USA TRUCK INC
Form 10-Q
November 01, 2010

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

Form 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

OR

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

For the transition period from __________ to __________

Commission File Number 0-19858

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

Delaware (State or other jurisdiction of incorporation or organization)	71-0556971 (I.R.S. employer identification no.)
3200 Industrial Park Road Van Buren, Arkansas (Address of principal executive offices)	72956 (Zip code)

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

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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 definition 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 X 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 number of shares outstanding of the registrant’s Common Stock, par value $.01, as of October 27, 2010 is 10,493,219.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

USA TRUCK, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share amounts)

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 1,329	$ 797
Accounts receivable:		
Trade, less allowance for doubtful accounts of $440 in 2010 and $443 in 2009	48,587	37,018
Income tax receivable	--	10,498
Other	2,032	1,070
Inventories	1,781	1,541
Deferred income taxes	--	962
Prepaid expenses and other current assets	12,559	7,931
Total current assets	66,288	59,817
Property and equipment:		
Land and structures	34,285	33,819
Revenue equipment	361,839	364,087
Service, office and other equipment	33,113	28,846
Property and equipment, at cost	429,237	426,752
Accumulated depreciation and amortization	(168,658)	(156,331)
Property and equipment, net	260,579	270,421
Other assets	488	462
Total assets	$ 327,355	$ 330,700
Liabilities and Stockholders' equity		
Current liabilities:		
Bank drafts payable	$ 3,322	$ 5,678
Trade accounts payable	14,351	9,847
	4,598	4,356

Current portion of insurance and claims accruals				
Accrued expenses		10,652		9,008
Note payable		--		1,015
Current maturities of long-term debt and capital leases		16,657		63,461
Deferred income taxes		1,224		--
Total current liabilities		50,804		93,365
Long-term debt and capital leases, less current maturities		82,683		39,116
Deferred income taxes		51,229		53,073
Insurance and claims accruals, less current portion		3,290		4,600
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 11,832,549 shares in 2010 and 11,834,285 shares in 2009		118		118
Additional paid-in capital		65,032		64,627
Retained earnings		96,013		97,523
Less treasury stock, at cost (1,339,330 shares in 2010 and 1,332,500 shares in 2009)		(21,783)		(21,661)
Accumulated other comprehensive loss		(31)		(61)
Total stockholders' equity		139,349		140,546
Total liabilities and stockholders' equity	$	327,355	$	330,700

See notes to consolidated financial statements.

USA TRUCK, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	(in thousands, except per share data)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue:				
Trucking revenue	$ 87,604	$ 76,479	$ 251,913	$ 231,349
Strategic Capacity Solutions revenue	10,103	3,793	24,816	9,582
Intermodal revenue	3,063	2,043	8,148	5,444
Base revenue	100,770	82,315	284,877	246,375
Fuel surcharge revenue	17,996	13,856	53,194	35,676
Total revenue	118,766	96,171	338,071	282,051
Operating expenses and costs:				
Salaries, wages and employee benefits	33,418	31,116	98,728	94,864
Fuel and fuel taxes	28,249	24,393	83,860	66,791
Purchased transportation	20,977	11,339	55,577	31,543
Depreciation and amortization	12,612	12,997	37,246	37,737
Operations and maintenance	9,963	6,223	25,931	19,836
Insurance and claims	5,236	5,393	16,831	16,585
Operating taxes and licenses	1,427	1,374	4,232	4,432
Communications and utilities	1,004	965	2,969	2,919
(Gain) loss on disposal of assets, net	(45)	3	(88)	1
Other	3,609	3,867	10,931	11,073
Total operating expenses and costs	116,450	97,670	336,217	285,781
Operating income (loss)	2,316	(1,499)	1,854	(3,730)
Other expenses (income):				
Interest expense	931	655	2,643	2,261
Other, net	(79)	(39)	100	(74)
Total other expenses, net	852	616	2,743	2,187
Income (loss) before income taxes	1,464	(2,115)	(889)	(5,917)
Income tax expense (benefit)	878	(477)	621	(1,252)
Net income (loss)	$ 586	$ (1,638)	$ (1,510)	$ (4,665)
Net earnings (loss) per share information:				
Average shares outstanding (Basic)	10,297	10,249	10,294	10,228
Basic earnings (loss) per share	$ 0.06	$ (0.16)	$ (0.15)	$ (0.46)
Average shares outstanding (Diluted)	10,312	10,249	10,294	10,228

Diluted earnings (loss) per share	$	0.06	$	(0.16)	$	(0.15)	$	(0.46)

See notes to consolidated financial statements.

