principal executive officer)

Dated: August 3, 2006

By: /s/ Larry J. Goddard

Larry J. Goddard

Vice President-Finance, Chief Financial

Officer, Secretary and Treasurer

(principal accounting and financial officer)

P.A.M. TRANSPORTATION SERVICES, INC.  
Index to Exhibits to Form 10-Q

Exhibit Number	Exhibit Description
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<a href="#">3.2</a>	<a href="#">Amended and Restated By-Laws of the Registrant</a>
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<a href="#">32.2</a>	<a href="#">Section 1350 Certification of Chief Financial Officer</a>

AMENDED AND RESTATED BY-LAWS  
OF  
P.A.M. TRANSPORTATION SERVICES, INC.

ARTICLE I.  
SHAREHOLDERS MEETINGS

**SECTION 1. PLACE OF MEETING.** The Board of Directors may designate any place within or without the State of Delaware as the place of meeting for any annual or for any special meeting called by the Board of Directors. A waiver of notice signed by all shareholders entitled to vote at a meeting may designate any place within or without the State of Delaware as the place for the holding of such meeting. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the Corporation in the State of Arkansas.

**SECTION 2. ANNUAL MEETING.** The annual meeting of the shareholders of the Corporation shall be held on such date, at such time and at such place within or without the State of Delaware as may be designated by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may be properly brought before the meeting.

**SECTION 3. SPECIAL MEETINGS.** Special meetings of the shareholders, for any purpose or purposes, unless otherwise prescribed by statute or the Amended and Restated Certificate of Incorporation, may be called by the President, the Chief Executive Officer, or the Chairman of the Board of Directors, if any. The President or Secretary shall call a special meeting when: (1) requested in writing by any two or more of the Directors; or (2) requested in writing by shareholders owning at least seventy-five percent (75%) of the shares entitled to vote. Such written request shall state the purpose or purposes of the proposed meeting. No business shall be transacted and no corporate action shall be taken other than that stated in the notice of the meeting unless all of the shareholders are present in person or by proxy, in which case any and all business may be transacted at the meeting even though the business is transacted without notice. The provisions of this Section shall be amended, altered, changed or repealed only with the affirmative vote or consent of the holders of at least seventy-five percent (75%) of the outstanding shares of the stock of the Corporation entitled to elect Directors, in addition to any approval of the Board of Directors or any shareholder vote or consent required by law or any provision of the Amended and Restated Certificate of Incorporation or otherwise.

**SECTION 4. NOTICE.** Except as otherwise required by statute or the Certificate of Incorporation, written notice of each meeting of the shareholders, whether annual or special, shall be served, either personally or by mail, upon each shareholder of record entitled to vote at such meeting, not less than ten (10) nor more than sixty (60) days before the meeting. If mailed, such notice shall be directed to a shareholder at his post office address last shown on the records of the Corporation. Notice of any special meeting of shareholders shall state the purpose or purposes for which the meeting is called. Notice of any meeting of shareholders shall not be required to be given to any shareholder who, in person or by his attorney thereunto authorized, either before or after such meeting, shall waive such notice. Attendance of a shareholder at a meeting, either in person or by proxy, shall itself constitute waiver of notice and waiver of any and all objections to the place and time of the meeting and manner in which it has been called or convened, except when a shareholder attends a meeting solely for the purpose of stating, at the beginning of the meeting, any such objections to the transaction of business. Notice of the time and place of any adjourned meeting need not be given otherwise than by the announcement at the meeting at which adjournment is taken.

**SECTION 5. QUORUM.** The holders of a majority of the stock issued, outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the shareholders and shall be requisite for the transaction of business, except as otherwise provided by law, by the Certificate of Incorporation, or by these By-Laws. If, however, such majority shall not be present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until the requisite amount of voting stock shall be present. At such adjourned meeting at which a quorum shall be present in person or by proxy, any business may be transacted that might have been transacted at the meeting originally called.

**SECTION 6. VOTING, PROXIES.** At every meeting of the shareholders, any shareholder having the right to vote shall be entitled to vote in person or by proxy, but no proxy shall be voted after eleven months from its date, unless said proxy provides for a longer period. Each shareholder shall have one vote for each share of stock having voting power, registered in his name on the books of the Corporation. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting entitled to vote on the subject matter shall be the act of the shareholders, except as otherwise provided by law, by the Certificate of Incorporation or by these By-Laws.

**SECTION 7. FIXING OF RECORD DATE.** For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of dividends, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not less than ten (10) nor more than sixty (60) days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of dividends, the date on which notice of the meeting is mailed, or on the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof.

**SECTION 8. INFORMAL ACTIONS BY SHAREHOLDERS.** Any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if written consent, setting forth the action so taken, shall be signed by the shareholders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting of shareholders at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of any such corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Such consent shall have the same force and effect as a unanimous vote of the shareholders.

## **ARTICLE II DIRECTORS**

**SECTION 1. GENERAL POWERS.** Except as may be otherwise provided by any legal agreement among shareholders, the property and business of the Corporation shall be managed by its Board of Directors. In addition to the powers and authority expressly conferred by these By-Laws, the Board of Directors may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, or by any legal agreement among shareholders, or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the shareholders.

