

USA TRUCK INC  
Form 10-Q  
July 27, 2018

Table of Contents

**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 **June 30, 2018**  
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: **1-35740**

**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)

**N/A**

(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 has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes  No

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

Accelerated filer

Large accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, as of July 20, 2018, was 8,312,658.

---

Table of Contents

**USA TRUCK, INC.**  
**TABLE OF CONTENTS**

<b>Item No.</b>	<b>Caption</b>	<b>Page</b>
	<b><u>PART I – FINANCIAL INFORMATION</u></b>	
1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets (unaudited) as of June 30, 2018 and December 31, 2017</u>	2
	<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (unaudited) – Three and six months ended June 30, 2018 and June 30, 2017</u>	3
	<u>Condensed Consolidated Statement of Stockholders’ Equity (unaudited) – Six months ended June 30, 2018</u>	4
	<u>Condensed Consolidated Statements of Cash Flows (unaudited) – Six months ended June 30, 2018 and June 30, 2017</u>	5
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	13
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
4.	<u>Controls and Procedures</u>	26
	<b><u>PART II – OTHER INFORMATION</u></b>	
1.	<u>Legal Proceedings</u>	27
1A.	<u>Risk Factors</u>	27
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	27
3.	<u>Defaults Upon Senior Securities</u>	27
4.	<u>Mine Safety Disclosures</u>	27
5.	<u>Other Information</u>	27
6.	<u>Exhibits</u>	28
	<u>Signatures</u>	29

Table of Contents**PART I – FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****USA TRUCK, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

(in thousands, except share data)

	<b>June 30, 2018</b>	December 31, 2017
<b>Assets</b>		
Current assets:		
Cash	<b>\$29</b>	\$71
Accounts receivable, net of allowance for doubtful accounts of \$643 and \$639, respectively	<b>61,150</b>	55,138
Other receivables	<b>9,497</b>	2,787
Inventories	<b>415</b>	458
Assets held for sale	<b>2,451</b>	112
Prepaid expenses and other current assets	<b>5,256</b>	6,025
Total current assets	<b>78,798</b>	64,591
Property and equipment:		
Land and structures	<b>31,847</b>	31,452
Revenue equipment	<b>227,431</b>	252,484
Service, office and other equipment	<b>26,522</b>	26,209
Property and equipment, at cost	<b>285,800</b>	310,145
Accumulated depreciation and amortization	<b>(115,780)</b>	(122,329)
Property and equipment, net	<b>170,020</b>	187,816
Other assets	<b>1,332</b>	1,448
Total assets	<b>\$250,150</b>	\$253,855
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	<b>\$32,240</b>	\$24,332
Current portion of insurance and claims accruals	<b>17,995</b>	13,552
Accrued expenses	<b>11,498</b>	9,108
Current maturities of capital leases	<b>8,014</b>	12,929
Insurance premium financing	<b>1,330</b>	4,115
Total current liabilities	<b>71,077</b>	64,036
Deferred gain	<b>1,488</b>	480
Long-term debt	<b>54,950</b>	61,225
Capital leases, less current maturities	<b>25,994</b>	29,216
Deferred income taxes	<b>18,274</b>	21,136
Insurance and claims accruals, less current portion	<b>8,242</b>	11,274

Edgar Filing: USA TRUCK INC - Form 10-Q

Total liabilities	<b>180,025</b>	187,367
Stockholders' equity:		
Preferred Stock, \$0.01 par value; 1,000,000 shares authorized; none issued		--
Common Stock, \$0.01 par value; 30,000,000 shares authorized; issued 12,015,174 shares, and 12,142,391 shares, respectively	<b>120</b>	121
Additional paid-in capital	<b>65,738</b>	68,667
Retained earnings	<b>69,039</b>	65,460
Less treasury stock, at cost (3,702,444 shares, and 3,853,064 shares, respectively)	<b>(64,772 )</b>	(67,760 )
Total stockholders' equity	<b>70,125</b>	66,488
Total liabilities and stockholders' equity	<b>\$250,150</b>	\$253,855

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

**USA TRUCK, INC.  
CONDENSED  
CONSOLIDATED  
STATEMENTS OF  
OPERATIONS AND  
COMPREHENSIVE  
INCOME (LOSS)  
(UNAUDITED)**

