

Edgar Filing: USA TRUCK INC - Form 10-Q

USA TRUCK INC  
Form 10-Q  
October 26, 2006  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2006

OR

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 0-19858

USA TRUCK, INC.  
(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**71-0556971**  
(I.R.S. employer identification no.)

**3200 Industrial Park Road**  
**Van Buren, Arkansas**  
(Address of principal executive offices)

**72956**  
(Zip code)

**(479) 471-2500**  
(Registrant's telephone number, including area code)

**Not applicable**  
(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 such 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):

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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

The number of shares outstanding of the registrant's Common Stock, par value \$ .01, as of October 24, 2006 is 11,468,922.

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**PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****USA TRUCK, INC.****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per share amounts)

|   | <b>September 30,<br/>2006<br/>(unaudited)</b> | December 31,<br>2005 (1)<br>(audited) |
|---|---|---------------------------------------|
| <b>Assets</b>   |   |                                       |
| Current assets:   |   |                                       |
| Cash and cash equivalents   | \$ 7,096                                      | \$ 994                                |
| Accounts receivable:  |   |                                       |
| Trade, less allowances of \$105 in 2006 and \$104 in 2005   | 46,493  | 45,105                                |
| Other   | 7,208   | 6,106                                 |
| Inventories   | 766   | 638                                   |
| Deferred income taxes   | 2,243   | 2,329                                 |
| Prepaid expenses  | 4,770   | 5,619                                 |
| Total current assets  | <b>68,576</b>                                 | 60,791                                |
| Property and equipment:   |   |                                       |
| Land and structures   | 30,906  | 30,320                                |
| Revenue equipment   | 317,503                                       | 284,138                               |
| Service, office and other equipment   | 17,553  | 17,825                                |
|   | <b>365,962</b>                                | 332,283                               |
| Accumulated depreciation and amortization   | <b>(95,895)</b>                               | (85,161)                              |
|   | <b>270,067</b>                                | 247,122                               |
| Other assets  | 158   | 166                                   |
| Total assets  | <b>\$ 338,801</b>                             | \$ 308,079                            |
| <b>Liabilities and stockholders equity</b>  |   |                                       |
| Current liabilities:  |   |                                       |
| Bank drafts payable   | \$ 16,483                                     | \$ 7,416                              |
| Trade accounts payable  | 15,235  | 6,253                                 |
| Current portion of insurance and claims accruals  | 6,254   | 7,779                                 |
| Accrued expenses  | 14,569  | 10,525                                |
| Current maturities of long-term debt and capital leases   | 24,932  | 19,700                                |
| Note payable  | --  | 1,943                                 |
| Total current liabilities   | <b>77,473</b>                                 | 53,616                                |
| Long-term debt and capital leases, less current maturities  | 57,587  | 67,589                                |
| Deferred income taxes   | 38,428  | 33,620                                |
| Insurance and claims accruals, less current portion   | 3,130   | 3,421                                 |
| Stockholders equity:  |   |                                       |
| Preferred Stock, \$.01 par value; 1,000 shares authorized; none issued  | --  | --                                    |
| Common Stock, \$.01 par value; authorized 30,000 shares in 2006 and 16,000 shares in 2005; issued 11,466 shares in 2006 and 11,415 shares in 2005 | 115   | 114                                   |
| Additional paid-in capital  | 61,875  | 62,086                                |
| Retained earnings   | 100,201                                       | 88,979                                |
| Less treasury stock, at cost (1 share in 2006 and 3 shares in 2005)   | (8)   | (60)                                  |
| Unearned compensation   | --  | (1,286)                               |
| Total stockholders equity   | <b>162,183</b>                                | 149,833                               |
| Total liabilities and stockholders equity   | <b>\$ 338,801</b>                             | \$ 308,079                            |

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(1)The balance sheet at December 31, 2005 has been derived from the audited consolidated 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 consolidated financial statements.*

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**USA TRUCK, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**

**(UNAUDITED)**

(in thousands, except per share data)

|  | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
|  | 2006                                | 2005            | 2006                               | 2005             |
| <b>Revenue:</b>                            |                                     |                 |                                    |                  |
| Trucking revenue                           | \$ 94,558                           | \$ 90,552       | \$ 280,782                         | \$ 265,785       |
| USA Logistics revenue                      | 2,139                               | 4,996           | 12,326                             | 13,740           |
| Base revenue                               | 96,697                              | 95,548          | 293,108                            | 279,525          |
| Fuel surcharge revenue                     | 23,105                              | 17,607          | 62,843                             | 42,086           |
| Total revenue                              | 119,802                             | 113,155         | 355,951                            | 321,611          |
| <b>Operating expenses and costs:</b>       |                                     |                 |                                    |                  |
| Salaries, wages and employee benefits      | 38,804                              | 36,323          | 114,793                            | 105,959          |
| Fuel and fuel taxes                        | 37,449                              | 32,495          | 106,752                            | 86,338           |
| Depreciation and amortization              | 11,798                              | 10,576          | 34,611                             | 30,788           |
| Insurance and claims                       | 7,266                               | 5,844           | 19,885                             | 18,217           |
| Operations and maintenance                 | 5,489                               | 5,334           | 16,296                             | 15,808           |
| Purchased transportation                   | 3,447                               | 6,515           | 16,234                             | 19,053           |
| Operating taxes and licenses               | 1,588                               | 1,563           | 4,901                              | 4,614            |
| Communications and utilities               | 857                                 | 828             | 2,523                              | 2,370            |
| Gain on disposal of revenue equipment, net | (71)                                | (219)           | (498)                              | (900)            |
| Other                                      | 5,695                               | 5,053           | 16,558                             | 14,515           |
| Total operating expenses and costs         | 112,322                             | 104,312         | 332,055                            | 296,762          |
| <b>Operating income</b>                    | <b>7,480</b>                        | <b>8,843</b>    | <b>23,896</b>                      | <b>24,849</b>    |
| <b>Other expenses (income):</b>            |                                     |                 |                                    |                  |
| Interest expense                           | 1,065                               | 1,202           | 3,093                              | 3,928            |
| Other, net                                 | (30)                                | 24              | (92)                               | 23               |
| Total other expenses, net                  | 1,035                               | 1,226           | 3,001                              | 3,951            |
| <b>Income before income taxes</b>          | <b>6,445</b>                        | <b>7,617</b>    | <b>20,895</b>                      | <b>20,898</b>    |
| <b>Income tax expense</b>                  | <b>3,030</b>                        | <b>3,396</b>    | <b>9,673</b>                       | <b>9,608</b>     |
| <b>Net income</b>                          | <b>\$ 3,415</b>                     | <b>\$ 4,221</b> | <b>\$ 11,222</b>                   | <b>\$ 11,290</b> |
| <b>Per share information:</b>              |                                     |                 |                                    |                  |
| Average shares outstanding (Basic)         | 11,389                              | 10,270          | 11,373                             | 9,603            |
| Basic earnings per share                   | \$ 0.30                             | \$ 0.41         | \$ 0.99                            | \$ 1.18          |
| Average shares outstanding (Diluted)       | 11,558                              | 10,590          | 11,595                             | 9,899            |
| Diluted earnings per share                 | \$ 0.30                             | \$ 0.40         | \$ 0.97                            | \$ 1.14          |

*See notes to consolidated financial statements.*

USA TRUCK, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(UNAUDITED)

(in thousands)

|   | Common<br>Stock  | Par             | Additional<br>Paid-in | Retained<br>Earnings | Treasury<br>Stock | Unearned<br>Compensation | Total             |
|---|------------------|-----------------|-----------------------|----------------------|-------------------|--------------------------|-------------------|
| Balance at December 31, 2005  | Shares<br>11,415 | Value<br>\$ 114 | Capital<br>\$ 62,086  | \$ 88,979            | \$(60)            | \$ (1,286)               | \$ 149,833        |
|   |                  |                 |                       |                      |                   | --                       |                   |
| Exercise of stock options   | 51               | 1               | 423                   | --                   | --                | --                       | 424               |
| Tax benefit on exercise of stock options                              | --               | --              | 40                    | --                   | --                | --                       | 40                |
| Sale of 2 shares of Treasury Stock to<br>Employee Stock Purchase Plan | --               | --              | 21                    | --                   | 52                | --                       | 73                |
| Stock-based compensation  | --               | --              | 591                   | --                   | --                | --                       | 591               |
| Elimination of unearned compensation                                  | --               | --              | (1,286)               | --                   | --                | 1,286                    | --                |
| Net income for 2006   | --               | --              | --                    | 11,222               | --                | --                       | 11,222            |
| Balance at September 30, 2006   | <b>11,466</b>    | <b>\$ 115</b>   | <b>\$ 61,875</b>      | <b>\$ 100,201</b>    | <b>\$(8)</b>      | <b>\$ --</b>             | <b>\$ 162,183</b> |

See notes to consolidated financial statements.

