

Edgar Filing: USA TRUCK INC - Form 10-K

USA TRUCK INC  
Form 10-K  
March 03, 2008  
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, 2007

**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

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None

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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer \_\_\_\_\_ Accelerated Filer  Non-Accelerated Filer \_\_\_\_\_ Smaller Reporting Company \_\_\_\_\_

(Do not check if a smaller reporting company)

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 \$128,399,954 (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 25, 2008 is 10,236,560.

## 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 2008 Annual Meeting	Part III

## USA TRUCK, INC.

### TABLE OF CONTENTS

Item No.	Caption	Page
	PART I	
1.	Business	2
1A.	Risk Factors	10
1B.	Unresolved Staff Comments	13
2.	Properties	13
3.	Legal Proceedings	13
4.	Submission of Matters to a Vote of Security Holders	13
	PART II	
5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	14
6.	Selected Financial Data	16
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
7A.	Quantitative and Qualitative Disclosure about Market Risk	29
8.	Financial Statements and Supplementary Data	31

## Edgar Filing: USA TRUCK INC - Form 10-K

9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	53
9A.	Controls and Procedures	53
9B.	Other Information	54
	<b>PART III</b>	
10.	Directors, Executive Officers and Corporate Governance	54
11.	Executive Compensation	54
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	54
13.	Certain Relationships and Related Transactions and Director Independence	55
14.	Principal Accountant Fees and Services	55
	<b>PART IV</b>	
15.	Exhibits and Financial Statement Schedules	56
	Signatures	57

### **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 equipment that we own 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 medium-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, 2007, our Trucking fleet consisted of 2,499 tractors and 7,024 trailers.

Through our Strategic Capacity Solutions 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 our equipment 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 Strategic Capacity Solutions operations.

For reporting purposes, we aggregate the financial data for our Trucking operating segment and our USA Logistics operating segment. The discussion of our business in this Item 1 focuses primarily on Trucking, which is our dominant segment, producing 97.7% of our total base revenue in 2007.

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 and maintaining 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.

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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.

2

### Strategic Objectives

We have studied our business carefully over the past year to determine the best path to narrowing the current and historic disparity between our stock's valuation and those of our peers. Going forward, we will pursue three primary strategic objectives.

- *More closely manage our financial returns.* Our goal is to produce a return on capital that meets or exceeds 10% while simultaneously managing our cost of capital below that 10% threshold, thus adding economic value for our shareholders. Over the years, we have consistently injected capital into our business but have not generally been satisfied with the return on that capital. We are now utilizing our own internal cost of capital as the basis for establishing internal rates of return objectives on various business activities.
- *Improve earnings consistency relative to the Standard & Poor's 500.* 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. The inconsistency is caused by many factors including unpredictable insurance and claims costs and our relatively low outstanding share count. However, the most fundamental factor is the volatility inherent in our traditional business model.

Our model, which is primarily medium length of haul, has produced industry-leading operating margins when freight demand is plentiful, but it has conversely struggled when freight demand is scarce. Our basic model is unchanged. A significant majority of our revenue is still derived from medium length of haul trucking, thus we cannot expect to meet our objective unless we make some changes to our business model. We have begun to make significant changes to our business model as described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations - Executive Overview."

While our revenue production has been volatile throughout the economic cycles, our cost discipline has not. We are consistently one of the lowest cost operators in the truckload industry. We are committed to controlling costs and we are one of the very best in the industry at utilizing our equipment. Maintaining our cost discipline will be crucial if we are to achieve our objective of improved earnings consistency.

- *Position USA Truck for long-term revenue growth.* Historically, we have grown base revenue at a 13% compounded annual growth rate. Our objective is to create enough operating margin to consistently produce a 10% return on capital. Once that occurs, profitable top-line revenue growth will again be our primary vehicle to grow shareholder value. We are laying the foundations to position ourselves for future growth opportunities.

### 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 pick-up 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.
  - We provide dispatching and maintenance services twenty-four hours a day, seven days a week .
  - 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 that will allow us to earn sufficient returns on investment. 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.

3

- *Earn Premium Rates.* 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. Historically, we have developed many of our software applications internally. We have recently begun to implement new software systems purchased from third-party vendors for a number of our key processes. We believe the new systems should both increase the efficiency of our operations and require less time from internal technical personnel.
- *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. 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 \$153.2 billion of the for-hire market in 2006. We were ranked number 57 of the largest dry van truckload carriers based on total revenue for 2006, 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.

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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.

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 offering additional services to their customers and acquiring greater market share and, to a lesser extent, through an increase in the size of the market.

4

### 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. 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 2007, approximately 96.6% of our total revenue was derived from customers that were customers before 2007, and we have provided services to our top 10 customers for an average of more than 15 years. We provided service to approximately 860 customers in 2007, and approximately 38.9% of our total revenue for 2007 was derived from Standard & Poor's 500 companies.

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,		
	2007	2006	2005
Top 10 customers	34%	36%	37%
Top 5 customers	22%	23%	23%
Largest customer	6%	8%	6%

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 2007, receivables collection averaged approximately 30 days from the billing date.

### 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 the three operating divisions in our Trucking segment, in miles, for the periods indicated.

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	Year Ended December 31,		
	2007	2006	2005
Total company	784	837	837
Trucking divisions:			
General Freight	904	941	942
Regional Freight	501	537	518
Dedicated Freight	493	562	567

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 2007, our empty mile factor was 11.1% and in 2006 it was 10.3%.

Our Operations department consists primarily of our fleet managers and load planners. Each fleet manager supervises approximately 20 to 50 drivers in our various divisions and is the primary contact with our drivers. They monitor the location of equipment and direct its movement in the safest and most efficient manner practicable. Load planners assign all available units and loads in a manner that maximizes profit and minimizes costs. The

5

Operations department focuses on achieving continual improvement in the areas of customer service, equipment utilization, driver retention and safety.

