

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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 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 \_\_\_\_\_

Commission File Number 0-19858



USA TRUCK, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of incorporation or organization)

71-0556971

(I.R.S. employer identification no.)

3200 Industrial Park Road  
Van Buren, Arkansas

(Address of principal executive offices)

72956

(Zip code)

(479) 471-2500

(Registrant's telephone number, including area code)

Not applicable

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the registrant's Common Stock, par value \$ .01, as of April 24, 2007 is 10,794,172.

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**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**USA TRUCK, INC.  
CONSOLIDATED BALANCE SHEETS**

(in thousands, except share and per share amounts)

	<b>March 31, 2007</b>	December 31, 2006 (1)
	<b>(unaudited)</b>	(audited)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents .....	\$ 5,262	\$ 7,132
Accounts receivable:		
Trade, less allowances of \$84 in 2007 and \$96 in 2006.....	43,112	40,856
Other .....	7,977	4,828
Inventories .....	988	930
Deferred income taxes .....	1,648	1,792
Prepaid expenses .....	9,115	8,266
Total current assets.....	<b>68,102</b>	63,804
Property and equipment:		
Land and structures.....	33,026	32,992
Revenue equipment .....	323,974	326,083
Service, office and other equipment .....	18,124	17,746
	<b>375,124</b>	376,821
Accumulated depreciation and amortization .....	(104,500)	(101,314)
	<b>270,624</b>	275,507
Other assets .....	353	183
Total assets.....	<b>\$ 339,079</b>	\$ 339,494
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Bank drafts payable .....	\$ 10,802	\$ 11,539
Trade accounts payable .....	15,855	10,419
Current portion of insurance and claims accruals.....	6,703	6,233
Accrued expenses .....	11,121	10,808
Current maturities of long-term debt and capital leases .....	25,498	25,798
Note payable.....	1,203	1,791
Total current liabilities .....	<b>71,182</b>	66,588
Long-term debt and capital leases, less current maturities.....	69,375	67,817
Deferred income taxes .....	42,167	41,565
Insurance and claims accruals, less current portion .....	4,145	3,966
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 11,503,072 shares in 2007 and 11,473,022 shares in 2006.....	115	115
Additional paid-in capital .....	62,729	62,230
Retained earnings .....	101,500	101,420
Less treasury stock, at cost (717,900 shares in 2007 and 230,401 shares in 2006).....	(12,134)	(4,207)
Total stockholders' equity.....	<b>152,210</b>	159,558
Total liabilities and stockholders' equity .....	<b>\$ 339,079</b>	\$ 339,494

(1)The balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

See notes to consolidated financial statements.

**USA TRUCK, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

(in thousands, except per share data)

	Three Months Ended March 31,	
	2007	2006
<b>Revenue:</b>		
Trucking revenue.....	\$ 92,438	\$ 91,387
USA Logistics revenue.....	2,035	5,429
Base revenue .....	94,473	96,816
Fuel surcharge revenue.....	17,978	17,392
Total revenue .....	112,451	114,208
<b>Operating expenses and costs:</b>		
Salaries, wages and employee benefits.....	40,751	37,684
Fuel and fuel taxes.....	33,249	32,260
Depreciation and amortization.....	11,889	11,216
Insurance and claims .....	7,327	6,368
Operations and maintenance.....	5,873	5,316
Purchased transportation .....	3,770	6,655
Operating taxes and licenses.....	1,619	1,635
Communications and utilities .....	952	834
Gain on disposal of revenue equipment, net.....	(371)	(113)
Other.....	5,303	5,134
Total operating expenses and costs.....	110,362	106,989
<b>Operating income</b> .....	<b>2,089</b>	<b>7,219</b>
<b>Other expenses (income):</b>		
Interest expense .....	1,151	929
Other, net.....	79	(62)
Total other expenses, net.....	1,230	867
<b>Income before income taxes</b> .....	<b>859</b>	<b>6,352</b>
<b>Income tax expense</b> .....	<b>779</b>	<b>2,904</b>
<b>Net income</b> .....	<b>\$ 80</b>	<b>\$ 3,448</b>
<b>Per share information:</b>		
Average shares outstanding (Basic).....	11,062	11,349
Basic earnings per share .....	<b>\$ 0.01</b>	<b>\$ 0.30</b>
Average shares outstanding (Diluted) .....	11,188	11,643
Diluted earnings per share .....	<b>\$ 0.01</b>	<b>\$ 0.30</b>

*See notes to consolidated financial statements.*

**USA TRUCK, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**  
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
	Shares	Par Value				
Balance at December 31, 2006.....	11,473	\$ 115	\$ 62,230	\$ 101,420	\$ (4,207)	\$ 159,558
Exercise of stock options.....	30	--	360	--	--	360
Write off of tax asset on exercise of stock options.....	--	--	(12)	--	--	(12)
Stock-option expense .....	--	--	151	--	--	151
Purchase of 487 shares of Common Stock into treasury .....	--	--	--	--	(7,927)	(7,927)
Net income for 2007.....	--	--	--	80	--	80
Balance at March 31, 2007.....	<b>11,503</b>	<b>\$ 115</b>	<b>\$ 62,729</b>	<b>\$ 101,500</b>	<b>\$ (12,134)</b>	<b>\$ 152,210</b>

*See notes to consolidated financial statements.*

**USA TRUCK, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

(in thousands)