**SECTION 2. NUMBER, TENURE, QUALIFICATIONS, REMOVAL.** The Board of Directors shall consist of not less than three (3) nor more than fifteen (15) members, the precise number to be fixed by resolution of the shareholders or the Board of Directors from time to time. Each Director shall hold office until the annual meeting of shareholders held next after his election and until his successor has been duly elected and has qualified, or until his earlier resignation, removal from office, or death. Directors need not be shareholders. Any Director may be removed at any time, with or without cause, by the affirmative vote of the holders of seventy-five percent (75%) of the outstanding shares of the stock of the Corporation entitled to elect Directors, either at the annual meeting or at a special meeting called for that purpose. This Section shall be amended, altered, changed or repealed only with the affirmative vote or consent of the holders of at least seventy-five percent (75%) of the outstanding shares of stock of the Corporation entitled to elect Directors, in addition to any approval of the Board of Directors or any shareholder vote or consent required by law or any provision of the Amended and Restated Certificate of Incorporation of the Corporation or otherwise.

**SECTION 3. VACANCIES, HOW FILLED.** If any vacancy shall occur among the Directors by reason of the resignation, removal or death of a Director, the remaining Directors shall continue to act, and such vacancies may be filled by the vote of the majority of the Directors then in office, though less than a quorum, and if not therefore filled by action of the Directors, may be filled by the shareholders at any meeting held during the existence of such vacancy; provided that whenever any Director shall have been elected by the holders of any class of stock of the Corporation voting separately as a class under the provisions of the Certificate of Incorporation, such Director may be removed and the vacancy filled only by the holders of that class of stock voting separately as a class. A Director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

**SECTION 4. PLACE OF MEETING.** The Board of Directors may hold its meetings at such place or places within or without the State of Delaware as it may from time to time determine.

**SECTION 5. COMPENSATION.** Directors may be allowed such compensation for attendance at regular or special meetings of the Board of Directors and of any special meeting or standing committees thereof as may be from time to time determined by resolution of the Board of Directors.

**SECTION 6. REGULAR MEETINGS.** A regular annual meeting of the Board of Directors shall be held without other notice than this By-Law immediately after, and at the same place as, the annual meeting of shareholders. The Board of Directors may provide, by resolution, the time and place within or without the State of Delaware, for the holding of additional regular meetings without other notice than such resolution.

**SECTION 7. SPECIAL MEETINGS.** Special meetings of the Board of Directors may be called by the Chairman of the Board, the Chief Executive Officer or the President on not less than two (2) days' notice by mail, telegram, cablegram or personal delivery to each Director and shall be called by the Chairman of the Board, the Chief Executive Officer, the President or the Secretary in like manner and on like notice on the written request of any two (2) or more Directors. Any such special meeting shall be held at such time and place as shall be stated in the notice of the meeting. Unless otherwise indicated in the notice thereof, any and all business other than an amendment of these By-Laws may be transacted at any special meeting, and an amendment of these By-Laws may be acted upon if the notice of the meeting shall have stated that the amendment of these By-Laws is one of the purposes of the meeting. At any meeting at which every Director shall be present, even though without any notice, any business may be transacted, including the amendment of these By-Laws.

**SECTION 8. NOTICE, WAIVER BY ATTENDANCE.** No notice of a meeting of the Board of Directors need be given to any Director who signs a waiver of notice either before or after the meeting. The attendance of a Director at a meeting shall constitute a waiver of notice of such meeting and waiver of any and all objections to the place of the meeting, the time of the meeting or the manner in which it has been called or convened except when a Director states, at the beginning of the meeting, any such objection or objections to the transaction of business.

**SECTION 9. QUORUM.** At all meetings of the Board of Directors, the presence of a majority of the Directors shall constitute a quorum for the transaction of business. In the absence of a quorum a majority of the Directors present at any meeting may adjourn from time to time until a quorum be had. Notice of the time and place of any adjourned meeting need only be given by announcement at the meeting at which adjournment is taken.

**SECTION 10. MANNER OF ACTING.** The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

**SECTION 11. EXECUTIVE COMMITTEE.** In furtherance and not in limitation of the powers conferred by statute, the Board of Directors may establish an Executive Committee of two (2) or more Directors constituted and appointed by the Board of Directors from their number who shall meet when deemed necessary. They shall have authority to exercise all the powers of the Board which may be lawfully delegated and not inconsistent with these By-Laws, at any time and when the Board is not in session. The committee shall elect a Chairman, and a majority of the whole committee shall constitute a quorum; and the act of a majority of members present at a meeting at which a quorum is present shall be the act of the committee provided all members of the committee have had notice of such meeting or waived such notice. Notice of meetings of the Executive Committee shall be the same as required for a special meeting of the Board of Directors as outlined in Section 7 of this Article II.

**SECTION 12. OTHER COMMITTEES.** In addition to the Executive Committee, the Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, including without limitation a Compensation Committee, each committee to consist of one or more of the Directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided by resolution passed by a majority of the whole Board, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and the affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending these By-Laws; and unless such resolution, these By-Laws, or the Certificate of Incorporation expressly so provide, no such committee shall have the power to authorize to declare a dividend or to authorize the issuance of stock.

**SECTION 13. ACTION WITHOUT FORMAL MEETING.** Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if written consent thereto is signed by all members of the Board of Directors or of such committee, as the case may be, and such written consent is filed with the Minutes of the proceedings of the Board or committee.

