

USA TRUCK INC
Form 10-K
March 02, 2007
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

0-19858

(Commission file number)

USA Truck, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

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)

Securities registered pursuant to Section 12(b) of the Act

Title of each class

Name of each exchange on which registered

Common Stock, \$.01 Par Value

The NASDAQ Stock Market LLC

(NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act

None

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

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

Large Accelerated Filer _____ Accelerated Filer X 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 [X]

The aggregate market value of the voting stock held by nonaffiliates of the Registrant computed by reference to the price at which the common equity was last sold as of the last business day of the Registrant's most recently completed second quarter was \$153,964,978 (the characterization of officers and directors of the Registrant as affiliates for purposes of this computation should not be construed as an admission for any other purpose that any such person is in fact an affiliate of the Registrant).

The number of shares outstanding of the Registrant's Common Stock, par value \$.01, as of February 26, 2007 is 11,497,022.

DOCUMENTS INCORPORATED BY REFERENCE

| Document | Part of Form 10-K into which the Document is Incorporated |
|---|---|
| Portions of the Proxy Statement to be sent to stockholders in connection with 2007 Annual Meeting | Part III |

USA TRUCK, INC.

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PART I

Item 1. BUSINESS

We are a dry van truckload carrier transporting general commodities throughout the continental United States and into and out of Mexico and portions of Canada. For shipments into Mexico, we transfer our trailers to tractors operated by Mexican trucking companies, with which we have contracts, at our facility in Laredo, Texas. We transport many types of freight and provide complementary third party logistics and freight brokerage services for a diverse customer base. We provide our services for such industries as industrial machinery and equipment, rubber and plastics, retail stores, paper products, durable consumer goods, metals, electronics and chemicals.

Our truckload freight services, which we conduct through three divisions that comprise the Trucking segment of our operations, consist of transportation services in which we use Company-owned or owner-operator equipment for the pick-up and delivery of freight. Our General Freight division transports freight over irregular routes, with a medium length of haul, generally defined as between 800 and 1,200 miles per trip. Our Dedicated Freight division provides similar transportation services, but pursuant to agreements whereby we make our equipment available to a specific customer for shipments over particular routes at specified times. In the early 2000 s, a combination of customer demand for additional services, changes in freight distribution patterns and a desire to reduce the impact on our business of the more cyclical long-haul markets caused us to begin providing regional freight services. Our Regional Freight division, which we established in 2004, provides truckload transportation services with a length of haul of approximately 500 miles in areas surrounding three of our facilities. Our Regional Freight division allows us access to the large market for regional freight services and provides lifestyle advantages to our drivers. At December 31, 2006, our Trucking fleet consisted of 2,552 tractors and 6,770 trailers.

Through our Freight Brokerage and Third Party Logistics divisions, which comprise our USA Logistics operating segment, we provide services such as transportation scheduling, routing and mode selection, which typically do not involve the use of Company-owned or owner-operator equipment. We have traditionally provided these services primarily as supplemental services to customers who have also engaged us to provide truckload freight services. In 2006, we started strategically redeploying our resources and attention away from the more complicated third party logistics services and toward our Trucking and Freight Brokerage operations.

In November 2004, we received certification by TÜV America, an independent auditor, of conformance to the International Organization for Standardization s 9001:2000 Quality Management Systems standard. ISO 9001:2000 is currently the most rigorous international standard for Quality Management and Assurance. The International Organization for Standardization is the source of the ISO 9000 and 14000 families of quality and environmental management standards, as well as multiple international standards for business, government and society. In achieving this certification, we have successfully identified and demonstrated our ability to meet customer requirements and enhance customer satisfaction.

We were incorporated in Delaware in September 1986 as a wholly owned subsidiary of ABF Freight System, Inc. and the Company was purchased by management in December 1988. The initial public offering of our Common Stock was completed in March 1992.

Our principal offices are located at 3200 Industrial Park Road, Van Buren, Arkansas 72956, and our telephone number is (479) 471-2500.

Our internet address is <http://www.usa-truck.com>. You can review the filings we have made with the United States Securities and Exchange Commission (SEC) free of charge by linking directly from the Investor Relations section of our website to EDGAR, a database maintained by the SEC. EDGAR is the Electronic Data Gathering, Analysis and Retrieval system where you can find our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934.

Strategic Objectives

During the fourth quarter of 2006 we re-examined our business strategies and, with the help of an advisor, developed a strategy that is designed to more closely manage our financial returns. There are six long-term strategic objectives that reflect a new perspective, yet complement our historical objectives.

- § *Earn our cost of capital.* We will employ our own cost of capital as the basis for establishing internal rates of return criteria for capital investments. The goal is to produce returns on assets and invested capital that exceed our internal cost of capital.

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- § *Improve our earnings consistency.* Since our initial public stock offering, our earnings per share results have been inconsistent, which we believe has contributed to a disparity in valuations between our common stock and that of our peers. This inconsistency is caused by our relatively low outstanding share count and the volatility of various factors affecting our business including insurance and claims costs, availability of drivers and fluctuations in freight demand. We are developing processes internally to reduce variability in our business model as well as a number of margin improvement initiatives and marketing strategies.
- § *Margin expansion.* Improving our operating ratio will continue to be a cornerstone of our strategy. Our benchmarking program provided us with the tools necessary to make significant improvements in several cost categories since the program's implementation in 2002. We have reviewed margin improvement opportunities within our business and have identified, as set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, four areas where our team believes further improvements are attainable over the next several years including improvement in some areas beyond our internal benchmarks.
- § *Long-term revenue growth.* Historically, we have targeted 15% compounded annual base revenue growth and we have been successful achieving that goal. That rate of growth is becoming more difficult to sustain due to the shortage of qualified drivers in the industry, rising operating costs and our own size.

Our strategy going forward is to maintain 10% or better compounded annual base revenue growth. We believe this lower growth target is more realistic and, since our 1992-2006 compounded annual base revenue growth rate has been approximately 14%, it affords us some time to slow the growth in the near-term and improve our returns.

- § *Management equity stake.* A significant portion of our management team's compensation package is contingent upon performance goals. We believe that a healthy equity ownership position is a powerful motivator for improved efficiency. Management currently holds approximately 13% of our outstanding common stock and has the opportunity to increase that position over the next several years through various stock incentive plans.
- § *More effective communication with the investing public.* As we have grown, so has our shareholder base. We were a private company prior to our 1992 initial public stock offering and insiders owned the majority of our stock throughout the 1990's. We completed a follow-on offering of our stock in August 2005, as a result of which the number of holders of our common stock more than doubled, our trading volume increased dramatically and our market capitalization reached a new high.

We recently created an Investor Relations department and appointed a manager to implement it. Its purpose is to enhance the quality and timeliness of the information we provide to and receive from the investment community, which we believe may contribute positively to the market valuation of our stock.

Operating Objectives

Our operating strategy includes the following important elements:

- § *Provide superior service to shippers.* Our principal competitive strength is our ability and commitment to consistently provide superior service. Although price is a primary concern to all shippers, many of our customers are high-volume shippers that require a flexible and dependable source of motor carrier service. These customers often have specific requirements, including pickup or delivery within narrow time windows or real-time information about shipment status. Our strategy is to provide a premium service to meet these needs and to charge competitive rates for that service. Key elements of our premium service include the following:
 - § We are committed to consistent on-time performance and achieving on-time pick up and delivery more than 97.5% of the time. During 2006, we achieved on-time pick up and delivery 97.7% of the time.
 - § We provide twenty-four hours a day, seven days a week dispatching and maintenance services.
 - § We maintain trailer pools at strategic locations to minimize the time it takes to respond to a customer order. We also provide extra trailers to high-volume shippers for loading and unloading at their convenience.
 - § We have strict hiring and performance standards for our drivers and emphasize safety, customer satisfaction and on-time service in our training.

- § *Control costs through benchmarking.* Our goal is to achieve an operating ratio of 88% or below, which enhances our ability to generate profits and cash flow from our operations. To attain that goal, we are committed to a thorough cost-control system using benchmarks. We compare our current performance in more than 300 statistical areas with our performance in prior years. For 2006, our operating ratio was 93.1%.
- § *Gain operating efficiencies.* We are committed to earning premium rates that are commensurate with our superior service. To achieve the rates we desire, we utilize technology, leverage customer relationships and our premium service reputation and continually upgrade our freight mix by eliminating or repricing the least profitable trips.
- § *Adhere to disciplined equipment replacement cycles and maintenance schedules.* We believe that late model, well-maintained revenue equipment is essential to profitability, customer service, driver satisfaction and a positive public image. Our policy is to operate our tractors for 36 to 42 months and our trailers for 84 to 120 months before replacement, subject to temporary changes in response to market conditions. We believe that replacing equipment at those intervals generally yields the most economically feasible balance of maintenance costs and sale or trade-in values. We also perform preventive maintenance on our tractor and trailer fleets at regular intervals to improve their sale or trade-in values, to maintain driver satisfaction and to reduce long-term maintenance costs and customer service failures.
- § *Continue investing in new technology.* We continually invest in new and upgraded technology to provide the most efficient service possible to our customers. We provide electronic data interchange arrangements with larger customers, real-time shipment status information, two-way satellite-based messaging and position-locating equipment in all of our tractors, operational software packages designed to enhance service and economic efficiencies and an interactive website providing load tendering and tracing to customers. We use a number of computing platforms to operate software packages such as satellite communications, load matching and optical document storage. We have developed many of our software applications internally, and believe these custom-developed software applications provide us flexibility that gives us a competitive advantage in the truckload industry.
- § *Develop our management team.* We are committed to developing a management team capable of leading our Company well into the future. We have invested time and resources to cultivate talent within our organization and believe that we have a management team in place to guide our business for the long term. Our management personnel are partially compensated with performance-based incentives and equity awards designed to provide managers with a long-term equity interest in the Company.

Industry and Competition

The trucking industry includes both private fleets and for-hire carriers. Private fleets consist of trucks owned and operated by shippers that move their own goods. For-hire carriers include both truckload and less-than-truckload operations. Truckload carriers dedicate an entire trailer to one customer from origin to destination. Less-than-truckload carriers pick up multiple shipments from multiple shippers on a single truck and then route the goods through terminals or service centers, where freight may be transferred to other trucks with similar destinations for delivery. Truckload carriers typically transport shipments weighing more than 10,000 pounds, while less-than-truckload carriers typically transport shipments weighing less than 10,000 pounds.

We operate primarily in the highly fragmented for-hire truckload segment of the market. According to the U.S. Census Bureau, the general freight portion of this segment, excluding local cartage, accounted for revenues estimated at \$84.6 billion in 2005. The for-hire segment is highly competitive and includes thousands of carriers, none of which dominates the market. This segment is characterized by many small carriers having revenues of less than \$1 million per year and relatively few carriers with revenues exceeding \$100 million per year. Measured by annual revenue, the 20 largest dry van truckload carriers accounted for approximately \$23.1 billion, or approximately 27.3%, of the for-hire market in 2005. We were ranked number 19 of the largest dry van truckload carriers based on total revenue for 2005, according to Transport Topics. The industry continues to undergo consolidation. In addition, the recent challenging economic times have contributed to the failure of many trucking companies and made entry into the industry more difficult.

We compete primarily with other truckload carriers, shipper-owned fleets and, to a lesser extent, railroads and less-than-truckload carriers. A number of truckload carriers have greater financial resources, own more revenue equipment and carry a larger volume of freight than we do. We also compete with truckload and less-than-truckload carriers for qualified drivers.

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The principal means of competition in the truckload segment of the industry are service and price, with rate discounting being particularly intense during economic downturns. Although we compete more on the basis of service rather than rates, rate discounting continues to be a factor in obtaining and retaining business. Furthermore, a depressed economy tends to increase both price and service competition from alternative modes such as less-than-truckload carriers and railroads, as well as intermodal carriers. We believe that successful truckload carriers are likely to grow primarily by acquiring greater market share and, to a lesser extent, through an increase in the size of the market.

Marketing and Sales

We focus our marketing efforts on customers with premium service requirements and heavy shipping needs within our primary operating areas. This permits us to concentrate available equipment strategically so that we can be more responsive to customer needs. It also helps us achieve premium rates and develop long-term, service-oriented relationships. The success of our marketing efforts is supported by our deep industry experience. Our executive management team has 125 years of combined experience running USA Truck and a total of 167 years of experience in the trucking industry. Our employees have a thorough understanding of the needs of shippers in many industries. These factors allow us to provide reliable, timely service to our customers. For 2006, approximately 97.4% of our total revenue was derived from customers that were customers before 2006, and we have provided services to our top 10 customers for an average of more than 12 years. We provided service to over 790 customers in 2006, and approximately 36.1% of our total revenue for 2006 was derived from Standard & Poor's 500 customers.

The table below shows the percentage of our total revenue attributable to our top ten and top five customers and largest customer for the periods indicated.

| | Year Ended December 31, | | |
|------------------|-------------------------|------|------|
| | 2006 | 2005 | 2004 |
| Top 10 customers | 36% | 37% | 39% |
| Top 5 customers | 23% | 23% | 25% |
| Largest customer | 8% | 6% | 7% |

Our marketing department solicits and responds to customer orders and maintains close customer contact regarding service requirements and rates. We typically establish rates through individual negotiations with customers. For our Dedicated Freight services, rates are fixed under contracts tailored to the specific needs of shippers.

While we prefer direct relationships with our customers, we recognize that obtaining shipments through other providers of transportation or logistics services is a significant marketing opportunity. Securing freight through a third party enables us to provide services for high-volume shippers to which we might not otherwise have access because many of them require their carriers to conduct business with their designated third party logistics provider.

We require customers to have credit approval before dispatch. We bill customers at or shortly after delivery and, during 2006, receivables collection averaged approximately 30 days from the billing date.

Within our marketing department, load coordinators are responsible for efficiently matching available equipment with customer shipments, and they serve as the contact with customers' receiving and shipping personnel. Load coordinators also have primary responsibility for minimizing empty miles (the miles our trucks travel between loads, for which we are not typically compensated by any customer), and they work closely with other marketing department and operations department personnel to increase equipment utilization and enhance customer service.

Operations

While we provide our services throughout the continental United States, we conduct most of our freight transport operations east of the Rocky Mountains. The following table shows our total Company average length of haul and the average length of haul for our three operating divisions in our Trucking segment, in miles, for the periods indicated.

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| | Year Ended December 31, | | |
|---------------------|-------------------------|------|------|
| | 2006 | 2005 | 2004 |
| Total Company | 837 | 837 | 839 |
| Trucking divisions: | | | |
| General Freight | 941 | 942 | 898 |
| Regional Freight | 537 | 518 | 488 |
| Dedicated Freight | 562 | 567 | 649 |

The empty mile factor is also a standard measurement in the truckload industry. The empty mile factor generally decreases as average length of haul and density of trucks in an area increase. Therefore, our efforts to decrease our empty mile factor are offset somewhat by the growth of our regional operations. Additionally, our commitment to on-time pickup often requires a tractor to travel farther to complete a pickup than it would have to travel if we delayed the pickup until a tractor became available in the area. For 2006, our empty mile factor was 10.3% and in 2005 it was 8.7%.

Our operations department consists primarily of our fleet managers. Fleet managers each supervise approximately 20 to 50 drivers in our various divisions and are our primary contact with our drivers. They monitor the location of equipment and direct its movement in the safest and most efficient manner practicable. The operations department focuses on achieving continual improvement in the areas of safety, customer service, equipment utilization and driver retention.

Safety

We are committed to continually improving our safety performance. In October 2006, we formed a new operating department that combined safety, risk management and certain elements of our driver training program. The new safety department's mission is to more sharply focus our efforts to create the safest possible environment for our drivers and the motoring public, provide the safest possible service to our customers, reduce insurance and claims costs and foster a top-to-bottom culture of safety throughout the Company.