## USA TRUCK, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2006                               | 2005      |
| <b>Operating activities</b>   |                                    |           |
| Net income  | \$ 11,222                          | \$ 11,290 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization   | 34,611                             | 30,788    |
| Provision for doubtful accounts   | 11                                 | 84        |
| Deferred income taxes   | 4,894                              | 2,661     |
| Excess tax benefit from exercise of stock options                                 | (40)                               | 24        |
| Stock-based compensation  | 591                                | 676       |
| Gain on disposal of property and equipment  | (498)                              | (900)     |
| Changes in operating assets and liabilities:                                      |                                    |           |
| Accounts receivable   | (2,501)                            | (6,488)   |
| Inventories and prepaid expenses  | 721                                | 1,405     |
| Trade accounts payable and accrued expenses                                       | 13,064                             | 3,333     |
| Insurance and claims accruals   | (1,816)                            | (516)     |
| Net cash provided by operating activities   | 60,259                             | 42,357    |
| <b>Investing activities</b>   |                                    |           |
| Purchases of property and equipment   | (82,432)                           | (44,684)  |
| Proceeds from sale of property and equipment                                      | 25,374                             | 19,369    |
| Change in other assets  | 8                                  | (13)      |
| Net cash used in investing activities   | (57,050)                           | (25,328)  |
| <b>Financing activities</b>   |                                    |           |
| Borrowings under long-term debt   | 143,619                            | 138,700   |
| Principal payments on long-term debt  | (132,188)                          | (183,243) |
| Principal payments on capitalized lease obligations                               | (16,201)                           | (18,892)  |
| Principal payments on note payable  | (1,943)                            | (3,084)   |
| Net increase in bank drafts payable   | 9,069                              | 4,525     |
| Proceeds from stock options   | 424                                | 254       |
| Excess tax benefit from exercise of stock options                                 | 40                                 | --        |
| Proceeds from sale of treasury stock  | 73                                 | 99        |
| Proceeds from issuance of common stock, net                                       | --                                 | 47,327    |
| Net cash provided by (used in) financing activities                               | 2,893                              | (14,314)  |
| Increase in cash and cash equivalents   | 6,102                              | 2,715     |
| Cash and cash equivalents:  |                                    |           |
| Beginning of period   | 994                                | 1,189     |
| End of period   | \$ 7,096                           | \$ 3,904  |
| <b>Supplemental disclosure of cash flow information:</b>                          |                                    |           |
| Cash paid during the period for:  |                                    |           |
| Interest  | \$ 2,919                           | \$ 4,382  |
| Income taxes  | 1,785                              | 3,669     |
| <b>Supplemental disclosure of non-cash investing activities:</b>                  |                                    |           |
| Liability incurred for leases on revenue equipment                                | \$ --                              | \$ 24,594 |



*See notes to consolidated financial statements.*

USA TRUCK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2006

**NOTE A BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments considered necessary for a fair presentation) have been included. Operating results for the three month and nine month periods ended September 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 financial statements, and footnotes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2005.

By agreement with our customers, and consistent with industry practice, we add a graduated fuel surcharge to the rates we charge our customers as diesel fuel prices increase above an agreed-upon baseline price per gallon. Base revenue in the consolidated statements of income represents revenue excluding this fuel surcharge revenue.

**NOTE B REVENUE RECOGNITION**

Revenue generated by our Trucking segment is recognized in full upon completion of delivery of freight to the receiver's location. For freight in transit at the end of a reporting period, we recognize revenue pro rata based on relative transit time completed as a portion of the estimated total transit time in accordance with EITF 91-9, Method 5. Expenses are recognized as incurred.

Revenue generated by our USA Logistics segment is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs, as we act as a principal with substantial risks as primary obligor. Management believes these policies most accurately reflect revenue as earned and direct expenses, including third party purchased transportation costs, as incurred.

**NOTE C STOCK-BASED COMPENSATION**

The current equity compensation plans that have been approved by our stockholders are our 2004 Equity Incentive Plan and our 2003 Restricted Stock Award Plan. There are also two plans under which options remain outstanding, but no new options may be granted, which are our Employee Stock Option Plan and our 1997 Nonqualified Stock Option Plan for Nonemployee Directors. We do not have any equity compensation plans under which equity awards are outstanding or may be granted that have not been approved by our stockholders.

The USA Truck, Inc. 2004 Equity Incentive Plan provides for the granting of incentive or nonqualified options or other equity-based awards covering up to 950,000 shares of Common Stock to directors, officers and other key employees. On the day of each annual meeting of stockholders of the Company for a period of nine years, which commenced with the annual meeting of stockholders in 2005 and will end with the annual meeting of stockholders in 2013, the maximum number of shares of Common Stock that is available for issuance under the Plan is automatically increased by that number of shares equal to the lesser of 25,000 shares or such lesser number of shares (which may be zero or any number less than 25,000) as determined by the Board. No options were granted under this plan for less than the fair market value of the Common Stock as defined in the plan at the date of the grant. Although the exercise period is determined when options are granted, no option may be exercised later than 10 years after it is granted. These grants generally vest ratably over five years. The option price under this plan is the fair market value of our common stock at the date the options were granted, except that the exercise prices of options granted to our CEO are equal to 110% of the fair market value of our common stock at the date those options were granted. The exercise prices of outstanding options granted under the 2004 Equity Incentive Plan range from \$11.47 to \$30.22 as of September 30, 2006. At September 30, 2006, approximately 597,200 shares were available for granting future options under this plan.

Prior to January 1, 2006, we accounted for our incentive and nonqualified stock options using the intrinsic value method under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ( APB 25 ). Under APB 25, if the exercise price of employee stock options equaled the market price of the underlying stock on the grant date, no compensation expense was recorded. We had adopted the disclosure-only provisions of Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* ( SFAS 123 ). No stock-based compensation cost for our incentive and nonqualified stock options was recognized in the Consolidated Statements of Income for the nine months ended September 30, 2005. Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* ( SFAS 123(R) ), using the modified-prospective transition method. Under the modified-prospective transition method,



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the prior period's financial statements are not restated. Compensation cost recognized in the first nine months of 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006. The compensation cost is based on the grant-date fair value calculated using a Black-Scholes-Merton option-pricing formula and is amortized over the vesting period in accordance with provisions of SFAS 123(R). For the three and nine months ended September 30, 2006, we recognized approximately \$0.1 million and \$0.3 million, respectively, in compensation expense related to incentive and non-qualified stock options granted under our plans.

The 2003 Restricted Stock Award Plan allows us to issue up to 150,000 shares of Common Stock as awards of restricted stock to our officers, 100,000 shares of which have been awarded. Awards under the Plan vest over a period of no less than five years and vesting of awards is also subject to the achievement of such performance goals as may be set by the Board of Directors. The fair value of the 100,000 shares of Common Stock subject to the awards previously granted will be amortized over the vesting period as compensation expense based on management's assessment as to whether achievement of the performance goals is probable. To the extent the performance goals are not achieved and there is not full vesting in the shares awarded, the compensation expense recognized to the extent of the non-vested and forfeited shares will be reversed. Prior to the adoption of SFAS 123(R) on January 1, 2006, we recorded any unamortized compensation related to the restricted stock options as unearned compensation in equity. At December 31, 2005, we had \$1.3 million in unearned compensation, which was subsequently eliminated from Additional Paid-In Capital in compliance with SFAS 123(R). Also, prior to the adoption of SFAS 123(R) on January 1, 2006, we adjusted the amount of compensation expense each quarter based on changes in the market value of our Common Stock. Upon adoption of SFAS 123(R), the compensation expense recognized is based on the market value of our Common Stock on the date the restricted stock award is granted and is not adjusted in subsequent periods. The amount recognized is amortized over the vesting period. As a result of these changes, and because we were amortizing fewer shares under our Restricted Stock Award Plan in the third quarter of 2006 as compared to the third quarter of 2005, the stock-based compensation that we recognized related to our restricted stock awards decreased from \$0.2 million for the three months ended September 30, 2005 to \$0.1 million for the three months ended September 30, 2006. For the nine months ended September 30, 2005 and 2006, the compensation expense related to our restricted stock awards decreased from \$0.7 million to \$0.3 million, respectively.

Because of the decrease in the amount of stock-based compensation expense related to our Restricted Stock Award Plan, the total stock-based compensation expense we recorded was \$0.01 million and \$0.08 million less for the three and nine months ended September 30, 2006, respectively, than was recorded in the same periods of 2005. The adoption of SFAS 123(R) had no effect on our basic and diluted earnings per share for the quarter ended September 30, 2006.

Prior to the adoption of SFAS 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the Consolidated Statements of Cash Flows. SFAS 123(R) requires the cash flows resulting from the tax benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. For the nine months ended September 30, 2006, approximately \$0.04 million of excess tax benefit classified as a financing cash inflow would have been classified as an operating cash inflow if we had not adopted SFAS 123(R).

The following assumptions were used to value the outstanding stock options:

|                         |                      |               |
|-------------------------|----------------------|---------------|
|                         | <b>2006</b>          | 2005          |
| Dividend yield          | <b>0%</b>            | 0%            |
| Expected volatility     | <b>46.9% - 51.8%</b> | 28.6% - 31.0% |
| Risk-free interest rate | <b>4.4% - 5.0%</b>   | 3.3% - 4.7%   |
| Expected life           | <b>2 to 7 years</b>  | 2 to 9 years  |

The following table illustrates the pro forma effect on net income and earnings per share as if we had applied the fair value recognition provisions of SFAS 123(R) to options granted under our stock option plans in the periods presented. For purposes of the pro forma disclosure, the fair value of each option grant is estimated on the date of grant and amortized to expense over the option's vesting periods.

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|  | (in thousands, except per share amounts) |                    |
|--|--|--------------------|
|  | Three Months Ended                       | Nine Months Ended  |
|  | September 30, 2005                       | September 30, 2005 |
| Net income   | \$ 4,221                                 | \$ 11,290          |
| Stock-based compensation expense included in the Consolidated Statements of Income, net of tax       | 112                                      | 408                |
| Stock-based compensation expense determined under fair value-based method for all awards, net of tax | (184)                                    | (625)              |
| Pro forma net income   | \$ 4,149                                 | \$ 11,073          |
| Basic earnings per share, as reported  | \$ 0.41                                  | \$ 1.18            |
| Pro forma basic earnings per share   | \$ 0.40                                  | \$ 1.15            |
| Diluted earnings per share, as reported  | \$ 0.40                                  | \$ 1.14            |
| Pro forma diluted earnings per share   | \$ 0.39                                  | \$ 1.12            |

At September 30, 2006, we had 387,250 outstanding stock options with a weighted average exercise price of \$13.91. There were 160,250 vested options. The weighted average remaining contractual life of the vested options is approximately 1.1 years.