**SECTION 14. CONFERENCE CALL MEETINGS.** Members of the Board of Directors, or any committee designated by such Board, may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section shall constitute presence in person at such meeting.

**ARTICLE III.  
OFFICERS**

**SECTION 1. OFFICERS.** The officers of the Corporation shall be a Chief Executive Officer, a Chief Operating Officer, a Chief Financial Officer, a President, one or more Executive Vice Presidents or Vice Presidents, a Secretary and a Treasurer, and such additional officers, if any, as shall be elected by the Board of Directors pursuant to the provisions of Section 11 of this Article III. The Chief Executive Officer, the Chief Financial Officer, the President, one or more Executive Vice Presidents or Vice Presidents, the Secretary and the Treasurer, shall be elected by the Board of Directors at its first meeting after each annual meeting of the shareholders. The failure to hold such election shall not of itself terminate the term of office of any officer. Any number of offices may be held simultaneously by the same person, except that the person serving as Chief Financial Officer may not serve simultaneously as the Chief Executive Officer. Any Chairman and Vice Chairman, if such positions are created by the Board of Directors, shall be Directors of the Corporation. All other officers may, but need not be, Directors. Any officer may resign at any time upon written notice to the Corporation.

All officers, agents and employees shall be subject to removal, with or without cause, at any time by the Board of Directors. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights. All agents and employees other than officers elected by the Board of Directors shall also be subject to removal, with or without cause, at any time by the officers appointing them.

Any vacancy caused by the death of any officer, his resignation, his removal, or otherwise, may be filled by the Board of Directors, and any officer so elected shall hold office at the pleasure of the Board of Directors.

In addition to the powers and duties of the officers of the Corporation as set forth in these By-Laws, the officers shall have such authority and shall perform such duties as from time to time may be determined by the Board of Directors.

**SECTION 2. POWERS AND DUTIES OF THE CHAIRMAN.** The Chairman, if any, shall preside at all meetings of the shareholders and of the Board of Directors at which he shall be present and shall have such other duties as may from time to time be assigned by these By-Laws or by the Board of Directors.

**SECTION 3. POWERS AND DUTIES OF THE VICE CHAIRMAN.** The Vice Chairman or Chairmen, if any, shall have such powers and perform such duties as may from time to time be assigned by the Board of Directors or the Chairman. In the absence of the Chairman, the Vice Chairman, if any, (or if more than one, one of the Vice Chairmen as designated by the Board of Directors ) shall preside at all meetings of the shareholders and the Board of Directors at which he shall be present.

**SECTION 4. POWERS AND DUTIES OF THE CHIEF EXECUTIVE OFFICER.** The Chief Executive Officer shall be the chief executive officer of the Corporation and, subject to the control of the Board of Directors, shall have general charge and control of all its business and affairs and shall perform all duties incident to the office of Chief Executive Officer; he may sign and execute, in the name of the Corporation, all authorized deeds, mortgages, bonds, notes and other evidence of indebtedness, contracts or other instruments, except in cases in which the signing and execution thereof shall have been expressly excluded from the Chief Executive Officer and delegated to some other officer or agent of the Corporation by the Board of Directors. In the absence or disability of the Chairman and all Vice Chairmen, or if the Board of Directors has not elected a Chairman or Vice Chairman, the Chief Executive Officer shall preside at all meetings of the shareholders and of the Board of Directors and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors.

**SECTION 5. POWERS AND DUTIES OF THE CHIEF OPERATING OFFICER.** The Chief Operating Officer shall be the principal operating officer of the Corporation with authority as such, and at the request of the Chief Executive Officer or in his absence or disability to act, shall perform the duties and exercise the functions of the Chief Executive Officer, and when so acting shall have such other powers and perform such other duties as may from time to time be assigned to him by the Board of Directors or the Chief Executive Officer.

**SECTION 6. POWERS AND DUTIES OF THE CHIEF FINANCIAL OFFICER.** The Chief Financial Officer shall be the chief accounting officer of the Corporation; he shall see that the books and account and other accounting records of the Corporation are kept in proper form and accurately; and, in general, he shall perform all the duties incident to the office of Chief Financial Officer of the Corporation and such other duties as may from time to time be assigned to him by the Board of Directors or the Chief Executive Officer.

**SECTION 7. POWERS AND DUTIES OF THE PRESIDENT.** The President shall act as a general executive officer of the Corporation and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or by the Chief Executive Officer.

**SECTION 8. POWERS AND DUTIES OF THE EXECUTIVE VICE PRESIDENT OR VICE PRESIDENT.** Each Executive Vice President or Vice President shall perform all duties incident to such office and shall have such powers and perform such duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the Chief Executive Officer.

**SECTION 9. POWERS AND DUTIES OF THE SECRETARY.** The Secretary shall keep the minutes of meetings of the Board of Directors and the minutes of all meetings of the shareholders in books provided for that purpose; he shall attend to the giving or serving of all notices of the Corporation; he shall have the custody of the corporate seal of the Corporation and shall affix the same to such documents and other papers as the Board of Directors or the Chief Executive Officer shall authorize and direct; he shall have charge of the stock certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors or the Chief Executive Officer shall direct, all of which shall at all reasonable times be open to the examination of any Director, upon application, at the offices of the Corporation during business hours; and he shall perform such other duties as may from time to time be assigned to him by these By-Laws or the Board of Directors or the Chief Executive Officer.