### 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 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, reasonable suspicion 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 safety training classes each quarter and receive other training designed to keep them up-to-date on safety topics and to reinforce and advance professional driving skills. Additionally, the Safety department conducts safety meetings with dispatch personnel to address specific safety-related issues and concerns.

The Safety department also conducts "safety blitzes" at our high-traffic terminals, in addition to the regular quarterly safety meetings. These periodic blitzes are designed to keep safety at the forefront for our drivers and other employees, and supplement our regular quarterly meetings

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by targeting specific safety issues such as proper backing techniques, DOT inspections or mirror check stations and require active participation from the drivers.

We also have in place a corrective action program 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 addition, the tractors we added in 2007 are equipped with automatic transmissions and stability control systems, which 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

6

programs, are effective means of managing insurance costs. 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



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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, 2007, drivers who drove approximately 67.2% of our total miles had elected to receive per diem payments.

On February 25, 2008, we had approximately 3,560 employees, including approximately 2,745 drivers. We do not have any employees 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, regulatory changes, 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.

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
	2007		
Tractors:			
Acquired	442	818	803
Disposed	495	668	587
End of period total	2,499	2,552	2,402
Average age at end of period (in months)	25	21	19
Trailers:			
Acquired	583	1,642	679
Disposed	329	414	819
End of period total	7,024	6,770	5,542
Average age at end of period (in months)	42	36	38

Late in 2006, we decided to address pressures on our utilization rate by adjusting our equipment replacement schedule. As a result, we purchased fewer tractors and trailers in 2007 than in recent periods. We will add equipment as the freight market and driver availability dictate.

7

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.

We finance 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.

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In addition to tractors that we own, we contract with owner-operators for the use of their tractors and drivers in our operations. At December 31, 2007, 66 owner-operator tractors were under contract with us. During the third quarter of 2007, we introduced a lease-purchase program to drivers interested in owning their own equipment and becoming independent owner-operators. The program offers qualified drivers the opportunity to purchase their own tractors through a third party financing program. The drivers may purchase tractors directly from us or from outside sources. During 2007, 8 drivers became independent owner-operators through this program.

Beginning January 1, 2007, all newly manufactured truck engines had to comply with a new set of more stringent engine emission standards mandated by the Environmental Protection Agency. To address the risk of buying new engines without adequate testing and to delay the cost impact of these new emission standards, we accelerated our revenue equipment acquisition program and trade intervals before January 1, 2007. In addition, approximately 87% of the tractors we purchased in 2007 were equipped with engines produced prior to January 2007. This strategic decision has allowed us additional time to analyze the industry-wide evaluations concerning the longevity and reliability of the emission-compliant engines.

### **Technology**

We maintain a 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. In order to enhance the service we provide our customers, after an extensive review, we determined that our mainframe software applications need to be replaced. Accordingly, over the next three years we will replace those applications with off-the-shelf, server-based products. 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 also implemented 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. This licensed software 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.

In 2003, the Federal Motor Carrier Safety Administration of the U.S. Department of Transportation issued the first significant revisions to the industry hours-of-service regulations in more than 60 years. The Administration implemented additional, but less significant, revisions in 2005. In general, the new regulations are

8

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.

On July 24, 2007, the U.S. Court of Appeals for the District of Columbia Circuit ordered that two provisions of the hours-of-service regulations be set aside. Those provisions govern the maximum allowable number of daily driving hours and the number of hours that drivers must be off duty before they can begin a new weekly driving cycle. The court's order requires the Administration to re-examine the impact of the affected provisions on safety. The Administration has issued an Interim Final Rule that will allow the current hours-of-service provisions to remain in effect until it completes the re-examination and rulemaking, which the Administration has said it expects to do in 2008. The prior revisions of the hours-of-service rules created operational issues for us and increased our operating costs, and any further revisions that may result from the re-examination and rulemaking process may cause us to incur additional costs and could have an adverse effect on our operations or financial condition.

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," "intend," "plan," "schedule," "estimate," "project" and similar expressions. These statements are based on current expectations and are subject to uncertainty and change. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will be realized. If one or more of the risks or uncertainties underlying such expectations materialize, or if underlying assumptions prove incorrect, actual results may vary materially from those expected. Among other things, we cannot assure you that we will be able to continue the recent positive trends identified in this annual report under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," such as increased miles per tractor per week and reduced driver recruiting costs. 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.

9

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**

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*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.
- 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

10

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, due to an excess of used equipment in the marketplace, values of used tractors remain depressed.

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

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1, 2002, and more restrictive Environmental Protection Agency engine design requirements took effect on January 1, 2007 for engines manufactured on or after that date, and further reductions are scheduled to become effective in 2010. Further equipment price increases may result from the implementation of the 2007 requirement. 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.

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.

### ***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.

### ***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 additional 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 2007, our top 10 customers accounted for approximately 34% of our revenue, our top five customers accounted for approximately 22% of our revenue and our largest customer accounted for approximately 6% 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.***

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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 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 employee 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.

The Federal Motor Carrier Safety Administration of the U.S. Department of Transportation is currently conducting a rulemaking process in response to a federal court order that set aside certain of the Administration's hours-of-service regulations governing the maximum allowable number of daily driving hours and the number of hours that drivers must be off duty before they can begin a new weekly driving cycle. If the Administration determines that these rules should be changed, the number of driving hours allowed per week or per day may change. If so, we would incur costs in transitioning our operating practices to the new allowable hours of service and could also see a longer term increase in operating costs. We cannot predict what impact any changes to the hours-of-service rules may have on our operations, or to what extent, if any, we might be able to recoup any increased costs through rate increases. Therefore, any such changes could have a material adverse effect on our business and operating results.

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 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.

12

### **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**

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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 or near the following cities:

	Shop	Driver Facilities	Fuel	Office	Own or 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
Vandalia, Ohio	Yes	Yes	Yes	Yes	Own
Bethel, Pennsylvania	Yes	No	No	Yes	Lease
Spartanburg, South Carolina	Yes	Yes	No	Yes	Own
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.