We emphasize safe work habits as a core value throughout our organization, and we engage in continual, proactive training and education relating to safety concepts, processes and procedures for all employees. The evaluation of an applicant's safety record is one of several essential criteria we use to hire drivers. We conduct pre-employment, random and post-accident alcohol and substance abuse testing in accordance with the U.S. Department of Transportation regulations.

Safety training for new drivers begins in orientation, when newly hired employees are taught safe driving and work techniques that emphasize the importance of our commitment to safety. Upon completion of orientation, new student drivers are required to undergo on the road training for four to six weeks with experienced commercial motor vehicle drivers who have been selected for their professionalism and commitment to safety and who are trained to communicate safe driving techniques to our new drivers. New drivers must successfully complete the training period and pass a road test before being assigned to their own truck. We also offer a Driver Skills Development Course, with one-on-one training tailored to assist drivers in developing a specific skill.

In addition to our ongoing efforts to promote safety concepts Company wide, all drivers attend mandatory safety training classes each quarter which are designed to keep drivers up-to-date on safety topics and to reinforce and advance professional driving skills. Additionally, the safety department has begun conducting weekly safety meetings with dispatch personnel to address specific safety-related issues and concerns.

During the first quarter of 2007, the safety department will begin conducting safety blitzes at our high-traffic terminals at least quarterly, in addition to the regular quarterly safety meetings. These blitzes are designed to keep safety at the forefront for our drivers and other employees, and will supplement our regular quarterly meetings by targeting specific safety issues such as proper backing techniques, DOT inspections or mirror check stations and will require active participation from the drivers.

We also have in place a point system designed to evaluate each driver's safety record to help determine whether a driver needs additional training and whether the driver is eligible for continued employment. We have a Company-wide communication network designed to facilitate rapid response to safety issues, and a driver counseling and retraining system to assist drivers who need additional assistance or training.

We have established an awards program to recognize those drivers who have met specified safety milestones. Drivers are recognized at the President's Million Mile Banquet and outstanding drivers are also recognized in Company-wide publications and media releases announcing the driver's achievements. Driver safety achievements are noted with special uniform patches, caps and door decals for their tractors that identify the driver as having reached a safety milestone.

We maintain a modern fleet of tractors and trailers. This factor, in conjunction with the regular safety inspections that our drivers and our maintenance department conduct on our equipment, helps to ensure that the equipment is well-maintained and safe. Our tractors are equipped with anti-lock braking systems and electronic governing equipment that limits the maximum speed of our tractors to 63 miles per hour. In 2007, we will add more tractors equipped with automatic transmissions and stability control systems, which we anticipate will assist in further reducing the potential for accidents.

Insurance and Claims

The primary risks for which we obtain insurance are cargo loss and damage, personal injury, property damage, workers' compensation and employee medical claims. We self-insure for a portion of claims exposure in each of these areas.

Our self-insurance retention levels are \$0.5 million for workers' compensation claims per occurrence, \$0.05 million for cargo loss and damage claims per occurrence and \$1.0 million for bodily injury and property damage claims per occurrence. We are completely self-insured for physical damage to our tractors and trailers, except that we carry catastrophic physical damage coverage to protect against natural disasters. For medical benefits, we self-insure up to \$0.25 million per plan participant per year with an aggregate claim exposure limit determined by our year-to-date claims experience and our number of covered lives. We maintain insurance above the amounts for which we self-insure, to certain limits, with licensed insurance carriers. We have excess general, auto and employer's liability coverage in amounts substantially exceeding minimum legal requirements, and we believe this coverage is sufficient to protect us against catastrophic loss. Depending on the volatility of the insurance market, our insurance and claims expense could increase or we could raise our self-insured retention levels when our policies are renewed. We believe that our policy of self-insuring up to set limits, together with our safety and loss prevention programs, are effective means of managing insurance costs. We are not currently insured for terrorist acts because we believe the potential risk and available coverage levels do not justify the cost of the available coverage. We reevaluate all our coverage decisions on an annual basis.

Drivers and Other Personnel

Driver recruitment and retention are vital to success in our industry. Recruiting drivers is challenging because our standards are high and enrollment in driving schools has been declining. Retention is difficult because of wage and job fulfillment considerations. Driver turnover, especially in the early months of employment, is a significant problem in our industry, and the competition for qualified drivers is intense. Although we have had significant driver turnover during certain periods in the past, we have been able to attract and retain a sufficient number of qualified drivers to support our operations. To attract and retain drivers we must continue to provide safe, attractive and comfortable equipment, direct access to management and competitive wages and benefits designed to encourage longer-term employment.

Drivers' pay is calculated primarily on the basis of miles driven, and it increases with tenure. We believe our current pay scale is competitive with industry peers.

One of the steps we have taken to control compensation expense is the implementation in 2002 of a per diem driver pay program. Per diem pay, which is not taxable to the driver, is designed to approximately reimburse drivers for meals and other incidental expenses incurred while away from home overnight on business, and is typically paid in lieu of a taxable portion of salary. Although our ability to deduct per diem payments is limited, there are certain tax benefits to drivers that allow us to decrease overall wages per mile for those drivers who elect to receive the per diem payments. Since per diem payments are slightly lower than the foregone portion of salary, this difference, in addition to certain tax benefits, results in savings to us. As of December 31, 2006, drivers who drove approximately 71.7% of our total miles had elected to receive per diem payments.

On February 26, 2007, we had approximately 3,777 employees, including 2,928 drivers. None of our employees are represented by a collective bargaining unit. In the opinion of management, our relationship with our employees is good.

Revenue Equipment and Maintenance

Our policy is to replace most tractors within 36 to 42 months and most trailers within 84 to 120 months from the date of purchase. Because maintenance costs increase as equipment ages, we believe these trade intervals allow us to control our maintenance costs and to economically balance them with the equipment's expected sale or trade values. Such trade intervals also permit us to maintain substantial warranty coverage throughout our period of ownership.

We make equipment purchasing and replacement decisions on the basis of various factors, including new equipment prices, 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 or trailers from time to time. In 2004, we accelerated our trailer acquisitions to take advantage of favorable pricing on new trailers.

The following table shows the number of units and average age of revenue equipment that we owned or operated under capital leases as of the indicated dates:

| | Year Ended December 31, | | |
|--|-------------------------|-------|-------|
| | 2006 | 2005 | 2004 |
| Tractors: | | | |
| Acquired | 818 | 803 | 957 |
| Disposed | 668 | 587 | 807 |
| End of period total | 2,552 | 2,402 | 2,186 |
| Average age at end of period (in months) | 21 | 19 | 18 |
| Trailers: | | | |
| Acquired | 1,642 | 679 | 1,940 |
| Disposed | 414 | 819 | 719 |
| End of period total | 6,770 | 5,542 | 5,682 |
| Average age at end of period (in months) | 36 | 38 | 39 |

Late in 2006, we decided to address pressures on our utilization rate by adjusting our equipment replacement schedule. We will add tractors as the availability of freight and driver availability dictate.

To simplify driver and mechanic training, control the cost of spare parts and tire inventory and provide for a more efficient vehicle maintenance program, we buy tractors and trailers manufactured to our specifications. In deciding which equipment to buy, we consider a number of factors, including safety, fuel economy, expected resale value and driver comfort. We have a strict preventive maintenance program designed to minimize equipment downtime and enhance sale or trade-in values.

During 2004, 2005 and 2006 we financed revenue equipment purchases through our Senior Credit Facility, capital lease-purchase arrangements, the proceeds from sales or trades of used equipment and cash flows from operations. Substantially all of our tractors and trailers are pledged to secure our obligations under financing arrangements.

In addition to Company-owned tractors, we contract with owner-operators for the use of their tractors and drivers in our operations. At December 31, 2006, 19 owner-operator tractors were under contract with us. The size of our owner-operator fleet varies from time to time as market conditions change.

In April 2003, we took delivery of our first tractors with the exhaust gas recirculation engines required by the EPA for tractor engines manufactured after September 2002. Approximately 99.6% of our tractors are now equipped with those engines. We accelerated our revenue equipment acquisition program and trade intervals before January 1, 2007, in anticipation of the emission standards that went into effect on that date to delay the business risk of buying new engines until adequate testing is complete. All of the tractors we are committed to purchase in 2007 will be equipped with engines produced prior to January 1, 2007. This strategic decision will allow us additional time to analyze the industry-wide evaluations concerning the longevity and reliability of the emission compliant engines.

Technology

We maintain a sophisticated data center using several different computing platforms ranging from personal computers to an IBM mainframe system. We have developed the majority of our software applications internally, including payroll, billing, dispatch, accounting and maintenance programs. We believe that the familiarity and

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proficiency with these systems we gained through our development efforts give us the ability to meet the ever-changing needs of our customers quickly and efficiently. Our computer systems are monitored 24 hours a day by experienced information services professionals. While we employ many preventive measures, including daily back-up of our information system processes, we do not currently have a comprehensive catastrophic disaster recovery plan for our information systems.

The technology we use in our business enhances the efficiency of all aspects of our operations and enables us to consistently deliver superior service to our customers. This technology includes a Qualcomm satellite-based equipment tracking and driver communication system, which allows us to closely monitor the location of all our tractors and to communicate with our drivers in real time. This enables us to efficiently dispatch drivers in response to customers' requests, to provide real-time information to our customers about the status of their shipments and to provide documentation supporting our assessorial charges, which are charges to customers for things such as loading, unloading or delays. We have implemented sophisticated software programs, such as load optimization software, which is designed to match available equipment with shipments in a way that best satisfies a number of criteria including empty miles, the driver's available hours of service and home-time needs. We use licensed software that assists us in planning for transfers of loaded trailers between our tractors, allowing us to further enhance efficient allocation of our equipment, improve customer service and take full advantage of our drivers' available hours of service.

Regulation

We are a motor carrier regulated by the U.S. Department of Transportation and other federal and state agencies. Our business activities in the United States are subject to broad federal, state and local laws and regulations beyond those applicable to most business activities. Our regulated business activities include, but are not limited to, service area, routes traveled, equipment specifications, commodities transported, rates and charges, accounting systems, financial reporting and insurance coverages. Our Canadian business activities are subject to similar requirements imposed by the laws and regulations of the Dominion of Canada and provincial laws and regulations.

Motor carrier operations are subject to safety requirements prescribed by the U.S. Department of Transportation, governing interstate operation, and by Canadian provincial authorities. Matters such as weight and equipment dimensions are also subject to federal, state and provincial regulations.

The Federal Motor Carrier Safety Administration of the U.S. Department of Transportation issued revised regulations governing the hours of service for drivers of commercial motor vehicles that carry freight. The revised regulations took effect October 1, 2005, with a transitional period of compliance and enforcement from October 1, 2005 through December 31, 2005. In general, the new regulations are intended to increase safety by giving drivers more opportunity to rest and obtain restorative sleep during each work cycle by, for example, increasing the minimum off-duty time during each work cycle. The maximum on-duty period after which a driver may no longer drive was shortened and can no longer be extended by time spent off duty (such as meal stops and other rest breaks) once the on-duty period has begun. Therefore, delays during a driver's on-duty time (such as those caused by loading/unloading problems) may limit drivers' available hours behind the wheel, particularly if such delays occur late in an on-duty period. This, and other operational issues that the new rules have created, increased our operating costs in 2006 and may result in further increases.

The Environmental Protection Agency adopted emissions control regulations that require progressive reductions in exhaust emissions from diesel engines manufactured on or after October 1, 2002. More stringent reductions became effective on January 1, 2007 for engines manufactured on or after that date, and further reductions are scheduled to become effective in 2010. Compliance with the regulations has increased the cost of our new tractors and operating expenses while reducing fuel economy, and it is anticipated that the 2007 and 2010 changes will further adversely impact those areas.

We believe that we are in substantial compliance with applicable federal, state, provincial and local environmental laws and regulations and that costs of such compliance will not have a material adverse effect on our competitive position, operations or financial condition or require a material increase in currently anticipated capital expenditures.

Seasonality

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Seasonality.

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 will, could, should, may, believe, expect, in 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 annual report under the heading Management's Discussion and Analysis of Financial Condition and Results of Operations, such as improvements in our driver turnover or equipment utilization. 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 rates are directly related to business levels of shippers 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. Some of the risks, uncertainties and assumptions that could cause actual results to differ materially from these forward-looking statements are described in Item 1A. Risk Factors 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.

Item 1A. **RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the following risks and uncertainties which could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and in our other filings with the Securities and Exchange Commission.

Our business is subject to economic and business factors affecting the trucking industry that are largely out of our control, any of which could have a material adverse effect on our operating results.

The factors that have negatively affected us, and may do so in the future, include volatile fuel prices, excess capacity in the trucking industry, surpluses in the market for used equipment, higher interest rates, higher license and registration fees, increases in insurance premiums, higher self-insurance levels, increases in accidents and adverse claims and difficulty in attracting and retaining qualified drivers and independent contractors.

We are also affected by recessionary economic cycles and downturns in customers' business cycles. Economic conditions may adversely affect our customers and their ability to pay for our services. It is not possible to predict the effects of armed conflicts or terrorist attacks and subsequent events on the economy or on consumer confidence in the United States, or the impact, if any, on our future results of operations.

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

Numerous competitive factors could impair our ability to maintain our current profitability. These factors include:

- § We compete with many other truckload carriers of varying sizes and, to a lesser extent, with less-than-truckload carriers and railroads, some of which have more equipment or greater capital resources, or other competitive advantages.

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- § Some of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase freight rates, maintain our margins or maintain significant growth in our business.
- § Many customers reduce the number of carriers they use by selecting so-called core carriers as approved service providers, and in some instances we may not be selected.
- § Many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in the loss of some of our business to competitors.
- § The trend toward consolidation in the trucking industry may create large carriers with greater financial resources and other competitive advantages relating to their size, and we may have difficulty competing with these larger carriers.
- § Advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher freight rates to cover the cost of these investments.
- § Competition from internet-based and other logistics and freight brokerage companies may adversely affect our customer relationships and freight rates.
- § Economies of scale that may be passed on to smaller carriers by procurement aggregation providers may improve their ability to compete with us.

Increased prices for new revenue equipment and decreases in the value of used revenue equipment may adversely affect our earnings and cash flows.

If we are unable to obtain favorable prices for our used equipment, or if the cost of new equipment continues to increase, we will increase our depreciation expense or recognize less gain (or a loss) on the disposition of our tractors and trailers. This has affected and may again adversely affect our earnings and cash flows. During certain periods in the past, a depressed market for used equipment has caused us to decrease the amount of used equipment we traded, sometimes significantly. Decreases in our trading activity have increased the average age of our tractors during those periods and contributed, often significantly, to increases in maintenance costs, and have negatively affected our utilization rates. These factors, coupled with a change in salvage values, have also yielded increased depreciation charges to pre-tax earnings in certain periods. Although the condition of the used equipment market has improved in recent periods, values of used tractors are still below pre-2002 levels.

In addition, manufacturers have recently raised the prices of new equipment significantly, in part to offset their costs of compliance with new Environmental Protection Agency tractor engine design requirements intended to reduce emissions. The initial requirements took effect October 1, 2002, and more restrictive EPA engine design requirements took effect on January 1, 2007. Further equipment price increases may result from the implementation of the 2007 requirements. If new equipment prices increase more than anticipated, we may be required to increase our depreciation and financing costs and/or retain some of our equipment longer, with a resulting increase in maintenance expenses. To the extent we are unable to offset any such increases in expenses with rate increases, our results of operations would be adversely affected.

Ongoing insurance and claims expenses could significantly reduce our earnings.