USA TRUCK, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(in thousands)

	Common Stock Shares	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2009	11,834	$ 118	$ 64,627	$ 97,523	$ (21,661)	$ (61)	$ 140,546
Exercise of stock options	19	--	175	--	--	--	175
Excess tax benefit on exercise of stock options	--	--	8	--	--	--	8
Stock-based compensation	--	--	100	--	--	--	100
Restricted stock award grant	7	--	--	--	--	--	--
Forfeited restricted stock	(27)	--	208	--	(208)	--	--
Change in fair value of interest rate swap, net of income tax benefit of $(19)	--	--	--	--	--	(30)	(30)
Reclassification of derivative net losses to statement of operations, net of income tax of $37	--	--	--	--	--	60	60
Return of forfeited restricted stock	--	--	(86)	--	86	--	--
Net loss	--	--	--	(1,510)	--	--	(1,510)
Balance at September 30, 2010	11,833	$ 118	$ 65,032	$ 96,013	$ (21,783)	$ (31)	$ 139,349

See notes to consolidated financial statements.

USA TRUCK, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	(in thousands) Nine Months Ended September 30,	
	2010	2009
Operating activities		
Net loss	$ (1,510)	$ (4,665)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	37,246	37,737
Provision for doubtful accounts	191	227
Deferred income taxes	640	1,673
Stock-based compensation	100	376
(Loss) gain on disposal of assets, net	(88)	1
Changes in operating assets and liabilities:		
Accounts receivable	(2,224)	(4,797)
Inventories and prepaid expenses	(4,868)	(2,314)
Trade accounts payable and accrued expenses	5,880	626
Insurance and claims accruals	(1,068)	(1,718)
Net cash provided by operating activities	34,299	27,146
Investing activities		
Purchases of property and equipment	(31,778)	(30,229)
Proceeds from sale of property and equipment	9,329	9,955
Change in other assets	(26)	(106)
Net cash used in investing activities	(22,475)	(20,380)
Financing activities		
Borrowings under long-term debt	51,183	61,172
Principal payments on long-term debt	(48,502)	(45,372)
Principal payments on capitalized lease obligations	(10,785)	(19,949)

Principal payments on note payable		(1,015)		(1,285)
Net decrease in bank drafts payable		(2,356)		(678)
Proceeds from exercise of stock options		175		364
Excess tax benefit from exercise of stock options		8		--
Net cash used in financing activities		(11,292)		(5,748)
Increase in cash and cash equivalents		532		1,018
Cash and cash equivalents:				
Beginning of period		797		1,541
End of period	$	1,329	$	2,559
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	2,528	$	2,299
Income taxes		--		2,065
Supplemental disclosure of non-cash investing activities:				
Liability incurred for leases on revenue equipment		4,867		10,522

See notes to consolidated financial statements.

USA TRUCK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2010

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three month and nine month periods ended September 30, 2010, are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the financial statements, and footnotes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2009.

The balance sheet at December 31, 2009, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

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

NOTE 2 – REVENUE RECOGNITION

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

Revenue generated by our Strategic Capacity Solutions and Intermodal operating segments is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs because we have responsibility for billing and collecting such revenue.

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

NOTE 3 – STOCK-BASED COMPENSATION

The USA Truck, Inc. 2004 Equity Incentive Plan provides for the granting of incentive or nonqualified options or other equity-based awards covering up to 1,050,000 shares of Common Stock to directors, officers and other key employees. No options were granted under this 2004 Equity Incentive Plan for less than the fair market value of the Common Stock as defined in the 2004 Equity Incentive Plan at the date of the grant. Options granted under the 2004 Equity Incentive Plan generally vest ratably over three to five years. The option price under the 2004 Equity Incentive Plan is the fair market value of our Common Stock at the date the options were granted, except that the exercise prices of options granted to our Chairman of the Board are equal to 110% of the fair market value of our Common Stock at the date those options were granted. The exercise prices of outstanding options granted under the 2004 Equity Incentive Plan range from $11.19 to $30.22 as of September 30, 2010. At September 30, 2010, 555,123 shares were available for granting future options or other equity awards under this 2004 Equity Incentive Plan. The Company issues new shares upon the exercise of stock options.

The stock-based compensation expense that was recognized related to incentive and nonqualified stock options granted under our plans for the three and nine month periods ended September 30, 2010, was approximately $0.05 million and $0.09 million, respectively. For the three and nine month periods ended September 30, 2009, we recognized approximately $0.1 million and $0.2 million, respectively, in compensation expense related to incentive and nonqualified stock options granted under our plans.

The table below sets forth the assumptions used to value stock options granted during the years indicated:

	2010	2009
Dividend yield	0%	0%
Expected volatility	32.8 – 45.5%	36.5 – 53.1%
Risk-free interest rate	1.3 – 2.1%	1.4%
Expected life (in years)	4.0 – 4.25	4.13 – 4.25

The expected volatility is a measure of the expected fluctuation in our share price based on the historical volatility of our stock. Expected life represents the length of time we anticipate the options to be outstanding before being exercised. 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. In addition to the above, we also include a factor for anticipated forfeitures, which represents the number of shares under options expected to be forfeited over the expected life of the options.