On May 22, 2006, a former independent sales agent filed a lawsuit against us entitled *All-Ways Logistics, Inc. v. USA Truck, Inc.*, in the U.S. District Court for the Eastern District of Arkansas, Jonesboro Division, alleging, among other things, breach of contract, breach of implied duty of good faith and fair dealing, and tortious interference with business relations. The plaintiff alleged that we breached and wrongfully terminated our commission sales agent agreement with it and improperly interfered with its business relationship with certain of its customers. In early August, the jury returned an unfavorable verdict in this contract dispute. The jury held that we breached the contract and awarded the plaintiff damages of approximately \$3.0 million, which was accrued during the quarter ended September 30, 2007. In its December 4, 2007 order, the court denied substantially all of USA Truck's motions for post-trial relief and granted the plaintiff's motions for pre-judgment interest, attorney's fees and costs in an amount totaling approximately \$1.7 million, which was accrued during the fourth quarter. On January 2, 2008, we filed an appeal of the verdict and the court's order.

### **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.

13

## **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).

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	Price Range	
	High	Low
<b>Year Ended December 31, 2007</b>		
<b>Fourth Quarter</b>	<b>\$ 15.88</b>	<b>\$ 12.52</b>
<b>Third Quarter</b>	<b>19.13</b>	<b>15.11</b>
<b>Second Quarter</b>	<b>17.16</b>	<b>15.43</b>
<b>First Quarter</b>	<b>17.62</b>	<b>15.45</b>
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

As of February 25, 2008, there were 211 holders of record (including brokerage firms and other nominees) of our Common Stock. We estimate that there were approximately 1,860 beneficial owners of the Common Stock as of that date. On February 25, 2008, the last reported sale price of our Common Stock on the NASDAQ Global Select Market was \$13.43 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. 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 us from paying dividends if such payment would cause us 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, 2007. 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	320,450(1)	\$15.61(2)	698,500(3)
Equity Compensation Plans Not Approved by			



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Security Holders	--	--	--
Total	320,450	\$15.61	698,500

14

- (1) Includes 22,000 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 298,450 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 975,000 to 1,000,000 on May 7, 2008, the date of our 2008 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 624,500 shares that may be granted as stock options under our 2004 Equity Incentive Plan, 24,000 shares that may be issued as performance-based restricted stock under our 2003 Restricted Stock Award Plan and an additional 50,000 shares that may be awarded under the 2003 Restricted Stock Award Plan upon contribution of such shares to us by our current Chairman of the Board, in his discretion, in accordance with the Plan. The 624,500 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 January 24, 2007, we publicly announced that our Board of Directors authorized the repurchase of up to 2,000,000 shares of our outstanding Common Stock over a three-year period ending January 24, 2010. We may make Common Stock purchases under this program on the open market or in privately negotiated transactions at prices determined by our Chairman of the Board or President. Our Board had previously approved an authorization, publicly announced on October 19, 2004, to repurchase up to 500,000 shares and the remaining balance of 264,000 shares was repurchased during the first quarter of 2007 at a total cost of approximately \$4.3 million. During the year ended December 31, 2007, we repurchased a total of 834,099 shares of our Common Stock under the current authorization, at a total cost of approximately \$13.1 million. Our current repurchase authorization has 1,165,901 shares remaining.

Common Stock repurchases during the quarter ended December 31, 2007 are as follows:

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, 2007 - October 31, 2007	--	--	--	1,330,501
November 1, 2007 - November 30, 2007	144,500	\$13.82	144,500	1,186,001
December 1, 2007 - December 31, 2007	20,100	\$14.42	20,100	1,165,901
Total	164,600	\$13.89	164,600	1,165,901

15

**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, 2007 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,				
	2007	2006	2005	2004	2003
<b>Statements of Income Data:</b>					
Revenue:					
Trucking revenue	\$ 382,064	\$ 370,780	\$ 358,522	\$ 314,431	\$ 268,102
USA Logistics revenue	9,124	14,521	18,107	21,449	17,978
Base revenue	391,188	385,301	376,629	335,880	286,080
Fuel surcharge revenue	90,921	80,317	63,074	27,225	12,583
Total revenue	482,109	465,618	439,703	363,105	298,663
Operating expenses and costs:					
Salaries, wages and employee benefits	162,236	152,998	143,164	125,953	109,616
Fuel and fuel taxes	153,023	138,629	121,026	81,722	58,740
Depreciation and amortization	49,093	46,739	41,890	35,871	30,611
Insurance and claims	31,144	27,006	26,172	26,224	18,390
Operations and maintenance	25,815	21,919	21,178	24,736	26,518
Purchased transportation	18,609	19,815	24,710	28,317	24,183
Operating taxes and licenses	6,368	6,610	6,224	5,653	4,682
Litigation verdict	4,690	--	--	--	--
Communications and utilities	3,787	3,362	3,220	3,039	2,967
Gain on disposal of assets	(395)	(541)	(1,144)	(1,040)	(743)
Other	19,429	22,677	19,766	14,831	12,849
Total operating expenses and costs	473,799	439,214	406,206	345,306	287,813
Operating income	8,310	26,404	33,497	17,799	10,850
Other expenses (income):					
Interest expense	5,130	4,192	4,829	3,539	2,557
Other, net	22	(134)	(19)	33	65
Total other expenses, net	5,152	4,058	4,810	3,572	2,622
Income before income taxes	3,158	22,346	28,687	14,227	8,228
Income tax expense	3,018	9,905	13,119	6,795	4,873
Net income	\$ 140	\$ 12,441	\$ 15,568	\$ 7,432	\$ 3,355
Per share information:					
Average shares outstanding (Basic)	10,596	11,353	10,034	9,268	9,327
Basic earnings per share	\$ 0.01	\$ 1.10	\$ 1.55	\$ 0.80	\$ 0.36
Average shares outstanding (Diluted)	10,689	11,561	10,328	9,398	9,370
Diluted earnings per share	\$ 0.01	\$ 1.08	\$ 1.51	\$ 0.79	\$ 0.36