In recent periods, we experienced significant increases in costs associated with adverse claims. If the number or severity of claims increases or does not return to historical levels, or if the costs associated with claims otherwise increase, our operating results will be adversely affected. The time that such costs are incurred may significantly impact our operating results for a particular quarter, as compared to the comparable quarter in the prior year. In addition, if we were to lose our ability to self-insure for any significant period of time, our insurance costs would materially increase and we could experience difficulty in obtaining adequate levels of coverage.

In the last several years, insurance carriers increased premiums for many trucking companies. This factor, coupled with an increase in coverage, a reduction in our self-insurance retention level and our claims experience, resulted in significant increases in our insurance premiums in recent periods. We could experience additional increases in our insurance premiums in the future. If our insurance or claims expense increases, and we are unable to offset the increase with higher freight rates, our earnings could be materially and adversely affected.

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

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

We depend on the proper functioning and availability of our information systems.

We depend on the proper functioning and availability of our communications and data processing systems in operating our business. Our information systems are protected through physical and software safeguards. However, they are still vulnerable to fire, storm, flood, power loss, telecommunications failures, physical or software break-ins and similar events. We do not have a catastrophic disaster recovery plan or a fully redundant alternate processing capability. If any of our critical information systems fail or become otherwise unavailable, we would have to perform the functions manually, which could temporarily impact our ability to manage our fleet efficiently, to respond to customers' requests effectively, to maintain billing and other records reliably and to bill for services accurately or in a timely manner. Our business interruption insurance may be inadequate to protect us in the event of a catastrophe. Any system failure, security breach or other damage could interrupt or delay our operations, damage our reputation and cause us to lose customers.

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

A significant portion of our revenue is generated from our major customers. For fiscal year 2006, our top 10 customers accounted for approximately 36% of our revenue, our top five customers accounted for approximately 23% of our revenue and our largest customer accounted for approximately 8% of our revenue. Generally, we do not have long-term contracts with our major customers and we cannot assure you that our customer relationships will continue as presently in effect. A reduction in or termination of our services by one or more of our major customers could have a material adverse effect on our business and operating results.

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

We are dependent upon the services of our executive management team. We do not maintain key-man life insurance on any members of our management team. The loss of their services could have a material adverse effect on our operations and future profitability. We must continue to develop and retain a core group of managers if we are to realize our goal of expanding our operations and continuing our growth.

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

The U.S. Department of Transportation and various state agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety, insurance requirements and financial reporting. We may also become subject to new or more restrictive regulations relating to fuel emissions, drivers' hours of service and ergonomics. Our Canadian business activities are subject to similar requirements imposed by the laws and regulations of the Dominion of Canada and provincial laws and regulations. Compliance with such regulations could substantially reduce equipment productivity, and the costs of compliance could increase our operating expenses. Our Company drivers and independent contractors also must comply with the safety and fitness regulations promulgated by the Department of Transportation, including those relating to drug and alcohol testing and hours of service. The Transportation Security Administration of the U.S. Department of Homeland Security adopted regulations that will require all new drivers and drivers who renew their licenses who carry hazardous materials to undergo background checks by the Federal Bureau of Investigation. While we have historically required all our drivers to obtain this qualification, these new regulations could reduce the availability of qualified drivers, which could require us to adjust our driver compensation package, limit the growth of our fleet or let trucks sit idle. These regulations could also complicate the process of matching available equipment with shipments that include hazardous materials, thereby increasing the time it takes us to respond to customer orders and increasing our empty miles.

Failures to comply with Department of Transportation safety regulations or downgrades in our safety rating could have a material adverse impact on our operations or financial condition. A downgrade in our safety rating could cause us to lose the ability to self-insure. The loss of our ability to self-insure for any significant period of

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time would materially increase our insurance costs. In addition, we may experience difficulty in obtaining adequate levels of coverage in that event.

Decreases in the availability of new tractors and trailers could have a material adverse effect on our operating results.

From time to time, some tractor and trailer vendors have reduced their manufacturing output due, for example, to lower demand for their products in economic downturns or a shortage of component parts. As conditions changed, some of those vendors have had difficulty fulfilling the increased demand for new equipment. There have been periods when we were unable to purchase as much new revenue equipment as we needed to sustain our desired growth rate and to maintain a late-model fleet. We may experience similar difficulties in future periods. Also, vendors have had to introduce new engines meeting the more restrictive Environmental Protection Agency emissions standards in 2007. An inability to continue to obtain an adequate supply of new tractors or trailers could have a material adverse effect on our results of operations and financial condition.

Item 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved written SEC staff comments regarding our periodic or current reports under the Securities Exchange Act of 1934 received 180 days or more before the end of the fiscal year to which this annual report on Form 10-K relates.

Item 2. PROPERTIES

Our executive offices and headquarters are located on approximately 104 acres in Van Buren, Arkansas. This facility consists of approximately 117,000 square feet of office, training and driver facilities and approximately 30,000 square feet of maintenance space within two structures. The facility also has approximately 11,000 square feet of warehouse space and two other structures with approximately 22,000 square feet of office and warehouse space leased to another party.

We operate a network of nine additional facilities, including one in Laredo, Texas, which is one of the largest inland freight gateway cities between the U.S. and Mexico. These additional facilities contain maintenance shops, driver facilities, fuel tanks and/or office space. Our facilities currently are located in the following cities:

| | | Driver | | | Own or |
|-----------------------------|------|------------|------|--------|-----------|
| | Shop | Facilities | Fuel | Office | Lease |
| Van Buren, Arkansas | Yes | Yes | Yes | Yes | Own |
| West Memphis, Arkansas | Yes | Yes | Yes | Yes | Own/Lease |
| Blue Island, Illinois | No | No | No | Yes | Lease |
| East Peoria, Illinois | No | No | No | Yes | Lease |
| Shreveport, Louisiana | Yes | Yes | Yes | Yes | Own |
| Butler Township, Ohio | Yes | Yes | Yes | Yes | Own |
| Bethel, Pennsylvania | Yes | No | No | Yes | Lease |
| Spartanburg, South Carolina | Yes | Yes | No | Yes | Lease |
| Laredo, Texas | Yes | Yes | No | Yes | Own |
| Roanoke, Virginia | Yes | No | Yes | Yes | Lease |

Item 3. LEGAL PROCEEDINGS

We are a party to routine litigation incidental to our business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. Though we believe 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, results of operations or cash flow.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

We did not submit any matter to a vote of security holders during the fourth quarter of the fiscal year covered by this annual report.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is quoted on the NASDAQ Global Select Market under the symbol USAK. The following table sets forth, for the periods indicated, the high and low sale prices of our Common Stock as reported by the NASDAQ National Market (before July 1, 2006) and by the NASDAQ Global Select Market (beginning July 1, 2006).

| | Price Range | |
|-------------------------------------|-----------------|-----------------|
| | High | Low |
| Year Ended December 31, 2006 | | |
| Fourth Quarter | \$ 19.39 | \$ 16.00 |
| Third Quarter | 20.35 | 16.45 |
| Second Quarter | 27.44 | 17.16 |
| First Quarter | 31.37 | 23.66 |
| Year Ended December 31, 2005 | | |
| Fourth Quarter | \$ 32.00 | \$ 18.19 |
| Third Quarter | 29.89 | 23.10 |
| Second Quarter | 25.15 | 17.74 |
| First Quarter | 27.99 | 14.70 |

As of February 26, 2007, there were 221 holders of record (including brokerage firms and other nominees) of our Common Stock. We estimate that there were approximately 3,000 beneficial owners of the Common Stock as of that date. On February 26, 2007, the last reported sale price of our Common Stock on the NASDAQ Global Select Market was \$16.92 per share.

Dividend Policy

We have not paid any dividends on our Common Stock to date, and we do not anticipate paying any dividends at the present time. However, as discussed in our third quarter 2006 earnings release, paying dividends is an initiative to be considered in the future. We currently intend to retain all of our earnings, if any, for use in the expansion and development of our business. The covenants of our Senior Credit Facility would prohibit the payment of dividends by the Company if such payment would cause the Company to be in violation of any of the covenants in that Facility.

Equity Compensation Plan Information

The following table provides information about our equity compensation plans as of December 31, 2006. The equity compensation plans that have been approved by our stockholders are our 2004 Equity Incentive Plan and our 2003 Restricted Stock Award Plan and two plans under which options remain outstanding, but no new options may be granted, which include 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.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | Weighted-average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) |
|--|---|---|---|
| (a) | (b) | (c) | |
| Equity Compensation Plans Approved by Security Holders | 445,550(1) | \$13.99(2) | 647,200(3) |

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Equity Compensation Plans Not
Approved by Security Holders

| | | | |
|-------|---------|---------|---------|
| | -- | -- | -- |
| Total | 445,550 | \$13.99 | 647,200 |

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- (1) Includes 65,000 unvested shares of restricted stock, which will vest in annual increments, subject to the attainment of specified performance goals, and which do not require the payment of exercise prices; and 380,550 shares of Common Stock subject to outstanding stock options.
- (2) Excludes shares of restricted stock, which do not require the payment of exercise prices.
- (3) Pursuant to the terms of our 2004 Equity Incentive Plan, on the day of each annual meeting of our stockholders for a period of nine years, beginning with the 2005 annual meeting and ending with the 2013 annual meeting, the maximum number of shares of Common Stock available for issuance under this plan (including shares issued prior to each such adjustment) is automatically increased by a number of shares equal to the lesser of (i) 25,000 shares or (ii) such lesser number of shares (which may be zero or any number less than 25,000) as determined by our Board of Directors. Pursuant to this adjustment provision, the maximum number of shares available for issuance under this plan will increase from 950,000 to 975,000 on May 2, 2007, the date of our 2007 annual meeting. The share numbers included in the table do not reflect this adjustment or any future adjustments. The shares that remain available for future grants include 597,200 shares that may be granted as stock options under our 2004 Equity Incentive Plan and 50,000 shares that may be issued as performance-based restricted stock under our 2003 Restricted Stock Award Plan. The 597,200 shares subject to future grant under our 2004 Equity Incentive Plan may, alternatively, be issued as restricted stock, stock units, performance shares, performance units or other incentives payable in cash or stock.

Repurchase of Equity Securities

On October 21, 2004, we publicly announced that our Board of Directors had authorized the repurchase of up to 500,000 shares of our outstanding Common Stock over a three-year period ending October 19, 2007, dependent upon market conditions. We may make Common Stock purchases under this program from time to time on the open market or in privately negotiated transactions at prices determined by our Chairman of the Board or President. We may reissue repurchased shares under our equity compensation plans or as otherwise directed by the Board of Directors. The following table sets forth purchases of Common Stock made by us on the open market during the fourth quarter of 2006, and the number of additional shares that may be repurchased, under the repurchase program authorized by our Board of Directors. We are required to include in this table purchases made by us or by any 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 newly issued 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.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|--------------------------------------|---|---|--|---|
| October 1, 2006 - October 31, 2006 | 21,000 | \$17.33 | 21,000 | 473,000 |
| November 1, 2006 - November 30, 2006 | 154,200 | \$18.10 | 154,200 | 318,800 |
| December 1, 2006 - December 31, 2006 | 54,800 | \$19.14 | 54,800 | 264,000 |
| Total | 230,000 | \$18.28 | 230,000 | 264,000 |

Subsequent to year end, on January 25, 2007, we publicly announced that our Board of Directors had approved an authorization for the repurchase of up to an additional 2,000,000 shares of our outstanding Common Stock through January 24, 2010. The terms of the new repurchase authorization are the same as the terms of the existing authorization described above.

Item 6. SELECTED FINANCIAL DATA

You should read the following selected consolidated financial data and other operating information along with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data. We derived the selected consolidated Statement of Income and Balance Sheet data as of and for each of the five years ended December 31, 2006 from our audited financial statements.

SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

(in thousands, except per share data and key operating statistics)

| | Year Ended December 31, | | | | |
|---------------------------------------|-------------------------|------------|------------|------------|------------|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| Statements of Income Data: | | | | | |
| Revenue: | | | | | |
| Trucking revenue | \$ 370,780 | \$ 358,522 | \$ 314,431 | \$ 268,102 | \$ 252,027 |
| USA Logistics revenue | 14,521 | 18,107 | 21,449 | 17,978 | 16,483 |
| Base revenue | 385,301 | 376,629 | 335,880 | 286,080 | 268,510 |
| Fuel surcharge revenue | 80,317 | 63,074 | 27,225 | 12,583 | 5,263 |
| Total revenue | 465,618 | 439,703 | 363,105 | 298,663 | 273,773 |
| Operating expenses and costs: | | | | | |
| Salaries, wages and employee benefits | 152,998 | 143,164 | 125,953 | 109,616 | 108,283 |
| Fuel and fuel taxes | 138,629 | 121,026 | 81,722 | 58,740 | 47,851 |
| Depreciation and amortization | 46,739 | 41,890 | 35,871 | 30,611 | 27,811 |
| Insurance and claims | 27,006 | 26,172 | 26,224 | 18,390 | 15,922 |
| Operations and maintenance | 21,919 | 21,178 | 24,736 | 26,518 | 21,592 |
| Purchased transportation | 19,815 | 24,710 | 28,317 | 24,183 | 26,024 |
| Operating taxes and licenses | 6,610 | 6,224 | 5,653 | 4,682 | 4,389 |
| Communications and utilities | 3,362 | 3,220 | 3,039 | 2,967 | 2,792 |
| (Gain) on disposal of assets | (541) | (1,144) | (1,040) | (743) | (166) |
| Other | 22,677 | 19,766 | 14,831 | 12,849 | 9,803 |
| Total operating expenses and costs | 439,214 | 406,206 | 345,306 | 287,813 | 264,301 |
| Operating income | 26,404 | 33,497 | 17,799 | 10,850 | 9,472 |
| Other expenses (income): | | | | | |
| Interest expense | 4,192 | 4,829 | 3,539 | 2,557 | 3,127 |
| Other, net | (134) | (19) | 33 | 65 | (22) |
| Total other expenses, net | 4,058 | 4,810 | 3,572 | 2,622 | 3,105 |
| Income before income taxes | 22,346 | 28,687 | 14,227 | 8,228 | 6,367 |
| Income tax expense | 9,905 | 13,119 | 6,795 | 4,873 | 3,765 |
| Net income | \$ 12,441 | \$ 15,568 | \$ 7,432 | \$ 3,355 | \$ 2,602 |
| Per share information: | | | | | |
| Average shares outstanding (Basic) | 11,353 | 10,034 | 9,268 | 9,327 | 9,310 |
| Basic earnings per share | \$ 1.10 | \$ 1.55 | \$ 0.80 | \$ 0.36 | \$ 0.28 |
| Average shares outstanding (Diluted) | 11,561 | 10,328 | 9,398 | 9,370 | 9,348 |
| Diluted earnings per share | \$ 1.08 | \$ 1.51 | \$ 0.79 | \$ 0.36 | \$ 0.28 |

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION (continued)

| | Year Ended December 31, | | | | | |
|--|-------------------------|-----------|-----------|-----------|-----------|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 | |
| Other Financial Data: | | | | | | |
| Operating ratio (1) | 93.1 | % 91.1 | % 94.7 | % 96.2 | % 96.5 | % |
| Cash flows from operations | \$ 76,249 | \$ 56,552 | \$ 37,292 | \$ 36,865 | \$ 32,942 | |
| Capital expenditures, net (2) | 74,583 | 56,525 | 89,379 | 53,406 | 33,058 | |
| Key Operating Statistics: | | | | | | |
| Base revenue per total mile | \$ 1.346 | \$ 1.327 | \$ 1.293 | \$ 1.236 | \$ 1.209 | |
| Average miles per tractor per week | 2,271 | 2,415 | 2,361 | 2,341 | 2,332 | |
| Empty mile factor (3) | 10.3 | % 8.7 | % 8.4 | % 9.0 | % 9.2 | % |
| Average number of tractors (4) | 2,512 | 2,342 | 2,174 | 1,961 | 1,882 | |
| Total miles (loaded and empty) (in thousands) | 286,317 | 283,921 | 259,725 | 231,389 | 222,079 | |
| Average miles per tractor | 113,980 | 121,230 | 119,469 | 117,995 | 118,001 | |
| Average miles per trip (5) | 837 | 837 | 839 | 851 | 859 | |
| Average unmanned tractor percentage (6) | 5.3 | % 3.9 | % 4.9 | % 3.9 | % 5.9 | % |
| Average age of tractors, at end of period (in months) | 21 | 19 | 18 | 25 | 30 | |
| Average age of trailers, at end of period (in months) | 36 | 38 | 39 | 54 | 52 | |
| Balance Sheet Data: | | | | | | |
| Cash and cash equivalents | \$ 7,132 | \$ 994 | \$ 1,189 | \$ 1,323 | \$ 1,238 | |
| Total assets | 339,494 | 308,079 | 288,154 | 222,549 | 188,851 | |
| Long-term debt, capital leases and note payable, including current portion | 95,406 | 89,232 | 140,442 | 85,147 | 68,595 | |
| Stockholders' equity | 159,558 | 149,833 | 85,528 | 77,496 | 74,092 | |

- (1) Operating ratio is based upon total operating expenses, net of fuel surcharge revenue, as a percentage of base revenue.
- (2) Capital expenditures, net, is based upon purchases of property and equipment for cash and under capital lease arrangements less proceeds from the sale of property and equipment.
- (3) 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.
- (4) Average number of tractors includes Company-operated tractors plus owner-operator tractors.
- (5) Average miles per trip is based upon loaded miles divided by the number of Trucking shipments.
- (6) Average unmanned tractor percentage is the weighted average percentage of Company-operated tractors to which a driver is not assigned.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (or MD&A) is intended to help the reader understand USA Truck, Inc., our operations and our present business environment. MD&A is provided as a supplement to and should be read in conjunction with our consolidated financial statements and notes thereto and other financial information that appears elsewhere in this report. This overview summarizes the MD&A, which includes the following sections:

Our Business – a general description of our business, the organization of our operations and the divisions that comprise our operations.