Information related to option activity for the nine months ended September 30, 2010 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (1)
Outstanding - beginning of year	201,446	$ 16.25		
Granted	23,672	15.07		
Exercised	(23,216)	11.55		$ 136,307
Cancelled/forfeited	(24,286)	16.07		
Expired	(31,300)	19.60		
Outstanding at September 30, 2010	146,316	$ 16.12	3.0	$ 184,932
Exercisable at September 30, 2010	65,172	$ 16.59	1.5	$ 91,875

(1) The intrinsic value of outstanding and exercisable stock options is determined based on the amount by which the market value of the underlying stock exceeds the exercise price of the option. The per share market value of our Common Stock, as determined by the closing price on September 30, 2010 (the last trading day of the quarter), was $14.98.

The stock-based compensation expense that was recognized related to restricted stock awards granted under our plans for the three and nine month periods ended September 30, 2010, was approximately $0.1 million and $0.01 million, respectively. For the three and nine months ended September 30, 2009, the compensation expense related to our restricted stock awards was approximately $0.03 million and $0.2 million, respectively. The compensation expense recognized is based on the market value of our Common Stock on the date the restricted stock award is granted and is not adjusted in subsequent periods. The amount recognized is amortized over the vesting period. Compensation expense is included in salaries, wages and employee benefits in the consolidated statement of operations.

The 2003 Restricted Stock Award Plan terminated August 31, 2009. During the quarter ended June 30, 2010, management determined that the performance criteria for 2010 would not be met and therefore the remaining 2,000 shares outstanding under this Plan were deemed forfeited and recorded as treasury stock. The previously recorded expense in the amount of $0.05 million relating to the forfeited shares was recovered during the quarter ended June 30, 2010. The shares will remain outstanding until their scheduled vest date of March 1, 2011, at which time their forfeiture will become effective. Pursuant to the provisions of the Plan at that time, the shares will be returned to Mr. Robert M. Powell, who originally contributed the shares for the awards made under this Plan.

Information related to the restricted stock awarded under the 2004 Equity Incentive Plan for the nine months ended September 30, 2010, is as follows:

	Number of Shares	Weighted Average Grant Price (1)	
Nonvested shares – December 31, 2009	221,810	$	12.24
Granted	7,440		15.21
Forfeited	(27,227)		12.33
Vested	(6,179)		13.29
Nonvested shares – September 30, 2010	195,844	$	12.31

(1) The shares were valued at the closing price of the Company's common stock on the dates of the awards.

During the quarter ended June 30, 2010, management determined that the performance criteria will not be met for the 8,830 shares that were to vest on April 1, 2011; therefore, these shares were deemed forfeited and recorded as treasury stock. The shares will remain outstanding until their scheduled vesting date of April 1, 2011, at which time their forfeiture will become effective and the shares will revert to the 2004 Equity Incentive Plan. The previously recorded expense in the amount of approximately $0.07 million was reversed during the quarter ended June 30, 2010.

As of September 30, 2010, we had approximately $0.2 million and $1.7 million in unrecognized compensation expense related to stock options and restricted stock, respectively, which is expected to be recognized over a weighted average period of approximately 1.6 years for stock options and 6.0 years for restricted stock.

NOTE 4 – REPURCHASE OF EQUITY SECURITIES

On October 21, 2009, the Board of Directors of the Company approved the repurchase of up to 2,000,000 shares of the Company's Common Stock expiring on October 21, 2012. Subject to applicable timing and other legal requirements, these repurchases may be made on the open market or in privately negotiated transactions on terms approved by the Company's Chairman of the Board or President. Repurchased shares may be retired or held in treasury for future use for appropriate corporate purposes including issuance in connection with awards under the Company's employee benefit plans. During the nine months ended September 30, 2010, we did not repurchase any shares of our Common Stock. Our current repurchase authorization has 2,000,000 shares remaining.

NOTE 5 – SEGMENT REPORTING

The service offerings we provide relate to the transportation of truckload quantities of freight for customers in a variety of industries. The services generate revenue, and to a great extent incur expenses, primarily on a per mile basis. Our business is classified into three operating segments: our Trucking operating segment consisting primarily of our General Freight and Dedicated Freight service offerings; our Strategic Capacity Solutions operating segment consisting entirely of our freight brokerage service offering; and our rail Intermodal operating segment. We previously included the results of our freight brokerage and Container-on-Flat-Car ("COFC") portion of our rail Intermodal service offering in our Strategic Capacity Solutions operating segment. The Trailer-on-Flat-Car ("TOFC") portion of our rail Intermodal service offering was classified within our Trucking operating segment. COFC and TOFC are now combined and reported as Intermodal and brokerage is now reported as Strategic Capacity Solutions. Strategic Capacity Solutions and Intermodal are reported as separate operating segments. These three operating segments are aggregated into one segment for financial reporting purposes.

Our Strategic Capacity Solutions and Intermodal operating segments are intended to provide services which complement our Trucking services, primarily to existing customers of our Trucking operating segment. A majority of the customers using our Strategic Capacity Solutions and Intermodal services are also customers of our Trucking operating segment. Both our Strategic Capacity Solutions and Intermodal operating segments, while making significant contributions to our business, represent a relatively small portion of our revenue. For the three and nine months ended September 30, 2010, our Strategic Capacity Solutions operating segment generated approximately 10.0% and 8.7% of our total base revenue, respectively, while our Intermodal operating segment generated approximately 3.0% and 2.9% of our total base revenue, respectively, for the same period. For the three and nine months ended September 30, 2009, our Strategic Capacity Solutions operating segment generated approximately 4.6% and 3.9% of our total base revenue, respectively, while our Intermodal operating segment generated approximately 2.5% and 2.2% of our total base revenue, respectively, for the same period.