**SELECTED CONSOLIDATED FINANCIAL AND OPERATING INFORMATION (continued)**

	Year Ended December 31,									
	2007		2006		2005		2004		2003	
<b>Other Financial Data:</b>										
Operating ratio (1)	<b>97.9</b>	%	93.1	%	91.1	%	94.7	%	96.2	%
Cash flows from operations	<b>\$ 58,585</b>		\$ 76,249		\$ 56,552		\$ 37,292		\$ 36,865	
Capital expenditures, net (2)	<b>39,967</b>		74,583		56,525		89,379		53,406	
<b>Key Operating Statistics:</b>										
Base revenue per total mile	<b>\$ 1.302</b>		\$ 1.346		\$ 1.327		\$ 1.293		\$ 1.236	
Average miles per tractor per week	<b>2,313</b>		2,271		2,415		2,361		2,341	
Empty mile factor (3)	<b>11.1</b>	%	10.3	%	8.7	%	8.4	%	9.0	%
Average number of tractors (4)	<b>2,578</b>		2,512		2,342		2,174		1,961	
Total miles (loaded and empty) (in thousands)	<b>300,577</b>		286,317		283,921		259,725		231,389	
Average miles per tractor	<b>116,593</b>		113,980		121,230		119,469		117,995	
Average miles per trip (5)	<b>784</b>		837		837		839		851	
Average unmanned tractor percentage (6)	<b>2.9</b>	%	5.3	%	3.9	%	4.9	%	3.9	%
Average age of tractors, at end of period (in months)	<b>25</b>		21		19		18		25	
Average age of trailers, at end of period (in months)	<b>43</b>		36		38		39		54	
<b>Balance Sheet Data:</b>										
Cash and cash equivalents	<b>\$ 8,014</b>		\$ 7,132		\$ 994		\$ 1,189		\$ 1,323	
Total assets	<b>332,938</b>		339,494		308,079		288,154		222,549	
Long-term debt, capital leases and note payable, including current portion	<b>96,162</b>		95,406		89,232		140,442		85,147	
Stockholders' equity	<b>143,191</b>		159,558		149,833		85,528		77,496	

- (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:

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*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.

17

*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 tractors that we own 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 our equipment 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, 2007, 2006 and 2005, Trucking base revenue represented 97.7%, 96.2% and 95.2% 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, Strategic Capacity Solutions 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, 2007, we conducted Regional Freight operations in the areas around our facilities located in or near Van Buren, Arkansas, Vandalia, Ohio and Spartanburg, South Carolina.

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

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

18

- *Strategic Capacity Solutions.* Our Strategic Capacity Solutions division provides freight brokerage services by matching 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 Strategic Capacity Solutions 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 Strategic Capacity Solutions 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 those 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 of the Financial Accounting Standards Board. Expenses are recognized as incurred.

Revenue generated by USA Logistics is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs, as we act as a principal with substantial risks as primary obligor.

Management believes these policies most accurately reflect revenue as earned and direct expenses, including third party purchased transportation costs, as incurred.

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

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

resulting gain or loss on the ultimate disposition of the revenue equipment.

19

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.
- *Stock option valuation.* The assumptions used to value stock options are dividend yield, expected volatility, risk-free interest rate, expected life and anticipated forfeiture. 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. Anticipated forfeiture represents the number of shares under options we expect to be forfeited over the expected life of the option.
- *Accounting for Income Taxes.* Our deferred tax assets and liabilities represent items that will result in taxable income or a tax deduction in future years for which we have already recorded the related tax expense or benefit in our consolidated statements of income. Deferred tax accounts arise as a result of timing differences between when items are recognized in our consolidated financial statements compared to when they are recognized in our tax returns. Significant management judgment is required in determining our provision for income taxes and in determining whether deferred tax assets will be realized in full or in part. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We periodically assess the likelihood that all or some portion of deferred tax assets will be recovered from future taxable income. To the extent we believe recovery is not probable, a valuation allowance is established for the amount determined not to be realizable. We have not recorded a valuation allowance at December 31, 2007, as all deferred tax assets are more likely than not to be realized.

We believe that we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law. During 2007, we made no material changes in our assumptions regarding the determination of income tax liabilities. However, should our tax positions be challenged, different outcomes could result and have a significant impact on the amounts reported through our consolidated statements of income.

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*

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Our industry is changing. USA Truck's historical bread-and-butter, the medium length of haul (800-1,200 mile) segment of the truckload market, is being eroded by a growing intermodal railroad option for our customers and by the proliferation of the regional distribution center concept among big box retailers. Customers continue to shrink their bases of core carriers while simultaneously raising the bars for service and capacity requirements.

20

Cost pressures abound from inflationary forces that can often outpace growth in our industry's pricing power and from increasing regulatory hurdles.

USA Truck must and will change to meet these challenges. While we have always taken pride in offering premium services, the changes in our industry now require us to broaden the range of services we offer to our customers. By expanding our service offerings, we intend to generate demand for our services that will lead to greater consistency of earnings and pave the way for us to improve our margins. We must also overcome cost pressures in the labor, energy, regulatory and safety arenas.

USA Truck's core business strategy for revenue and earnings growth is to increase and sustain demand for our services by positioning ourselves as a premium service provider for all of our customers' dry van, full truckload needs, thus capturing a greater portion of their business at a slightly higher price. This strategy requires a two-pronged approach to execute: (1) consistently providing our customers with a reliability of service not generally available in our industry, and (2) providing a greater scope of service beyond our traditional medium length-of-haul business.

Since the summer of 2007, we have undertaken an intensive effort to refine USA Truck's corporate strategy. We have implemented sweeping organizational/cultural, technological and business model changes to set the stage for successful execution of our strategy.