	Three Months Ended March 31,	
	2007	2006
<b>Operating activities</b>		
Net income.....	\$ 80	\$ 3,448
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	11,889	11,216
Provision for doubtful accounts .....	(11)	--
Deferred income taxes .....	746	2,403
Excess tax benefit from exercise of stock options .....	(39)	(40)
Write off of tax asset on exercise of stock options .....	51	--
Stock-based compensation.....	151	188
Gain on disposal of property and equipment .....	(371)	(113)
Changes in operating assets and liabilities:		
Accounts receivable.....	(5,394)	572
Inventories and prepaid expenses .....	(907)	(2,121)
Trade accounts payable and accrued expenses .....	5,737	9,457
Insurance and claims accruals .....	649	(2,561)
Net cash provided by operating activities .....	<u>12,581</u>	<u>22,449</u>
<b>Investing activities</b>		
Purchases of property and equipment .....	(15,192)	(34,955)
Proceeds from sale of property and equipment.....	8,557	9,565
Change in other assets.....	(170)	3
Net cash used in investing activities .....	<u>(6,805)</u>	<u>(25,387)</u>
<b>Financing activities</b>		
Borrowings under long-term debt.....	46,508	52,617
Principal payments on long-term debt .....	(38,240)	(43,627)
Principal payments on capitalized lease obligations .....	(7,010)	(6,152)
Principal payments on note payable.....	(588)	(641)
Net (decrease) increase in bank drafts payable .....	(737)	2,039
Payments to repurchase Common Stock.....	(7,927)	--
Proceeds from stock options .....	360	252
Excess tax benefit from exercise of stock options .....	--	40
Write off of tax asset on exercise of stock options .....	(12)	--
Proceeds from sale of treasury stock.....	--	43
Net cash (used in) provided by financing activities .....	<u>(7,646)</u>	<u>4,571</u>
(Decrease) increase in cash and cash equivalents .....	(1,870)	1,633
Cash and cash equivalents:		
Beginning of period .....	7,132	994
End of period.....	<u>\$ 5,262</u>	<u>\$ 2,627</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest .....	\$ 1,161	\$ 866
Income taxes .....	--	168

*See notes to consolidated financial statements.*

**USA TRUCK, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**March 31, 2007**

**NOTE A – BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments considered necessary for a fair presentation) have been included. Operating results for the three month period ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. 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, 2006.

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

**NOTE B – REVENUE RECOGNITION**

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

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

**NOTE C – STOCK-BASED COMPENSATION**

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

The USA Truck, Inc. 2004 Equity Incentive Plan provides for the granting of incentive or nonqualified options or other equity-based awards covering up to 950,000 shares of Common Stock to directors, officers and other key employees. On the day of each annual meeting of stockholders of the Company for a period of nine years, which commenced with the annual meeting of stockholders in 2005 and will end with the annual meeting of stockholders in 2013, the maximum number of shares of Common Stock that is available for issuance under the Plan is automatically increased by that number of shares equal to the lesser of 25,000 shares or such lesser number of shares (which may be zero or any number less than 25,000) as determined by the Board. No options were granted under this Plan for less than the fair market value of the Common Stock as defined in the Plan at the date of the grant. Although the exercise period is determined when options are granted, no option may be exercised later than 10 years after it is granted. Options granted under the Plan generally vest ratably over five years. The option price under this Plan is the fair market value of our Common Stock at the date the options were granted, except that the exercise prices of options granted to 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 \$11.47 to \$30.22 as of March 31, 2007. At March 31, 2007, approximately 598,700 shares were available for granting future options or other equity awards under this Plan.

Effective January 1, 2006, we adopted the fair value recognition provisions of FASB Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment* ("SFAS 123(R)"), using the modified-prospective transition method. Under the modified-prospective transition method, the prior period's financial statements are not restated to reflect stock-based compensation costs that would have been recognized in the financial statements with respect to outstanding options if we had applied SFAS 123(R) in those prior periods. Compensation cost recognized in the first three months of 2007 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006 and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006. The compensation cost is based on the grant-date fair

value calculated using a Black-Scholes-Merton option-pricing formula and is amortized over the vesting period in accordance with provisions of SFAS 123(R). For the three months ended March 31, 2007 and 2006, we recognized approximately \$0.07 million and \$0.08 million, respectively, in compensation expense related to incentive and non-qualified stock options granted under our plans.

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

	2007	2006
Dividend yield .....	--	0%
Expected volatility .....	--	40.2% - 52.1%
Risk-free interest rate.....	--	4.4% - 5.0%
Expected life .....	--	2 to 7 years

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

At March 31, 2007, we had 349,000 outstanding stock options with a weighted average exercise price of \$14.15, and there were 125,250 vested options. The weighted average remaining contractual life of the vested options is approximately 0.8 years.

Information related to option activity for the three months ended March 31, 2007 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 .....	380,550	\$ 13.99		
Granted .....	--	--		
Exercised .....	(30,050)	11.99		\$ 117,500
Cancelled/forfeited/expired .....	(1,500)	16.08		
Outstanding at March 31, 2007 .....	349,000	14.15	2.4	1,100,512
Exercisable at March 31, 2007 (2).....	125,250	\$ 11.87	0.8	\$ 528,402

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option. The per share market value of our Common Stock, as determined by the closing price on March 30, 2007 (the last trading day of the quarter) was \$15.54.

(2) The fair value of options exercisable at March 31, 2007 was \$0.5 million.