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

NOTE 6 – NEW ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (the "Update"), which provides amendments to Accounting Standards Codification 820-10 (Fair Value Measurements and Disclosures – Overall Subtopic) of the

Codification. The Update requires improved disclosures about fair value measurements. Separate disclosures need to be made of the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements along with a description of the reasons for the transfers. Also, disclosure of activity in Level 3 fair value measurements needs to be made on a gross basis rather than as one net number. The Update also requires: (1) fair value measurement disclosures for each class of assets and liabilities, and (2) disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements, which are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The enhanced disclosure requirements have not had a material impact on the Company's financial reporting.

In July 2010, the FASB issued Accounting Standards Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, to enhance the disclosures required for financing receivables and allowances for credit losses under FASB Accounting Standards Codification 310, Receivables. The amended disclosures are designed to provide more information to financial statement users about the credit quality of a creditor's financing receivables and the adequacy of its allowance for credit losses. For public companies, the disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. We do not expect the enhanced disclosure requirements to have a material impact on our financial reporting.

NOTE 7 – DERIVATIVE FINANCIAL INSTRUMENTS

We record derivative financial instruments in the balance sheet as either an asset or liability at fair value based on the active market in which the derivative financial instrument is traded, with classification as current or long-term depending on the duration of the instrument.

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

On February 6, 2009, we entered into a $10.0 million interest rate swap agreement with an effective date of February 19, 2009. The rate on the swap is fixed at 1.57% until February 19, 2011. The interest rate swap agreement is being accounted for as a cash flow hedge. The fair value of this liability at September 30, 2010 was approximately $0.07 million and it is included in accrued expenses in the accompanying consolidated balance sheet.

On May 25, 2010, we entered into a contract to hedge approximately 0.5 million gallons of diesel fuel per month for the time period of July 2010 through June 2012. Under this agreement, we pay a fixed rate per gallon of heating oil and receive the monthly average price of NYMEX HO heating oil. As diesel fuel is not a traded commodity on the futures market, heating oil is used as a substitute for diesel fuel as prices for both generally move in similar directions.

On June 28, 2010, the Company sold its contract related to the forecasted purchase of diesel fuel for the time period of July 2010 through June 2012 in order to realize related gains. The purchase contract had not been designated as a hedge for accounting purposes; therefore, the related gain was recorded as a reduction in fuel expense. The amount of the gain was approximately $1.2 million on a pre-tax basis and approximately $0.7 million on a net of tax basis or $0.07 per share for the quarter ended June 30, 2010.

NOTE 8 – COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) was comprised of net income (loss) plus the market value adjustment on our interest rate swap that will expire on February 19, 2011, which is designated as a cash flow hedge. Comprehensive income (loss) consisted of the following components:

	(in thousands)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net income (loss)	$ 586	$ (1,638)	$ (1,510)	$ (4,665)
Change in fair value of interest rate swap, net of income tax benefit of $(5) for the three months ended September 30, 2010 and net of income tax benefit of $(25) for the three months ended September 30, 2009, and net of income tax benefit of $(19) for the nine months ended September 30, 2010 and $(68) for the nine months ended September 30, 2009	(8)	(41)	(30)	(111)
Reclassification of derivative net losses to statement of operations, net of	20	20	60	97

income tax of $12 for the three months ended September 30, 2010 and $12 for the three months ended September 30, 2009, and net of income tax of $37 for the nine months ended September 30, 2010 and $60 for the nine months ended September 30, 2009						
Total comprehensive income (loss)	$	598	$	(1,659)	$	(1,480)	(4,679)

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Fair Value Measurements

	(in thousands)			
	Total Fair Value Assets (Liabilities) at September 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Liabilities	$ (31)	$ --	$ (31)	$ --

The fair value of derivatives, consisting entirely of interest rate swaps as discussed above, is calculated using proprietary models utilizing observable inputs as well as future assumptions related to interest rates and other applicable variables. These calculations are performed by the financial institutions that are counterparties to the applicable swap agreements and reported to the Company on a monthly basis. The Company uses these reported fair values to adjust the asset or liability as appropriate. The Company evaluates the reasonableness of the calculations by comparing the yield curve from other sources for the applicable period.

NOTE 9 – CLAIMS LIABILITIES

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

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. For medical benefits, the Company self-insures up to $0.25 million per plan participant per year with an aggregate claim exposure limit determined by our year-to-date claims experience and the number of covered lives. We are completely self-insured for physical damage to our own tractors and trailers, except that we carry catastrophic physical damage coverage to protect against natural disasters. 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 against material loss.