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

|                                   | Number of<br>Options | Weighted<br>Average Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual Life<br>(in years) | Aggregate Intrinsic<br>Value (1) |
|-----------------------------------|----------------------|---------------------------------------|--|----------------------------------|
| Outstanding - beginning of year   | 448,100              | \$ 12.86                              |  |                                  |
| Granted                           | 11,000               | 26.24                                 |  |                                  |
| Exercised                         | (51,550)             | 8.21                                  |  |                                  |
| Cancelled/forfeited/expired       | (20,300)             | 11.85                                 |  |                                  |
| Outstanding at September 30, 2006 | 387,250              | 13.91                                 | 2.7  | \$ 5,385,591                     |
| Exercisable at September 30, 2006 | 160,250              | \$ 11.65                              | 1.1  | \$ 1,867,386                     |

- (1) 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 September 29, 2006 (the last trading day of the quarter) was \$19.05.

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

| Exercise Price | Number of Options<br>Outstanding | Weighted Average<br>Remaining Contractual Life<br>(in years) | Number of Options<br>Exercisable |
|----------------|----------------------------------|--|----------------------------------|
| \$ 5.44        | 10,900                           | 0.8  | 10,900                           |
| 5.98           | 6,000                            | 1.0  | 6,000                            |
| 7.52           | 3,000                            | 1.4  | 3,000                            |
| 11.47          | 202,000                          | 2.5  | 75,400                           |
| 12.10          | 38,700                           | 1.4  | 38,700                           |
| 12.62          | 15,000                           | 1.6  | 5,000                            |
| 12.66          | 16,000                           | 2.8  | 6,400                            |
| 13.31          | 5,700                            | 0.3  | 5,700                            |
| 16.08          | 8,250                            | 2.0  | 1,500                            |
| 22.54          | 70,700                           | 4.6  | 7,650                            |
| 22.93          | 6,000                            | 3.1  | --                               |
| 30.22          | 5,000                            | 4.3  | --                               |
|                | 387,250                          | 2.7  | 160,250                          |



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As of September 30, 2006, we had \$0.7 million and \$0.5 million in unrecognized compensation expense related to stock options and restricted stock, respectively, which is expected to be recognized over a weighted average period of approximately 2.7 years for stock options and 1.7 years for restricted stock.

### NOTE D SEGMENT REPORTING

In the past, we organized our five operating divisions into three operating segments, which we aggregated into one segment for financial reporting purposes in accordance with FASB Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* ( SFAS 131 ). Due to the evolution of our business over the past few years, during the quarter ended June 30, 2006 we reclassified our five divisions into two segments, Trucking and USA Logistics, which we aggregate into one segment for financial reporting purposes in accordance with SFAS 131. We have reformatted our Consolidated Statements of Income to add disclosures regarding the portion of our base revenue attributable to each of our two segments. Trucking consists of our General Freight division and two divisions -- Regional Freight and Dedicated Freight -- through which we provide services that are a variation of the truckload freight services we provide through General Freight. USA Logistics consists of our Freight Brokerage and Third Party Logistics divisions.

Our decision to aggregate our two operating segments into one reporting segment was based on factors such as the similar economic and operating characteristics of our divisions and our centralized internal management structure. Except with respect to the relatively minor components of our operations that do not involve the use of our trucks, key operating statistics include, for example, revenue per mile and miles per tractor per week. While the Third Party Logistics and Freight Brokerage divisions of our operations do not involve the use of our equipment and drivers, we nevertheless provide truckload freight services to our customers through arrangements with third party carriers who are subject to the same general regulatory environment and cost sensitivities imposed upon our Trucking operations.

The services we provide through all five divisions relate to the transportation of truckload quantities of general freight for customers in a variety of industries, and they generate revenue, and to a great extent incur expenses, primarily on a per mile basis. In addition, the two divisions within the USA Logistics segment are intended to provide services complementary to our Trucking services, primarily to existing customers of our Trucking segment. A majority of the customers of USA Logistics have also engaged us to provide services through one or more of our Trucking divisions. Our USA Logistics segment represents a relatively minor part of our business, generating approximately 2% and 4% of our total base revenue for the three and nine months ended September 30, 2006, respectively, and less than 10% of total base revenue in each of the last three fiscal years.

### NOTE E - NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin 108 *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The Company is currently assessing the impact of adopting SAB 108 but does not expect that it will have a material effect on our consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles ( GAAP ) and expands disclosures about fair value measurements. This statement was published due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are among the many accounting pronouncements that require fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Additionally, prospective application of this statement is required as of the beginning of the fiscal year in which it is initially applied. SFAS 157 is not expected to have a material impact upon our financial position, results of operations and cash flows.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes* ( FIN 48 ). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN





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48 applies to all tax positions related to income taxes subject to FASB Statement No. 109 and utilizes a two-step approach for evaluating those positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied. Those tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period in which they meet the more-likely-than-not standard or are otherwise resolved to qualify for recognition. Derecognition of previously recognized tax positions occurs when a company subsequently determines that a tax position no longer meets the recognition threshold. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. FIN 48 is not expected to have a material impact upon our financial position, results of operations and cash flows.

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 154 ). SFAS 154 changes the requirements for the accounting for and reporting of all voluntary changes in accounting principle and changes required by an accounting pronouncement when the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to do so. The provisions of SFAS 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 has not had and is not expected to have a material impact upon our financial position, results of operations and cash flows since its adoption, but will affect future changes in accounting principles.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, *Exchanges of Nonmonetary Assets, an Amendment of APB Opinion No. 29* ( SFAS 153 ). SFAS 153 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. This statement is effective for our nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. SFAS 153 has not had and is not expected to have a material impact upon our financial position, results of operations and cash flows since its adoption.

### NOTE F - ACCRUED EXPENSES

Accrued expenses consist of the following:

|  | (in thousands)       |              |
|--|----------------------|--------------|
|  | <b>September 30,</b> | December 31, |
|  | <b>2006</b>          | 2005         |
| Salaries, wages, bonuses and employee benefits | <b>\$ 6,003</b>      | \$ 4,863     |
| Purchased transportation payable               | <b>716</b>           | 1,032        |
| Taxes payable                                  | <b>5,141</b>         | 2,076        |
| Other (1)                                      | <b>2,709</b>         | 2,554        |
| Total accrued expenses                         | <b>\$ 14,569</b>     | \$ 10,525    |

(1) As of September 30, 2006 and December 31, 2005, no single item included within other accrued expenses exceeded 5.0% of our total current liabilities.

### NOTE G - DERIVATIVE FINANCIAL INSTRUMENTS

We record derivative financial instruments in the balance sheets as either an asset or liability at fair value, with classification as current or long-term depending on the duration of the instrument.

Changes in the derivative instrument's fair value must be recognized currently in earnings unless specific hedge accounting criteria are met. For cash flow hedges that meet the criteria, the derivative instrument's gains and losses, to the extent effective, are recognized in accumulated other comprehensive income and reclassified into earnings in the same period during which the hedged transaction affects earnings.

On March 27, 2003, we entered into an interest rate swap agreement with a notional amount of \$10.0 million. We designated the \$10.0 million interest rate swap as a cash flow hedge of our exposure to variability in future cash flow resulting from the interest payments being indexed to the 3-month London Interbank Offered Rate (commonly referred to as LIBOR). This interest rate swap agreement expired on March 27, 2005.

We recorded no gain or loss for the quarters and for the nine months ended September 30, 2006 and 2005 as a result of hedge ineffectiveness, other derivative instruments' gain or loss or the discontinuance of a cash flow hedge.



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**NOTE H - COMPREHENSIVE INCOME**

Comprehensive income was comprised of net income plus the market value adjustment on our interest rate swap that expired on March 27, 2005, which was designated as a cash flow hedge. Comprehensive income consists of the following:

|   | (in thousands)     |          | (in thousands)    |           |
|---|--------------------|----------|-------------------|-----------|
|   | Three Months Ended |          | Nine Months Ended |           |
|   | September 30,      |          | September 30,     |           |
|   | 2006               | 2005     | 2006              | 2005      |
| Net income  | \$ 3,415           | \$ 4,221 | \$ 11,222         | \$ 11,290 |
| Change in fair value of interest rate swap, net of income taxes | --                 | --       | --                | (8)       |
| Total comprehensive income                                      | \$ 3,415           | \$ 4,221 | \$ 11,222         | \$ 11,282 |

**NOTE I - NOTE PAYABLE**

At December 31, 2005, we had an unsecured note payable of \$1.9 million that matured on September 1, 2006 and bore interest at an annual rate of 4.4%. This note payable was used to finance a portion of our annual insurance premiums.

**NOTE J LONG-TERM DEBT**

Long-term debt consists of the following:

|  | (in thousands)     |                   |
|--|--------------------|-------------------|
|  | September 30, 2006 | December 31, 2005 |
| Revolving credit agreement (1)                             | \$ 25,000          | \$ 13,569         |
| Capitalized lease obligations (2)                          | 57,519             | 73,720            |
|  | 82,519             | 87,289            |
| Less current maturities                                    | 24,932             | 19,700            |
| Long-term debt and capital leases, less current maturities | \$ 57,587          | \$ 67,589         |

- (1) Our Amended and Restated Senior Credit Facility provides for available borrowings of \$100.0 million, including letters of credit not exceeding \$25.0 million. Availability may be further reduced by a borrowing base limit as defined in the Facility. At September 30, 2006, we had approximately \$73.3 million available under the Facility. The Facility matures on September 1, 2010. The Facility can also be increased to \$175.0 million at our option, with the additional availability provided by the current lenders, at their election, or by other lenders. The Facility bears variable interest based on the agent bank's prime rate, or federal funds rate plus a certain percentage or LIBOR plus a certain percentage, which is determined based on our attainment of certain financial ratios. The interest rate on our borrowings under the Facility at September 30, 2006 was 6.7%. A quarterly commitment fee is payable on the unused portion of the credit line and bears a rate which is determined based on our attainment of certain financial ratios. At September 30, 2006, the rate was 0.2% per annum. The Facility is collateralized by accounts receivable and otherwise unencumbered revenue equipment. We had outstanding letters of credit of approximately \$1.7 million at September 30, 2006. The Facility requires us to meet certain financial covenants and to maintain a minimum tangible net worth of approximately \$129.9 million at September 30, 2006. We were in compliance with these covenants at September 30, 2006. The covenants would prohibit the payment of dividends by us if such payment would cause us to be in violation of any of the covenants. The carrying amount reported in the balance sheet for borrowings under the Facility approximates its fair value.
- (2) Our capitalized lease obligations have various termination dates extending through March 2009 and contain renewal or fixed price purchase options. The effective interest rates on the leases range from 2.4% to 4.5% at September 30, 2006. The lease agreements require us to pay property taxes, maintenance and operating expenses.