Information related to the weighted average fair value of stock option activity for the three months ended March 31, 2007 is as follows:

	Number of Shares Under Options	Weighted Average Fair Value
Nonvested options – December 31, 2006 .....	227,000	\$ 5.70
Granted .....	--	--
Forfeited .....	--	--
Vested .....	(3,250)	6.92
Nonvested options – March 31, 2007 .....	223,750	\$ 5.68

The exercise price, number, weighted average remaining contractual life of options outstanding and the number of options exercisable as of March 31, 2007 is as follows:

Exercise Price	Number of Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Number of Options Exercisable
\$ 5.44	7,300	0.5	7,300
5.98	6,000	0.5	6,000
7.52	3,000	0.9	3,000
11.47	189,400	2.2	62,800
12.10	24,600	1.4	24,600
12.62	15,000	1.1	5,000
12.66	16,000	2.3	6,400
16.08	6,000	2.0	1,500
22.54	70,700	4.1	7,650
22.93	6,000	2.6	--
30.22	5,000	3.8	1,000
	<u>349,000</u>	<u>2.4</u>	<u>125,250</u>

The 2003 Restricted Stock Award Plan allows us to issue up to 150,000 shares of Common Stock as awards of restricted stock to our officers, 100,000 shares of which have been awarded. Awards under the Plan vest over a period of no less than five years and vesting of awards is also subject to the achievement of such performance goals as may be set by the Board of Directors based on criteria set forth in the Plan. The fair value of the 100,000 shares of Common Stock subject to the awards previously granted will be amortized over the vesting period as compensation expense based on management's assessment as to whether achievement of the performance goals is probable. To the extent the performance goals are not achieved and there is not full vesting in the shares awarded, the compensation expense recognized to the extent of the non-vested and forfeited shares will be reversed. In accordance with SFAS 123(R), the compensation expense recognized is based on the market value of our Common Stock on the date the restricted stock award is granted and is not adjusted in subsequent periods. For the three months ended March 31, 2007 and 2006, the compensation expense related to our restricted stock awards was \$0.08 million and \$0.1 million, respectively.

Information related to the 2003 Restricted Stock Award Plan for the quarter ended March 31, 2007 is as follows:

	Number of Shares	Weighted Average Fair Value
Nonvested shares – December 31, 2006.....	65,000	\$ 16.56
Granted .....	--	--
Forfeited .....	--	--
Vested.....	(19,000)	15.00
Nonvested shares – March 31, 2007.....	<u>46,000</u>	<u>\$ 17.21</u>

As of March 31, 2007, we had \$0.4 million and \$0.4 million in unrecognized compensation expense related to stock options and restricted stock, respectively, which is expected to be recognized over a weighted average period of approximately 2.4 years for stock options and 1.8 years for restricted stock.

Because of the decrease in the amount of stock-based compensation expense related to our Restricted Stock Award Plan, the total stock-based compensation expense we recorded was \$0.03 million less for the three months ended March 31, 2007 than was recorded in the same period of 2006.

#### NOTE D – 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 of Directors had previously approved an authorization, publicly announced on October 19, 2004, to repurchase up to 500,000 shares, the remaining balance of which was repurchased during the first quarter of 2007. During the quarter ended March 31, 2007, we

repurchased a total of 487,499 shares of our Common Stock under the prior and current authorizations, at a total cost of approximately \$7.9 million. Our current repurchase authorization has 1,776,501 shares remaining.

#### **NOTE E – SEGMENT REPORTING**

In the past, we organized our five operating divisions into three operating segments, which we aggregated into one segment for financial reporting purposes in accordance with FASB Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* (“SFAS 131”). During the quarter ended June 30, 2006 we reclassified our five divisions into two operating segments, Trucking and USA Logistics, which we aggregate into one segment for financial reporting purposes in accordance with SFAS 131. We have reformatted our Consolidated Statements of Income to add disclosures regarding the portion of our base revenue attributable to each of our two operating segments. Trucking consists of our General Freight, Regional Freight and Dedicated Freight divisions, which provide truckload freight services. USA Logistics consists of our Freight Brokerage and Third Party Logistics divisions, which provide services such as transportation scheduling, routing and mode selection, which do not typically involve the use of Company-owned or owner-operator equipment.

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

The services we provide through all five divisions relate to the transportation of truckload quantities of general freight for customers in a variety of industries. The services generate revenue and incur expenses, primarily on a per mile basis. The two divisions within the USA Logistics operating segment are intended to provide services complementary to our Trucking services, primarily to existing customers of our Trucking operating segment. A majority of the customers of USA Logistics have also engaged us to provide services through one or more of our Trucking divisions. Our USA Logistics operating segment represents a relatively minor part of our business, generating approximately 2% of our total base revenue for the three months ended March 31, 2007 and less than 5% of total base revenue in each of the last two fiscal years.

#### **NOTE F – NEW ACCOUNTING PRONOUNCEMENTS**

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”), which provides companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS 159 is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities and to more easily understand the effect on earnings of a company’s choice to use fair value. SFAS 159 also requires entities to display the fair value of the selected assets and liabilities on the face of the balance sheet. SFAS 159 does not eliminate disclosure requirements of other accounting standards, including fair value measurement disclosures in SFAS 157, discussed below. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective as of the beginning of an entity’s first fiscal year beginning after November 15, 2007. We are currently evaluating whether we will apply SFAS 159 to any of our qualified financial assets and liabilities and the potential impact of those choices on our consolidated financial position, results of operations and cash flows.

In September 2006, the Securities and Exchange Commission (“SEC”) issued Staff Accounting Bulletin 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (“SAB 108”). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. The guidance in SAB 108 became effective for us on January 1, 2007. SAB 108 has not had a material effect on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in

generally accepted accounting principles (“GAAP”) and expands disclosures about fair value measurements. This statement was published due to the different definitions of fair value that are among the many accounting pronouncements that require fair value measurements and the limited guidance for applying those definitions in GAAP. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Additionally, prospective application of this statement is required as of the beginning of the fiscal year in which it is initially applied. SFAS 157 is not expected to have a material impact upon our consolidated financial position, results of operations and cash flows.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes* (“FIN 48”). FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109 and utilizes a two-step approach for evaluating those positions. Recognition (step one) occurs when an enterprise concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied. Those tax positions failing to qualify for initial recognition are recognized in the first subsequent interim period in which they meet the more-likely-than-not standard or are otherwise resolved to qualify for recognition. Derecognition of previously recognized tax positions occurs when a company subsequently determines that a tax position no longer meets the recognition threshold. FIN 48 specifically prohibits the use of a valuation allowance as a substitute for derecognition of tax positions. The provisions of FIN 48 became effective for us as of January 1, 2007.