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

NOTE 10 – ACCRUED EXPENSES

Accrued expenses consisted of the following:

	(in thousands)	
	September 30, 2010	December 31, 2009

Salaries, wages and employee benefits	$	5,633	$	3,966
Other (1)		5,019		5,042
Total accrued expenses	$	10,652	$	9,008

(1) As of September 30, 2010 and December 31, 2009, no single item included within other accrued expenses exceeded 5.0% of our total current liabilities.

NOTE 11 – NOTE PAYABLE

At December 31, 2009, we had an unsecured note payable of $1.0 million. The note, which was payable in monthly installments of principal and interest of approximately $0.1 million and bearing interest at 3.4%, matured on September 1, 2010. The note payable was being used to finance a portion of the Company's annual insurance premiums.

On October 20, 2010, the Company's Board of Directors approved an unsecured note payable of $1.2 million, payable in monthly installments of principal and interest of approximately $0.1 million, scheduled to mature on September 1, 2011 and bearing interest at 2.6%. The note payable will be used to finance a portion of the Company's annual insurance premiums.

NOTE 12 – LONG-TERM DEBT

Long-term debt consisted of the following:

	(in thousands) September 30, 2010	December 31, 2009
Revolving credit agreement (1)	$ 49,400	$ 46,718
Capitalized lease obligations (2)	49,940	55,859
	99,340	102,577
Less current maturities	(16,657)	(63,461)
Long-term debt and capital leases, less current maturities	$ 82,683	$ 39,116

(1) On April 19, 2010, we entered into a new Credit Agreement with Branch Banking and Trust Company as Administrative Agent, which replaced our Amended and Restated Senior Credit Facility scheduled to mature on September 1, 2010. The Credit Agreement provides for available borrowings of up to $100.0 million, including letters of credit not to exceed $25.0 million. Availability may be reduced by a borrowing base limit as defined in the Credit Agreement. The Credit Agreement 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, subject to certain conditions. The Credit Agreement bears variable interest based on the type of borrowing and on the Administrative Agent's prime rate or the London Interbank Offered Rate plus a certain percentage, which is determined based on our attainment of certain financial ratios. A quarterly commitment fee is payable on the unused portion of the credit line and bears a rate which is determined based on our attainment of certain financial ratios. The obligations of the Company under the Credit Agreement are guaranteed by the Company and secured by a pledge of substantially all of the Company's assets with the exception of real estate. The Credit Agreement includes usual and customary events of default for a facility of this nature and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the Credit Agreement may be accelerated, and the lenders' commitments may be terminated. The Credit Agreement contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions outside of the ordinary course of business, and affiliate transactions. The new Credit Agreement will expire on April 19, 2014.

Borrowings under the Credit Agreement are classified as "base rate loans," "LIBOR loans" or "Euro dollar loans." Base rate loans accrue interest at a base rate equal to the Administrative Agent's prime rate plus an applicable margin that is adjusted quarterly between 0.0% and 1.0%, based on the Company's leverage ratio. LIBOR loans accrue interest at LIBOR plus an applicable margin that is adjusted quarterly between 2.00% and 3.25% based on the Company's leverage ratio. Euro dollar loans accrue interest at the LIBOR rate in effect at the beginning of the month in which the borrowing occurs plus an applicable margin that is adjusted quarterly between 2.00% and 3.25% based on the Company's leverage ratio. On a per annum basis, the Company must pay a fee on the unused amount of the revolving credit facility of between 0.25% and 0.375% based on the Company's leverage ratio, and it must pay an annual administrative fee to the Administrative Agent of 0.03% of the total commitments.

The interest rate on our overnight borrowings under the Credit Agreement at September 30, 2010 was 3.5%. The interest rate including all borrowings made under the Credit Agreement at September 30, 2010 was 3.0%. The interest rate on the Company's borrowings under the agreements for the nine months ended September 30, 2010 was 2.6%. A quarterly commitment fee is payable on the unused portion of the credit line and bears a rate which is determined based on our attainment of certain financial ratios. At September 30, 2010, the rate was 0.25% per annum. The Credit Agreement is collateralized by revenue equipment having a net book value of $136.0 million at September 30, 2010, and all trade and other accounts receivable. The Credit Agreement requires us to meet certain financial covenants (i.e., a maximum leverage ratio of 3.25 until December 31, 2010 and 3.00 thereafter, and a minimum fixed charge ratio of 1.4) and to maintain a minimum tangible net worth of approximately $106.1 million at September 30, 2010. We were in compliance with these covenants at September 30, 2010. The covenants would prohibit the payment of dividends by us if such payment would cause us to be in violation of any of the covenants. As the Company recently refinanced its debt in April 2010, the borrowings under the Credit Agreement approximate its fair value.

(2) Our capitalized lease obligations have various termination dates extending through January 2014 and contain renewal or fixed price purchase options. The effective interest rates on the leases range from 3.2% to 4.8% at September 30, 2010. The lease agreements require us to pay property taxes, maintenance and operating expenses.