**SECTION 10. POWERS AND DUTIES OF THE TREASURER.** The Treasurer shall have custody of, and when proper shall pay out, disburse or otherwise dispose of, all funds and securities of the Corporation which may have come into his hands; he may endorse on behalf of the Corporation for collection checks, notes and other obligations and shall deposit them to the credit of the Corporation in such bank or banks or depository or depositories as the Board of Directors may designate; he shall sign all receipts and vouchers for payments made to the Corporation; he shall enter or cause to be entered regularly in the books of the Corporation kept for the purpose full and accurate accounts of moneys received or paid or otherwise disposed of by him and whenever required by the Board of Directors or the Chief Executive Officer shall render statements of such accounts; and he shall perform all duties incident to the office of Treasurer and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the Chief Executive Officer.

**SECTION 11. ADDITIONAL OFFICERS.** The Board of Directors may from time to time elect such other officers (who may but need not be Directors), including Controllers, Assistant Treasurers, Assistant Secretaries and Assistant Financial Officers, as the Board may deem advisable and such officers shall have such authority and shall perform such duties as may from time to time be assigned to them by the Board of Directors or the Chief Executive Officer.

The Board of Directors may from time to time by resolution delegate to any Assistant Treasurer or Assistant Treasurers any of the powers or duties herein assigned to the Treasurer; and may similarly delegate to any Assistant Secretary or Assistant Secretaries any of the powers or duties herein assigned to the Secretary.

**SECTION 12. GIVING OF BOND BY OFFICERS.** All officers of the Corporation, if required to do so by the Board of Directors, shall furnish bonds to the Corporation for the faithful performance of their duties, in such amounts and with such conditions and security as the Board shall require.

**SECTION 13. VOTING UPON STOCKS.** Unless otherwise ordered by the Board of Directors, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the President, any Executive Vice President or Vice President shall have full power and authority on behalf of the Corporation to attend and to act and to vote, or in the name of the Corporation to execute proxies to vote, at any meetings of shareholders of any corporation in which the Corporation may hold stock, and at any such meetings shall possess and may exercise, in person or by proxy, any and all rights, powers and privileges incident to the ownership of such stock. The Board of Directors may from time to time, by resolution, confer like powers upon any other person or persons.

**SECTION 14. COMPENSATION OF OFFICERS.** The officers of the Corporation shall be entitled to receive such compensation for their services as shall from time to time be determined by the Board of Directors or by a committee of the Board to which the Board of Directors has delegated such responsibility.

#### **ARTICLE IV. CAPITAL STOCK**

**SECTION 1. FORM.** The interest of each shareholder shall be evidenced by a certificate representing shares of stock of the Corporation, which shall be in such form as the Board of Directors may from time to time adopt and shall be numbered and shall be entered in the books of the Corporation as they are issued. Each certificate shall exhibit the holder's name, the number of shares and class of shares and series, if any, represented thereby, a statement that the Corporation is organized under the laws of the State of Delaware, and the par value of each share or a statement that the shares are without par value.

Each certificate shall be signed by the Chairman of the Board, the President or a vice President and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer and shall be sealed with the seal of the Corporation. In case any officer or officers who shall have signed any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates had not ceased to be such officer or officers of the Corporation.

**SECTION 2. TRANSFER.** Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate, or by attorney lawfully constituted in writing, and upon surrender of the certificate thereof, or in the case of a certificate alleged to have been lost, stolen or destroyed, upon compliance with the provisions of Section 4, Article IV of these By-Laws.

**SECTION 3. RIGHTS OF HOLDER.** The Corporation shall be entitled to treat the holder of any share of the Corporation as the person entitled to vote such share, to receive any dividend or other distribution with respect to such share, and for all other purposes and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

**SECTION 4. LOST OR DESTROYED CERTIFICATES.** Any person claiming a certificate of stock to be lost, stolen or destroyed shall make an affidavit or affirmation of the fact in such manner as the Board of Directors may require and shall if the Board of Directors so requires, give the Corporation a bond of indemnity in the form and amount and with one or more sureties satisfactory to the Board of Directors, whereupon an appropriate new certificate may be issued in lieu of the one alleged to have been lost, stolen or destroyed.

#### **ARTICLE V. FISCAL YEAR**

The fiscal year of the Corporation shall be established by the Board of Directors of the Corporation.

#### **ARTICLE VI. SEAL**

The corporate seal shall be in such form as the Board of Directors may from time to time determine.

#### **ARTICLE VII. ANNUAL STATEMENTS**

No later than four months after the close of each fiscal year, and in any case prior to the next annual meeting of shareholders, the Corporation shall prepare:

- (a) A balance sheet showing in reasonable detail the financial condition of the Corporation as of the close of the fiscal year, and
- (b) A profit and loss statement showing the results of its operation during the fiscal year.

Upon written request, the Corporation shall mail promptly to any shareholder of record a copy of the most recent such balance sheet and profit and loss statement.