Critical Accounting Estimates – a discussion of accounting policies that require critical judgment and estimates.

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Results of Operations an analysis of our consolidated results of operations for the three years presented in our consolidated financial statements and a discussion of seasonality, the potential impact of inflation and fuel availability and cost.

Off-Balance Sheet Arrangements a discussion of significant financial arrangements, if any, that are not reflected on our balance sheet.

Liquidity and Capital Resources an analysis of cash flows, sources and uses of cash, debt, equity and contractual obligations.

Our Business

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.

We previously organized our divisions into three segments, as described in Item 7. 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, during the quarter ended June 30, 2006 we reclassified our five divisions into two segments for internal reporting and monitoring purposes. The information we present in this report reflects this change.

The five divisions are classified into the Trucking segment and the USA Logistics segment. Trucking includes those transportation services in which we use Company-owned tractors or owner-operator tractors. USA Logistics consists of services such as freight brokerage, 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 years ended December 31, 2006, 2005 and 2004, Trucking base revenue represented 96.2%, 95.2% and 93.6% of total 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.* 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. Our Regional Freight division provides truckload freight services that involve a length of haul of approximately 500 miles. As of December 31, 2006, we conducted Regional Freight operations in the areas around our facilities located in Van Buren, Arkansas and Butler Township, Ohio. In January 2007, we announced the opening of our third Regional Freight operations center in Spartanburg, South Carolina.
- § *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.

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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. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. Actual results could differ from our assumptions and estimates, and such differences could be material.

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 issued by the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB). 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

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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.
- § *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.
- § *Stock option valuation.* The assumptions used to value stock options are dividend yield, expected volatility, risk-free interest rate and expected life. As we do not pay any dividends on our Common Stock, the dividend yield is zero. Expected volatility represents the measure used to project the expected fluctuation in our share price. We use the historical method to calculate volatility with the historical period being equal to the expected life of each option. This calculation is then used to determine the potential for our share price to increase over the expected life of the option. The risk-free interest rate is based on an implied yield on United States zero-coupon treasury bonds with a remaining term equal to the expected life of the outstanding options. Expected life represents the length of time we anticipate the options to be outstanding before being exercised. Based on historical experience, that time period is best represented by the option's contractual life.

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 cornerstones of our strategy have been revenue growth and the execution of our benchmarking program, which was designed to return our operating margin to our historic, industry-leading levels. Over the past several years, we worked on a host of fundamental cost initiatives. Over a four-year period from 2002 through 2005, we improved practically every significant operating measure within our business. Our performance in many of the areas measured took a step backward during 2006 as freight demand decelerated, but costs were not the primary issue. The primary issue was revenue shortfall, which was caused by slowing freight demand coupled with the expansion of our fleet and our own aggressiveness in increasing the pricing of our services.

We have posted record base revenue every year since 1992, with base revenue reaching \$385.3 million in 2006. This growth was affected by slowing freight demand throughout 2006 which resulted in an increase in unmanned tractors and a decline in our miles per tractor per week compared to 2005. Also, a surge in driver turnover between May and October contributed to the increase in our unmanned tractor count, which climbed to 7.3% during the fourth quarter, well above our goal of 3.0%. Although the majority of our margin erosion was due to the shortfall in revenue volume, we experienced some adverse trends on the expense side as well. We saw year-over-year increases of 7.4% in driver pay per mile and 5.7% in fuel cost per gallon net of fuel surcharge recoveries.

The benchmarking program solved many problems that existed within our cost structure, but did not address issues related to the economic slowdown in late 2006. During the fourth quarter of 2006 we re-examined our long-term business strategies and, with the help of an advisor, developed a strategy that is designed to more closely manage our financial returns and reduce the disparity between the valuation of our stock and that of our peers.

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There are six long-term strategic objectives that reflect this new perspective. These new strategic objectives will not change our operating strategies which include: superior customer services, stringent cost controls and disciplined equipment replacement cycles and maintenance schedules.

- § *Earn our cost of capital.* We will employ our own cost of capital as the basis for establishing internal rates of return criteria for capital investments. The goal is to produce returns on assets and invested capital that exceed our internal cost of capital.
- § *Improve our earnings consistency.* Since our initial public stock offering, our earnings per share results have been inconsistent, which we believe has contributed to a disparity in valuations between our Common Stock and that of our peers. This inconsistency is caused by our relatively low outstanding share count and the volatility of various factors affecting our business including insurance and claims costs, availability of drivers and fluctuations in freight demand. We are developing processes internally to reduce variability in our business model as well as a number of margin improvement initiatives and marketing strategies.
- § *Margin expansion.* Improving our operating ratio will continue to be a cornerstone of our strategy. Our benchmarking program provided us with the tools necessary to make significant improvements in several cost categories since the program's implementation in 2002. We have reviewed margin improvement opportunities within our business and have identified four areas where our team believes further improvements are attainable over the next several years including improvement in some areas beyond our internal benchmarks.
 1. Our ability to manage empty miles, maintain adequate freight volume and capacity utilization for our fleet and pass rising operating costs on to our customers will be critical to our on-going success.
 2. Insurance and claims continues to be above our benchmark level and we are developing a detailed multi-year plan to bring it back in line with our benchmark level.
 3. We are an industry leader in offsetting high fuel costs through fuel surcharge collections. We now want to be an industry leader in reducing the cost of fuel purchases and increasing fuel efficiency. We have identified opportunities in the coming years to reduce our purchase price for fuel and increase our fleet's fuel economy.
 4. Our management team is committed to reducing our overhead labor costs in the coming years by leveraging our internal information services resources and our ISO 9001:2000 Quality Management System to drive efficiencies within our key business processes.

While we still maintain a goal of an 88% operating ratio, we will be more focused on producing adequate returns on assets and invested capital in the near-term. Our target operating ratio will ultimately be the operating ratio necessary to achieve those returns.

- § *Long-term revenue growth.* Historically, we have targeted 15% compounded annual base revenue growth and we have largely been successful in achieving that goal. That rate of growth is becoming more difficult to sustain due to the shortage of qualified drivers in the industry, rising operating costs and our own size.

Our strategy going forward is to maintain 10% or better compounded annual base revenue growth. We believe this lower growth target is more realistic and, since our 1992-2006 compounded annual base revenue growth rate has been approximately 14%, it affords us some time to slow the growth in the near-term and improve our returns.

When we do grow in the future, we will be more opportunistic in our approach and we will likely seek to supplement internal growth with strategic acquisitions from time to time.

- § *Management equity stake.* Approximately 50% of our management team's cash compensation package is contingent upon meeting certain performance goals. Management's compensation package also includes equity ownership incentives in the form of incentive stock options and restricted stock awards. We believe that a healthy equity ownership position is a powerful motivator for improved efficiency. Management currently holds approximately 13.0% of our outstanding Common Stock and has the opportunity to increase that position over the next several years through various stock incentive plans.
- § *More effective communication with the investing public.* As we have grown, so has our shareholder base. We were a private company prior to our 1992 initial public stock offering and insiders owned a majority of our stock throughout the 1990's. We completed a follow-on offering of our stock in August 2005, as a result of which the number of holders in our common stock more than doubled, our trading volume increased dramatically and our market capitalization reached a new high.

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We recently created an Investor Relations department and appointed a manager to implement it. Its purpose is to enhance the quality and timeliness of the information we provide to and receive from the investment community, which we believe may contribute positively to the market value of our stock.

While these objectives will not likely yield meaningful results until freight demand improves, we have seen some encouraging signs already. Compared to the first ten months of 2006, our driver turnover improved by more than 35 percentage points in the November through January timeframe and our miles per manned tractor per week improved 2.3% over that same time period. In response to the continuing weak demand, we are also addressing pressures on our miles per tractor per week by adjusting our equipment replacement schedule to halt fleet growth temporarily and will not add tractors until both freight demand and driver availability dictate. Although our efforts may begin to produce results in the near term, we consider our six new strategic objectives to be long term, as market conditions remain challenging and a great deal of work will be required to fully implement the objectives.

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 tables setting forth the percentage relationship of certain items to base revenue 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. The services provided by these divisions 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.

Relationship of Certain Items to Base Revenue

The following table sets forth the percentage relationship of certain items to base revenue for the years 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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| | Year Ended December 31, | | | | | |
|--|-------------------------|---|-------|---|-------|---|
| | 2006 | % | 2005 | % | 2004 | % |
| Base revenue | 100.0 | | 100.0 | | 100.0 | |
| Operating expenses and costs: | | | | | | |
| Salaries, wages and employee benefits | 39.7 | | 38.0 | | 37.5 | |
| Fuel and fuel taxes (1) | 15.1 | | 15.4 | | 16.2 | |
| Depreciation and amortization | 12.1 | | 11.1 | | 10.7 | |
| Insurance and claims | 7.0 | | 6.9 | | 7.8 | |
| Operations and maintenance | 5.6 | | 5.6 | | 7.4 | |
| Purchased transportation | 5.2 | | 6.6 | | 8.4 | |
| Operating taxes and licenses | 1.7 | | 1.7 | | 1.7 | |
| Communications and utilities | 0.9 | | 0.9 | | 0.9 | |
| Gain on disposal of revenue equipment, net | (0.1) | | (0.3) | | (0.3) | |
| Other | 5.9 | | 5.2 | | 4.4 | |
| Total operating expenses and costs | 93.1 | | 91.1 | | 94.7 | |
| Operating income | 6.9 | | 8.9 | | 5.3 | |
| Other expenses: | | | | | | |
| Interest expense | 1.1 | | 1.3 | | 1.1 | |
| Other, net | -- | | -- | | -- | |
| Total other expenses, net | 1.1 | | 1.3 | | 1.1 | |
| Income before income taxes | 5.8 | | 7.6 | | 4.2 | |
| Income tax expense | 2.6 | | 3.5 | | 2.0 | |
| Net income | 3.2 | % | 4.1 | % | 2.2 | % |

(1) Net of fuel surcharges

Fiscal Year Ended December 31, 2006 Compared to Fiscal Year Ended December 31, 2005

Results of Operations Combined Services

Our base revenue grew 2.3% from \$376.6 million to \$385.3 million, for the reasons addressed in the Trucking and the USA Logistics sections, below.

Net income for all divisions was \$12.4 million, or 3.2% of base revenue, as compared to \$15.6 million, or 4.1% of base revenue for 2005.

Overall, our operating ratio increased by 2.0 percentage points of base revenue to 93.1% due primarily to lower freight volumes and as a result of the following factors:

- § Salaries, wages and employee benefits increased by 1.7 percentage points of base revenue primarily due to a 5.2% 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.
- § Fuel and fuel taxes decreased by 0.3 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.
- § Depreciation and amortization increased by 1.0 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.
- § Purchased transportation decreased by 1.4 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 third quarter we completed our strategic exit from the more complex portion of the third party logistics market.
- § Other expenses increased by 0.7 percentage points of base revenue due primarily to the increase in cost associated with recruiting and retaining qualified drivers.

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§ Our effective tax rate decreased from 45.7% in 2005 to 44.3% in 2006. Income tax expense varies from the amount computed by applying the federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect and due to 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*

Key Operating Statistics:

| | Fiscal Year Ended December 31, 2006 | | | |
|---|-------------------------------------|---------------------|----------------------|----------------|
| | General Freight | Regional Freight | Dedicated Freight | Total Trucking |
| Total miles (in thousands) (1) | 237,160 | 23,578 | 25,579 | 286,317 |
| Empty mile factor (2) | 10.7 | 13.8 | 3.7 | 10.3 |
| Base revenue per loaded mile | \$ 1.44 | \$ 1.55 | \$ 1.37 | \$ 1.44 |
| Average number of tractors (3) | 2,046 | 230 | 236 | 2,512 |
| Average miles per tractor per period | 115,914 | 102,513 | 108,385 | 113,980 |
| Average miles per tractor per week | 2,309 | 2,042 | 2,159 | 2,271 |
| Average miles per trip (4) | 941 | 537 | 562 | 837 |
| Average unmanned tractor percentage (5) | 4.7 | 6.1 | 9.4 | 5.3 |
| Base revenue per tractor per week | \$ 2,976 | \$ 2,727 | \$ 2,843 | \$ 2,940 |

| | Fiscal Year Ended December 31, 2005 | | | |
|---|-------------------------------------|---------------------|-------------------|----------------|
| | General Freight | Regional Freight | Dedicated Freight | Total Trucking |
| Total miles (in thousands) (1) | 234,726 | 15,935 | 33,260 | 283,921 |
| Empty mile factor (2) | 9.2 | 13.6 | 3.2 | 8.7 |
| Base revenue per loaded mile | \$ 1.40 | \$ 1.49 | \$ 1.24 | \$ 1.38 |
| Average number of tractors (3) | 1,896 | 170 | 276 | 2,342 |
| Average miles per tractor per period | 123,801 | 93,734 | 120,508 | 121,230 |
| Average miles per tractor per week | 2,466 | 1,867 | 2,401 | 2,415 |
| Average miles per trip (4) | 942 | 518 | 567 | 837 |
| Average unmanned tractor percentage (5) | 3.1 | 8.2 | 6.6 | 3.9 |
| Base revenue per tractor per week | \$ 3,132 | \$ 2,401 | \$ 2,882 | \$ 3,049 |

- (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 3.4% to \$370.8 million. The increase was the result of several factors:

§ Regional Freight base revenue grew 53.6%. Despite the more challenging freight environment, Regional Freight improved in many key statistical categories including base revenue per mile, tractor count, miles per tractor per week and unmanned tractors. Overall it produced 13.6% more base revenue per tractor per week than it did 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 opened our third regional market in the Southeast United States in the first quarter of 2007.