NOTE 13 – LEASES AND COMMITMENTS

The Company leases certain revenue equipment under capital leases with terms of 42 or 45 months. At September 30, 2010, property and equipment included capitalized leases, which had capitalized costs of $73.3 million, accumulated amortization of $23.9 million and a net book value of $49.4 million. At December 31, 2009, property and equipment included capitalized leases, which had capitalized costs of $72.8 million, accumulated amortization of $17.0 million and a net book value of $55.8 million. Amortization of leased assets is included in depreciation and amortization expense and totaled $2.9 million and $2.4 million for the three months ended September 30, 2010 and 2009, respectively, and $8.6 million and $8.3 million for the nine months ended September 30, 2010 and September 30, 2009, respectively.

We have entered into leases with lenders who participated in our Amended and Restated Senior Credit Facility and who participate in the Credit Agreement we entered into on April 19, 2010. Those leases contain cross-default provisions with the Facility and the new Credit Agreement, which replaced that Facility. We have also entered into leases with other lenders who do not participate in our Credit Agreement. Multiple leases with lenders who do not participate in our Credit Agreement generally contain cross-default provisions.

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

As of September 30, 2010, we had commitments for purchases of revenue equipment in the aggregate amount of approximately $19.0 million for the remainder of 2010, none of which is cancelable by us upon advance written notice, and approximately $0.3 million for non-revenue purchases.

NOTE 14 – INCOME TAXES

During the three months ended September 30, 2010 and 2009, our effective tax rates were 60.0% and 22.6%, respectively. During the nine months ended September 30, 2010 and 2009, our effective tax rates were 69.8% and 21.1%, respectively. Income tax expense varies from the amount computed by applying the statutory federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Drivers may elect to receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases our drivers' net pay per mile, after taxes, while decreasing gross pay, before taxes. As a result, salaries, wages and employee benefits are slightly lower, and our effective income tax rate is higher than the statutory rate. Generally, as pre-tax income increases, the impact of the driver per diem program on our effective tax rate decreases because aggregate per diem pay becomes smaller in relation to pre-tax income. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

We account for any uncertainty in income taxes by determining whether it is more likely than not that a tax position we have taken in a tax return will be sustained upon examination by the appropriate taxing authority based on the technical merits of the position. In that regard, we have analyzed filing positions in our federal and applicable state tax returns as well as in all open tax years. The only periods subject to examination for our federal returns are the 2007, 2008 and 2009 tax years. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. In conjunction with the above, our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. We have not recorded any unrecognized tax benefits through September 30, 2010.

NOTE 15 – CHANGE IN ACCOUNTING ESTIMATE

Effective April 1, 2009, we changed our method of accounting for tires. Commencing when the tires, including recaps, are placed into service, we account for them as prepaid expenses and amortize their cost over varying time periods, ranging from 18 to 30 months, depending on the type of tire. Prior to April 1, 2009, the cost of tires was fully expensed when they were placed into service. We believe the new accounting method more appropriately matches the tire costs to the period during which the tire is being used to generate revenue. For the three and nine months ended September 30, 2010, this change in estimate effected by a change in principle resulted in a reduction of operations and maintenance expense on a pre-tax basis of approximately $1.3 million and $4.0 million, respectively, and on a net of tax basis of approximately $0.8 million ($0.08 per share) and $2.5 million ($0.24 per share), respectively. For the three and nine months ended September 30, 2009, this change in estimate effected by a change in principle resulted in a reduction of operations and maintenance expense on a pre-tax basis of approximately $1.5 million and $2.9 million, respectively, and on a net of tax basis of approximately $0.9 million ($0.09 per share) and $1.8 million ($0.17 per share), respectively.

NOTE 16 – EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed based on the weighted average number of shares of Common Stock outstanding during the period. Diluted earnings (loss) per share is computed by adjusting the weighted average number of shares of Common Stock outstanding by Common Stock equivalents attributable to dilutive stock options and restricted stock. The computation of diluted loss per share does not assume conversion, exercise, or contingent issuance of securities that would have an antidilutive effect on loss per share.

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

	(in thousands, except per share amounts)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Numerator:				
Net income (loss)	$ 586	$ (1,638)	$ (1,510)	$ (4,665)
Denominator:				
Denominator for basic earnings (loss) per share – weighted average shares	10,297	10,249	10,294	10,228
Effect of dilutive securities:				
Employee stock options and restricted stock	15	--	--	--
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversions	10,312	10,249	10,294	10,228
Basic earnings (loss) per share	$ 0.06	$ (0.16)	$ (0.15)	$ (0.46)
Diluted earnings (loss) per share	$ 0.06	$ (0.16)	$ (0.15)	$ (0.46)
Weighted average anti-dilutive employee stock options and restricted stock	101	134	123	124

NOTE 17 – LITIGATION

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

On July 2, 2010 a former driver employee, filed a lawsuit against us titled Hermes Cerdenia vs. USA Truck, Inc. in the Superior Court of the State of California for the County of San Bernardino, alleging various violations of the California Labor Code and seeking certification of the suit as a class action to include “all individuals currently and formerly employed in California as drivers, or other similarly titled positions.” The Company has filed a petition seeking to remove the case to the United States District Court, Central District of California and has filed an answer denying the plaintiff’s allegations. The petition for removal is currently pending before the court. The lawsuit seeks monetary damages for the alleged violations.