#### NOTE G – ACCRUED EXPENSES

Accrued expenses consist of the following:

	(in thousands)	
	March 31, 2007	December 31, 2006
Salaries, wages, bonuses and employee benefits .....	\$ 4,542	\$ 4,859
Other (1) .....	6,579	5,949
Total accrued expenses .....	<u>\$ 11,121</u>	<u>\$ 10,808</u>

(1) As of March 31, 2007 and December 31, 2006, no single item included within other accrued expenses exceeded 5.0% of our total current liabilities.

#### NOTE H – NOTE PAYABLE

At March 31, 2007 and December 31, 2006, we had an unsecured note payable of \$1.2 million and \$1.8 million, respectively, that matures on September 1, 2007, and bears interest at an annual rate of 6.0%. This note payable is used to finance a portion of our annual insurance premiums.

#### NOTE I – LONG-TERM DEBT

Long-term debt consists of the following:

	(in thousands)	
	March 31, 2007	December 31, 2006
Revolving credit agreement (1) .....	\$ 46,261	\$ 37,993
Capitalized lease obligations (2) .....	48,612	55,622
	<u>94,873</u>	<u>93,615</u>
Less current maturities .....	25,498	25,798
Long-term debt and capital leases, less current maturities .....	<u>\$ 69,375</u>	<u>\$ 67,817</u>

(1) Our Amended and Restated Senior Credit Facility provides for available borrowings of \$100.0 million, including letters of credit not exceeding \$25.0 million. Availability may be reduced by a borrowing base limit as defined in the Facility. At March 31, 2007, we had approximately \$52.0 million available under the Facility. The Facility matures on September 1, 2010. The Facility can also be increased to \$175.0 million at our option, with the additional availability provided by the current lenders, at their election, or

by other lenders. The Facility bears variable interest based on the agent bank's prime rate, or federal funds rate plus a certain percentage or London Interbank Offered Rate (commonly referred to as "LIBOR") plus a certain percentage, which is determined based on our attainment of certain financial ratios. The interest rate on our borrowings under the Facility at March 31, 2007 was 6.6%. 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 March 31, 2007, the rate was 0.2% per annum. The Facility is collateralized by revenue equipment having a net book value of \$191.3 million at March 31, 2007, and all trade and other accounts receivable. We had outstanding letters of credit of approximately \$1.7 million at March 31, 2007. The Facility requires us to meet certain financial covenants and to maintain a minimum tangible net worth of approximately \$130.5 million at March 31, 2007. We were in compliance with these covenants at March 31, 2007. The covenants would prohibit the payment of dividends by us if such payment would cause us to be in violation of any of the covenants. The carrying amount reported in the balance sheet for borrowings under the Facility approximates its fair value.

- (2) Our capitalized lease obligations have various termination dates extending through June 2010 and contain renewal or fixed price purchase options. The effective interest rates on the leases range from 2.5% to 4.5% at March 31, 2007. The lease agreements require us to pay property taxes, maintenance and operating expenses.

#### **NOTE J – LEASES AND COMMITMENTS**

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

As of March 31, 2007, we had commitments for purchases of revenue equipment in the aggregate amount of approximately \$1.1 million for the remainder of 2007. In addition, we had purchase obligations of approximately \$0.2 million related to facility expansions contracted for the remainder of 2007.

#### **NOTE K – INCOME TAXES**

During the quarters ended March 31, 2007 and 2006, our effective tax rates were 90.7% and 45.7%, 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. 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 adopted the provisions of FIN 48 on January 1, 2007 and have analyzed filing positions in our federal tax returns as well as in all open tax years. The only periods subject to examination for our federal returns are the 2005 and 2006 tax years. Our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. 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. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. At January 1, 2007, we had no unrecognized tax benefits. In addition, we did not record a cumulative effect adjustment related to the adoption of FIN 48.

#### **NOTE L – EARNINGS PER SHARE**

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

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

	(in thousands, except per share amounts)	
	Three Months Ended	
	March 31,	
	2007	2006
<b>Numerator:</b>		
Net Income .....	<b>\$ 80</b>	\$ 3,448
<b>Denominator:</b>		
Denominator for basic earnings per share – weighted average shares .....	<b>11,062</b>	11,349
<b>Effect of dilutive securities:</b>		
Restricted Stock Award Plan.....	<b>58</b>	75
Employee stock options .....	<b>68</b>	219
	<b>126</b>	294
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversions .....	<b>11,188</b>	11,643
Basic earnings per share .....	<b>\$ 0.01</b>	\$ 0.30
Diluted earnings per share.....	<b>\$ 0.01</b>	\$ 0.30
Anti-dilutive employee stock options.....	<b>88</b>	5

#### NOTE M – 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.

#### NOTE N – RECLASSIFICATION

In the third quarter of 2006, all bank drafts payable were classified as a financing activity for purposes of the consolidated statement of cash flows. Bank drafts payable have been appropriately reclassified in the consolidated statements of cash flows for the three months ended March 31, 2006.