**NOTE K LEASES AND COMMITMENTS**

We routinely monitor our equipment acquisition needs and adjust our purchase schedule from time to time based on our analysis of factors such as new equipment prices, the condition of the used equipment market, demand for our freight services, prevailing interest rates, technological improvements, fuel efficiency, durability of the equipment, equipment specifications and the availability of qualified drivers.

As of September 30, 2006, we had commitments for purchases of revenue equipment in the aggregate amount of approximately \$23.9 million for the remainder of 2006 and \$11.9 million in 2007. We may cancel these commitments by giving notice to the applicable vendor at least 75 days before the scheduled delivery date. In addition, we had purchase obligations of approximately \$0.2 million related to facility expansions contracted for the remainder of 2006. On October 9, 2006 we entered into a purchase obligation of approximately \$1.5 million related to facility expansions.

**NOTE L INCOME TAXES**

During the quarters ended September 30, 2006 and 2005, our effective tax rates were 47.0% and 44.6%, respectively. During the nine months ended September 30, 2006 and 2005, our effective tax rates were 46.3% and 46.0%, respectively. Income tax expense varies from the amount computed by applying the federal tax rate of 35% to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Drivers may elect to receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases our drivers' net pay per mile, after taxes, while decreasing gross pay, before taxes. As a result, salaries, wages and employee benefits are slightly lower, and our effective income tax rate is higher than the statutory rate. As pre-tax income increases, the impact of the driver per diem program on our effective tax rate decreases because aggregate per diem pay becomes smaller in relation to pretax income. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

**NOTE M EARNINGS PER SHARE**

Basic earnings per share is computed based on the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings per share is computed by adjusting the weighted average shares outstanding by Common Stock equivalents attributable to dilutive stock options and restricted stock.

The following table sets forth the computation of basic and diluted earnings per share:

|  |  | (in thousands, except per share amounts) |          |                                    |           |
|--|--|--|----------|------------------------------------|-----------|
|  |  | Three Months Ended<br>September 30,      |          | Nine Months Ended<br>September 30, |           |
|  |  | 2006                                     | 2005     | 2006                               | 2005      |
| Numerator:                                 |  |  |          |                                    |           |
| Net Income                                 |  | \$ 3,415                                 | \$ 4,221 | \$ 11,222                          | \$ 11,290 |
| Denominator:                               |  |  |          |                                    |           |
| Denominator for basic earnings per share   |  |  |          |                                    |           |
| weighted average shares                    |  | 11,389                                   | 10,270   | 11,373                             | 9,603     |
| Effect of dilutive securities:             |  |  |          |                                    |           |
| Restricted Stock Award Plan                |  | 65                                       | 80       | 68                                 | 85        |
| Employee stock options                     |  | 104                                      | 240      | 154                                | 211       |
|  |  | 169                                      | 320      | 222                                | 296       |
| Denominator for diluted earnings per share |  |  |          |                                    |           |
| adjusted weighted                          |  | 11,558                                   | 10,590   | 11,595                             | 9,899     |
| average shares and assumed conversions     |  |  |          |                                    |           |
| Basic earnings per share                   |  | \$ 0.30                                  | \$ 0.41  | \$ 0.99                            | \$ 1.18   |
| Diluted earnings per share                 |  | \$ 0.30                                  | \$ 0.40  | \$ 0.97                            | \$ 1.14   |
| Anti-dilutive employee stock options       |  | 82                                       | --       | 82                                 | --        |



**NOTE N - SALE OF COMMON STOCK**

In August 2005, we completed a stock offering of 2.0 million shares of common stock which generated net proceeds to us of approximately \$47.3 million. The proceeds from the stock offering were used to retire long-term debt.

**NOTE O - LITIGATION**

We are party to routine litigation incidental to our business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. We maintain insurance covering liabilities in excess of certain self-insured retention levels. Though management believes these claims to be routine and immaterial to our long-term financial position, adverse results of one or more of these claims could have a material adverse effect on our financial position or results of operations in any given reporting period.

**NOTE P RECLASSIFICATION**

Certain reclassifications have been made in the financial statements to conform to the current year's presentation.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

*This report contains forward-looking statements and information that are based on our current beliefs and expectations and assumptions we have made based upon information currently available. Forward-looking statements include statements relating to our plans, strategies, objectives, expectations, intentions and adequacy of resources, and may be identified by words such as could, should, may, believe, expect, intend, plan, schedule, estimate, project and similar expressions. These statements are based on current expectations and are subject to uncertainty and change. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will be realized. If one or more of the risks or uncertainties underlying such expectations materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected. Among other things, we cannot assure you that we will be able to continue the recent positive trends identified in this report under the heading*

*Management's Discussion and Analysis of Financial Condition and Results of Operations, such as increases in our base revenue and the growth in our Regional Freight division. Among the key factors that are not within our control and that have a direct bearing on operating results are increases in fuel prices, adverse weather conditions, increased regulatory burdens and the impact of increased rate competition. Our results have also been, and will continue to be, significantly affected by fluctuations in general economic conditions, as our tractor utilization is directly related to business levels of customers in a variety of industries. In addition, shortages of qualified drivers and intense or increased competition for drivers have adversely impacted our operating results and our ability to grow and will continue to do so. Results for any specific period could also be affected by various unforeseen events, such as unusual levels of equipment failure or vehicle accident claims. Additional risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2005, under the heading Risk Factors in Item 1A of that report, and updates, if any, to that information are included in Item 1A in Part II of this report.*

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

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

*References to the Company, we, us, our and words of similar import refer to USA Truck, Inc. and its subsidiary.*

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto and other financial information that appears elsewhere in this report.

**Overview**

We operate in the for-hire truckload segment of the trucking industry. Customers in a variety of industries engage us to haul truckload quantities of freight, with the trailer we use to haul that freight being assigned exclusively to that customer's freight until delivery. We have five operating divisions, which we combine into two operating segments, through which we provide various transportation services. We aggregate the financial data for these operating segments into one reportable segment for purposes of our public reporting.





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We previously organized our divisions into three segments, as described in Item 7a. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2005. Due to the evolution of our business over the past few years, we reclassified our five divisions into two segments for internal reporting and monitoring purposes during the quarter ended June 30, 2006. The information we present in this report reflects this change. In addition, we have reformatted our Consolidated Statements of Income to add disclosure regarding the portion of our base revenue attributable to each of our two segments.

The five divisions are classified into the Trucking segment ( Trucking ) and USA Logistics segment ( USA Logistics ). Trucking includes those transportation services in which we use Company-owned tractors or owner-operator tractors. USA Logistics consists of services such as transportation scheduling, routing and mode selection, which typically do not involve the use of Company-owned or owner-operator equipment. Both Trucking and USA Logistics have similar economic characteristics and are impacted by virtually the same economic factors as discussed elsewhere in this report.

Substantially all of our base revenue from both segments is generated by transporting, or arranging for the transportation of, freight for customers, and is predominantly affected by the rates per mile received from our customers and similar operating costs. For the nine months ended September 30, 2006 and 2005, Trucking base revenue represented 95.8% and 95.1% of base revenue, respectively, with remaining base revenue being generated through USA Logistics.

We generally charge customers for our services on a per-mile basis. Currently, our most challenging costs include recruiting, retaining and compensating qualified drivers, insurance and claims, fuel and capital equipment costs.

We refer to our five divisions as General Freight, Regional Freight, Dedicated Freight, Freight Brokerage and Third Party Logistics.

*Trucking.* Trucking includes three divisions providing the following services to our customers:

*General Freight.* Our General Freight division provides truckload freight services as a medium-haul common carrier. In the truckload industry, companies whose average length of haul is more than 800 miles but less than 1,200 miles are often referred to as medium-haul carriers. The average length of haul for our general freight services has been within that range throughout our history. We have provided General Freight services since our inception, and we derive the largest portion of our revenues from these services.

*Regional Freight.* Our Regional Freight division provides truckload freight services that involve a length of haul of approximately 500 miles. Beginning in 2004, in order to aid in driver recruitment and retention and to participate in the largest segment within the truckload market, we began to accept shipments that originate and terminate within a smaller geographic area. Currently, we conduct Regional Freight operations in the areas around our facilities located in Van Buren, Arkansas and Butler Township, Ohio.

*Dedicated Freight.* Our Dedicated Freight division is a variation of our General Freight and Regional Freight divisions, whereby we agree to make our equipment and drivers available to a specific customer for shipments over particular routes at specified times. In addition to serving specific customer needs, our Dedicated Freight division aids in driver recruitment and retention.

*USA Logistics.* USA Logistics includes two divisions providing the following services to our customers:

*Freight Brokerage.* Our Freight Brokerage division matches customer shipments with available equipment of other carriers when it is not feasible to use our own equipment.

*Third Party Logistics.* Our Third Party Logistics division provides a variety of freight handling services for our customers, including arranging for the transportation of freight, scheduling, routing and mode selection.

Our Freight Brokerage and Third Party Logistics divisions provide complementary services to Trucking. We provide these services primarily to our existing Trucking customers, many of whom prefer to rely on a single carrier, or a small group of carriers, to provide all of their transportation needs. To date, a majority of our Freight Brokerage and Third Party Logistics customers have also engaged us to provide Trucking services.

## Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The most significant accounting policies and estimates that affect our financial statements include the following:

*Revenue recognition and related direct expenses based on relative transit time in each period.* Revenue generated by Trucking is recognized in full upon completion of delivery of freight to the receiver's location. For freight in transit at the end of a reporting period, we recognize revenue pro rata based on relative transit time completed as a portion of the estimated total transit time in accordance with EITF 91-9, Method 5. Expenses are recognized as incurred.

Revenue generated by USA Logistics is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs, as we act as a principal with substantial risks as primary obligor. Management believes these policies most accurately reflect revenue as earned and direct expenses, including third party purchased transportation costs, as incurred.

*Selections of estimated useful lives and salvage values for purposes of depreciating tractors and trailers.* We operate a significant number of tractors and trailers in connection with our business. We may purchase this equipment or acquire it under leases. We depreciate purchased equipment on the straight-line method over the estimated useful life down to an estimated salvage or trade-in value. We initially record equipment acquired under capital leases at the net present value of the minimum lease payments and amortize it on the straight-line method over the lease term. Depreciable lives of tractors and trailers range from three years to ten years. We estimate the salvage value at the expected date of trade-in or sale based on the expected market values of equipment at the time of disposal.

We make equipment purchasing and replacement decisions on the basis of various factors, including, but not limited to, new equipment prices, the condition of the used equipment market, demand for our freight services, prevailing interest rates, technological improvements, fuel efficiency, durability of the equipment, equipment specifications and the availability of drivers. Therefore, depending on the circumstances, we may accelerate or delay the acquisition and disposition of our tractors and trailers from time to time, based on an operating principle whereby we pursue trade intervals that economically balance our maintenance costs and expected trade-in values in response to the circumstances existing at that time. Such adjustments in trade intervals may cause us to adjust the useful lives or salvage values of our tractors or trailers. By changing the relative amounts of older equipment and newer equipment in our fleet, adjustments in trade intervals also increase and decrease the average age of our tractors and trailers, whether or not we change the useful lives or salvage values of any tractors or trailers. We also adjust depreciable lives and salvage values based on factors such as changes in prevailing market prices for used equipment. We periodically monitor these factors in order to keep salvage values in line with expected market values at the time of disposal. Adjustments in useful lives and salvage values are made as conditions warrant and when we believe that the changes in conditions are other than temporary. These adjustments result in changes in the depreciation expense we record in the period in which the adjustments occur and in future periods. These adjustments also impact any resulting gain or loss on the ultimate disposition of the revenue equipment. Management believes our estimates of useful lives and salvage values have been materially accurate as demonstrated by the insignificant amounts of gains and losses on revenue equipment dispositions in recent periods.

To the extent depreciable lives and salvage values are changed, such changes are recorded in accordance with the applicable provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*, a replacement of APB Opinion No. 20 and FASB Statement No. 3.

*Estimates of accrued liabilities for claims involving bodily injury, physical damage losses, employee health benefits and workers compensation.* We record both current and long-term claims accruals at the estimated ultimate payment amounts based on information such as individual case estimates, historical claims experience and an estimate of claims incurred but not reported. The current portion of the accrual reflects the amounts of claims expected to be paid in the next twelve months. In making the estimates we rely on past experience with similar claims, negative or positive developments in the case and similar factors. We do not discount our claims liabilities.

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*Allowance for doubtful accounts.* We extend credit to our customers in the normal course of business. We perform ongoing credit evaluations and generally do not require collateral. We maintain reserves for estimated credit losses based upon our loss history, aging analysis and ongoing risk assessment of specific customers. Such losses have been within our expectations. Accounts receivable are comprised of a diversified customer base that results in a lack of concentration of credit risk.

We periodically reevaluate these policies as circumstances dictate. Together these factors may significantly impact our consolidated results of operations, financial position and cash flow from period to period.

### Results of Operations

#### *Executive Overview*

The following executive overview is presented comparing the financial results of the three months ended September 30, 2006 to the three months ended September 30, 2005.

Freight demand was noticeably down during what is historically a strong quarter. While demand was steady throughout the second half of the quarter, we did not experience increasingly robust volumes in the mid-August through September timeframe as we typically do.

Evidence of that soft shipping environment is found in our increased empty mile factor, which is traditionally a good barometer of freight availability. The softer demand, along with the operational challenges created by last fall's U.S. Department of Transportation Hours of Service rule changes, resulted in fewer miles per tractor per week.

We saw mixed results among our operating segments:

In our Trucking divisions, Regional Freight led the way with 41.9% base revenue growth. Despite the more challenging freight environment, Regional Freight improved in every key statistical category, including empty miles, revenue per mile, tractor count, miles per tractor per week and unmanned tractors. Overall it produced 15.2% more base revenue per tractor per day over the comparable quarter last year compared to a 1.6% improvement for Dedicated Freight and a 1.8% reduction for General Freight. We intend to continue aggressively growing our Regional Freight division at a faster pace than our other Trucking divisions and working to further improve its operating model. Specifically, we plan to open our third Regional Freight operation in the Southeast U.S. during the first quarter of next year. We currently provide Regional Freight services in two regions, the Midwest and Southwest U.S. In our USA Logistics divisions, we completed our strategic exit from the more complex portion of the third party logistics market during the third quarter. That has enabled us to focus our expertise and considerable technology on small to medium third party logistics customer engagements, which we intend to pursue aggressively in the coming years. We will also focus more resources on growing our Freight Brokerage division, which had a revenue increase of 11.5% this quarter. Overall, base revenue from USA Logistics was roughly half of what it was in the comparable quarter of 2005.

Our margin improvement momentum has been slowed by the headwinds of the moderating macro economy in North America, and the resulting lack of revenue volume has put additional pressure on our operating margins. However, with a few exceptions, we are generally pleased with the continued progress in our cost structure and most of the fundamental operating factors in our business.

We still see room for improvement in our insurance and claims costs, which were adversely impacted this quarter by a spike in the frequency of vehicular accident claims. We continue to work diligently to improve our accident prevention. And, we are pleased to announce that our efforts over the past year have yielded tangible benefits, as our October 1, 2006 insurance policy renewals will positively affect operating margins beginning in the fourth quarter by at least 40 basis points of base revenue.

We are continuing to experience increased cost pressures associated with recruiting, compensating and retaining qualified driver employees. We have been successful at hiring the necessary numbers of driver employees to grow our fleet, but our driver turnover has crept slightly higher this year. The result has been increased costs to replace departed driver employees, fewer tractor additions than originally forecasted and increased unmanned tractors.

We will continue our efforts to improve both of these cost areas. They are the keys to achieving our long-term goals of 15% annual base revenue growth and an 88% operating ratio.

Our balance sheet continues to improve and is the strongest that it has been this decade. Total assets and equity continue to grow and total debt has been reduced. The balance sheet improvement has occurred as we have

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lowered the average age of our tractor and trailer fleets to near historical lows, which has yielded in the current year-to-date period the lowest maintenance costs per mile in our public history. The strength of the balance sheet and the well-managed condition of our fleet provide us with flexibility as we head into a moderating economic climate and approach the 2007 EPA mandated emission standards.

Our approach to managing USA Truck has not changed just because freight is not as plentiful as it was last year. We remain focused on the long-term, attentive to details, conscious of cost pressures and mindful that our shareholders expect and deserve an adequate return on their investments. We believe that the disparity between the discounted valuation the market has assigned to our stock and the higher valuations given to many of our industry peers is unjustified based on our operating performance and model. Thus, during the fourth quarter, we will explore various strategic initiatives to bolster shareholder returns and to narrow that gap in valuations. Initiatives to be considered include, among other things, recapitalization, refinancing, reorganization, share repurchases, acquisitions, dividends and other corporate transactions.

### *Note Regarding Presentation*

By agreement with our customers, and consistent with industry practice, we add a graduated surcharge to the rates we charge our customers as diesel fuel prices increase above an agreed upon baseline price per gallon. The surcharge is designed to approximately offset increases in fuel costs above the baseline. Fuel prices are volatile, and the fuel surcharge increases our revenue at different rates for each period. We believe that comparing operating costs and expenses to total revenue, including the fuel surcharge, could provide a distorted comparison of our operating performance, particularly when comparing results for current and prior periods. Therefore, we have used base revenue, which excludes the fuel surcharge revenue, and instead taken the fuel surcharge as a credit against the fuel and fuel taxes line item in the table below.

We do not believe that a reconciliation of the information presented on this basis and corresponding information comparing operating costs and expenses to total revenue would be meaningful. Data regarding both total revenue, which includes the fuel surcharge, and base revenue, which excludes the fuel surcharge, is included in the consolidated statements of income included in this report.

Base revenues from our Freight Brokerage and Third Party Logistics divisions have fluctuated in recent periods. These services do not involve the use of our tractors and trailers. Therefore, an increase in these revenues tends to cause expenses related to our operations that do involve our equipment including depreciation and amortization expense, operations and maintenance expense, salaries, wages and employee benefits and insurance and claims expense to decrease as a percentage of base revenue, and a decrease in these revenues tends to cause those expenses to increase as a percentage of base revenue. Since changes in Freight Brokerage and Third Party Logistics revenues generally affect all such expenses, as a percentage of base revenue, we do not specifically mention it as a factor in our discussion of increases or decreases in those expenses in the period-to-period comparisons below.

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

The following table sets forth the percentage relationship of certain items to base revenue, for the periods indicated. The period-to-period comparisons below should be read in conjunction with this table and our consolidated statements of income and accompanying notes.