- Culturally, we believe that employees who are challenged, empowered and rewarded are the key to total customer satisfaction. Total customer satisfaction is the key to shareholder returns. Our three-legged-stool concept focuses equally on the employee, customer and shareholder and is the foundation of our organization. We are implementing programs designed to foster intellectual honesty, integrity and strong leadership. We have also reorganized our various operating departments to get the right people into the right jobs where they can add the most value and providing them the proper training and tools. That process is still underway.
- Over the next three years, we will redesign our technology system and will replace our enterprise-wide software applications with more user friendly, higher capacity, server-based products that will dramatically improve our visibility into our operations and the speed at which critical information is made available to decision-makers. This enhanced technological capability should improve our competitiveness from both cost and service perspectives.
- Our customers want a more diversified bundle of services from their core carriers. Our strategy is to provide those additional services in carefully selected areas where we believe we can provide superior service and reliability.
  - We began offering intermodal railroad services to our customers in late 2007 and have set a modest revenue goal for 2008. To reach that goal, we have staffed intermodal with just a few strong, experienced employees, and given them clear responsibilities and goals, and we have done it in a way that did not detract from our focus on our core trucking operations.
  - We are expanding our capabilities to outsource truckload freight through our Strategic Capacity Solutions ("SCS") division. To execute the strategy, we have streamlined the interaction between our Trucking operations and SCS and we have employed several new freight brokers.
  - We are aggressively pursuing opportunities to move tractors from our General Freight and Regional Freight divisions where considerable pricing and empty mile pressures exist into our Dedicated Freight division where freight lanes and volumes are more consistent. Our goal is to move at least 100 tractors during 2008. To accomplish that goal, and as part of a broader reorganization of our sales force, we have injected a more focused effort into Dedicated Freight sales which has provided us with more opportunities and leads.
  - We nearly tripled the size of our small owner-operator fleet to 66 in 2007. We intend to grow the size of that fleet by another 82% to 120 during 2008. Owner-operators provide a flexible source of capacity for our fleet and have proven to be reliable, safe and productive.

While we believe that we must improve our ability to consistently produce revenue volume throughout the economic cycle, we know that controlling costs will always be critical to our success. We typically post one of the lowest operating costs per mile in the truckload industry, but we can do much better, particularly in the area of insurance and claims costs, which continue to run a nickel per mile higher than our historical average. Our efforts to contain safety-related costs have not produced the sustained results that we desired over the past several years. In response, we are implementing a comprehensive loss prevention program. We will continue our

recent strategy of marketing safety to all our drivers, but if we are to get the costs under control we must ensure that safety is the key factor in our future hiring decisions and driver training.

***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 Strategic Capacity Solutions 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 Strategic Capacity Solutions 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.

	Year Ended December 31,					
	2007		2006		2005	
<b>Base revenue</b>	<b>100.0</b>	<b>%</b>	100.0	<b>%</b>	100.0	<b>%</b>
<b>Operating expenses and costs:</b>						
Salaries, wages and employee benefits	<b>41.5</b>		39.7		38.0	
Fuel and fuel taxes (1)	<b>15.9</b>		15.1		15.4	
Depreciation and amortization	<b>12.4</b>		12.1		11.1	
Insurance and claims	<b>8.0</b>		7.0		6.9	
Operations and maintenance	<b>6.6</b>		5.6		5.6	
Purchased transportation	<b>4.8</b>		5.2		6.6	
Operating taxes and licenses	<b>1.6</b>		1.7		1.7	



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Litigation verdict	1.2	--	--
Communications and utilities	1.0	0.9	0.9
Gain on disposal of revenue equipment, net	(0.1)	(0.1)	(0.3)
Other	5.0	5.9	5.2
Total operating expenses and costs	97.9	93.1	91.1
<b>Operating income</b>	<b>2.1</b>	6.9	8.9
<b>Other expenses:</b>			
Interest expense	1.3	1.1	1.3
Other, net	--	--	--
Total other expenses, net	1.3	1.1	1.3
<b>Income before income taxes</b>	<b>0.8</b>	5.8	7.6
<b>Income tax expense</b>	<b>0.8</b>	2.6	3.5
<b>Net income</b>	--	% 3.2	% 4.1

(1) Net of fuel surcharges

### Fiscal Year Ended December 31, 2007 Compared to Fiscal Year Ended December 31, 2006

#### *Results of Operations – Combined Services*

Our base revenue grew 1.5% from \$385.3 million to \$391.2 million, for the reasons addressed in the Trucking and the USA Logistics sections, below.

Net income for all divisions was \$0.1 million as compared to \$12.4 million for 2006.

Overall, our operating ratio increased by 4.8 percentage points of base revenue to 97.9% due primarily to lower freight volumes and as a result of the following factors:

- Salaries, wages and employee benefits increased by 1.8 percentage points of base revenue due to a 17.1% increase in non-driver wages, a 2.5% increase in driver wages per mile and a 3.3% decrease in base revenue per mile.
- Fuel and fuel taxes increased by 0.8 percentage points of base revenue primarily due to 6.5% increase in the price paid for diesel fuel, and a 3.3% decrease in base revenue per mile.
- Insurance and claims increased by 1.0 percentage point of base revenue primarily due to settlement of prior year claims and an elevated frequency of accidents.
- Operations and maintenance increased by 1.0 percentage point of base revenue primarily due to a 16.3% increase in the average age of the tractor fleet for the year from 19.0 months to 22.1 months, which contributed to an increase in direct repair costs per unit by an average of 20.7%.
- Purchased transportation decreased by 0.4 percentage points of base revenue due primarily to the decrease in carrier expense associated with our Third Party Logistics division, partially offset by an increase in owner-operator costs.
- In early August, a jury returned an unfavorable verdict in a litigated contract dispute. The jury held that USA Truck breached a contract and awarded the plaintiff damages of approximately \$3.0 million. This verdict had a negative impact on third quarter diluted earnings per share of approximately \$0.17.

23

In December, the court ruled that we owed approximately \$1.7 million in pre-judgment interest and legal fees. This ruling negatively impacted fourth quarter diluted earnings per share by approximately \$0.10. As of December 31, 2007, we have accrued all amounts awarded to the plaintiff, in the aggregate amount of the \$4.7 million. On January 2, 2008, the Company filed an appeal of the verdict and the court's order.