#### **ARTICLE VIII. INDEMNIFICATION**

**SECTION 1. ACTION BY PERSONS OTHER THAN THE CORPORATION.** Under the circumstances prescribed in Sections 3 and 4 of this Article, the Corporation shall indemnify and hold harmless any person who was or is a party or is threatened to be made a party of any, threatened, pending or completed action, suit or proceeding, or investigation, whether civil, criminal or administrative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a Director, Officer, employee or agent of the Corporation, or is now serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in a manner which he reasonably believed to be in or not opposed to the best interest of the Corporation, and, with respect to criminal action or proceeding, he had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in a manner which he reasonably believed to be in or not opposed to the best interest of the Corporation, and with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

**SECTION 2. ACTIONS BY OR IN THE NAME OF THE CORPORATION.** Under the circumstances prescribed in Sections 3 and 4 of this Article, the Corporation shall indemnify and hold harmless any person who was or is a party or is threatened to be made a party of any, threatened, pending or completed action, suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interest of the Corporation; except that no indemnification shall be made in respect to any claim, issue or matter as to which such person shall have been adjudged to be liable for negligence or misconduct in the performance of his duty to the Corporation, unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expense which the court shall deem proper.

**SECTION 3. SUCCESSFUL DEFENSE.** To the extent that a Director, Officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorney's fees) actually and reasonably incurred by him in connection therewith.

**SECTION 4. AUTHORIZATION OF INDEMNIFICATION.** Except as provided in Section 3 of this Article and except as may be ordered by a court, any indemnification under Sections 1 and 2 of this Article shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Director, Officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 and 2. Such determination shall be made:

- (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such action, suit or proceeding; or
- (2) if such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested Directors so directs, by the firm of independent legal counsel then employed by the Corporation, in a written opinion.

**SECTION 5. PREPAYMENT OF EXPENSES.** Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors upon receipt of an undertaking by or on behalf of the Director, Officer, employee or agent to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article.

**SECTION 6. NON-EXCLUSIVE RIGHT.** The indemnification provided by this Article shall not be deemed exclusive of any other right to which the person indemnified hereunder shall be entitled and shall inure to the benefit of the heirs, executors or administrators of such persons.

**SECTION 7. INSURANCE.** The corporation may purchase and maintain insurance on behalf of any person who is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this section.

**SECTION 8. INTERPRETATION OF ARTICLE.** It is the intent of this Article VIII to provide for indemnification of the Directors, Officers, employees and agents of the Corporation to the full extent permitted under the laws of State of Delaware. This Article VIII shall be construed in a manner consistent with such intent.

**ARTICLE IX.  
NOTICES: WAIVER OF NOTICE**

**SECTION 1. NOTICES.** Except as otherwise provided in these By-Laws, whenever under the provisions of these By-Laws notice is required to be given to any shareholder, Director or Officer, such notice shall be given either by personal notice or by cable or telegraph, or by mail by depositing the same in the post office or letter box in a postpaid sealed wrapper, addressed to such shareholder, Officer or Director at such address as appears on the books of the Corporation, and such notice shall be deemed to be given at the time when the same shall be thus sent or mailed.

**SECTION 2. WAIVER OF NOTICE.** Whenever any notice whatsoever is required to be given by law, by the Articles of Incorporation or by these By-Laws, a waiver thereof by the person or persons entitled to said notice given before or after the time stated therein, in writing, which shall include a waiver given by telegraph or cable, shall be deemed equivalent thereto. No notice of any meeting need be given to any person who shall attend such meeting.

**ARTICLE X.  
CHECKS, NOTES, DRAFTS, LOANS, ETC.**

**SECTION 1. CHECKS, NOTES, DRAFTS.** All checks, drafts, bills of exchange, acceptances, notes or other obligations or orders for the payment of money shall be signed and, if so required by the Board of Directors, countersigned by such officers of the Corporation and/or other persons as shall from time to time be designated by the Board of Directors or pursuant to authority delegated by the Board.

Checks, drafts, bills of exchange, acceptances, notes, obligations and orders for the payment of money made payable to the Corporation may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the Treasurer and/or such other officers or persons as shall from time to time be designated by the Treasurer.

**SECTION 2. LOANS.** No loans and no renewals of any loans shall be contracted on behalf of the Corporation except as authorized by the Board of Directors. When authorized so to do, any officer or agent of the Corporation may effect loans and advances for the Corporation from any bank, trust company or other institution or from any firm, corporation or individual, and for such loans and advances may make, execute and deliver promissory notes, bonds or other evidences of indebtedness of the Corporation. When authorized so to do, any officer or agent of the Corporation may pledge, hypothecate or transfer, as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation, any and all stocks, securities and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same. Such authority may be general or confined to specific instances.

**ARTICLE XI.  
OFFICES**

Except as otherwise required by the laws of the State of Delaware, the Corporation may have an office or offices and keep its books, documents and papers outside of the State of Delaware at such place or places as from time to time may be determined by the Board of Directors or the President.

**ARTICLE XII.  
REIMBURSEMENT OF DISALLOWED  
PAYMENTS TO OFFICERS AND EMPLOYEES**

In the event any payments to an Officer or employee of the Corporation, such as salary, commission, bonus, interest, rent or entertainment expenses incurred by him, is thereafter disallowed in whole or in part by the Internal Revenue Service as a proper deduction for income tax purposes under Section 162 of the Internal Revenue Code of 1954, as amended (or disallowed under any similar Code section which may subsequently replace Section 162), such disallowed payments shall be deemed to be an obligation owed by such Officer or employee to the Corporation. Such disallowed payments shall be reimbursed by such Officer or employee to the Corporation on or before ninety (90) days following the final determination of such disallowance by the Internal Revenue Service or entry of the final judgment of such determination if adjudicated. It shall be the duty of the Board of Directors to enforce reimbursement of each such amount disallowed, including the withholding from future compensation payments to such Officer or employee until the amount owed to the Corporation has been recovered.