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

### Forward-Looking Statements

*This report contains forward-looking statements and information that are based on our current beliefs and expectations and assumptions we have made based upon information currently available. Forward-looking statements include statements relating to our plans, strategies, objectives, expectations, intentions and adequacy of resources, and may be identified by words such as “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 report under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” such as the impact of internal programs used to attain a balance of fleet capacity and freight availability or the improvement in driver turnover. Among the key factors that are not within our control and that have a direct bearing on operating results are increases in fuel prices, adverse weather conditions, increased regulatory burdens and the impact of increased rate competition. Our results have also been, and will continue to be, significantly affected by fluctuations in general economic conditions, as our tractor utilization is directly related to business levels of customers in a variety of industries. In addition, shortages of qualified drivers and intense or increased competition for drivers have adversely impacted our operating results and our ability to grow and will continue to*

do so. Results for any specific period could also be affected by various unforeseen events, such as unusual levels of equipment failure or vehicle accident claims. Additional risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2006, under the heading "Risk Factors" in Item 1A of that report, and updates, if any, to that information are included in Item 1A in Part II of this report.

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

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

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

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

## **Overview**

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 divisions that comprise our operations.

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

*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.

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

Substantially all of our base revenue from both 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. For the three months ended March 31, 2007 and 2006, Trucking base revenue represented 97.8% and 94.4% of base revenue, respectively, with remaining base revenue being generated through USA Logistics.

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

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

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

- *General Freight.* Our General Freight division provides truckload freight services as a medium-haul common carrier. In the truckload industry, companies whose average length of haul is more than 800 miles but less than 1,200 miles are often referred to as medium-haul carriers. The average length of haul for our General Freight services has been within that range throughout our history. We have provided General Freight services since our inception and we derive the largest portion of our revenues from these services.
- *Regional Freight.* Our Regional Freight division provides truckload freight services that involve a length of haul of approximately 500 miles. We began offering our Regional Freight services in 2004, in order to aid in driver recruitment and retention and to participate in the largest segment within the truckload market. Currently, we conduct Regional Freight operations in the areas around our facilities located in Van Buren, Arkansas, Butler Township, Ohio and Spartanburg, South Carolina.
- *Dedicated Freight.* Our Dedicated Freight division is a variation of our General Freight and Regional Freight divisions, whereby we agree to make our equipment and drivers available to a specific customer for shipments over particular routes at specified times. In addition to serving specific customer needs, our Dedicated Freight division also aids in driver recruitment and retention.

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

- *Freight Brokerage.* Our Freight Brokerage division matches customer shipments with available equipment of other carriers when it is not feasible to use our own equipment.
- *Third Party Logistics.* Our Third Party Logistics division provides a variety of freight handling services for our customers, including arranging for the transportation of freight, scheduling, routing and mode selection.

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

### **Critical Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. 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. Management believes our estimates of useful lives and salvage values have been materially accurate as demonstrated by the insignificant amounts of gains and losses on revenue equipment dispositions in recent periods.

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

- *Estimates of accrued liabilities for claims involving bodily injury, physical damage losses, employee health benefits and workers' compensation.* We record both current and long-term claims accruals at the estimated ultimate payment amounts based on information such as individual case estimates, historical claims experience and an estimate of claims incurred but not reported. The current portion of the accrual reflects the amounts of claims expected to be paid in the next twelve months. In making the estimates we rely on past experience with similar claims, negative or positive developments in the case and similar factors. We do not discount our claims liabilities.
- *Allowance for doubtful accounts.* We extend credit to our customers in the normal course of business. We perform ongoing credit evaluations and generally do not require collateral. We maintain reserves for estimated credit losses based upon our loss history, aging analysis and ongoing risk assessment of specific customers. Such losses have been within our expectations. Accounts receivable are comprised of a diversified customer base that results in a lack of concentration of credit risk.
- *Stock option valuation.* The assumptions used to value stock options are dividend yield, expected volatility, risk-free interest rate and expected life. As we do not pay any dividends on our Common Stock, the dividend yield is zero. Expected volatility represents the measure used to project the expected fluctuation in our share price. We use the historical method to calculate volatility with the historical period being equal to the expected life of each option. This calculation is then used to determine the potential for our share price to increase over the expected life of the option. The risk-free interest rate is based on an implied yield on United States zero-coupon treasury bonds with a remaining term equal to the expected life of the outstanding options. Expected life represents the length of time we anticipate the options to be outstanding before being exercised. Based on historical experience, that time period is best represented by the option's contractual life.

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

## **Results of Operations**

### ***Executive Overview***

The following executive overview is presented comparing the financial results of the three months ended March 31, 2007 to the three months ended March 31, 2006.

Demand for truckload services was softer than any quarter we have experienced in several years. However, freight demand did improve from lows in January and February to a steadier freight environment in March.

We began the first quarter with more fleet capacity than freight availability. That imbalance was caused by our fleet growth in 2006, our firm stance on rate increases in 2006 and the decelerating freight conditions over the last few quarters. Compounding this problem, we manned over 100 additional tractors that did not previously have drivers during the fourth quarter of 2006, which increased the imbalance between fleet capacity and freight availability, effectively adding 4.3% capacity to our fleet during a soft freight environment. In response to that series of events, we implemented a number of internal programs with the goal of balancing fleet capacity and freight availability by March 31. Due to the improving freight environment in March and the progress achieved with our internal programs, we substantially regained that balance at quarter-end. We will now focus our efforts on freight selection in the coming quarters.