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|  | Three Months Ended<br>September 30, |   |       |   | Nine Months Ended<br>September 30, |   |       |   |
|--|-------------------------------------|---|-------|---|------------------------------------|---|-------|---|
|  | 2006                                | % | 2005  | % | 2006                               | % | 2005  | % |
| <b>Base revenue</b>                        | <b>100.0</b>                        |   | 100.0 |   | <b>100.0</b>                       |   | 100.0 |   |
| <b>Operating expenses and costs:</b>       |                                     |   |       |   |                                    |   |       |   |
| Salaries, wages and employee benefits      | 40.1                                |   | 38.0  |   | 39.2                               |   | 37.9  |   |
| Fuel and fuel taxes (1)                    | 14.8                                |   | 15.6  |   | 15.0                               |   | 15.8  |   |
| Depreciation and amortization              | 12.2                                |   | 11.1  |   | 11.8                               |   | 11.0  |   |
| Insurance and claims                       | 7.5                                 |   | 6.1   |   | 6.8                                |   | 6.5   |   |
| Operations and maintenance                 | 5.7                                 |   | 5.5   |   | 5.5                                |   | 5.7   |   |
| Purchased transportation                   | 3.6                                 |   | 6.8   |   | 5.5                                |   | 6.8   |   |
| Operating taxes and licenses               | 1.7                                 |   | 1.6   |   | 1.7                                |   | 1.7   |   |
| Communications and utilities               | 0.9                                 |   | 0.9   |   | 0.9                                |   | 0.8   |   |
| Gain on disposal of revenue equipment, net | (0.1)                               |   | (0.2) |   | (0.2)                              |   | (0.3) |   |
| Other                                      | 5.9                                 |   | 5.3   |   | 5.6                                |   | 5.2   |   |
| Total operating expenses and costs         | 92.3                                |   | 90.7  |   | 91.8                               |   | 91.1  |   |
| <b>Operating income</b>                    | <b>7.7</b>                          |   | 9.3   |   | <b>8.2</b>                         |   | 8.9   |   |
| <b>Other expenses:</b>                     |                                     |   |       |   |                                    |   |       |   |
| Interest expense                           | 1.0                                 |   | 1.3   |   | 1.1                                |   | 1.4   |   |
| Other, net                                 | --                                  |   | --    |   | --                                 |   | --    |   |
| Total other expenses, net                  | 1.0                                 |   | 1.3   |   | 1.1                                |   | 1.4   |   |
| <b>Income before income taxes</b>          | <b>6.7</b>                          |   | 8.0   |   | <b>7.1</b>                         |   | 7.5   |   |
| <b>Income tax expense</b>                  | <b>3.2</b>                          |   | 3.6   |   | <b>3.3</b>                         |   | 3.5   |   |
| <b>Net income</b>                          | <b>3.5</b>                          | % | 4.4   | % | <b>3.8</b>                         | % | 4.0   | % |

*Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005*

Our base revenue grew 1.2% from \$95.5 million to \$96.7 million, for the reasons addressed in the Trucking and the USA Logistics sections, below.

Net income for all divisions was \$3.4 million, or 3.5% of base revenues, for the third quarter of 2006 as compared to \$4.2 million, or 4.4% of base revenues for the third quarter of 2005.

Overall, our operating ratio increased by 1.6 percentage points of base revenue to 92.3% due primarily to lower freight volumes and as a result of the following factors.

The salaries, wages and employee benefits operating expense line increased by 2.1 percentage points of base revenue primarily due to a 5.1% increase in driver compensation per mile. We have been steadily increasing driver pay for the past few years to stay competitive in the marketplace and ensure that we maintain an adequate supply of qualified drivers to achieve our growth goals.

The fuel and fuel taxes operating expense line decreased by 0.8 percentage points of base revenue. The improvement was made possible primarily by the continued efficiency of our fuel surcharge program, and to a lesser extent, by our efforts to increase fuel economy through various management programs. This improvement came despite a 14.2% increase in the average cost of diesel fuel.

The depreciation and amortization operating expense line increased by 1.1 percentage points of base revenue primarily due to a decrease in tractor utilization and an increased cost of new tractors equipped with EPA mandated emission-compliant engines.

The insurance and claims operating expense line increased by 1.4 percentage points of base revenue due primarily to a spike in the frequency of vehicular accident claims and, to a lesser extent, an increase in the expense associated with bodily injury and property damage claims.

The purchased transportation expense line decreased by 3.2 percentage points of base revenue due primarily to the decrease in carrier expense associated with our Third Party Logistics division. At the end of the quarter we completed our strategic exit from the more complex portion of the third party logistics market.

Interest expense decreased by 0.3 percentage points of base revenue due primarily to our stock offering completed in August 2005, which provided net proceeds of \$47.3 million that were used to retire long-term debt. Our total debt decreased 16.3% from \$98.5 million at September

30, 2005 to \$82.5 million at September 30, 2006.

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Our effective tax rate increased from 44.6% in 2005 to 47.0% in 2006. Income tax expense varies from the amount computed by applying the federal tax rate of 35% to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Due to the partially nondeductible effect of per diem payments, our tax rate will vary in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

### *Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005*

Our base revenue grew 4.9% from \$279.5 million to \$293.1 million, for the reasons addressed in the Trucking and the USA Logistics sections, below.

Net income for all divisions was \$11.2 million, or 3.8% of base revenues, for the first nine months of 2006 as compared to \$11.3 million, or 4.0% of base revenues for the first nine months of 2005.

Overall, our operating ratio increased by 0.7 percentage points of base revenue to 91.8% due to a decrease in tractor utilization and as a result of the following factors.

The salaries, wages and employee benefits operating expense line increased by 1.3 percentage points of base revenue compared to the same time period of 2005. This is primarily due to a 4.5% increase in driver compensation per mile. We have been steadily increasing driver pay for the past few years to stay competitive in the marketplace and ensure that we maintain an adequate supply of qualified drivers to achieve our growth goals.

The fuel and fuel taxes operating expense line decreased by 0.8 percentage points of base revenue. The improvement was made possible primarily by the continued efficiency of our fuel surcharge program and, to a lesser extent, by our efforts to increase fuel economy through various management programs. This improvement came despite a 20.3% increase in the average cost of diesel fuel.

The depreciation and amortization operating expense line increased by 0.8 percentage points of base revenue primarily due to a decrease in tractor utilization and an increased cost of new tractors equipped with EPA mandated emission-compliant engines.

The purchased transportation expense line decreased by 1.3 percentage points of base revenue due primarily to the decrease in carrier expense associated with our Third Party Logistics division. At the end of the quarter we completed our strategic exit from the more complex portion of the third party logistics market.

Interest expense decreased by 0.3 percentage points of base revenue due primarily to our stock offering completed in August 2005, which provided net proceeds of \$47.3 million that were used to retire long-term debt.

Our effective tax rate increased from 46.0% in 2005 to 46.3% in 2006. Income tax expense varies from the amount computed by applying the federal tax rate of 35% to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Due to the partially nondeductible effect of per diem payments, our tax rate will vary in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

## **RESULTS OF OPERATIONS TRUCKING**

### *Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005*

#### *Key Operating Statistics:*

|   | Three Months Ended September 30, 2006 |         |           |         |                   |
|---|---------------------------------------|---------|-----------|---------|-------------------|
|   | Regional                              |         | Dedicated |         | Total<br>Trucking |
|   | General Freight                       | Freight | Freight   | Freight |                   |
| Total miles ( <i>in thousands</i> ) (1) | 59,510                                | 5,886   | 6,388     | 71,784  |                   |
| Empty mile factor (2)                   | 10.0                                  | %       | 13.1      | %       | 3.6               |
| Base revenue per loaded mile            | \$ 1.46                               | %       | \$ 1.56   | %       | \$ 1.41           |
|   |                                       |         |           |         | \$ 1.46           |

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|   |                 |          |                 |          |                 |          |                 |
|---|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|
| Average number of tractors (3)          | <b>2,041</b>    |          | <b>224</b>      |          | <b>257</b>      |          | <b>2,522</b>    |
| Average miles per tractor per period    | <b>29,157</b>   |          | <b>26,278</b>   |          | <b>24,857</b>   |          | <b>28,463</b>   |
| Average miles per tractor per week      | <b>2,314</b>    |          | <b>2,086</b>    |          | <b>1,973</b>    |          | <b>2,259</b>    |
| Average miles per trip (4)              | <b>951</b>      |          | <b>534</b>      |          | <b>549</b>      |          | <b>841</b>      |
| Average unmanned tractor percentage (5) | <b>4.9</b>      | <b>%</b> | <b>4.5</b>      | <b>%</b> | <b>9.4</b>      | <b>%</b> | <b>5.3</b>      |
| Base revenue per truck per week         | <b>\$ 3,028</b> |          | <b>\$ 2,832</b> |          | <b>\$ 2,682</b> |          | <b>\$ 2,976</b> |

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Three Months Ended September 30, 2005

|   | General Freight |   | Regional Freight |   | Dedicated Freight |   | Total Trucking |
|---|-----------------|---|------------------|---|-------------------|---|----------------|
| Total miles ( <i>in thousands</i> ) (1) | 59,201          |   | 4,418            |   | 7,979             |   | 71,598         |
| Empty mile factor (2)                   | 9.1             | % | 13.7             | % | 3.4               | % | 8.7            |
| Base revenue per loaded mile            | \$ 1.40         |   | \$ 1.48          |   | \$ 1.24           |   | \$ 1.39        |
| Average number of tractors (3)          | 1,910           |   | 179              |   | 282               |   | 2,371          |
| Average miles per tractor per period    | 30,995          |   | 24,680           |   | 28,295            |   | 30,197         |
| Average miles per tractor per week      | 2,421           |   | 1,928            |   | 2,211             |   | 2,359          |
| Average miles per trip (4)              | 943             |   | 520              |   | 557               |   | 835            |
| Average unmanned tractor percentage (5) | 4.1             | % | 7.3              | % | 8.5               | % | 4.9            |
| Base revenue per truck per week         | \$ 3,084        |   | \$ 2,459         |   | \$ 2,639          |   | \$ 2,985       |

- (1) Total miles include both loaded and empty miles.
- (2) The empty mile factor is the number of miles traveled for which we are not typically compensated by any customer as a percentage of total miles traveled.
- (3) Average number of tractors includes Company-operated tractors plus owner-operator tractors.
- (4) Average miles per trip is based upon loaded miles divided by the number of Trucking shipments.
- (5) Average unmanned tractor percentage is the weighted average percentage of Company-operated tractors to which a driver is not assigned.