- Other expenses decreased by 0.9 percentage points of base revenue due primarily to a 33.7 percentage point decrease in driver turnover, which decreased the cost associated with recruiting and retaining qualified drivers 27.7%.

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- Our effective tax rate increased from 44.3% in 2006 to 95.6% in 2007. 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:*

	<b>Fiscal Year Ended December 31, 2007</b>							
	<b>General Freight</b>		<b>Regional Freight</b>		<b>Dedicated Freight</b>		<b>Total Trucking</b>	
Total miles ( <i>in thousands</i> ) (1)	<b>244,814</b>		<b>33,271</b>		<b>22,492</b>		<b>300,577</b>	
Empty mile factor (2)	<b>11.3</b>	%	<b>15.5</b>	%	<b>2.1</b>	%	<b>11.1</b>	%
Base revenue per loaded mile	<b>\$ 1.42</b>		<b>\$ 1.54</b>		<b>\$ 1.36</b>		<b>\$ 1.43</b>	
Average number of tractors (3)	<b>2,053</b>		<b>330</b>		<b>195</b>		<b>2,578</b>	
Average miles per tractor per period	<b>119,247</b>		<b>100,822</b>		<b>115,343</b>		<b>116,593</b>	
Average miles per tractor per week	<b>2,366</b>		<b>2,000</b>		<b>2,289</b>		<b>2,313</b>	
Average miles per trip (4)	<b>904</b>		<b>501</b>		<b>493</b>		<b>784</b>	
Average unmanned tractor percentage (5)	<b>2.7</b>	%	<b>3.7</b>	%	<b>3.6</b>	%	<b>2.9</b>	%
Base revenue per tractor per week	<b>\$ 2,986</b>		<b>\$ 2,598</b>		<b>\$ 3,039</b>		<b>\$ 2,941</b>	

	<b>Fiscal Year Ended December 31, 2006</b>							
	<b>General Freight</b>		<b>Regional Freight</b>		<b>Dedicated Freight</b>		<b>Total Trucking</b>	
Total miles ( <i>in thousands</i> ) (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	

- (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 3.0% to \$382.1 million. The increase was the result of several factors:

- Regional Freight base revenue grew 37.2% on a 43.5% increase in tractors. Most measures of operating performance took a step backwards in this difficult freight environment. For this reason we do not plan to grow our Regional fleet until we make improvements in the key performance measures of this division, particularly base revenue per tractor per week, which decreased 4.7%.
- Dedicated Freight base revenue decreased 11.3% due mostly to a reduction in the tractor count by 17.4% while the base revenue per tractor per week increased 6.9%. 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 provided more miles but lower revenue per mile.
- General Freight base revenue increased 1.1%, and base revenue per tractor per week increased 0.3%. This slight increase was primarily due to a 2.5% increase in miles per tractor per week. General Freight had a decrease in base revenue per loaded mile of 1.4%. Our General Freight division model is more dependent on miles per tractor per week, thus it was impacted more by softer freight demand.
- Overall, we grew the average size of our Trucking tractor fleet by 2.6%. We grew the average size of the company-owned tractor fleet by 1.8% to 2,540 tractors and increased the average size of our owner-operator fleet by 137.5% to 38 tractors. We plan to aggressively grow our owner-operator fleet primarily by converting company drivers to owner-operator drivers through our new lease-purchase program.

#### ***Results of Operations – USA Logistics***

Base revenue from USA Logistics decreased by 37.2% to \$9.1 million. Strategic Capacity Solutions base revenue decreased to \$8.2 million, a 0.3% decrease. During 2006, we implemented a strategic redeployment of our resources toward less complex third party logistics services in which we can provide a level of on-time, quality service commensurate with the services we provide through our Trucking divisions. As a result, our Third Party Logistics division base revenue decreased by 85.2% to \$0.9 million.

#### **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.

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

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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 ( <i>in thousands</i> ) (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	

	For The 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	

- (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. In 2006, we began to see the potential of our Regional Freight division as it continued to grow and become a larger portion of our business. We intend to continue working to further improve its operating model. We opened our third regional market in the Southeast United States in the first quarter of

2007.

- 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. During 2006, we made several changes to our freight mix by adding new customer accounts that

26

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. Strategic Capacity Solutions 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 Strategic Capacity Solutions and pursuing less of the complex portion of the third party logistics market.

#### ***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 2007 and 2006 than in 2005.

#### ***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 for certain facilities and office equipment that are not reflected in our balance sheet.

#### ***Liquidity and Capital Resources***

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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

27

of capital to be sufficient to finance our operations, annual debt maturities, lease commitments, letter of credit commitments, stock repurchases and capital expenditures for the next several years. There can be no assurance, however, that such sources will be sufficient to fund our operations and all expansion plans for the next several years, or that any necessary additional financing will be available, if at all, in amounts required or on terms satisfactory to us.

### *Cash Flows*

	Year Ended December 31,		
	(in thousands)		
	<b>2007</b>	2006	2005
Net cash provided by operating activities	<b>\$ 58,585</b>	\$ 76,249	\$ 56,552
Net cash used in investing activities	<b>(16,394)</b>	(70,496)	(31,945)
Net cash (used in) provided by financing activities	<b>(41,309)</b>	385	(24,802)

Cash generated from operations decreased \$17.7 million during 2007 as compared to 2006. The change was primarily due to a decrease in net income of \$12.3 million and a decrease in deferred income taxes of \$5.7 million from 2006 to 2007. 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 used in investing activities decreased \$54.1 million during 2007 as compared to 2006, due to a decrease in expenditures for revenue equipment. In 2006, our cash used in investing activities increased \$38.6 million from 2005 due to an increase in expenditures for revenue equipment.