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- § Dedicated Freight base revenue per tractor per week decreased 1.4% due to a decrease of 23.5% in loaded miles. This degradation was offset by a 10.3% increase in base revenue per loaded mile. Over the past year we have made several changes to our freight mix by adding new customer accounts that provide fewer miles, but higher revenue per mile and removing certain customer accounts that provide more miles but lower revenue per mile. The 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 5.0%. This decrease was primarily due to a 6.4% decrease in miles per tractor per week. General Freight was able to increase base revenue per loaded mile by 2.9%. Our General Freight division model is more dependent on miles per tractor per week, thus it was impacted more by softer freight demand and changes in the U.S. Department of Transportation Hours of Service rules than were our other Trucking divisions.
- § Overall, we grew the average size of our Trucking tractor fleet by 7.3%. We grew the average size of the Company-owned tractor fleet by 7.6% to 2,496 tractors and decreased the average size of our owner-operator fleet by 30.4% to 16 tractors.

Results of Operations USA Logistics

Base revenue from USA Logistics decreased by 19.8% to \$14.5 million. Freight Brokerage base revenue grew to \$8.2 million, a 30.7% increase. During 2006, we strategically began redeploying our resources 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 division revenue decreased by 46.7% to \$6.3 million. We intend to continue aggressively growing Freight Brokerage and pursuing less of the complex portion of the third party logistics market.

Fiscal Year Ended December 31, 2005 Compared to Fiscal Year Ended December 31, 2004

Results of Operations Combined Services

Our base revenue grew 12.1% to \$376.6 million, for the reasons addressed in the Trucking and the USA Logistics sections, below.

Net income for all divisions was \$15.6 million, or 4.1% of base revenue, as compared to \$7.4 million, or 2.2% of base revenue for 2004.

Overall, we improved our operating ratio by 3.6 percentage points of base revenue to 91.1%. We attribute that improved margin to a combination of strong freight demand and the success of our ongoing benchmarking program.

Our benchmarking program identifies areas of potential improvement in operating cost and revenue factors by comparing the current period's performance to that of our designated benchmark year 1998. The benchmarking program lays out a roadmap of sorts that is assisting our progress towards our target of an 88.0% operating ratio.

During 2005, the benchmarking program was focused on three primary areas of margin improvement: operations and maintenance costs, insurance and claims costs and tractor utilization. Progress in each of the three areas contributed to our improved operating ratio, as follows:

- § We completed a multi-quarter program in 2005 to reduce the average ages of our tractor and trailer fleets to their targeted levels of approximately 19 months and 38 months, respectively. The effect of those reduced ages has been lower repair and general operating costs. That factor and an enhanced process for managing maintenance costs were the primary factors in the 1.8 percentage points of base revenue reduction of operations and maintenance expense.
- § Insurance and claims expense decreased by 0.9 percentage points of base revenue. In 2003, we began an intense effort to improve our motor vehicle accident prevention program and enhance our claims management process. During 2005, we made progress in both areas as our frequency of serious accidents per million miles traveled decreased by 24.0% and the number of auto liability claims being actively managed by our risk management staff decreased 69.4%. Despite our progress, our 2005 performance was still 2.4 percentage points of base revenue away from our benchmark of 4.5% of base revenue.
- § Tractor utilization improved by 2.3% but was still 1.0% below our benchmark of 2,441 miles per tractor per week.

Fuel and fuel taxes expense also improved by 0.8 percentage points of base revenue despite a 34.0% increase in the average cost of diesel fuel and a slight decrease in fuel economy resulting from tighter emission standards on our tractors. The improvement in fuel and fuel tax expense was made possible primarily by the improved efficiency

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of our fuel surcharge program and, to a lesser extent, by our efforts to mitigate the fuel economy decrease through various management programs. Depreciation expense was also affected by the increased cost of emission-compliant tractors.

Expenses increased in the areas of driver compensation, recruitment and training. The increases, described below, were primarily the result of the limited supply of qualified drivers:

- § The salaries, wages and employee benefits expense increased by 0.5 percentage points of base revenue primarily because we increased driver compensation per mile by 4.2% in 2005. We have been steadily increasing driver pay for the past few years to stay competitive in the marketplace.
- § The costs of recruiting and training drivers have also increased in recent years as competition for qualified drivers has intensified. The effects of those increases in 2005 were the primary cause of the 0.8 percentage points of base revenue increase in other operating expenses.

Our effective tax rate decreased from 47.8% in 2004 to 45.7% in 2005. Income tax expense varies from the amount computed by applying the federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect due to 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, 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.

Results of Operations *Trucking*

Key Operating Statistics:

| | Fiscal Year Ended December 31, 2005 | | | | | | | |
|---|-------------------------------------|---|------------------|---|-------------------|---|----------------|---|
| | General Freight | | Regional Freight | | Dedicated Freight | | Total Trucking | |
| Total miles (<i>in thousands</i>) (1) | 234,726 | | 15,935 | | 33,260 | | 283,921 | |
| Empty mile factor (2) | 9.2 | % | 13.6 | % | 3.2 | % | 8.7 | % |
| Base revenue per loaded mile | \$ 1.40 | | \$ 1.49 | | \$ 1.24 | | \$ 1.38 | |
| Average number of tractors (3) | 1,896 | | 170 | | 276 | | 2,342 | |
| Average miles per tractor per period | 123,801 | | 93,734 | | 120,508 | | 121,230 | |
| Average miles per tractor per week | 2,466 | | 1,867 | | 2,401 | | 2,415 | |
| Average miles per trip (4) | 942 | | 518 | | 567 | | 837 | |
| Average unmanned tractor percentage (5) | 3.1 | % | 8.2 | % | 6.6 | % | 3.9 | % |
| Base revenue per tractor per week | \$ 3,132 | | \$ 2,401 | | \$ 2,882 | | \$ 3,049 | |

| | For The Year Ended December 31, 2004 | | | | | | | |
|---|--------------------------------------|---|------------------|---|-------------------|---|----------------|---|
| | General Freight | | Regional Freight | | Dedicated Freight | | Total Trucking | |
| Total miles (<i>in thousands</i>) (1) | 221,746 | | 7,929 | | 30,050 | | 259,725 | |
| Empty mile factor (2) | 9.0 | % | 13.9 | % | 2.8 | % | 8.4 | % |
| Base revenue per loaded mile | \$ 1.33 | | \$ 1.45 | | \$ 1.25 | | \$ 1.32 | |
| Average number of tractors (3) | 1,854 | | 91 | | 229 | | 2,174 | |
| Average miles per tractor per period | 119,604 | | 87,130 | | 131,224 | | 119,469 | |
| Average miles per tractor per week | 2,364 | | 1,722 | | 2,593 | | 2,361 | |
| Average miles per trip (4) | 898 | | 488 | | 649 | | 839 | |
| Average unmanned tractor percentage (5) | 4.8 | % | 5.5 | % | 5.3 | % | 4.9 | % |
| Base revenue per tractor per week | \$ 2,856 | | \$ 2,145 | | \$ 3,159 | | \$ 2,858 | |

- (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.

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Base Revenue

Base revenue from Trucking grew by 14.0% to \$358.5 million. The increase was the result of several factors:

- § We grew the average size of our fleet by 7.7%, which was made possible by strong demand for truckload freight services and our ability to consistently hire qualified truck drivers despite a very tight labor market. We attribute that ability to the management process that we have in place to attract and retain drivers.
- § We increased our tractor utilization (measured in miles per tractor per week) by 2.3%. The strong demand contributed to our success here, but we also have developed a sophisticated management process in this area as well, aided by our ISO 9001:2000 Quality Management System.
- § We were able to increase the net rate per mile charged to our customers by 4.3% for shipments in which we used our own tractors. Shipping rates had been increasing in recent years due to a persistent imbalance between the supply of truckload tractors in the marketplace relative to the demand for truckload services.

Results of Operations USA Logistics

Our Third Party Logistics and Freight Brokerage base revenue declined by 15.6% to \$18.1 million as we began concentrating our efforts on our core competency of asset-based trucking as well as freight brokerage services. While Third Party Logistics revenues decreased by 30.0%, our Freight Brokerage revenue grew by 37.8% to \$6.3 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 our 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 would not be 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 a certain baseline price. 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 typically receive compensation from customers. We do not have any long-term fuel purchase contracts and we have not entered into any hedging arrangements that protect us against fuel price increases. Overall, the market fuel prices per gallon were higher in 2006 and 2005 than in 2004.

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 and 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 Senior Credit Facility and capital 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. 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

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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

| | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | (in thousands) | | |
| | 2006 | 2005 | 2004 |
| Net cash provided by operating activities | \$ 76,249 | \$ 56,552 | \$ 37,292 |
| Net cash used in investing activities | (70,496) | (31,945) | (53,696) |
| Net cash provided by (used in) financing activities | 385 | (24,802) | 16,270 |

Cash generated from operations increased \$19.7 million during 2006 as compared to 2005. The change was primarily due to an increase in depreciation expense related to new equipment purchases and an increase in trade payables combined with a reduction in accounts receivable. Cash generated from operations increased \$19.3 million during 2005 as compared to 2004. The increase was primarily caused by a \$76.6 million increase in revenue along with an improvement in our operating margin, which resulted in an \$8.1 million increase in net income.

Cash used in investing activities increased \$38.6 million during 2006 as compared to 2005 due to an increase in expenditures for revenue equipment. In 2006 we added 1,228 trailers to our fleet compared to a reduction of 140 trailers in 2005, while the increases in the size of our tractor fleet were more consistent between periods. In 2005, our cash used in investing activities decreased \$21.8 million from 2004 due to a reduction in our expenditures for revenue equipment.

Cash provided by financing activities was \$0.4 million in 2006 compared to cash used in financing activities of \$24.8 million in 2005. This \$25.2 million difference is due primarily to increased net borrowings on our Senior Credit Facility. Cash used in financing activities was \$24.8 million in 2005 compared to cash provided by financing activities of \$16.3 million in 2004. This \$41.1 million difference was primarily due to increased payments on capital leases and decreased net borrowings on our Senior Credit Facility. Our stock offering, completed in August 2005, generated \$47.3 million of net proceeds, which we used to pay down our Senior Credit Facility.

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 revenue equipment having a net book value of approximately \$188.7 million at December 31, 2006 and all trade and other accounts receivable. 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 December 31, 2006, \$38.0 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 year ended December 31, 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 December 31, 2006, the rate was 0.2% per annum.

The Facility contains various covenants, which require us to meet certain quarterly financial ratios. In the event we fail to cure an event of default, the loan can become immediately due and payable. As of December 31, 2006, we were in compliance with the covenants.

Certain leases contain cross-default provisions with other financing agreements of the Company.

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Equity

At December 31, 2006, we had stockholders' equity of \$159.6 million and debt of \$95.4 million, resulting in a debt to capitalization ratio of 37.4% compared to 37.3% at December 31, 2005.

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 of our sale of stock in the offering to repay outstanding borrowings under our Senior Credit Facility. In addition to the shares sold by us in this public offering, certain officers who are also directors sold 1.2 million shares of Common Stock.

Purchases and Commitments

As of December 31, 2006, our forecasted capital expenditures, net of proceeds from the sale of revenue equipment, for 2007 were \$53.9 million, \$39.8 million of which relates to revenue equipment. We expect to use the balance of \$14.1 million primarily for property acquisitions, facility construction, 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. During the year ended December 31, 2006, we made \$74.6 million of net capital expenditures, including \$70.9 million for revenue equipment purchases (\$4.1 million of which were capital lease obligations), \$2.8 million for facility expansions and \$0.9 million for non-revenue equipment. The following table represents our outstanding contractual obligations at December 31, 2006:

| | Payments Due By Period (in thousands) | | | | |
|--------------------------------|--|-----------|-----------|-----------|------------|
| | Total | 2007 | 2008-2009 | 2010-2011 | Thereafter |
| Contractual Obligations: | | | | | |
| Long-term debt obligations (1) | \$ 37,993 | \$ -- | \$ -- | \$ 37,993 | \$ -- |
| Capital lease obligations (2) | 58,229 | 27,440 | 28,836 | 1,953 | -- |
| Purchase obligations | 15,805 | 15,805 | -- | -- | -- |
| Rental obligations | 1,612 | 506 | 577 | 181 | 348 |
| Total | \$ 113,639 | \$ 43,751 | \$ 29,413 | \$ 40,127 | \$ 348 |

(1) Long-term debt obligations, excluding letters of credit in the amount of \$1.7 million, consist of our Senior Credit Facility, which matures on September 1, 2010.

(2) Capital lease obligations in this table include interest payments not included in the balance sheet.

New Accounting Pronouncements

See Item 8. Financial Statements and Supplementary Data Note 1. to the Financial Statements: New Accounting Pronouncements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE 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 Senior Credit Facility. Our Senior Credit Facility, as amended, provides for borrowings that bear 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. At December 31, 2006, we had \$38.0 million outstanding pursuant to our Senior Credit Facility. Assuming the outstanding balance at year end remained constant throughout the upcoming year, a hypothetical one-percentage point increase in interest rates applicable to the Senior Credit Facility would increase our annual interest expense by approximately \$0.38 million.

Foreign Currency Exchange Rate Risk. We require all 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 high fuel price levels will continue in the future or the extent to which fuel surcharges could be collected to

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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.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

USA TRUCK, INC.

ANNUAL REPORT ON FORM 10-K

YEAR ENDED DECEMBER 31, 2006

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REPORT OF GRANT THORNTON LLP

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and

Stockholders of USA Truck, Inc.

We have audited the accompanying consolidated balance sheet of USA Truck, Inc. (a Delaware Corporation) and subsidiary (collectively referred to as the Company) as of December 31, 2006, and the related consolidated statement of income, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USA Truck, Inc. and subsidiary as of December 31, 2006 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of USA Truck, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2007, expressed unqualified opinions on the effectiveness of internal control over financial reporting and management's evaluation thereof.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma

March 2, 2007

REPORT OF ERNST & YOUNG LLP

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors

USA Truck, Inc.

We have audited the accompanying consolidated balance sheet of USA Truck, Inc., as of December 31, 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USA Truck, Inc., at December 31, 2005, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

/s/ERNST & YOUNG LLP

Tulsa, Oklahoma

February 24, 2006

USA Truck, Inc.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

| | December 31, | |
|---|-------------------|------------|
| | 2006 | 2005 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,132 | \$ 994 |
| Accounts receivable: | | |
| Trade, less allowance for doubtful accounts of \$96 in 2006 and \$104 in 2005 | | |
| | 40,856 | 45,105 |
| Other | 4,828 | 6,106 |
| Inventories | 930 | 638 |
| Deferred income taxes | 1,792 | 2,329 |
| Prepaid expenses and other current assets | 8,266 | 5,619 |
| Total current assets | 63,804 | 60,791 |
| Property and equipment: | | |
| Land and structures | 32,992 | 30,320 |
| Revenue equipment | 326,083 | 284,138 |
| Service, office and other equipment | 17,746 | 17,825 |
| | 376,821 | 332,283 |
| Accumulated depreciation and amortization | (101,314) | (85,161) |
| | 275,507 | 247,122 |
| Other assets | 183 | 166 |
| Total assets | \$ 339,494 | \$ 308,079 |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Bank drafts payable | \$ 11,539 | \$ 7,416 |
| Trade accounts payable | 10,419 | 6,253 |
| Current portion of insurance and claims accruals | 6,233 | 7,779 |
| Accrued expenses | 10,808 | 10,525 |
| Note payable | 1,791 | 1,943 |
| Current maturities of long-term debt and capital leases | 25,798 | 19,700 |
| Total current liabilities | 66,588 | 53,616 |
| Long-term debt and capital leases, less current maturities | 67,817 | 67,589 |
| Deferred income taxes | 41,565 | 33,620 |
| Insurance and claims accruals, less current portion | 3,966 | 3,421 |
| Commitments and contingencies | -- | -- |
| Stockholders equity: | | |
| Preferred Stock, \$.01 par value; 1,000,000 shares authorized; none issued | -- | -- |
| Common Stock, \$.01 par value; authorized 30,000,000 shares in 2006 and 16,000,000 shares in 2005; issued 11,473,022 shares in 2006 and 11,414,772 shares in 2005 | | |
| | 115 | 114 |
| Additional paid-in capital | 62,230 | 62,086 |
| Retained earnings | 101,420 | 88,979 |
| Less treasury stock, at cost (230,401 shares in 2006 and 3,114 shares in 2005) | (4,207) | (60) |
| Unearned compensation | -- | (1,286) |
| Total stockholders equity | 159,558 | 149,833 |
| Total liabilities and stockholders equity | \$ 339,494 | \$ 308,079 |
| <i>See accompanying notes.</i> | | |

USA Truck, Inc.