### *Base Revenue*

Base revenue from Trucking grew by 4.4% to \$94.6 million. The increase was the result of several factors:

Regional Freight base revenue grew 41.9%. Despite the more challenging freight environment, Regional Freight improved in every key statistical category including empty miles, base revenue per mile, tractor count, miles per tractor per week and unmanned tractors. Overall it produced 15.2% more base revenue per tractor per week over the corresponding quarter in 2005. We are beginning to see the potential of our Regional Freight division as it continues to grow and become a larger portion of our business. We intend to continue aggressively growing our Regional Freight division at a faster pace than our other Trucking divisions and working to further improve its operating model. We plan to open another regional market in the Southeast in the first quarter of next year.

Dedicated Freight showed a 1.6% improvement in base revenue per tractor per week due to an increase of 13.7% in base revenue per loaded mile. This improvement was offset by a 10.8% decrease in miles per tractor per week. Over the past year we have made several changes to our customer mix by adding new customers and removing less profitable customers. This change in customer mix and a challenging driver recruitment and retention environment had a negative impact on our unmanned tractor percentage.

General Freight's base revenue per tractor per week decreased 1.8%. General Freight's decrease was primarily due to a 4.4% decrease in miles per tractor per week. General Freight was able to increase base revenue per mile by 4.3%. Our General Freight division model is more dependent on miles per tractor per week, thus it was impacted more by softer freight demand and the U.S. Department of Transportation Hours of Service rules than our other Trucking divisions.

Overall, we grew the average size of our Trucking tractor fleet by 6.4%. We grew the average size of the Company-owned tractor fleet by 6.4% to 2,505 tractors and our owner-operator fleet by 6.3% to 17 tractors.

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Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Key Operating Statistics:

|   | Nine Months Ended September 30, 2006 |                  |                   |                |
|---|--------------------------------------|------------------|-------------------|----------------|
|   | General Freight                      | Regional Freight | Dedicated Freight | Total Trucking |
| Total miles (in thousands) (1)          | 180,670                              | 16,607           | 19,173            | 216,451        |
| Empty mile factor (2)                   | 10.1                                 | % 13.0           | % 3.9             | % 9.7          |
| Base revenue per loaded mile            | \$ 1.44                              | \$ 1.54          | \$ 1.36           | \$ 1.44        |
| Average number of tractors (3)          | 2,052                                | 212              | 229               | 2,493          |
| Average miles per tractor per period    | 88,046                               | 78,336           | 83,725            | 86,823         |
| Average miles per tractor per week      | 2,317                                | 2,061            | 2,203             | 2,285          |
| Average miles per trip (4)              | 941                                  | 544              | 578               | 845            |
| Average unmanned tractor percentage (5) | 3.9                                  | % 6.2            | % 9.7             | % 4.6          |
| Base revenue per truck per week         | \$ 2,994                             | \$ 2,761         | \$ 2,886          | \$ 2,964       |

|   | Nine Months Ended September 30, 2005 |                  |                   |                |
|---|--------------------------------------|------------------|-------------------|----------------|
|   | General Freight                      | Regional Freight | Dedicated Freight | Total Trucking |
| Total miles (in thousands) (1)          | 175,434                              | 11,411           | 25,801            | 212,646        |
| Empty mile factor (2)                   | 9.2                                  | % 13.6           | % 3.2             | % 8.7          |
| Base revenue per loaded mile            | \$ 1.39                              | \$ 1.47          | \$ 1.22           | \$ 1.37        |
| Average number of tractors (3)          | 1,871                                | 166              | 283               | 2,320          |
| Average miles per tractor per period    | 93,765                               | 68,741           | 91,170            | 91,658         |
| Average miles per tractor per week      | 2,467                                | 1,809            | 2,399             | 2,412          |
| Average miles per trip (4)              | 936                                  | 515              | 569               | 832            |
| Average unmanned tractor percentage (5) | 3.1                                  | % 9.0            | % 6.0             | % 3.9          |
| Base revenue per truck per week         | \$ 3,105                             | \$ 2,291         | \$ 2,841          | \$ 3,015       |

- (1) Total miles include both loaded and empty miles.
- (2) The empty mile factor is the number of miles traveled for which we are not typically compensated by any customer as a percentage of total miles traveled.
- (3) Average number of tractors includes Company-operated tractors plus owner-operator tractors.
- (4) Average miles per trip is based upon loaded miles divided by the number of Trucking shipments.
- (5) Average unmanned tractor percentage is the weighted average percentage of Company-operated tractors to which a driver is not assigned.

Base Revenue

Base revenue from Trucking grew by 5.6% to \$280.8 million due to the reasons discussed below.

Regional Freight base revenue grew 53.9%. Despite the more challenging freight environment, Regional Freight improved in every key statistical category including empty miles, revenue per mile, tractor count, miles per tractor per week and unmanned tractors. Overall it produced 20.5% more base revenue per tractor per week over the corresponding period in 2005. We are beginning to see the potential of our Regional Freight division as it continues to grow and become a larger portion of our business. We intend to continue aggressively growing our Regional Freight division at a faster pace than our other Trucking divisions and working to further improve its operating model. We plan to open another regional market in the Southeast in the first quarter of next year. Dedicated Freight showed a 17.8% decline due to a 19.1% decrease in the average number of tractors and an 8.2% decrease in miles per tractor per week. The decrease was partially offset by an increase of 11.5% in base revenue per loaded mile. Over the past year we have made several changes to our customer mix by adding new customers and removing less profitable customers. This change in customer mix and a challenging driver recruitment and retention environment had a negative impact on our unmanned tractor percentage. General Freight's base revenue per tractor per week decreased 3.6%. General Freight's decrease was primarily due to a 6.1% decrease in miles per tractor per week. General Freight was able to increase base revenue per mile by 3.6%. Our General Freight division model is more dependent on miles per tractor



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per week, thus it was impacted more by softer freight demand and the U.S. Department of Transportation Hours of Service rules than our other Trucking divisions.

Overall, we grew the average size of our Trucking tractor fleet by 7.5%. We grew the average size of the Company-owned tractor fleet by 8.1% to 2,479 tractors, which was offset by a 48.1% decrease in our owner-operator fleet to 14 tractors.

### **RESULTS OF OPERATIONS USA LOGISTICS**

#### *Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005*

##### *Base Revenue*

Base revenue from USA Logistics decreased by 57.2% to \$2.1 million. Freight Brokerage base revenue grew to \$1.8 million, an 11.5% increase. We have been strategically redeploying our resources this year toward less complex third party logistics services in which we can provide a level of on-time, quality service commensurate with Trucking. As a result, our Third Party Logistics revenue decreased by 90.0% to \$0.3 million. We intend to continue aggressively growing Freight Brokerage and pursuing less of the complex portion of the third party logistics market.

#### *Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005*

##### *Base Revenue*

Base revenue from USA Logistics decreased by 10.3% to \$12.3 million. Freight Brokerage base revenue grew to \$6.2 million, a 31.2% increase. We have been strategically redeploying our resources this year toward less complex third party logistics services in which we can provide a level of on-time, quality service commensurate with Trucking. Our Third Party Logistics revenue decreased by 32.3% to \$6.1 million.

##### **Seasonality**

In the trucking industry, revenues generally decrease as customers reduce shipments during the winter holiday season and as inclement weather impedes operations. At the same time, operating expenses increase, due primarily to decreased fuel efficiency and increased maintenance costs. Future revenues could be impacted if customers, particularly those with manufacturing operations, reduce shipments due to temporary plant closings. Historically, many of our customers have closed their plants for maintenance or other reasons during January and July.

##### **Inflation**

Although most of our operating expenses are inflation sensitive, the effect of inflation on revenue and operating costs has been minimal in recent years. The effect of inflation-driven cost increases on our overall operating costs is not expected to be greater for us than for our competitors.

##### **Fuel Availability and Cost**

The motor carrier industry is dependent upon the availability of fuel. Fuel shortages or increases in fuel taxes or fuel costs have adversely affected our profitability and will continue to do so. Fuel prices have fluctuated widely and fuel taxes have generally increased in recent years. We have not experienced difficulty in maintaining necessary fuel supplies, and in the past we generally have been able to partially offset increases in fuel costs and fuel taxes through increased freight rates and through a fuel surcharge that increases incrementally as the price of fuel increases above an agreed upon baseline price per gallon. Typically, we are not able to fully recover increases in fuel prices through rate increases and fuel surcharges, primarily because those items do not provide any benefit with respect to empty and out-of-route miles, for which we do not receive compensation from customers. We do not have any long-term fuel purchase contracts and we have not entered into any other hedging arrangements that protect us against fuel price increases.

##### **Off-Balance Sheet Arrangements**

We do not currently have any off-balance sheet arrangements that have or are reasonably likely to have a material current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources. From time to time, we enter into operating leases that are not reflected in our balance sheet.

##### **Liquidity & Capital Resources**

The continued growth of our business has required significant investments in new revenue equipment. We have financed new tractor and trailer purchases predominantly with cash flows from operations, the proceeds from sales or trades of used equipment, borrowings under our Amended and Restated Senior Credit Facility and capital



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lease-purchase arrangements. We have historically met our working capital needs with cash flows from operations and with borrowings under our Facility. We use the Facility to minimize fluctuations in cash flow needs and to provide flexibility in financing revenue equipment purchases. We had \$73.3 million available under our Facility at September 30, 2006 and \$20.0 million of availability for new capital leases under existing lease facilities. Management is not aware of any known trends or uncertainties that would cause a significant change in our sources of liquidity. We expect our principal sources of capital to be sufficient to finance our operations, annual debt maturities, lease commitments, letter of credit commitments, stock repurchases and capital expenditures for the next several years. There can be no assurance, however, that such sources will be sufficient to fund our operations and all expansion plans for the next several years, or that any necessary additional financing will be available, if at all, in amounts required or on terms satisfactory to us.