The lack of revenue volume has applied pressure to our operating margins. However, with a few exceptions, we are generally pleased with our cost structure. While the lack of revenue was the most significant component of the margin erosion, cost pressures also contributed. In particular, the main areas of costs that significantly hindered earnings during the quarter were:

- Adverse weather conditions throughout a significant portion of our operating areas during the quarter negatively affected our profitability. Not only did weather hamper asset utilization, but it also impacted fuel economy as increased engine idle time and poor road conditions increased fuel costs. Weather-related accidents and adverse claims experience increased our insurance and claims costs.
- Labor costs grew throughout 2006 as we increased driver pay in response to a challenging driver hiring market and high driver turnover. However, the market for hiring qualified drivers became less challenging in the fourth quarter of 2006, and that trend continued in the first quarter of 2007. Additionally, our internal initiatives to reduce driver turnover at USA Truck have shown dramatic improvements, both year-over-year and sequentially.

Despite the disappointing results this quarter, we are encouraged by our operating performance in March, which yielded net income of \$0.07 per share and an operating ratio of 94.3% for the month.

Now that we have improved our balance between freight demand and fleet capacity, we are concentrating on achieving the six long-term strategic objectives we addressed in our 2006 Annual Report on Form 10-K. Consistent with those strategic objectives, we repurchased 487,499 shares of the Company's Common Stock during the first quarter of 2007 and a total of 717,499 shares over the past two quarters. Our current repurchase authorization has 1,776,501 shares remaining.

### ***Note Regarding Presentation***

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

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

Base revenues from our Freight Brokerage and Third Party Logistics divisions have fluctuated in recent periods. These services do not involve the use of our tractors and trailers. Therefore, an increase in these revenues tends to cause expenses related to our operations that do involve our equipment—including depreciation and amortization expense, operations and maintenance expense, salaries, wages and employee benefits and insurance

and claims expense—to decrease as a percentage of base revenue, and a decrease in these revenues tends to cause those expenses to increase as a percentage of base revenue. Since changes in Freight Brokerage and Third Party Logistics revenues generally affect all such expenses, as a percentage of base revenue, we do not specifically mention it as a factor in our discussion of increases or decreases in those expenses in the period-to-period comparisons below.

#### ***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 income and accompanying notes.

	Three Months Ended	
	March 31,	
	2007	2006
<b>Base revenue</b> .....	<b>100.0 %</b>	100.0 %
<b>Operating expenses and costs:</b>		
Salaries, wages and employee benefits .....	43.1	38.9
Fuel and fuel taxes (1) .....	16.2	15.3
Depreciation and amortization .....	12.6	11.6
Insurance and claims .....	7.8	6.6
Operations and maintenance .....	6.2	5.5
Purchased transportation .....	4.0	6.9
Operating taxes and licenses .....	1.7	1.7
Communications and utilities .....	1.0	0.8
Gain on disposal of revenue equipment, net .....	(0.4)	(0.1)
Other .....	5.6	5.3
Total operating expenses and costs .....	97.8	92.5
<b>Operating income</b> .....	<b>2.2</b>	7.5
<b>Other expenses:</b>		
Interest expense .....	1.2	1.0
Other, net .....	0.1	(0.1)
Total other expenses, net .....	1.3	0.9
<b>Income before income taxes</b> .....	<b>0.9</b>	6.6
<b>Income tax expense</b> .....	<b>0.8</b>	3.0
<b>Net income</b> .....	<b>0.1 %</b>	3.6 %

(1) Net of fuel surcharges.

#### **Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006**

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

Our base revenue declined 2.4% from \$96.8 million to \$94.5 million, for the reasons addressed in the Trucking and the USA Logistics sections, below.

Net income for all divisions was \$0.08 million, or 0.1% of base revenue, as compared to \$3.4 million, or 3.6% of base revenue for 2006.

Overall, our operating ratio increased by 5.3 percentage points of base revenue to 97.8% due primarily to lower freight volumes and as a result of the following factors:

- Salaries, wages and employee benefits increased by 4.2 percentage points of base revenue due to a 4.7% increase in driver compensation per mile and a 2.8% decrease in our base revenue per loaded mile. In addition, our empty mile factor, for which drivers are paid but we are not typically compensated, increased 25.6% resulting in an increase in salaries, wages and employee benefits of 0.7 percentage points of base revenue. We steadily increased driver pay over the past year to stay competitive in the driver hiring market and ensure that we maintain an adequate supply of qualified drivers to meet our fleet needs.
- Fuel and fuel taxes increased by 0.9 percentage points of base revenue. The increase was primarily due to a 1.5% decrease in fuel efficiency caused by increased engine idle time and poor road conditions.

- Depreciation and amortization increased by 1.0 percentage point of base revenue primarily due to an 18.0% increase in our trailer fleet, a 1.5% decrease in tractor utilization and a 2.8% decrease in base revenue per loaded mile.
- Insurance and claims increased by 1.2 percentage points of base revenue due to adverse claims experience and weather-related accidents.
- Purchased transportation decreased by 2.9 percentage points of base revenue due primarily to the decrease in carrier expense associated with our Third Party Logistics division. During 2006, we continued to focus our efforts on our core competency of asset-based Trucking.
- Operations and maintenance increased by 0.7 percentage points of base revenue primarily due to a 10.2% increase in fleet maintenance costs.
- Our effective tax rate increased from 45.7% in 2006 to 90.7% 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>Three Months Ended March 31, 2007</b>			
	<b>General Freight</b>	<b>Regional Freight</b>	<b>Dedicated Freight</b>	<b>Total Trucking</b>
Total miles (in thousands) (1).....	<b>59,254</b>	<b>7,951</b>	<b>6,295</b>	<b>73,500</b>
Empty mile factor (2) .....	<b>12.6 %</b>	<b>16.2 %</b>	<b>2.4 %</b>	<b>12.1 %</b>
Base revenue per loaded mile .....	<b>\$ 1.42</b>	<b>\$ 1.56</b>	<b>\$ 1.35</b>	<b>\$ 1.43</b>
Average number of tractors (3).....	<b>2,016</b>	<b>320</b>	<b>222</b>	<b>2,558</b>
Average miles per tractor per period .....	<b>29,392</b>	<b>24,848</b>	<b>28,357</b>	<b>28,733</b>
Average miles per tractor per week .....	<b>2,296</b>	<b>1,941</b>	<b>2,215</b>	<b>2,245</b>
Average miles per trip (4).....	<b>917</b>	<b>493</b>	<b>524</b>	<b>790</b>
Average unmanned tractor percentage (5)....	<b>2.6 %</b>	<b>3.8 %</b>	<b>5.0 %</b>	<b>3.0 %</b>
Base revenue per truck per week .....	<b>\$ 2,857</b>	<b>\$ 2,540</b>	<b>\$ 2,922</b>	<b>\$ 2,823</b>