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

| | Year Ended December 31, | | |
|---------------------------------------|-------------------------|------------|------------|
| | 2006 | 2005 | 2004 |
| Revenue: | | | |
| Base revenue | \$ 385,301 | \$ 376,629 | \$ 335,880 |
| Fuel surcharge revenue | 80,317 | 63,074 | 27,225 |
| Total revenue | 465,618 | 439,703 | 363,105 |
| Operating expenses and costs: | | | |
| Salaries, wages and employee benefits | 152,998 | 143,164 | 125,953 |
| Fuel and fuel taxes | 138,629 | 121,026 | 81,722 |
| Depreciation and amortization | 46,739 | 41,890 | 35,871 |
| Insurance and claims | 27,006 | 26,172 | 26,224 |
| Operations and maintenance | 21,919 | 21,178 | 24,736 |
| Purchased transportation | 19,815 | 24,710 | 28,317 |
| Operating taxes and licenses | 6,610 | 6,224 | 5,653 |
| Communications and utilities | 3,362 | 3,220 | 3,039 |
| (Gain) on disposal of assets | (541) | (1,144) | (1,040) |
| Other | 22,677 | 19,766 | 14,831 |
| Total operating expenses and costs | 439,214 | 406,206 | 345,306 |
| Operating income | 26,404 | 33,497 | 17,799 |
| Other expenses (income): | | | |
| Interest expense | 4,192 | 4,829 | 3,539 |
| Other, net | (134) | (19) | 33 |
| Total other expenses, net | 4,058 | 4,810 | 3,572 |
| Income before income taxes | 22,346 | 28,687 | 14,227 |
| Income tax expense: | | | |
| Current | 1,422 | 6,791 | 3,834 |
| Deferred | 8,483 | 6,328 | 2,961 |
| Total income tax expense | 9,905 | 13,119 | 6,795 |
| Net income | \$ 12,441 | \$ 15,568 | \$ 7,432 |
| Net income per share: | | | |
| Basic earnings per share | \$ 1.10 | \$ 1.55 | \$ 0.80 |
| Diluted earnings per share | \$ 1.08 | \$ 1.51 | \$ 0.79 |

See accompanying notes.

USA Truck, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

| | Common Stock Shares | Common Stock Par Value | Additional Paid-in Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income/(Loss) | Unearned Compensation | Total |
|---|------------------------|---------------------------|----------------------------------|----------------------|-------------------|--|--------------------------|----------------|
| Balance at January 1, 2004 | 9,333 | \$ 93 | \$ 11,458 | \$ 65,979 | \$(2) | \$ (32) | \$ -- | \$ 77,496 |
| Exercise of stock options | 9 | -- | 49 | -- | -- | -- | -- | 49 |
| Purchase of 8 shares of Common Stock into treasury | -- | -- | -- | -- | (93) | -- | -- | (93) |
| Sale of 1 share of treasury stock to employee stock purchase plan | -- | -- | 3 | -- | 11 | -- | -- | 14 |
| Contribution of shares for restricted stock award | -- | -- | 1,163 | -- | (1,163) | -- | -- | -- |
| Restricted stock award grant | -- | -- | -- | -- | 1,163 | -- | (1,163) | -- |
| Adjustments to unearned compensation | -- | -- | 538 | -- | -- | -- | (538) | -- |
| Amortization of unearned compensation | -- | -- | -- | -- | -- | -- | 590 | 590 |
| Net income for 2004 | -- | -- | -- | 7,432 | -- | -- | -- | 7,432 |
| Change in fair value of interest rate swap, net of taxes of (\$26) | -- | -- | -- | -- | -- | 40 | -- | 40 |
| Total comprehensive income | | | | | | | | 7,472 |
| Balance at December 31, 2004 | 9,342 | \$ 93 | \$ 13,211 | \$ 73,411 | \$(84) | \$ 8 | \$ (1,111) | \$ 85,528 |
| | | | | | | | -- | |
| Exercise of stock options | 73 | 1 | 522 | -- | -- | -- | -- | 523 |
| Tax benefit on exercise of stock options | -- | -- | 24 | -- | -- | -- | -- | 24 |
| Issuance of Common Stock | 2,000 | 20 | 47,307 | -- | -- | -- | -- | 47,327 |
| Stock based compensation | -- | -- | 9 | -- | -- | -- | -- | 9 |
| Purchase of 3 shares of Common Stock into treasury | -- | -- | -- | -- | (53) | -- | -- | (53) |
| Sale of 6 shares of treasury stock to employee stock purchase plan | -- | -- | 66 | -- | 77 | -- | -- | 143 |
| Restricted stock forfeiture | -- | -- | -- | -- | (500) | -- | 271 | (229) |
| Restricted stock award grant | -- | -- | 53 | -- | 500 | -- | (553) | -- |
| Adjustments to unearned compensation | -- | -- | 894 | -- | -- | -- | (894) | -- |
| Amortization of unearned compensation | -- | -- | -- | -- | -- | -- | 1,001 | 1,001 |
| Net income for 2005 | -- | -- | -- | 15,568 | -- | -- | -- | 15,568 |
| Change in fair value of interest rate swap, net of taxes of (\$5) | -- | -- | -- | -- | -- | (8) | -- | (8) |
| Total comprehensive income | | | | | | | | 15,560 |
| Balance at December 31, 2005 | 11,415 | \$ 114 | \$ 62,086 | \$ 88,979 | \$ (60) | \$ -- | \$ (1,286) | \$ 149,833 |
| Exercise of stock options | 58 | 1 | 485 | -- | -- | -- | -- | 486 |
| Tax benefit on exercise of stock options | -- | -- | 213 | -- | -- | -- | -- | 213 |
| Purchase of 230 shares of Common Stock into treasury | -- | -- | -- | -- | (4,199) | -- | -- | (4,199) |

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Sale of 2 shares of treasury stock to
employee stock purchase

| | | | | | | | | |
|---|--------|--------|-----------|------------|-----------|-------|-------|------------|
| plan | -- | -- | 21 | -- | 52 | -- | -- | 73 |
| Stock based compensation | -- | -- | 711 | -- | -- | -- | -- | 711 |
| Elimination of unearned compensation | -- | -- | (1,286) | -- | -- | -- | 1,286 | -- |
| Net income for 2006 | -- | -- | -- | 12,441 | -- | -- | -- | 12,441 |
| Balance at December 31, 2006 | 11,473 | \$ 115 | \$ 62,230 | \$ 101,420 | \$(4,207) | \$ -- | \$ -- | \$ 159,558 |

See accompanying notes.

USA Truck, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | Year Ended December 31, | | |
|---|-------------------------|-----------|-----------|
| | 2006 | 2005 | 2004 |
| Operating activities | | | |
| Net income | \$ 12,441 | \$ 15,568 | \$ 7,432 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 46,739 | 41,890 | 35,871 |
| Provision for doubtful accounts | 36 | (43) | (129) |
| Deferred income taxes | 8,482 | 6,328 | 2,961 |
| Excess tax benefit from exercise of stock options | (213) | -- | -- |
| Stock based compensation | 711 | 772 | 590 |
| Tax benefit from restricted stock | -- | 24 | -- |
| Expense from accelerated vesting of stock options | -- | 9 | -- |
| Gain on disposal of property and equipment | (541) | (1,144) | (1,040) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 5,491 | (5,189) | (10,041) |
| Inventories, prepaid expenses and other current assets | (2,939) | 566 | (1,190) |
| Trade accounts payable and accrued expenses | 7,043 | (1,402) | 2,273 |
| Insurance and claims accruals | (1,001) | (827) | 565 |
| Net cash provided by operating activities | 76,249 | 56,552 | 37,292 |
| Investing activities | | | |
| Purchases of property and equipment | (100,921) | (59,277) | (77,937) |
| Proceeds from sale of property and equipment | 30,442 | 27,345 | 24,180 |
| Change in other assets | (17) | (13) | 61 |
| Net cash used in investing activities | (70,496) | (31,945) | (53,696) |
| Financing activities | | | |
| Borrowings under long-term debt | 201,431 | 186,226 | 195,640 |
| Principal payments on long-term debt | (177,007) | (236,200) | (165,581) |
| Principal payments on capitalized lease obligations | (22,202) | (24,688) | (13,470) |
| Principal payments on note payable | (2,534) | (3,727) | (1,015) |
| Net increase in bank drafts payable | 4,124 | 5,647 | 726 |
| Payments to repurchase Common Stock | (4,199) | (53) | (93) |
| Proceeds from issuance of Common Stock | -- | 47,327 | -- |
| Excess tax benefit from exercise of stock options | 213 | -- | -- |
| Proceeds from sale of treasury stock | 73 | 143 | 14 |
| Proceeds from exercise of stock options | 486 | 523 | 49 |
| Net cash provided by (used in) financing activities | 385 | (24,802) | 16,270 |
| Increase (decrease) in cash and cash equivalents | 6,138 | (195) | (134) |
| Cash and cash equivalents: | | | |
| Beginning of period | 994 | 1,189 | 1,323 |
| End of period | \$ 7,132 | \$ 994 | \$ 1,189 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | \$ 3,977 | \$ 5,295 | \$ 3,193 |
| Income taxes | 2,206 | 6,420 | 4,948 |
| Supplemental schedule of non-cash investing and financing activities: | | | |
| Liability incurred for leases on revenue equipment | 4,104 | 24,593 | 35,622 |
| Liability incurred for note payable | 2,178 | 2,586 | 4,099 |

See accompanying notes.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

1. Summary of Significant Accounting Policies

Description of Business

USA Truck (the Company) is a medium haul/van truckload carrier transporting general commodities throughout the continental United States and between locations in the United States and Canada. We transport general commodities into Mexico by allowing through-trailer service on our trailers through our facility in the city of Laredo, Texas.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany accounts and significant intercompany transactions have been eliminated in consolidation. The Company has no investments in or contractual obligations with variable interest entities.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts Receivable and Concentration of Credit Risk

The Company extends credit to its customers in the normal course of business. The Company performs ongoing credit evaluations and generally does not require collateral. Trade accounts receivable are recorded at their invoiced amounts, net of allowance for doubtful accounts. The Company evaluates the adequacy of its allowance for doubtful accounts quarterly. Accounts outstanding longer than contractual payment terms are considered past due and are reviewed individually for collectibility. The Company maintains reserves for potential credit losses based upon its loss history and specific receivables aging analysis. Receivable balances are written off when collection is deemed unlikely. Such losses have been within management's expectations.

Accounts receivable are comprised of a diversified customer base that results in a lack of concentration of credit risk. During 2006, 2005 and 2004, the Company's top ten customers comprised 36%, 37% and 39% of total revenue, respectively. During the three year period ended December 31, 2006, no single customer represented more than 10% of total revenue. Other accounts receivable consists primarily of proceeds from the sale of revenue equipment. The carrying amount reported in the balance sheet for accounts receivable approximates fair value based on the fact that the receivables collection averaged approximately 30 days from the billing date.

The following table provides a summary of the activity in the allowance for doubtful accounts for 2006, 2005 and 2004:

| | (in thousands) | | |
|---|-------------------------|--------|--------|
| | Year Ended December 31, | | |
| | 2006 | 2005 | 2004 |
| Balance at beginning of year | \$ 104 | \$ 166 | \$ 330 |
| Amounts charged to expense | 36 | (43) | (129) |
| Uncollectible accounts written off, net of recovery | (44) | (19) | (35) |
| Balance at end of year | \$ 96 | \$ 104 | \$ 166 |

Use of 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.

Inventories

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Inventories consist of tires, fuel, supplies and Company store merchandise and are stated at the lower of cost (first-in, first-out basis) or market.

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USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Significant Accounting Policies (continued)

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets include temporary differences relating to depreciation, capitalized leases and certain revenues and expenses.

Property and Equipment

Property and equipment is recorded at cost. For financial reporting purposes, the cost of such property is depreciated principally by the straight-line method using the following estimated useful lives: structures 5 to 39.5 years; revenue equipment 3 to 10 years; and service, office and other equipment 3 to 20 years. Gains and losses on asset sales are reflected in the year of disposal. Trade-in allowances in excess of book value of revenue equipment are accounted for by adjusting the cost of assets acquired. Tires purchased with revenue equipment are capitalized as a part of the cost of such equipment, with replacement tires being inventoried and expensed when placed in service.

Claims Liabilities

The Company is self-insured up to certain limits for bodily injury, property damage, workers' compensation, cargo loss and damage claims and medical benefits. Provisions are made for both the estimated liabilities for known claims as incurred and estimates for those incurred but not reported.

The Company's self-insurance retention levels are \$0.5 million for workers' compensation claims per occurrence, \$0.05 million for cargo loss and damage claims per occurrence and \$1.0 million for bodily injury and property damage claims per occurrence. For medical benefits, the Company self-insures up to \$0.25 million per plan participant per year with an aggregate claim exposure limit determined by the Company's year-to-date claims experience and its number of covered lives. The Company is completely self-insured for physical damage to its own tractors and trailers, except that the Company carries catastrophic physical damage coverage to protect against natural disasters. The Company maintains insurance above the amounts for which it self-insures, to certain limits, with licensed insurance carriers. The Company has excess general, auto and employer's liability coverage in amounts substantially exceeding minimum legal requirements, and the Company believes this coverage is sufficient to protect against material loss.

The Company records claims accruals at the estimated ultimate payment amounts based on information such as individual case estimates or historical claims experience. The current portion reflects the amounts of claims expected to be paid in the next twelve months. In making the estimates of ultimate payment amounts and the determinations of the current portion of each claim the Company relies on past experience with similar claims, negative or positive developments in the case and similar factors. The Company re-evaluates these estimates and determinations each reporting period based on developments that occur and new information that becomes available during the reporting period.

Interest

The Company capitalizes interest on major projects during construction. Interest is capitalized based on the average interest rate on related debt. Capitalized interest was \$0.02 million, \$0.20 million and \$0.03 million in 2006, 2005 and 2004, respectively. Interest expense was \$4.2 million, \$4.8 million and \$3.5 million in 2006, 2005 and 2004, respectively.

Earnings Per Share

Basic earnings per share is computed based on the weighted average number of shares of Common Stock outstanding during the year. 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.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Significant Accounting Policies (continued)

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 operating segments, Trucking and USA Logistics, which we aggregate into one segment for financial reporting purposes in accordance with SFAS 131. Trucking consists of our General Freight, Regional Freight and Dedicated Freight divisions, which provide truckload freight services. USA Logistics consists of our Freight Brokerage and Third Party Logistics divisions, which provide services such as transportation scheduling, routing and mode selection, which do not typically involve the use of Company-owned or owner-operator equipment.