### *Cash Flows*

|   | (in thousands)    |           |
|---|-------------------|-----------|
|   | Nine Months Ended |           |
|   | September 30,     |           |
|   | 2006              | 2005      |
| Net cash provided by operating activities           | \$ 60,259         | \$ 42,357 |
| Net cash used in investing activities               | (57,050)          | (25,328)  |
| Net cash provided by (used in) financing activities | 2,893             | (14,314)  |

Cash generated from operations increased \$17.9 million for the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005. The change was primarily due to increased accounts payable and accrued expenses related to tractor and trailer purchases, improvement in the aging of our accounts receivable, increased deferred income taxes and higher depreciation and amortization expense.

Cash used in investing activities increased \$31.7 million for the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005 due to an increase in our net expenditures for revenue equipment as we execute an aggressive revenue equipment acquisition program in anticipation of the EPA's emission control regulations that will go into effect in January 2007.

Cash provided by financing activities increased \$17.2 million for the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005 as a result of an increase in outstanding checks not yet presented for payment and increased borrowings on our Amended and Restated Senior Credit Facility due to our revenue equipment acquisition program.

### *Debt*

On September 1, 2005, we entered into an Amended and Restated Senior Credit Facility, which restated in its entirety and made certain amendments to our previously amended facility dated as of April 28, 2000. The Facility was amended to, among other things, increase the maximum borrowing amount to \$100.0 million, subject to a borrowing base calculation. The Facility includes a sublimit of up to \$25.0 million for letters of credit and matures September 1, 2010.

The Facility is collateralized by accounts receivable and otherwise unencumbered revenue equipment. The Facility provides an accordion feature allowing us to increase the maximum borrowing amount by up to an additional \$75.0 million in the aggregate in one or more increases no less than six months prior to the maturity date, subject to certain conditions. The maximum borrowing including the accordion feature may not exceed \$175.0 million without the consent of the lenders. At September 30, 2006, \$25.0 million was outstanding under the Facility.

The Facility bears variable interest based on the agent bank's prime rate, the federal funds rate plus a certain percentage or the London Interbank Offered Rate (commonly referred to as LIBOR) plus a certain percentage, which is determined based on our attainment of certain financial ratios. For the three months ended September 30, 2006, the effective interest rate was 6.8%. A quarterly commitment fee is payable on the unused credit line at a rate which is determined based on our attainment of certain financial ratios. At September 30, 2006, the rate was 0.2% per annum.

The Facility contains various covenants, which require us to meet certain quarterly financial ratios. As of September 30, 2006, we were in compliance with the covenants.

### *Equity*

At September 30, 2006, we had stockholders' equity of \$162.2 million and total debt of \$82.5 million, resulting in a debt to total capitalization ratio of 33.7% compared to 37.3% at December 31, 2005.



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On August 17, 2005, we issued and sold in an underwritten public offering 2.0 million shares of Common Stock in exchange for proceeds of \$47.3 million, after deducting underwriting discounts and commissions and offering expenses. We used the net proceeds to repay outstanding borrowings under our Facility.

### **Purchases and Commitments**

As of September 30, 2006, our capital expenditures forecast, net of proceeds from the sale or trade of equipment, was \$20.6 million for the remainder of 2006, approximately \$16.6 million of which relates to revenue equipment acquisitions. We expect to use the balance of \$4.0 million primarily for property acquisitions, facility construction and improvements and maintenance and office equipment. We routinely evaluate our equipment acquisition needs and adjust our purchase and disposition schedules from time to time based on our analysis of factors such as freight demand, the availability of drivers and the condition of the used equipment market. We may cancel any or all of our revenue equipment purchase commitments by giving notice to the applicable vendor at least 75 days before the scheduled delivery date. During the nine months ended September 30, 2006, we made \$57.1 million of net capital expenditures, including \$55.8 million for revenue equipment purchases, \$0.8 million for facility expansions and improvements and \$0.5 million for other equipment. The following table represents our outstanding contractual obligations at September 30, 2006, excluding letters of credit:

|                                | (in thousands)         |                     |           |           |                      |
|--------------------------------|------------------------|---------------------|-----------|-----------|----------------------|
|                                | Payments Due By Period |                     |           |           |                      |
|                                | Total                  | Less than 1<br>year | 1-3 years | 3-5 years | More than 5<br>years |
| Contractual Obligations:       |                        |                     |           |           |                      |
| Long-term debt obligations (1) | \$ 25,000              | \$ --               | \$ --     | \$ 25,000 | \$ --                |
| Capital lease obligations (2)  | 60,226                 | 26,626              | 33,600    | --        | --                   |
| Purchase obligations (3)       | 37,905                 | 37,905              | --        | --        | --                   |
| Rental obligations             | 1,644                  | 494                 | 590       | 210       | 350                  |
| Total                          | \$ 124,775             | \$ 65,025           | \$ 34,190 | \$ 25,210 | \$ 350               |

(1) Represents our Facility, which matures on September 1, 2010 and excludes letters of credit in the amount of \$1.7 million.

(2) Includes interest payments not included in the balance sheet.

(3) Includes revenue equipment obligations which are cancelable by us upon advance notice.

### **New Accounting Pronouncements**

See Note E to the financial statements included in this Form 10-Q for a description of the most recent accounting pronouncements and their effect, if any.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We experience various market risks, including changes in interest rates, foreign currency exchange rates and commodity prices.

*Interest Rate Risk.* We are exposed to interest rate risk primarily from our Amended and Restated Senior Credit Facility. The Facility provides for borrowings that bear interest at variable rates based on either a prime rate or the London Interbank Offered Rate. At September 30, 2006, we had \$26.7 million outstanding pursuant to our Facility including letters of credit of \$1.7 million. Assuming the outstanding balance at September 30, 2006 were to remain constant, a hypothetical one-percentage point increase in interest rates applicable to the Facility would increase our interest expense over a one-year period by approximately \$0.3 million. We record derivative financial instruments, if any, in the balance sheet as either an asset or a liability at fair value, with classification as current or long-term depending on the duration of the instrument.

*Foreign Currency Exchange Rate Risk.* We require customers to pay for our services in U.S. dollars. Although the Canadian Government makes certain payments, such as tax refunds, to us in Canadian dollars, any foreign currency exchange risk associated with such payments is not material.

*Commodity Price Risk.* Fuel prices have fluctuated greatly and have generally increased in recent years. In some periods, our operating performance was adversely affected because we were not able to fully offset the impact of higher diesel fuel prices through increased freight rates and fuel surcharges. We cannot predict the extent to which we will experience fuel price increases in the future or the extent to which fuel surcharges could be collected to offset such increases. We do not have any long-term fuel purchase contracts, and we have not entered into any other hedging arrangements, that protect us against fuel price increases. Volatile fuel prices will continue to impact us significantly. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and





adversely affect our results of operations. These costs could also exacerbate the driver shortages our industry experiences by forcing independent contractors to cease operations.

**ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO), of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including the CEO and CFO, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective. There have been no changes in our internal control over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

Various legal actions, the majority of which arise in the normal course of business, are pending. None of these legal actions are expected to have a material adverse effect on our long-term financial condition, cash flows or results of operations. We maintain insurance against certain risks arising out of the normal course of our business, subject to certain self-insured retention limits.

**ITEM 1A. RISK FACTORS**

Certain risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2005, under the heading "Risk Factors" in Item 1A of that report. There were no material changes in these risks during the quarter ended September 30, 2006.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(a) Recent unregistered sales of securities.**

None.

**(b) Use of proceeds from registered sales of securities.**

None.

**(c) Purchases of equity securities by the issuer and affiliated purchasers.**

On October 21, 2004, we publicly announced that our Board of Directors has authorized the repurchase of up to 500,000 shares of our outstanding Common Stock over a three-year period ending October 19, 2007. We may make Common Stock purchases under this program on the open market or in privately negotiated transactions at prices determined by our Chairman of the Board or President. The following table sets forth information regarding shares of Common Stock purchased or that may yet be purchased by us under the current authorization. There were no shares repurchased during the third quarter of 2006:

## Issuer Purchases of Equity Securities

| Period                         | Total Number of<br>Shares Purchased | Average Price<br>Paid per Share | Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans or<br>Programs | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|--------------------------------|-------------------------------------|---------------------------------|--|---|
| July 1 July 31, 2006           | --                                  | \$ --                           | --   | 494,000   |
| August 1 August 31, 2006       | --                                  | \$ --                           | --   | 494,000   |
| September 1 September 30, 2006 | --                                  | \$ --                           | --   | 494,000   |

We may reissue repurchased shares under our equity compensation plans or as otherwise directed by the Board of Directors.

We are required to include in the table above purchases made by us or by an affiliated purchaser. For this purpose, "affiliated purchaser" does not include our Employee Stock Purchase Plan, which provides that shares purchased for employees under that plan may be shares provided by us or shares purchased on the open market. Open market purchases under that plan are made by the administrator of the plan, which is an agent independent of us. Any shares purchased by the administrator are not counted against the number of shares available for purchase by us pursuant to the repurchase authorization described above.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**Item 6. EXHIBITS**

(a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**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.

**USA Truck, Inc.**  
*(Registrant)*

Date: October 26, 2006

By: /s/ ROBERT M. POWELL  
**Robert M. Powell**  
*Chairman and Chief Executive Officer*

Date: October 26, 2006

By: /s/ JERRY D. ORLER  
**Jerry D. Orler**  
*President*

Date: October 26, 2006

By: /s/ CLIFTON R. BECKHAM  
**Clifton R. Beckham**  
*Senior Vice President, Finance and Chief  
Financial Officer*

**INDEX TO EXHIBITS**

**USA TRUCK, INC.**

**Exhibit**

| <b>Number</b> | <b>Exhibit</b>  |
|---------------|---|
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