NOTE 18 – SUBSEQUENT EVENTS

The Company has entered into a Letter of Intent to sell its Shreveport, Louisiana terminal facility for $2.25 million. The purchase price will be paid with a cash down payment in the amount of $0.2 million and a $2.05 million note receivable bearing interest at 7.0% per annum. The note receivable will be amortized over 30 years with a balloon payment of the remaining balance payable in full at the end of the fifth year. The Company expects this transaction to close during the fourth quarter of 2010, and it expects to recognize a gain on the sale of this property, which it will recognize over the term of the note receivable.

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

Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These statements generally may be identified by their use of terms or phrases such as “expects,” “estimates,” “anticipates,” “projects,” “believes,” “plans,” “in “may,” “will,” “should,” “could,” “potential,” “continue,” “future” and terms or phrases of similar substance. Forward-l statements are based upon the current beliefs and expectations of our management and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Accordingly, actual results may differ from those set forth in the forward-looking statements. Readers should review and consider the factors that may affect future results and other disclosures by the Company in its press releases, Annual Report on Form 10-K and other filings with the Securities and Exchange Commission. Additional risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 under the heading “Risk Factors” in Item 1A of that report and updates, if any, to that information are included in Item 1A of Part II of this report. We disclaim any obligation to update or revise any forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking information. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report might not occur.

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

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

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

Overview

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

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

Results of Operations – an analysis of our consolidated results of operations for the periods 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.

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

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. Our business is classified into three operating segments: our Trucking operating segment consisting primarily of our General Freight and Dedicated Freight service offerings; our Strategic Capacity Solutions operating segment consisting entirely of our freight brokerage service offering; and our rail Intermodal operating segment. We previously included the results of our freight brokerage and Container-on-Flat-Car (“COFC”) portion of our rail Intermodal service offering in our Strategic Capacity Solutions operating segment. The Trailer-on-Flat-Car (“TOFC”) portion of our rail Intermodal service offering was classified within our Trucking operating segment. COFC and TOFC are now combined and reported as Intermodal and brokerage is now reported as Strategic Capacity Solutions. Strategic Capacity Solutions and Intermodal are reported as separate operating segments. These three operating segments are aggregated into one segment for financial reporting purposes.

Our Strategic Capacity Solutions and Intermodal operating segments are intended to provide services which complement our Trucking services, primarily to existing customers of our Trucking operating segment. A majority of the customers using our Strategic Capacity Solutions and Intermodal services are also customers of our Trucking operating segment. Both our Strategic Capacity Solutions and Intermodal operating segments, while making significant contributions to our business, represents a relatively small portion of our revenue.

Substantially all of our base revenue from the three operating 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 three and nine months ended September 30, 2010, Trucking base revenue represented 87.0% and 88.4% of base revenue, respectively, with the remaining base revenue being generated through Strategic Capacity Solutions and Intermodal. For the three and nine months ended September 30, 2009, Trucking base revenue represented 92.9% and 93.9% of base revenue, respectively, with the remaining base revenue being generated through Strategic Capacity Solutions and Intermodal.

We generally charge customers for our services on a per-mile basis. The expenses which have a major impact on our profitability are the variable costs of transporting freight for our customers. The variable costs include fuel expense, insurance and claims and driver-related expenses, such as wages and benefits.

Trucking. Trucking includes the following primary service offerings provided to our customers:

- General Freight. Our General Freight service offering provides truckload freight services as a short- to medium-haul common carrier. We have provided General Freight services since our inception and we derive the largest portion of our revenue from these services.

- Dedicated Freight. Our Dedicated Freight service offering is a variation of our General Freight service, 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 service offering also aids in driver recruitment and retention.

Strategic Capacity Solutions. Our Strategic Capacity Solutions service offering consists entirely of our freight brokerage service offering which matches customer shipments with available equipment of authorized carriers.

Intermodal. Our rail Intermodal service offering provides our customers cost savings over General Freight with a slightly slower transit speed, while allowing us to reposition our equipment to maximize our freight network yield. During August 2010, the Company entered into a long-term agreement with BNSF Railway to lease private 53' domestic intermodal containers. Prior to the agreement, the majority of Intermodal's revenue was derived from trailer-on-flat-car service. The addition of private containers offers the Company an opportunity to continue its growth in the intermodal marketplace and to continue to offer our customers additional transportation solutions.

Results of Operations

Executive Overview

Our business model is beginning to take the form we envisioned when we began executing our VEVA (Vision for Economic Value Added) strategic plan two years ago.

Our asset-light service offerings of SCS (Strategic Capacity Solutions) and Intermodal now represent approximately 13.0% of our total revenue, and are on pace to produce annualized revenue in excess of $60 million. Both asset-light services are profitable and grew rapidly in response to our customers' evolving needs. In fact, 84% of our largest 25 customers utilized various combinations of our Trucking and asset-light services during the quarter. We also began taking delivery of private intermodal containers during the quarter, which we expect to accelerate our asset-light revenue growth throughout 2011.