Cash used in financing activities was \$41.3 million in 2007 compared to cash provided by financing activities of \$0.4 million in 2006. The \$41.7 million difference is due primarily to a reduction in net borrowings on our Senior Credit Facility and an increase in repurchases of our common stock. Cash provided by financing activities was \$0.4 million in 2006 compared to cash used in financing activities of \$24.8 million in 2005. The \$25.2 million difference was due primarily to increased net borrowings on 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 \$178.0 million at December 31, 2007 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, 2007, \$43.1 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, 2007, the effective interest rate was 6.5%. A quarterly commitment fee is payable on the unused credit

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line at a rate which is determined based on our attainment of certain financial ratios. At December 31, 2007, 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, 2007, we were in compliance with the covenants.

Certain leases contain cross-default provisions with our other financing agreements.

28

### **Equity**

At December 31, 2007, we had stockholders' equity of \$143.2 million and debt of \$96.2 million, resulting in a debt to total capitalization ratio of 40.2% compared to 37.4% at December 31, 2006.

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 and directors sold 1.2 million shares of Common Stock.

### **Purchases and Commitments**

As of December 31, 2007, our forecasted capital expenditures, net of proceeds from the sale of revenue equipment, for 2008 were \$78.8 million, \$67.9 million of which relates to revenue equipment. We expect to use the balance of \$10.9 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, 2007, we made \$40.0 million of net capital expenditures, including \$36.4 million for revenue equipment purchases (\$23.7 million of which were capital lease obligations), \$2.4 million for facility expansions and \$1.2 million for non-revenue equipment.

The following table represents our outstanding contractual obligations at December 31, 2007:

	Payments Due By Period				
	(in thousands)				
	Total	2008	2009-2010	2011-2012	Thereafter
Contractual Obligations:					
Long-term debt obligations (1)	\$ 43,093	\$ --	\$ 43,093	\$ --	\$ --
Capital lease obligations (2)	54,658	26,106	25,708	2,844	--
Purchase obligations	98,496	98,496	--	--	--
Rental obligations	1,704	641	621	103	339
Total	\$ 197,951	\$ 125,243	\$ 69,422	\$ 2,947	\$ 339

(1) Long-term debt obligations, excluding letters of credit in the amount of \$6.2 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. These risks have not materially changed between fiscal year 2006 and fiscal year 2007.

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*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, 2007, we had \$43.1 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 \$0.43 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

29

extent to which high fuel price levels will continue in the future or the extent to which fuel surcharges could be collected to offset such increases. We do not have any long-term fuel purchase contracts, and we have not entered into any 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.

30

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**USA TRUCK, INC.**

**ANNUAL REPORT ON FORM 10-K**

**YEAR ENDED DECEMBER 31, 2007**

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<b>PART I</b>	
Report of Grant Thornton LLP, Independent Registered Public Accounting Firm	32
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	33
Consolidated Balance Sheets as of December 31, 2007 and 2006	34
Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005	35
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005	36
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005	37
Notes to Consolidated Financial Statements	38



31

**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 sheets of USA Truck, Inc. (a Delaware Corporation) and subsidiary (collectively referred to as the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years 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 audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USA Truck, Inc. and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years 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, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 25, 2008, expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma

February 25, 2008

32

**REPORT OF ERNST & YOUNG LLP**

**INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Stockholders and Board of Directors

USA Truck, Inc.

We have audited the accompanying consolidated statements of income, stockholders' equity, and cash flows of USA Truck, Inc., for the year 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 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 consolidated results of operations and cash flows of USA Truck, Inc., for the year ended December 31, 2005, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

Tulsa, Oklahoma

February 24, 2006

33

**USA Truck, Inc.**

**CONSOLIDATED BALANCE SHEETS**

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(in thousands, except share amounts)

	December 31,	
	2007	2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,014	\$ 7,132
Accounts receivable:		
Trade, less allowance for doubtful accounts of \$81 in 2007 and \$96 in 2006		
	44,563	40,856
Other	2,187	4,828
Inventories	1,172	930
Deferred income taxes	5,420	1,792
Prepaid expenses and other current assets	4,451	8,266
Total current assets	65,807	63,804
Property and equipment:		
Land and structures	35,382	32,992
Revenue equipment	338,036	326,083
Service, office and other equipment	18,448	17,746
	391,866	376,821
Accumulated depreciation and amortization	(125,090)	(101,314)
	266,776	275,507
Other assets	355	183
Total assets	\$ 332,938	\$ 339,494
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Bank drafts payable	\$ 11,785	\$ 11,539
Trade accounts payable	7,429	10,419
Current portion of insurance and claims accruals	11,965	6,233
Accrued expenses	9,572	10,808
Note payable	1,538	1,791
Current maturities of long-term debt and capital leases	24,412	25,798
Total current liabilities	66,701	66,588
Long-term debt and capital leases, less current maturities	70,212	67,817
Deferred income taxes	48,024	41,565
Insurance and claims accruals, less current portion	4,810	3,966
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; issued 11,560,160 shares in 2007 and 11,473,022 shares in 2006	116	115
Additional paid-in capital	63,487	62,230
Retained earnings	101,560	101,420
Less treasury stock, at cost (1,098,099 shares in 2007 and 230,401 shares in 2006)	(21,972)	(4,207)
Unearned compensation	--	--

Total stockholders' equity	<b>143,191</b>	159,558
Total liabilities and stockholders' equity	<b>\$ 332,938</b>	\$ 339,494

See accompanying notes.