Our decision to aggregate our 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 4% of our total base revenue for the year ended December 31, 2006, and less than 7% of total base revenue in 2005 and 2004.

Revenue Recognition

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 issued by the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB). 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.

Reclassifications

In 2006, the Company classified bank drafts payable as a financing activity for purposes of the consolidated statement of cash flows. Bank drafts payable have been appropriately reclassified in the consolidated statements of cash flows for the years ended December 31, 2005 and 2004.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Significant Accounting Policies (continued)

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. SAB 108 has not and is not expected to 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 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. Management is in the process of determining the impact of FIN 48. Presently, 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. Since its adoption, SFAS 154 has not had and is not expected to have a material impact upon our financial position, results of operations and cash flows, but will affect future changes in accounting principles.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Summary of Significant Accounting Policies (continued)

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. Since its adoption, SFAS 153 has not had and is not expected to have a material impact upon our financial position, results of operations and cash flows.

2. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist of the following:

| | (in thousands) | |
|---|----------------|----------|
| | December 31, | |
| | 2006 | 2005 |
| Prepaid licenses, permits and tolls | \$ 2,248 | \$ 2,473 |
| Prepaid insurance | 4,967 | 1,954 |
| Other | 1,051 | 1,192 |
| Total prepaid expenses and other current assets | \$ 8,266 | \$ 5,619 |

3. Accrued Expenses

Accrued expenses consist of the following:

| | (in thousands) | |
|--|----------------|-----------|
| | December 31, | |
| | 2006 | 2005 |
| Salaries, wages, bonuses and employee benefits | \$ 4,859 | \$ 4,863 |
| Other (1) | 5,949 | 5,662 |
| Total accrued expenses | \$ 10,808 | \$ 10,525 |

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

4. Derivative Financial Instruments

We record derivative financial instruments in the balance sheet 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 indexed to the 3-month LIBOR. This interest rate swap agreement terminated on March 27, 2005.

The Company recorded no gain or loss for the years ended December 31, 2005 and 2004 as a result of hedge ineffectiveness, other derivative instruments' gain or loss or the discontinuance of a cash flow hedge.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Note Payable

At December 31, 2006, the Company had an unsecured note payable of \$1.8 million that matures on September 1, 2007, bearing interest at 6.0%. At December 31, 2005, the Company had an unsecured note payable of \$1.9 million that matured on September 1, 2006 bearing interest at 4.4%. Both of these notes payable were used to finance a portion of our annual insurance premiums at a favorable fixed rate of interest.

6. Long-term Debt

Long-term debt consists of the following:

| | (in thousands) | |
|---|------------------|-----------|
| | December 31, | |
| | 2006 | 2005 |
| Revolving credit agreement (1) | \$ 37,993 | \$ 13,569 |
| Capitalized lease obligations (2) | 55,622 | 73,720 |
| | 93,615 | 87,289 |
| Less current maturities | 25,798 | 19,700 |
| Long-term debt, less current maturities | \$ 67,817 | \$ 67,589 |

(1) The Company's revolving credit agreement (the Senior Credit Facility), as amended 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 agreement. At December 31, 2006, the Company had approximately \$60.3 million available under the Senior Credit Facility. The Senior Credit Facility matures on September 1, 2010. The Senior Credit Facility can also be increased to \$175.0 million at the Company's option, with the additional availability provided by the current lenders, at their election, or by other lenders. The Senior Credit 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 the Company's attainment of certain financial ratios. The effective interest rate on the Company's borrowings under the Senior Credit Facility for the year ending December 31, 2006 was 6.8% and the rate at December 31, 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 the Company's attainment of certain financial ratios. At December 31, 2006, the rate was 0.2% per annum. The Senior Credit Facility is collateralized by revenue equipment having a net book value of approximately \$188.7 million at December 31, 2006 and all trade and other accounts receivable. The Company had outstanding letters of credit of approximately \$1.7 million at December 31, 2006. The Senior Credit Facility requires the Company to meet certain financial covenants and to maintain a minimum tangible net worth of approximately \$130.5 million at December 31, 2006. In the event the Company fails to cure an event of default, the loan can become immediately due and payable. The Company was in compliance with these covenants at December 31, 2006. The covenants would prohibit the payment of dividends by the Company if such payment would cause the Company to be in violation of any of the covenants. The carrying amount reported in the balance sheet for borrowings under the Senior Credit Facility approximates its fair value as the applicable interest rates fluctuate with changes in current market conditions.

(2) The Company's capitalized lease obligations extend through June 2010 and contain renewal or fixed price purchase options. The effective interest rates on the leases range from 2.4% to 4.5% at December 31, 2006. The lease agreements require the Company to pay property taxes, maintenance and operating expenses.

7. Leases and Commitments

The Company leases certain revenue equipment under capital leases with terms from three to five years. At December 31, 2006, property and equipment included capitalized leases, which had capitalized costs of \$88.1 million, accumulated amortization of \$33.1 million and a net book value of \$55.0 million. At December 31, 2005, property and equipment included capitalized leases, which had capitalized costs of \$99.0 million, accumulated amortization of \$26.0 million and a net book value of \$73.0 million. Amortization of leased assets is included in depreciation and amortization expense and totaled \$15.9 million, \$16.4 million and \$11.9 million for the years ended December 31, 2006, 2005 and 2004, respectively.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Leases and Commitments (continued)

At December 31, 2006, the future minimum payments under capitalized leases with initial terms of one year or more were \$27.4 million for 2007, \$21.6 million for 2008, \$7.2 million for 2009 and \$2.0 million for 2010. The present value of net minimum lease payments was \$55.6 million, which excludes amounts representing interest of \$2.6 million. The current portion of net minimum lease payments is \$25.8 million.

From time to time we enter into operating leases for certain facilities and office equipment. Rent expense under those operating leases was \$0.9 million, \$0.7 million and \$0.4 million in 2006, 2005 and 2004, respectively. At December 31, 2006 the Company was obligated to pay future rentals under those operating leases of \$0.5 million, \$0.4 million, \$0.2 million, \$0.1 million, \$0.1 million and \$0.3 million for 2007, 2008, 2009, 2010, 2011 and thereafter, respectively.

Certain leases contain cross-default provisions with other financing agreements of the Company.

Commitments to purchase revenue equipment (including capital leases) and other fixed assets aggregated approximately \$15.8 million at December 31, 2006.

8. Federal and State Income Taxes

Significant components of the Company's deferred tax liabilities and assets are as follows:

| | (in thousands) | |
|--|----------------|-------------|
| | December 31, | |
| | 2006 | 2005 |
| Current deferred tax assets: | | |
| Accrued expenses not deductible until paid | \$ 3,837 | \$ 3,870 |
| Equity Incentive Plan | 392 | 169 |
| Alternative Minimum Tax credit | 379 | -- |
| Revenue recognition | 190 | 299 |
| Allowance for doubtful accounts | 37 | 41 |
| Total current deferred tax assets | 4,835 | 4,379 |
| Current deferred tax liability: | | |
| Prepaid expenses deductible when paid | (3,043) | (2,050) |
| Total current deferred tax liability | (3,043) | (2,050) |
| Net current deferred tax assets | \$ 1,792 | \$ 2,329 |
| Noncurrent deferred tax assets: | | |
| Capitalized leases | \$ 186 | \$ 208 |
| State tax credits | -- | 114 |
| Non-compete agreement | 173 | 199 |
| Total noncurrent deferred tax assets | 359 | 521 |
| Noncurrent deferred tax liabilities: | | |
| Tax over book depreciation | (41,903) | (34,123) |
| Other | (21) | (18) |
| Total noncurrent deferred tax liabilities | (41,924) | (34,141) |
| Net deferred tax liabilities | \$ (41,565) | \$ (33,620) |

For the year ended December 31, 2006, the Company's effective tax rate decreased approximately 1.4% from that of the prior year primarily due to a reduction in taxable income. The change in the effective tax rate resulted in a reduction of the deferred tax liability and the deferred tax asset amounts of approximately \$0.8 million and approximately \$0.03 million, respectively.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Federal and State Income Taxes (continued)

Significant components of the provision for income taxes are as follows:

| | (in thousands) | | |
|--------------------------|-------------------------|-----------|----------|
| | Year Ended December 31, | | |
| | 2006 | 2005 | 2004 |
| Current: | | | |
| Federal | \$ 1,178 | \$ 5,678 | \$ 3,132 |
| State | 244 | 1,113 | 702 |
| Total current | 1,422 | 6,791 | 3,834 |
| Deferred: | | | |
| Federal | 7,027 | 5,304 | 2,482 |
| State | 1,456 | 1,024 | 479 |
| Total deferred | 8,483 | 6,328 | 2,961 |
| Total income tax expense | \$ 9,905 | \$ 13,119 | \$ 6,795 |

A reconciliation between the effective income tax rate and the statutory federal income tax rate is as follows:

| | (in thousands) | | |
|---------------------------------------|-------------------------|-----------|----------|
| | Year Ended December 31, | | |
| | 2006 | 2005 | 2004 |
| Income tax at statutory federal rate | \$ 7,572 | \$ 10,040 | \$ 4,979 |
| Federal income tax effects of: | | | |
| State income taxes | (615) | (748) | (414) |
| Nondeductible meals and entertainment | 1,634 | 1,753 | 1,521 |
| Other | (494) | (63) | (472) |
| Federal income taxes | 8,097 | 10,982 | 5,614 |
| State income taxes | 1,808 | 2,137 | 1,181 |
| Total income tax expense | \$ 9,905 | \$ 13,119 | \$ 6,795 |
| Effective tax rate | 44.3% | 45.7% | 47.8% |

The effective rates varied from the statutory federal tax rate primarily due to state income taxes and certain non-deductible expenses including a per diem pay structure for drivers. Due to the nondeductible portion of per diem pay to drivers, the Company's effective tax rate will exceed the statutory rate.

9. Employee Benefit Plans

The Company sponsors the USA Truck, Inc. Employees' Investment Plan, a tax deferred savings plan under section 401(k) of the Internal Revenue Code that covers substantially all employees. Employees can contribute up to 50% of their compensation, subject to statutory limits, with the Company matching 50% of the first 4% of compensation contributed by each employee. Employees' rights to employer contributions vest after three years from their date of employment. Company matching contributions to the plan were approximately \$0.7 million, \$0.7 million and \$0.6 million for 2006, 2005 and 2004, respectively.

10. Stock Plans

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.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Stock Plans (continued)

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. Options granted under this plan 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 the Chairman of the Board 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 December 31, 2006. At December 31, 2006, approximately 597,200 shares were available for granting future options or other equity awards 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). Accordingly, no stock-based compensation cost for our incentive and nonqualified stock options was recognized in the Consolidated Statements of Income for 2005 and 2004. 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, the prior period's financial statements are not restated. Compensation cost recognized in 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 year ended December 31, 2006, we recognized approximately \$0.3 million in compensation expense related to incentive and non-qualified stock options granted under our 2004 Equity Incentive Plan. Our adoption of SFAS 123(R) impacted our results of operations by increasing salaries, wages and employee benefits expense and increasing deferred income taxes. Such increases were immaterial in amount. Accordingly, the adoption of SFAS 123(R) had no effect on our basic and diluted earnings per share for the year ended December 31, 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 year ended December 31, 2006, approximately \$0.2 million of excess tax benefits classified as a financing cash inflow would have been classified as an operating cash inflow if we had not adopted SFAS 123(R).

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Stock Plans (continued)

Information related to option activity for the year ended December 31, 2006 is as follows:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (1) |
|--------------------------------------|----------------------|---------------------------------------|--|----------------------------------|
| Outstanding - beginning of year | 448,100 | \$ 12.86 | | |
| Granted | 11,000 | 26.24 | | |
| Exercised | (58,250) | 8.34 | | 839,907 |
| Cancelled/forfeited/expired | (20,300) | 11.85 | | |
| Outstanding at December 31, 2006 | 380,550 | 13.99 | 2.5 | \$ 1,355,699 |
| Exercisable at December 31, 2006 (2) | 153,550 | \$ 11.76 | 0.9 | \$ 709,027 |

(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 December 29, 2006 (the last trading day of the fiscal year), was \$16.05. The intrinsic value for options exercised in 2005 was \$1,159,446 and in 2004 was \$55,299.

(2) The fair value of the options exercisable at December 31, 2006 was \$0.6 million.

Information related to the weighted average fair value of stock option activity for the year ended December 31, 2006 is as follows:

| | (in thousands) Number of Shares Under Options | Weighted Average Fair Value |
|---------------------------------------|---|--------------------------------|
| Nonvested options - December 31, 2005 | 319,300 | \$ 4.96 |
| Granted (1) | 11,000 | 11.67 |
| Forfeited | (20,300) | 3.58 |
| Vested | (83,000) | 4.15 |
| Nonvested options- December 31, 2006 | 227,000 | 5.70 |

(1) Weighted average fair value for options granted in 2005 was \$8.19 and in 2004 was \$3.32.

The exercise price, number, weighted average remaining contractual life of options outstanding and the number of options exercisable as of December 31, 2006 is as follows:

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Stock Plans (continued)

| Exercise Price | | Number of Options Outstanding | Weighted Average Remaining Contractual Life (in years) | Number of Options Exercisable |
|----------------|--|-------------------------------|--|-------------------------------|
| \$ 5.44 | | 8,300 | 0.8 | 8,300 |
| 5.98 | | 6,000 | 0.8 | 6,000 |
| 7.52 | | 3,000 | 1.1 | 3,000 |
| 11.47 | | 199,600 | 2.3 | 73,000 |
| 12.10 | | 37,000 | 1.2 | 37,000 |
| 12.62 | | 15,000 | 1.3 | 5,000 |
| 12.66 | | 16,000 | 2.6 | 6,400 |
| 13.31 | | 5,700 | 0.1 | 5,700 |
| 16.08 | | 8,250 | 1.7 | 1,500 |
| 22.54 | | 70,700 | 4.3 | 7,650 |
| 22.93 | | 6,000 | 2.8 | -- |
| 30.22 | | 5,000 | 4.1 | -- |
| | | 380,550 | 2.5 | 153,550 |

The following assumptions were used to value the stock options granted during the years indicated:

| | 2006 | 2005 | 2004 |
|-------------------------|---------------|---------------|----------------|
| Dividend yield | 0% | 0% | 0% |
| Expected volatility | 40.2% - 52.1% | 28.6% - 31.0% | 25.8% to 26.1% |
| Risk-free interest rate | 4.4% - 5.0% | 3.3% - 4.7% | 2.5% to 4.4% |
| Expected life | 2 to 7 years | 2 to 9 years | 3 to 7 years |

Expected volatility is a measure of the expected fluctuation in the Company's share price. We use the historical method to calculate volatility with the historical period being equal to the expected life of each option. This calculation is then used to determine the potential for the Company's share price to increase over the expected life of the option. Expected life represents the length of time the Company anticipates the options to be outstanding before being exercised. Based on historical experience, that time period is best represented by the option's contractual life. The risk-free interest rate is based on an implied yield on United States zero-coupon treasury bonds with a remaining term equal to the expected life of the outstanding options.

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 awards 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), 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 the fair value of fewer shares under our Restricted Stock Award Plan for 2006, our stock-based compensation expense related to restricted stock awards decreased in 2006 as compared to 2005. The stock-based compensation expense that we recognized related to our restricted stock awards was \$0.4 million, \$0.8

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Stock Plans (continued)

million and \$0.5 million in 2006, 2005 and 2004, respectively, and is included in salaries, wages and employee benefits in the consolidated statements of income.