	<b>Three Months Ended March 31, 2006</b>			
	<b>General Freight</b>	<b>Regional Freight</b>	<b>Dedicated Freight</b>	<b>Total Trucking</b>
Total miles (in thousands) (1).....	59,203	5,054	6,962	71,219
Empty mile factor (2) .....	10.1 %	12.8 %	3.8 %	9.6 %
Base revenue per loaded mile .....	<b>\$ 1.43</b>	<b>\$ 1.52</b>	<b>\$ 1.31</b>	<b>\$ 1.42</b>
Average number of tractors (3).....	2,028	191	224	2,443
Average miles per tractor per period .....	29,193	26,459	31,079	29,152
Average miles per tractor per week .....	2,281	2,067	2,428	2,278
Average miles per trip (4).....	941	558	600	851
Average unmanned tractor percentage (5)....	3.9 %	6.8 %	7.6 %	4.5 %
Base revenue per truck per week .....	<b>\$ 2,924</b>	<b>\$ 2,735</b>	<b>\$ 3,067</b>	<b>\$ 2,922</b>

- (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 1.1% to \$92.4 million. The increase was the result of several factors:

- General Freight's base revenue per tractor per week decreased 2.3%. This decrease was primarily due to a 2.6% decrease in miles per trip and a 24.8% increase in our empty mile factor. General Freight was able to decrease unmanned tractors by 34.2%. Our General Freight division model is more dependent on miles per tractor per week, thus it was impacted more by softer freight demand than our other Trucking divisions.
- Regional Freight base revenue grew 55.6%. Despite the challenging freight environment, Regional Freight improved in many key statistical categories including base revenue per loaded mile, tractor count and unmanned tractors. We intend to continue working to further improve the Regional Freight operating model. We opened our third regional operation in the Southeast United States this quarter.
- Dedicated Freight base revenue per tractor per week decreased 4.7% due to a decrease of 8.3% in loaded miles. This degradation in loaded miles was partially offset by a 2.9% increase in base revenue per loaded mile. During 2006, we made changes to our freight mix by adding new customer accounts that provide fewer miles, but higher revenue per mile and removing certain customer accounts that provide more miles but lower revenue per mile.
- Overall, the average size of our Trucking tractor fleet grew by 4.7%. We grew the average size of the Company-owned tractor fleet by 4.3% to 2,535 tractors and our owner-operator fleet by 91.7% to 23 tractors.

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

Base revenue from USA Logistics decreased by 62.5% to \$2.0 million. Freight Brokerage base revenue decreased to \$1.7 million, a 23.9% decrease, primarily as a result of the generally soft freight demand discussed above. During 2006, we continued to focus our efforts on our core competency of asset-based Trucking. As a result, our Third Party Logistics division revenue decreased by 90.4% to \$0.3 million.

### ***Seasonality***

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

### ***Inflation***

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

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

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

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

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

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

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

lease purchase arrangements. We have historically met our working capital needs with cash flows from operations and with borrowings under our Facility. We use the Facility to minimize fluctuations in cash flow needs and to provide flexibility in financing revenue equipment purchases. We had approximately \$52.0 million available under our Facility at March 31, 2007, and \$53.5 million of availability for new capital leases under existing lease facilities. Management is not aware of any known trends or uncertainties that would cause a significant change in our sources of liquidity. We expect our principal sources of capital to be sufficient to finance our operations, annual debt maturities, lease commitments, letter of credit commitments, stock repurchases and capital expenditures for the next several years. There can be no assurance, however, that such sources will be sufficient to fund our operations and all expansion plans for the next several years, or that any necessary additional financing will be available, if at all, in amounts required or on terms satisfactory to us.

### **Cash Flows**

	(in thousands)	
	Three Months Ended	
	March 31,	
	2007	2006
Net cash provided by operating activities.....	\$ 12,581	\$ 22,449
Net cash used in investing activities.....	(6,805)	(25,387)
Net cash (used in) provided by financing activities.....	(7,646)	4,571

Cash provided by operations decreased \$9.9 million for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006. The change was primarily due to a decrease in net income, an increase in receivables during the first quarter of 2007 compared to a reduction in receivables that was experienced during the comparable period of 2006, and a smaller increase in deferred taxes, trade accounts payable and bank drafts payable during the first quarter of 2007 than in the first quarter of 2006.

Cash used in investing activities decreased \$18.6 million for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 due to a decrease in our net expenditures for revenue equipment. In 2006, we executed an aggressive revenue equipment acquisition program in anticipation of the EPA's emission control regulations that went into effect in January 2007. In addition, as we began the first quarter of 2007, our fleet capacity exceeded freight availability. This imbalance caused us to adjust our equipment replacement schedules to better manage fleet growth during the quarter and not add tractors until freight demand and driver availability warranted such additions.