Our Trucking services are steadily improving as they conform to our Spider Web freight network design. Nearly 48% of our freight moved in Spider Web lanes during the quarter compared to just 39% a year ago. That improved network compliance enabled us to simultaneously drive down our length-of-haul by 5.4% to 546 miles, reduce our empty miles to 10.3%, improve our miles per tractor per week by 2.5% to 2,007 and raise our revenue per total mile by 9.2% to $1.42. Spider Web lane prices averaged $0.27 per mile more than our legacy lane prices, but that was not the only catalyst for our improved pricing. Freight rates in the truckload industry fell to unsustainably low levels at the trough of the economic recession, so we proactively increased pricing on many of our underperforming lanes during the third quarter in response to tighter capacity relative to demand early in the quarter.

Our people are gaining experience operating within the Spider Web and their ability to execute was evident in our revenue growth, our safety performance and driver management, as follows:

- Trucking base revenue grew by 14.5%, but only 2.3% of the increase came from growth in the tractor fleet (primarily from additions to our owner-operator ranks). The balance of the increase resulted from higher base revenue per tractor per week.

- We reduced our Department of Transportation recordable accident frequency by 20.8% to its lowest level in the past four years, which led to an approximate 140 basis point improvement in insurance and claims costs.

- We also reduced our driver turnover rate by approximately 18 percentage points, which allowed us to man our fleet with drivers, reduce recruiting costs as a percent of revenue and hold the line on other driver-related costs despite a tightening driver labor pool.

For the quarter, the additional cash flow from operations (+70.3% to $9.4 million) produced by our improved performance strengthened our balance sheet. Overall, we generated $9.9 million in free cash flow (net cash flow from operations plus net cash provided by investing activities), which we used to reduce our balance sheet debt to pre-2010 levels and to 41.1% of total capitalization.

Freight demand and truck capacity in the truckload marketplace seem to be near equilibrium with pockets of strength and softness in particular geographic regions around the country. Demand has moderated recently and we have yet to see a strong fall peak shipping season, so we expect the overall market to remain near equilibrium until Thanksgiving with demand outstripping capacity in certain parts of the country. We believe capacity will exceed demand during the seasonally weak winter months, but we anticipate further tightening of capacity as next spring approaches. We expect elevated fuel costs, continued tight credit, an aging tractor fleet and implementation of the Department of Transportation's Comprehensive Safety Analysis 2010 (a wide-ranging performance-based safety initiative) in November to create a more significant shortage of trucks in 2011 than the industry has experienced during 2010.

While we are optimistic about the industry's prospects as 2011 and beyond unfolds, we are bracing for what is likely to be two challenging quarters between now and next spring. We have improved our model considerably over the past year and those improvements will serve us well for the next six months, but we are also facing some near-term headwinds.

- Our fuel cost per gallon rose steadily throughout the quarter, averaging 11.9% more than the comparable quarter. The steady increase in fuel prices prevented our fuel surcharge program from keeping pace with the rising costs. Thus, we purchased more fuel gallons at a higher price with less fuel surcharge recoveries. The result was approximately 170 basis points of additional operating margin consumed by fuel costs, or approximately $0.10 per share.

- Our tractor and trailer fleets are older than what we specify in our business model; 28 and 66 months, respectively, compared to our model of 22 and 42 months. As a result, we incurred approximately 180 basis points of additional operating margin for maintenance costs, or approximately $0.11 per share.

We have placed approximately 400 new tractors in service during 2010 and we have contracted to purchase an additional 500 tractors with delivery throughout 2011. The new tractors are more fuel efficient and require far less maintenance than the tractors we are taking out of service. This month, we will also begin taking delivery of some of the 400 new trailers that we have purchased, with final delivery scheduled to take place during the first quarter of 2011. However, it will take a few quarters for the financial impact of the new equipment to appear, particularly during the winter months when cold and wintery weather typically increases fuel and maintenance costs.

We are pleased with our strategic progress, and we believe our model is well-positioned to capitalize on future economic recovery. In the near-term, we will work to build greater Spider Web density in our freight network, expand our asset-light services and update our tractor fleet.

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 and purchased transportation line items in the table 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 Operations included in this report.

Base revenue from our Strategic Capacity Solutions and Intermodal operating segments have fluctuated in recent periods. These services typically do not involve the use of our tractors and trailers. Therefore, an increase in revenue from these operating segments tends to cause expenses related to our operations that do involve our equipment—including fuel expense, 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. Likewise, a decrease in revenue from these operating segments tends to cause those expenses to increase as a percentage of base revenue with a related increase in purchased transportation expense. Since changes in revenue from these operating segments 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. Base revenue from our Strategic Capacity Solutions operating segment increased approximately 166.4% and 159.0% for the three and nine month periods ended September 30, 2010, compared to the same periods of the prior year. Base revenue from our Intermodal operating segment increased approximately 49.8% and 49.7% for the three and nine month periods ended September 30, 2010, compared to the same periods of the prior year.

Relationship of Certain Items to Base Revenue

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

	Three Months Ended September 30,	Nine Months Ended September 30,
	2010	