**ARTICLE XIII.  
AMENDMENTS**

Except as otherwise indicated in these By-Laws, the By-Laws of the Corporation may be altered or amended and new By-Laws may be adopted by the shareholders or by the Board of Directors at any regular or special meeting of the Board of Directors; provided, however, that, if such action is to be taken at a meeting of the shareholders or Board of Directors, notice of the general nature of the proposed change in the By-Laws shall have been given in the notice of a meeting. Except as otherwise indicated in these By-Laws, action by the shareholders with respect to By-Laws shall be taken by an affirmative vote of a majority of the shares entitled to elect Directors, and action by the Directors with respect to By-Laws shall be taken by an affirmative vote of a majority of all Directors then holding office.

Amended and restated effective as of May 24, 2006.

**P.A.M. TRANSPORTATION SERVICES, INC.  
EXECUTIVE INCENTIVE PLAN**

**INTRODUCTION**

The P.A.M. Transportation Services, Inc. Executive Incentive Plan ("Plan") is an annual incentive plan for executive officers of P.A.M. Transportation Services, Inc. and designated officers and senior management of P.A.M. Transportation Services, Inc. and its subsidiaries. The Plan is intended to provide cash-based incentive opportunities to such executive officers and designated officers and senior management of the Company and its subsidiaries. Plan payments, if any, will be conditioned on attainment of one or more Performance Measures for each fiscal year as established by the Committee.

**I. PURPOSE**

1. The purpose of the Plan is to allow the Company to attract, motivate and retain highly qualified executive employees; to obtain from each employee the best possible performance; to establish performance goals that support the Company's long-term business strategies; and to provide consistency in and alignment with the Company's approach to performance-based pay and overall executive compensation strategy.

**II. DEFINITIONS**

For purposes of the Plan, the following terms shall have the following meanings:

- A. **Board of Directors**. The Board of Directors of the Company.
- B. **Committee**. The Compensation and Stock Option Committee of the Board of Directors of the Company or any successor thereto.
- C. **Company**. P.A.M. Transportation Services, Inc., a Delaware corporation.
- D. **Covered Employee**. Any Participant who is, or is determined by the Committee to be likely to become, a "covered employee" within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended, as such section may be amended ("Section 162(m)").
- E. **Incentive Compensation Award**. Any cash-based award paid pursuant to the Plan.
- F. **Participant**. All executive officers of the Company shall be Participants in this Plan. In addition, a Participant shall include an officer or a member of senior management of the Company or one or more of its subsidiaries, or a person who has agreed to commence serving in such capacity, and who is designated to participate in the Plan by the Committee.
- G. **Performance Measures**. This term is defined in Section V of the Plan.
- H. **Retirement**. A Participant's voluntary termination of employment with the Company or any of its subsidiaries on or after attainment of age 60.

**III. EFFECTIVE DATE**

The Plan has been adopted effective as of May 24, 2006 and will apply to Incentive Compensation Awards made for fiscal years ending on or after December 31, 2006.

**IV. DETERMINATION OF AMOUNTS OF AND ELIGIBILITY FOR INCENTIVE COMPENSATION AWARDS**

- A. Participants will be eligible to receive Incentive Compensation Awards conditioned on achievement of Performance Measure(s) as approved by the Committee.
- B. Incentive Compensation Awards will be paid in amounts at levels determined by the Committee pursuant to the Plan and the Performance Measures adopted by the Committee for the fiscal year. The maximum Incentive Compensation Award that can be paid to a Covered Employee with respect to any fiscal year is \$1 million.

- C. If the Incentive Compensation Award is treated as performance-based compensation under Section 162(m), then no Incentive Compensation Award shall be paid to Covered Employees prior to the certification in writing by the Committee that the Performance Measures have been achieved for the relevant fiscal year.
- D. The Committee will determine the final amounts of Incentive Compensation Awards to Participants in conformity with the terms of the Plan. .
- E. For years after 2006, a Participant who is designated to participate in the Plan effective after the beginning of a particular fiscal year will participate on a prorated basis during such fiscal year and will receive an Incentive Compensation Award prorated on the basis of the ratio of the number of weeks of actual participation during such fiscal year to the aggregate number of weeks in such fiscal year. However, the proration described in the preceding sentence will not be made if proration is a determining factor in the Performance Measures, for example, if the Incentive Compensation Award is based on annual salary paid during the fiscal year. If applicable, the proration provided for in the first sentence of this paragraph shall also apply to any employee designated as a Participant in 2006 after the effective date of this Plan. Such prorated Incentive Compensation Award will be paid on the dates that all other Participants are paid such awards. For the year ending December 31, 2006, Participants who are employed on January 1, 2006, subject to the provisions of Paragraph VIII, shall participate for the entire fiscal year.