Cash used in financing activities was \$7.6 million for the three months ended March 31, 2007 as compared to cash provided by financing activities of \$4.6 million for the three months ended March 31, 2006. This \$12.2 million difference was primarily as a result of an increase in our repurchases of Common Stock.

### **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 \$191.3 million at March 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 March 31, 2007, \$46.3 million was outstanding under the Facility.

The Facility bears variable interest based on the agent bank's prime rate, the federal funds rate plus a certain percentage or the London Interbank Offered Rate (commonly referred to as "LIBOR") plus a certain percentage, which is determined based on our attainment of certain financial ratios. For the three months ended March 31, 2007, the effective interest rate was 6.7%. A quarterly commitment fee is payable on the unused credit line at a rate which is determined based on our attainment of certain financial ratios. At March 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 March 31, 2007, we were in compliance with the covenants.

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

### Equity

At March 31, 2007, we had stockholders' equity of \$152.2 million and total debt of \$96.1 million, resulting in a debt to total capitalization ratio of 38.7% compared to 37.4% at December 31, 2006.

### Purchases and Commitments

As we began the first quarter of 2007, our fleet capacity exceeded freight availability. This imbalance caused us to adjust our equipment replacement schedules to better manage fleet growth during the quarter and not add tractors until freight demand and driver availability warranted such additions. As we substantially regained that balance at quarter end, we have projected our capital expenditures based on our anticipated operational needs for the remainder of the year. As of March 31, 2007, our capital expenditures forecast, net of proceeds from the sale or trade of equipment, was \$38.4 million for the remainder of 2007, approximately \$29.8 million of which relates to revenue equipment acquisitions. We expect to use the balance of \$8.6 million primarily for property acquisitions, facility construction and improvements and maintenance and office equipment. We routinely evaluate our equipment acquisition needs and adjust our purchase and disposition schedules from time to time based on our analysis of factors such as freight demand, the availability of drivers and the condition of the used equipment market. During the three months ended March 31, 2007, we made \$6.6 million of net capital expenditures, including \$6.2 million for revenue equipment purchases and \$0.4 million for facility expansions. The following table represents our outstanding contractual obligations at March 31, 2007, excluding letters of credit:

	Payments Due By Period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Obligations:					
Long-term debt obligations (1) .....	\$ 46,261	\$ --	\$ --	\$ 46,261	\$ --
Capital lease obligations (2).....	50,724	25,187	23,795	1,742	--
Purchase obligations .....	1,320	1,320	--	--	--
Rental obligations .....	1,641	532	610	154	345
<b>Total .....</b>	<b>\$ 99,946</b>	<b>\$ 27,039</b>	<b>\$ 24,405</b>	<b>\$ 48,157</b>	<b>\$ 345</b>

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

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

### New Accounting Pronouncements

See "Note F – New Accounting Pronouncements" to the consolidated financial statements included in this Form 10-Q for a description of the most recent accounting pronouncements and their effect, if any.

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

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

*Interest Rate Risk.* We are exposed to interest rate risk primarily from our Amended and Restated Senior Credit Facility. The Facility provides for borrowings that bear interest at variable rates based on the agent bank's prime rate, the federal funds rates plus a certain percentage or the London Interbank Offered Rate plus a certain percentage. At March 31, 2007, we had \$47.9 million outstanding pursuant to our Facility including letters of credit of \$1.7 million. Assuming the outstanding balance at March 31, 2007 were to remain constant, a hypothetical one-percentage point increase in interest rates applicable to the Facility would increase our interest expense over a one-year period by approximately \$0.5 million.

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

*Commodity Price Risk.* Fuel prices have fluctuated greatly and have generally increased in recent years. In some periods, our operating performance was adversely affected because we were not able to fully offset the impact of higher diesel fuel prices through increased freight rates and fuel surcharges. We cannot predict the

extent to which 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 other hedging arrangements, that protect us against fuel price increases. Volatile fuel prices will continue to impact us significantly. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and adversely affect our results of operations. These costs could also exacerbate the driver shortages our industry experiences by forcing independent contractors to cease operations.

#### **ITEM 4. CONTROLS AND PROCEDURES**

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

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

Certain risks associated with our operations are discussed in our Annual Report on Form 10-K for the year ended December 31, 2006, under the heading "Risk Factors" in Item 1A of that report. There were no material changes in these risks during the quarter ended March 31, 2007.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### (a) Recent unregistered sales of securities.

None.

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

None.

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

On 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 of Directors had previously approved an authorization, publicly announced on October 19, 2004, to repurchase up to 500,000 shares, the remaining balance of which was repurchased during the first quarter of 2007. As of March 31, 2007, we had purchased 223,499 shares under the January 2007 authorization and had remaining authorization to repurchase an additional 1,776,501 shares.

The following table sets forth information regarding shares of Common Stock purchased or that may yet be purchased by us under the prior and current authorizations during the first quarter of 2007.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1 – January 31, 2007 .....	--	\$ --	--	2,264,000
February 1 – February 28, 2007 .....	177,200	16.62	177,200	2,086,800
March 1 – March 31, 2007 .....	310,299	16.06	310,299	1,776,501
Total	<u>487,499</u>	<u>\$ 16.26</u>	<u>487,499</u>	1,776,501

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

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

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

(a) Exhibits

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

**SIGNATURES**

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

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

Date: April 27, 2007

By: /s/ JERRY D. ORLER  
**Jerry D. Orler**  
*President and Chief Executive Officer*

Date: April 27, 2007

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

**INDEX TO EXHIBITS  
USA TRUCK, INC.**

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