Information related to the 2003 Restricted Stock Award Plan for the year ended December 31, 2006 is as follows:

| | (in thousands) Number of Shares | Weighted Average Fair Value |
|-------------------------------------|------------------------------------|--------------------------------|
| Nonvested shares- December 31, 2005 | 80,000 | \$ 15.64 |
| Granted | -- | -- |
| Forfeited | -- | -- |
| Vested | (15,000) | 11.63 |
| Nonvested shares- December 31, 2006 | 65,000 | 16.56 |

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

| | (in thousands, except per share amounts) | |
|--|--|----------|
| | 2005 | 2004 |
| Net income | \$ 15,568 | \$ 7,432 |
| Stock-based compensation expense included in the Consolidated Statements of Income, net of tax | 475 | 365 |
| Stock-based compensation expense determined under fair value-based method for all awards, net of tax | (764) | (549) |
| Pro forma net income | \$ 15,279 | \$ 7,248 |
| Basic earnings per share, as reported | \$ 1.55 | \$ 0.80 |
| Pro forma basic earnings per share | \$ 1.52 | \$ 0.78 |
| Diluted earnings per share, as reported | \$ 1.51 | \$ 0.79 |
| Pro forma diluted earnings per share | \$ 1.48 | \$ 0.77 |

As of December 31, 2006, we had \$0.5 million and \$0.4 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 2.5 years for stock options and 1.5 years for restricted stock.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Earnings per Share

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

| | (in thousands, except per share amounts) | | |
|--|--|-----------|----------|
| | Year Ended December 31, | | |
| | 2006 | 2005 | 2004 |
| Numerator: | | | |
| Net income | \$ 12,441 | \$ 15,568 | \$ 7,432 |
| Denominator: | | | |
| Denominator for basic earnings per share weighted average shares | 11,353 | 10,034 | 9,268 |
| Effect of dilutive securities: | | | |
| Restricted Stock Award Plan | 68 | 80 | 66 |
| Employee stock options | 140 | 214 | 64 |
| | 208 | 294 | 130 |
| Denominator for diluted earnings per share adjusted weighted weighted average shares and assumed conversions | 11,561 | 10,328 | 9,398 |
| Basic earnings per share | \$ 1.10 | \$ 1.55 | \$ 0.80 |
| Diluted earnings per share | \$ 1.08 | \$ 1.51 | \$ 0.79 |
| Anti-dilutive employee stock options | 90 | -- | -- |

12. Common Stock Transactions

Repurchase of Equity Securities

On October 20, 2004, the Company's Board of Directors authorized the repurchase of up to 500,000 shares of the Company's outstanding Common Stock over a three-year period ending October 19, 2007, dependent upon market conditions. The Company may make Common Stock purchases under this program from time to time on the open market or in privately negotiated transactions at prices determined by the Chairman of the Board or President. The Company may reissue repurchased shares under our equity compensation plans or as otherwise directed by the Board of Directors. During 2006, the Company purchased 230,000 shares of Common Stock for approximately \$4.2 million and in 2005, purchased 2,500 shares of Common Stock for approximately \$0.05 million.

On January 24, 2007 the Company's Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding Common Stock through January 24, 2010. The new authorization is in addition to the existing repurchase program.

Stock Offering

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

13. Fair Value of Financial Instruments

At December 31, 2006 and 2005, the amount reported in the Company's balance sheets for its Senior Credit Facility approximated its fair value.

USA Truck, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Litigation

The Company is a party to routine litigation incidental to its business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. It maintains insurance covering liabilities in excess of certain self-insured retention levels. Though management believes these claims to be routine and immaterial to the long-term financial position of the Company, adverse results of one or more of these claims could have a material adverse effect on the financial position or results of operations of the Company.

15. Quarterly Results of Operations (Unaudited)

The tables below present quarterly financial information for 2006 and 2005:

| | (in thousands, except per share amounts) | | | |
|--------------------------------------|--|------------|--------------|-------------|
| | 2006 | | | |
| | Three Months Ended | | | |
| | March 31 | June 30 | September 30 | December 31 |
| Operating revenues | \$ 114,208 | \$ 121,941 | \$ 119,802 | \$ 109,667 |
| Operating expenses and costs | 106,989 | 112,745 | 112,322 | 107,159 |
| Operating income | 7,219 | 9,196 | 7,480 | 2,508 |
| Other expenses, net | 867 | 1,098 | 1,035 | 1,057 |
| Income before income taxes | 6,352 | 8,098 | 6,445 | 1,451 |
| Income tax expense | 2,904 | 3,739 | 3,030 | 232 |
| Net income | \$ 3,448 | \$ 4,359 | \$ 3,415 | \$ 1,219 |
| Average shares outstanding (basic) | 11,349 | 11,382 | 11,389 | 11,293 |
| Basic earnings per share | \$ 0.30 | \$ 0.38 | \$ 0.30 | \$ 0.11 |
| Average shares outstanding (diluted) | 11,643 | 11,583 | 11,558 | 11,456 |
| Diluted earnings per share | \$ 0.30 | \$ 0.38 | \$ 0.30 | \$ 0.11 |

Note - The above amounts have been previously reported in the Company's quarterly reports on Form 10-Q. Certain line items in those quarterly reports may not total the corresponding amount reported in this Annual Report on Form 10-K due to rounding.

| | (in thousands, except per share amounts) | | | |
|--------------------------------------|--|------------|--------------|-------------|
| | 2005 | | | |
| | Three Months Ended | | | |
| | March 31 | June 30 | September 30 | December 31 |
| Operating revenues | \$ 101,043 | \$ 107,412 | \$ 113,155 | \$ 118,092 |
| Operating expenses and costs | 94,454 | 97,995 | 104,312 | 109,444 |
| Operating income | 6,589 | 9,417 | 8,843 | 8,648 |
| Other expenses, net | 1,292 | 1,433 | 1,226 | 859 |
| Income before income taxes | 5,297 | 7,984 | 7,617 | 7,789 |
| Income tax expense | 2,563 | 3,649 | 3,396 | 3,511 |
| Net income | \$ 2,734 | \$ 4,335 | \$ 4,221 | \$ 4,278 |
| Average shares outstanding (basic) | 9,251 | 9,280 | 10,270 | 11,313 |
| Basic earnings per share | \$ 0.30 | \$ 0.47 | \$ 0.41 | \$ 0.38 |
| Average shares outstanding (diluted) | 9,538 | 9,563 | 10,590 | 11,611 |
| Diluted earnings per share | \$ 0.29 | \$ 0.45 | \$ 0.40 | \$ 0.37 |

Note - The above amounts have been previously reported in the Company's quarterly reports on Form 10-Q. Certain line items in those quarterly reports may not total the corresponding amount reported in this Annual Report on Form 10-K due to rounding.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 14, 2006, the Company dismissed its independent auditors, Ernst & Young LLP, and on March 15, 2006, engaged Grant Thornton LLP as its independent auditors for the fiscal year ending December 31, 2006. Each of these actions was approved by the Audit Committee of the Company. Information with respect to this matter was previously reported in the Company's current report on Form 8-K filed March 17, 2006. There were no disagreements between the Company and its former auditors and no reportable events required to be disclosed in this Item 9.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure 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 our 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 significant changes in our internal control over financial reporting during the quarter ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of management, including the CEO and the CFO, an evaluation was conducted of the effectiveness of our internal control over financial reporting based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2006. As stated below, Grant Thornton LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this annual report on Form 10-K, has also audited management's assessment of our internal control over financial reporting and the effectiveness of our internal control over financial reporting as of December 31, 2006, as stated in their accompanying report.

Attestation Report of the Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

Board of Directors and

Stockholders of USA Truck, Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting (management's assessment), that USA Truck, Inc. (a Delaware corporation) and subsidiary (collectively, the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such

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other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that USA Truck, Inc., maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, USA Truck, Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statement of income, stockholders' equity, and cash flows for the year then ended of USA Truck, Inc., and our report dated March 2, 2007, expressed an unqualified opinion on those financial statements.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma

March 2, 2007

Item 9B. OTHER INFORMATION

There is no information that we are required to report, but did not report, on Form 8-K during the fourth quarter of 2006.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The sections entitled "Additional Information Regarding the Board of Directors - Biographical Information", "Executive Officers - Section 16(a) Compliance", "Security Ownership of Certain Beneficial Owners, Directors and Executive Officers", "Audit Committee, and Corporate Governance and Related Matters" in our proxy statement for the annual meeting of stockholders to be held on May 2, 2007, set forth certain information with respect to the directors, nominees for election as directors and executive officers and are incorporated herein by reference.

The Company's Code of Business Conduct and Ethics ("Code of Ethics") applicable to all directors, officers and employees, which sets forth the conduct and ethics expected of all affiliates and employees of the Company, is available at our Internet address <http://www.usa-truck.com>, under the "Corporate Governance" tab of the "Investor Relations" page. Any amendment to, or waivers of, any provision of the Code of Ethics that apply to the Company's principal executive, financial and accounting officers, or persons performing similar functions, will be posted at that same location on the Company's website.

Item 11. EXECUTIVE COMPENSATION

The sections entitled Executive Compensation, Director Compensation, Compensation Committee Interlocks and Insider Participation and Compensation Committee Report in our proxy statement for the annual meeting of stockholders to be held on May 2, 2007, set forth certain information with respect to the compensation of management and directors and related matters and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The section entitled Security Ownership of Certain Beneficial Owners, Directors and Executive Officers in our proxy statement for the annual meeting of stockholders to be held on May 2, 2007, sets forth certain information with respect to the ownership of our voting securities and is incorporated herein by reference. See Item 5. Market for Registrant's Common Equity and Related Stockholder Matters, of this annual report on Form 10-K, which sets forth certain information with respect to our equity compensation plans.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The sections entitled Certain Transactions and Director Independence in our proxy statement for the annual meeting of stockholders to be held on May 2, 2007, set forth certain information with respect to relations of and transactions by management and the independence of our directors and nominees for election as directors and is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The section entitled Independent Registered Public Accounting Firm in our proxy statement for the annual meeting of stockholders to be held on May 2, 2007, sets forth certain information with respect to the fees billed by our independent registered public accounting firm and the nature of services rendered for such fees for each of the two most recent fiscal years and with respect to our audit committee's policies and procedures pertaining to pre-approval of audit and non-audit services rendered by our independent registered public accounting firm and is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

| (a) The following documents are filed as a part of this report: | Page |
|---|-------------|
| 1. Financial statements. | |
| The following financial statements of the Company are included in Part II, Item 8 of this report: | |
| Consolidated Balance Sheets as of December 31, 2006 and 2005 | 34 |
| Consolidated Statements of Income for the years ended December 31, 2006, 2005 and 2004 | 35 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004 | 36 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004 | 37 |
| Notes to Consolidated Financial Statements | 38 |
| 2. Schedules have been omitted since the required information is not applicable or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or the notes thereto. | |
| 3. Listing of exhibits. | |
| The exhibits filed with this report are listed in the Exhibit Index, which is a separate section of this report, and incorporated in this Item 15(a) by reference. | |
| Management Compensatory Plans: | |
| -Employee Stock Option Plan (Exhibit 10.1) | |
| -Executive Profit-Sharing Incentive Plan (Exhibit 10.2) | |
| -1997 Nonqualified Stock Option Plan for Nonemployee Directors (Exhibit 10.3) | |
| -2003 Restricted Stock Award Plan (Exhibit 10.4) | |
| -Form of Restricted Stock Award Agreement (Exhibit 10.5) | |
| -USA Truck, Inc. 2004 Equity Incentive Plan (Exhibit 10.6) | |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By: /s/ Jerry D. Orlor
Jerry D. Orlor
President and Chief Executive Officer

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

Date: March 2, 2007

Date: March 2, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|---|---------------|
| /s/ Robert M. Powell Robert M. Powell | <i>Chairman of the Board and Director</i> | March 2, 2007 |
| /s/ Jerry D. Orlor Jerry D. Orlor | <i>President, Chief Executive Officer and Director</i> | March 2, 2007 |
| /s/ Clifton R. Beckham Clifton R. Beckham | <i>Sr. Vice President, Finance and Chief Financial Officer (principal financial and accounting officer)</i> | March 2, 2007 |
| /s/ James B. Speed James B. Speed | <i>Director</i> | March 2, 2007 |
| /s/ Terry A. Elliott Terry A. Elliott | <i>Director</i> | March 2, 2007 |
| /s/ William H. Hanna William H. Hanna | <i>Director</i> | March 2, 2007 |
| /s/ Joe D. Powers Joe D. Powers | <i>Director</i> | March 2, 2007 |
| /s/ Richard B. Beauchamp Richard B. Beauchamp | <i>Director</i> | March 2, 2007 |

EXHIBIT INDEX

Exhibit

| Number | Exhibit |
|---------------|---|
| 2.01 | Asset Purchase Agreement dated as of October 31, 1999 between the Company, as buyer, and CARCO Carrier Corporation doing business as CCC Express, Inc., as seller, and CARCO Capital Corporation (incorporated by reference to Exhibit 2.1 to the Company's Report on Form 8-K filed on November 15, 1999). |
| 3.01 | Restated and Amended Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1, Registration No. 33-45682, filed with the Securities and Exchange Commission on February 13, 1992 [the Form S-1]). |
| 3.02 | Amended Bylaws of the Company as currently in effect (incorporated by reference to Exhibit 3.2 to the Company's annual report on Form 10-K for the year ended December 31, 2001). |
| 3.03 | Certificate of Amendment to Certificate of Incorporation of the Company filed March 17, 1992 (incorporated by reference to Exhibit 3.3 to Amendment No. 1 to the Form S-1 filed with the Securities and Exchange Commission on March 19, 1992). |
| 3.04 | Certificate of Amendment to Certificate of Incorporation of the Company filed April 29, 1993 (incorporated by reference to Exhibit 5 to the Company's Registration Statement on Form 8-A/A filed with the Securities and Exchange Commission on June 2, 1997 [the Form 8-A/A]). |
| 3.05 | Certificate of Amendment to Certificate of Incorporation of the Company filed May 13, 1994 (incorporated by reference to Exhibit 6 to the Form 8-A/A). |
| 4.01 | Specimen certificate evidencing shares of the Common Stock, \$.01 par value, of the Company (incorporated by reference to Exhibit 4.1 to the Form S-1). |
| 4.02 | Instruments with respect to long-term debt not exceeding 10.0% of the total assets of the Company have not been filed. The Company agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request. |
| 4.03 | Amended and Restated Senior Credit Facility dated September 1, 2005, between the Company and Bank of America, N.A., U.S. Bank, N.A., SunTrust Bank and Regions Bank collectively as the Lenders (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K dated September 8, 2005). |
| 10.1* | Employee Stock Option Plan of the Company (incorporated by reference to Exhibit 10.6 to the Form S-1) terminated in 2002, except with respect to outstanding options. |

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Exhibit

| Number | Exhibit |
|---------------|--|
| 10.2* | Executive Profit-Sharing Incentive Plan, as amended effective January 1, 2007, for executive officers of the Company (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed on October 20, 2006). |
| 10.3* | 1997 Nonqualified Stock Option Plan for Nonemployee Directors of the Company (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8, Registration No. 333-20721, filed with the Securities and Exchange Commission on January 30, 1997). |
| 10.4* | 2003 Restricted Stock Award Plan (incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2003). |
| 10.5* | Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2003). |
| 10.6* | USA Truck, Inc. 2004 Equity Incentive Plan (incorporated by reference to Exhibit B to the Company's proxy statement filed with the Securities and Exchange Commission on March 19, 2004). |
| 21 | The Company has no significant subsidiaries. |
| 23.1** | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. |
| 23.2 | Consent of Grant Thornton LLP, Independent Registered Public Accounting Firm. |
| 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. |

* Compensatory Plan

** Filed herewith