## V. PERFORMANCE MEASURES

- A. Payment of Incentive Compensation Awards is conditioned on the attainment of Performance Measures as established by the Committee. With the exception of the fiscal year ending December 31, 2006, Performance Measures applicable to a fiscal year for Covered Employees must be established in writing no later than ninety (90) days after the beginning of the fiscal year. In its sole discretion, the Committee may choose not to establish Performance Measures for any particular fiscal year and in such event, no Incentive Compensation Awards shall be made to any employee under this Plan for such year. If the Incentive Compensation Award is intended to qualify as performance-based compensation under Section 162(m), the Performance Measures applicable to Covered Employees must be limited to criteria and objectives related to:
- (1) The consolidated performance of the Company or the performance of one or more of its subsidiaries or divisions, where performance is determined as set forth in (2) below.
  - (2) Performance shall be determined solely by reference to levels of and/or growth in one or more of the following business criteria as measured over the fiscal year:
    - (i) Total shareholder return, including its components of stock price appreciation, dividends and/or dividend yield;
    - (ii) Return on assets, equity, invested capital, cash flow, investment, or sales;
    - (iii) Operating ratio;
    - (iv) Pre-tax or after-tax profit levels, including: earnings per share; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; net operating profits after tax, and net income;
    - (v) Operating profits, as determined under generally acceptable accounting principles, including or excluding interest, bonuses, income taxes, profit/loss on stock, option expense, and any other non-operating profit/expense items;
    - (vi) Cash flow and cash flow return on investment;
    - (vii) Economic profit and/or cost of capital;
    - (viii) Turnover of assets, capital, or inventory;
    - (ix) Levels of operating expense or other expense items as reported on the income statement, including operating and maintenance expense;

- (x) Measures of customer satisfaction and customer service as surveyed from time to time, including the relative improvement therein;
- (xi) Improvement in safety performance; or
- (xii) Market share.

B. In establishing Performance Measures for Participants, the Committee may include or exclude the impact of specified objective events, including any of the following, after considering whether the action would result in the loss of an otherwise available exemption under Section 162(m), if applicable: expenses as a result of restructuring or productivity initiatives; non-operating items; acquisition or divestiture expenses; and any items of gain, loss or expense that are determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the acquisition or disposal of assets or all or a portion of a business or to a change of accounting principles.

C. The Committee may modify Performance Measures applicable to Participants, after considering whether the action would result in the loss of an otherwise available exemption under Section 162(m), if applicable, if it determines that the Performance Measures have become unsuitable as a result of events such as those outlined in Paragraph V.B above, or adjustments are needed to achieve the original objective of the Incentive Compensation Awards for a particular fiscal year.

#### **VI. FORM OF INCENTIVE COMPENSATION AWARDS**

Incentive Compensation Awards shall be paid in cash.

#### **VII. PAYMENT OF INCENTIVE COMPENSATION AWARDS**

- A. After the Committee determines that the Performance Measure(s) have been satisfied for a fiscal year, the Company shall cause the Incentive Compensation Award to be paid to each Participant as follows: (a) 50% of the Incentive Compensation Award shall be paid as soon as reasonably practicable after the end of the fiscal year in which the Committee determines that the Performance Measure(s) have been satisfied, but in no event later than two and one-half months after the fiscal year ends; and (b) 50% of the Incentive Compensation Award shall be paid as soon as reasonably practicable after the end of the immediately following fiscal year, but in no event later than two and one-half months after the end of the such fiscal year.
- B. The Participant must be employed by the Company or one of its subsidiaries at the time payment is made in order to receive payment of an Incentive Compensation Award (including both payments described in the preceding paragraph), unless employment is terminated due to death, disability, or Retirement before the designated payment date.
- C. If a Participant dies before the end of the fiscal year or the designated payment date, and is entitled to receive an Incentive Compensation Award, then payment shall be made to the Participant's surviving spouse or, if none, to his or her estate.

#### **VIII. TERMINATION OF SERVICE OR DEMOTION**

- A. If a Participant terminates employment with the Company and its subsidiaries before the end of a fiscal year due to death, disability, or Retirement, the Participant's Incentive Compensation Award for such fiscal year will be prorated on the basis of the ratio of the number of weeks of participation during such fiscal year to the aggregate number of weeks in the fiscal year. However, the proration described in the preceding sentence will not be made if proration is a determining factor in the Performance Measures, for example, if the Incentive Compensation Award is based on annual salary paid during the fiscal year. Payment of such prorated Incentive Compensation Award will be made on the dates that other Participants receive payment of such Incentive Compensation Awards.
- B. If a Participant voluntarily terminates employment, or if his or her employment with the Company and its subsidiaries is terminated by the Company or any such subsidiary for any reason other than for death, disability, or Retirement before the last day of the fiscal year, the Participant will not be entitled to any Incentive Compensation Award for any such fiscal year, unless otherwise determined by the Committee.

- C. If a Participant is demoted to a position that at the time of such demotion is not eligible to be designated for participation in the Plan before the end of the fiscal year, the Participant's Incentive Compensation Award for the fiscal year in which the demotion occurs will be prorated on the basis of the ratio of the number of weeks of participation prior to demotion during such fiscal year to the aggregate number of weeks in such fiscal year, unless otherwise determined by the Committee. Payment of the prorated Incentive Compensation Award will be made on the dates that other Participants receive payment of such Incentive Compensation Award.