34

## USA Truck, Inc.

### CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Year Ended December 31,		
	2007	2006	2005
Revenue:			
Base revenue	<b>\$ 391,188</b>	\$ 385,301	\$ 376,629
Fuel surcharge revenue	<b>90,921</b>	80,317	63,074
Total revenue	<b>482,109</b>	465,618	439,703
Operating expenses and costs:			
Salaries, wages and employee benefits	<b>162,236</b>	152,998	143,164
Fuel and fuel taxes	<b>153,023</b>	138,629	121,026
Depreciation and amortization	<b>49,093</b>	46,739	41,890
Insurance and claims	<b>31,144</b>	27,006	26,172
Operations and maintenance	<b>25,815</b>	21,919	21,178
Purchased transportation	<b>18,609</b>	19,815	24,710
Operating taxes and licenses	<b>6,368</b>	6,610	6,224
Litigation verdict	<b>4,690</b>	--	--
Communications and utilities	<b>3,787</b>	3,362	3,220
Gain on disposal of assets	<b>(395)</b>	(541)	(1,144)
Other	<b>19,429</b>	22,677	19,766
Total operating expenses and costs	<b>473,799</b>	439,214	406,206
Operating income	<b>8,310</b>	26,404	33,497
Other expenses (income):			
Interest expense	<b>5,130</b>	4,192	4,829
Other, net	<b>22</b>	(134)	(19)
Total other expenses, net	<b>5,152</b>	4,058	4,810
Income before income taxes	<b>3,158</b>	22,346	28,687
Income tax expense:			
Current	<b>188</b>	1,422	6,791
Deferred	<b>2,830</b>	8,483	6,328
Total income tax expense	<b>3,018</b>	9,905	13,119
Net income	<b>\$ 140</b>	\$ 12,441	\$ 15,568
Net income per share:			
Basic earnings per share	<b>\$ 0.01</b>	\$ 1.10	\$ 1.55

Diluted earnings per share **\$ 0.01** \$ 1.08 \$ 1.51  
*See accompanying notes.*

35

## USA Truck, Inc.

### CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income/(Loss)	Unearned Compensation	Total
Balance at January 1, 2005	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)
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
Exercise of stock options	<b>88</b>	<b>1</b>	<b>894</b>	--	--	--	--	<b>895</b>
Tax charge on exercise of stock options	--	--	(12)	--	--	--	--	(12)
Purchase of 1,098 shares of Common Stock into treasury	--	--	--	--	(17,403)	--	--	(17,403)
Retirement of forfeited restricted stock	--	--	362	--	(362)	--	--	--
Stock based compensation	--	--	13	--	--	--	--	13
Net income for 2007	--	--	--	140	--	--	--	140
Balance at December 31, 2007	<b>11,561</b>	<b>\$ 116</b>	<b>\$ 63,487</b>	<b>\$ 101,560</b>	<b>\$ (21,972)</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ 143,191</b>

*See accompanying notes.*

36

## USA Truck, Inc.

### CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2007	2006	2005
<b>Operating activities</b>			
Net income	\$ 140	\$ 12,441	\$ 15,568
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	49,093	46,739	41,890
Provision for doubtful accounts	(15)	36	(43)
Deferred income taxes	2,831	8,482	6,328
Excess tax benefit from exercise of stock options	(39)	(213)	--
Write off of tax asset on exercise of stock options	51	--	--
Stock based compensation	13	711	772
Tax benefit from restricted stock	--	--	24
Expense from accelerated vesting of stock options	--	--	9
Gain on disposal of property and equipment	(395)	(541)	(1,144)
Changes in operating assets and liabilities:			
Accounts receivable	(1,051)	5,491	(5,189)
Inventories, prepaid expenses and other current assets	3,573	(2,939)	566
Trade accounts payable, accrued expenses and note payable	(2,192)	7,043	(1,402)
Insurance and claims accruals	6,576	(1,001)	(827)
Net cash provided by operating activities	<b>58,585</b>	<b>76,249</b>	<b>56,552</b>

**Investing activities**

Purchases of property and equipment	<b>(32,338)</b>	(100,921)	(59,277)
Proceeds from sale of property and equipment	<b>16,116</b>	30,442	27,345
Change in other assets	<b>(172)</b>	(17)	(13)
Net cash used in investing activities	<b>(16,394)</b>	(70,496)	(31,945)

**Financing activities**

Borrowings under long-term debt	<b>155,278</b>	201,431	186,226
Principal payments on long-term debt	<b>(150,178)</b>	(177,007)	(236,200)
Principal payments on capitalized lease obligations	<b>(27,836)</b>	(22,202)	(24,688)
Principal payments on note payable	<b>(2,299)</b>	(2,534)	(3,727)
Net increase in bank drafts payable	<b>246</b>	4,124	5,647
Payments to repurchase Common Stock	<b>(17,403)</b>	(4,199)	(53)
Proceeds from issuance of Common Stock	--	--	47,327
Excess tax (charge) benefit from exercise of stock options	<b>(12)</b>	213	--
Proceeds from sale of treasury stock	--	73	143
Proceeds from exercise of stock options	<b>895</b>	486	523
Net cash provided by (used in) financing activities	<b>(41,309)</b>	385	(24,802)
Increase (decrease) in cash and cash equivalents	<b>882</b>	6,138	(195)
Cash and cash equivalents:			
Beginning of period	<b>7,132</b>	994	1,189
End of period	<b>\$ 8,014</b>	\$ 7,132	\$ 994

**Supplemental disclosure of cash flow information:**

Cash paid during the period for:

Interest	<b>\$ 5,154</b>	\$ 3,977	\$ 5,295
Income taxes	<b>560</b>	2,206	6,420

**Supplemental schedule of non-cash investing and financing activities:**

Liability incurred for leases on revenue equipment	<b>23,745</b>	4,104	24,593
Liability incurred for note payable	<b>2,046</b>	2,178	2,586

*See accompanying notes.*

37

# USA Truck, Inc.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****December 31, 2007****1. Summary of Significant Accounting Policies****Description of Business**

USA Truck (the "Company") is a medium haul dry van truckload carrier transporting general commodities throughout the continental United States and between locations in the United States and Canada. The Company transports 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 2007, 2006 and 2005, the Company's top ten customers comprised 34%, 36% and 37% of total revenue, respectively. During the three year period ended December 31, 2007, 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 2007, 2006 and 2005:

	(in thousands)		
	Year Ended December 31,		
	2007	2006	2005
Balance at beginning of year	\$ 96	\$ 104	\$ 166
Amounts (credited) charged to expense	(15)	36	(43)
Uncollectible accounts written off, net of recovery	--	(44)	(19)
Balance at end of year	\$ 81	\$	