#### **IX. SPECIAL AWARDS AND OTHER PLANS**

- A. Nothing contained in this Plan shall prohibit the Company or any of its subsidiaries from granting special performance or recognition awards, under such conditions and in such form and manner as it sees fit, to employees (including Participants) for meritorious service of any nature.
- B. In addition, nothing contained in this Plan shall prohibit the Company or any of its subsidiaries from establishing other incentive compensation plans providing for the payment of incentive compensation to employees (including Participants).

#### **X. ADMINISTRATION, AMENDMENT AND INTERPRETATION OF THE PLAN**

- A. The Company has no obligation to continue this Plan and it may be amended or terminated as described in this paragraph.
  - (1) The Committee shall have the right, in its sole discretion, to amend the Plan from time to time; provided, however, that no amendment of the Plan made after May 31 of any year having the effect of materially reducing the amount of an Incentive Compensation Award for that year shall be effective with respect to a Participant for that year without his or her consent. Notwithstanding the foregoing, if a Participant fails to consent to an amendment described in the previous sentence, the Committee may make such amendment and prorate the application of the amendment for such fiscal year on the basis of the ratio of the number of weeks in such fiscal year prior to such amendment to the aggregate number of weeks in such fiscal year, and the Incentive Compensation Award will be paid only after the end of such fiscal year, as set forth in Paragraph VII.A.
  - (2) The Committee may terminate this Plan, in its sole discretion, on or before May 31 of any year, and in such event, no Incentive Compensation Awards shall be payable under this Plan for such year. In the event this Plan is terminated on or after June 1 of any year, Incentive Compensation Awards payable for such fiscal year will be prorated on the basis of the ratio of the number of weeks in such fiscal year prior to such termination to the aggregate number of weeks in such fiscal year and will be paid only after the end of such fiscal year, which will be deemed to continue until the expiration thereof as if this Plan had not been terminated. Payment will be made as set forth in Paragraph VII.A.
- B. This Plan will be administered by the Committee. Any power or authority of the Committee may also be exercised by the Board, except to the extent that the grant or exercise of such power or authority would cause any Incentive Compensation Award intended to qualify for treatment as performance-based compensation under Section 162(m) not to qualify for such treatment. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action shall control. The Committee has the authority, in its discretion, to construe and interpret the terms of the Plan and the Performance Measures, to consider the impact of Section 162(m) on the Incentive Compensation Awards, and to make all other determinations deemed necessary or advisable in administering the Plan. The decision of the Committee or the Board of Directors with respect to any questions arising in connection with the administration or interpretation of the Plan shall be final, conclusive and binding.
- C. No member or former member of the Committee or the Board of Directors shall be personally responsible or liable for any act or omission in connection with the performance of powers or duties or the exercise of discretion or judgment in the administration and implementation of the Plan. Each person who is or was a member of the Committee or the Board of Directors shall be indemnified and held harmless by the Company from and against any cost, liability or expense imposed or incurred in connection with such person, the Committee or the Board of Directors taking or failing to take any action under the Plan or the exercise of discretion or judgment in the administration and implementation of the Plan.

## XI. MISCELLANEOUS

- A. All expenses and costs in connection with the operation of the Plan shall be borne by the Company.
- B. All Incentive Compensation Awards under the Plan are subject to withholding for applicable federal, state and local taxes.
- C. Unless otherwise determined by the Board of Directors, all Incentive Compensation Awards will be paid from the Company's general assets, and nothing contained in this Plan will require the Company to set aside or hold in trust any funds for the benefit of any Participant, who will have the status of a general unsecured creditor of the Company.
- D. This Plan will not confer upon any Participant any right with respect to continuance of employment or other service with the Company or any subsidiary, nor will it interfere in any way with any right the Company or any subsidiary would otherwise have to terminate or modify the terms of such Participant's employment or other service at any time.
- E. Except as otherwise provided in this Plan, no right or benefit under this Plan will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance, or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge such right or benefit will be void. No such right or benefit will in any manner be liable for or subject to the debts, liabilities, or torts of a Participant.
- F. If any provision in this Plan is held to be invalid or unenforceable, no other provision of this Plan will be affected thereby.

Adopted: May 24, 2006

RULE 13a-14(a) CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, ROBERT W. WEAVER, President and Chief Executive Officer, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of P.A.M. TRANSPORTATION SERVICES, INC., a Delaware corporation (the "registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2006

/s/ Robert W. Weaver  
Robert W. Weaver  
President and Chief Executive Officer  
(principal executive officer)

RULE 13a-14(a) CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, LARRY J. GODDARD, Chief Financial Officer, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of P.A.M. TRANSPORTATION SERVICES, INC., a Delaware corporation (the "registrant");
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2006

/s/ Larry J. Goddard

Larry J. Goddard

Vice President-Finance, Chief Financial

Officer, Secretary and Treasurer

(principal accounting and financial officer)

SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Quarterly Report of P.A.M. Transportation Services, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006, (the "Report") filed with the Securities and Exchange Commission, I, Robert W. Weaver, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2006

/s/ Robert W. Weaver  
Robert W. Weaver  
President and Chief Executive Officer  
(chief executive officer)

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Quarterly Report of P.A.M. Transportation Services, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006, (the "Report") filed with the Securities and Exchange Commission, I, Larry J. Goddard, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2006

/s/ Larry J. Goddard

Larry J. Goddard  
Vice President-Finance, Chief Financial  
Officer, Secretary and Treasurer  
(chief accounting and financial officer)