(in thousands, except  
per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Revenue</b>				
Operating revenue	\$135,381	\$107,358	\$260,394	\$209,028
<b>Operating expenses</b>				
Salaries, wages and employee benefits	31,645	29,221	63,882	59,860
Fuel and fuel taxes	13,984	10,479	27,463	21,253
Depreciation and amortization	7,477	6,879	14,657	14,523
Insurance and claims	5,341	5,561	10,943	13,893
Equipment rent	2,151	2,633	4,869	4,747
Operations and maintenance	8,913	7,950	16,874	14,521
Purchased transportation	55,817	41,005	104,855	78,408
Operating taxes and licenses	1,262	1,024	1,764	1,974
Communications and utilities	677	598	1,390	1,264
Gain on disposal of assets, net	(395 )	(77 )	(564 )	(337 )
Restructuring, impairment and other costs (reversal)	--	--	(639 )	--
Other	4,198	5,051	8,197	8,287
Total operating expenses	131,070	110,324	253,691	218,393
<b>Operating income (loss)</b>	<b>4,311</b>	<b>(2,966 )</b>	<b>6,703</b>	<b>(9,365 )</b>
<b>Other expenses</b>				
Interest expense, net	833	950	1,651	1,953
Other, net	113	128	233	226
Total other expenses, net	946	1,078	1,884	2,179
<b>Income (loss) before income taxes</b>	<b>3,365</b>	<b>(4,044 )</b>	<b>4,819</b>	<b>(11,544 )</b>
<b>Income tax expense (benefit)</b>	<b>821</b>	<b>(1,198 )</b>	<b>1,240</b>	<b>(3,808 )</b>
<b>Consolidated net income (loss) and comprehensive income (loss)</b>	<b>\$2,544</b>	<b>\$(2,846 )</b>	<b>\$3,579</b>	<b>\$(7,736 )</b>
<b>Net earnings (loss) per share</b>				
Average shares outstanding (basic)	8,205	8,028	8,141	8,028
Basic earnings (loss) per share	\$0.31	\$(0.35 )	\$0.44	\$(0.96 )

Edgar Filing: USA TRUCK INC - Form 10-Q

Average shares outstanding (diluted)	<b>8,227</b>	8,028	<b>8,167</b>	8,028
Diluted earnings (loss) per share	<b>\$0.31</b>	\$(0.35 )	<b>\$0.44</b>	\$(0.96 )

*See accompanying notes to condensed consolidated financial statements.*



Table of Contents

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

	Common Stock	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2017	12,142	\$ 121	\$ 68,667	\$ 65,460	\$(67,760)	\$66,488
Issuance of treasury stock	--	--	(2,988 )	--	2,988	--
Stock-based compensation	--	--	168	--	--	168
Restricted stock award grant	--	--	--	--	--	--
Forfeited restricted stock	(125 )	(1 )	1	--	--	--
Net share settlement related to restricted stock vesting	(2 )	--	(110 )	--	--	(110 )
Net income	--	--	--	3,579	--	3,579
Balance at June 30, 2018	<b>12,015</b>	<b>\$ 120</b>	<b>\$ 65,738</b>	<b>\$ 69,039</b>	<b>\$(64,772)</b>	<b>\$ 70,125</b>

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

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

	Six Months Ended June 30,	
	<b>2018</b>	2017
<b>Operating activities:</b>		
Net income (loss)	<b>\$3,579</b>	\$(7,736 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	<b>14,657</b>	14,523
Deferred income tax, net	<b>(2,862 )</b>	(6,196 )
Share-based compensation	<b>168</b>	152
Gain on disposal of assets, net	<b>(564 )</b>	(337 )
Reversal of previously recorded restructuring, impairment and other costs	<b>(639 )</b>	--
Other	<b>(324 )</b>	(70 )
Changes in operating assets and liabilities:		
Accounts receivable	<b>(7,398 )</b>	944
Inventories and prepaid expenses	<b>813</b>	1,660
Accounts payable and accrued liabilities	<b>9,472</b>	3,328
Insurance and claims accruals	<b>1,410</b>	3,075
Other long-term assets and liabilities	<b>116</b>	119
Net cash provided by operating activities	<b>18,428</b>	9,462
<b>Investing activities:</b>		
Capital expenditures	<b>(4,288 )</b>	(3,468 )
Proceeds from sale of property and equipment	<b>2,766</b>	9,856
Proceeds from operating sale leaseback	<b>--</b>	10,980
Net cash (used in) provided by investing activities	<b>(1,522 )</b>	17,368
<b>Financing activities:</b>		
Borrowings under long-term debt	<b>17,478</b>	11,855
Payments on long-term debt	<b>(26,538)</b>	(30,996)
Payments on capitalized lease obligations	<b>(8,137 )</b>	(5,467 )
Net change in bank drafts payable	<b>359</b>	(2,136 )
Net payments for tax withholdings for vested stock-based awards	<b>(110 )</b>	15
Issuance of treasury stock	<b>--</b>	(57 )
Net cash used in financing activities	<b>(16,948)</b>	(26,786)
(Decrease) increase in cash	<b>(42 )</b>	44
Cash:		
Beginning of period	<b>71</b>	122

End of period	\$29	\$166
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$1,681	\$1,936
Income taxes	2,413	124

*See accompanying notes to condensed consolidated financial statements.*

Table of Contents

**USA TRUCK, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**June 30, 2018**

**NOTE 1 – BASIS OF PRESENTATION**

In the opinion of the management of USA Truck, Inc., the accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information. Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted. All normal recurring adjustments considered necessary for a fair presentation have been included. Operating results for the *three* and *six* month periods ended *June 30, 2018* are *not* necessarily indicative of the results that *may* be expected for the year ended *December 31, 2018*. These financial statements should be read in conjunction with the financial statements, and footnotes thereto, included in the Company’s Annual Report on Form *10-K* for the year ended *December 31, 2017*.

References to the “Company,” “we,” “us,” “our” or similar terms refer to USA Truck, Inc. and its subsidiary.

**NOTE 2 – NEW ACCOUNTING PRONOUNCEMENTS**

In *May 2014*, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) *No. 2014-09*, Revenue from Contracts with Customers (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a *five*-step process to implement this core principle and, in doing so, more judgment and estimates *may* be required within the revenue recognition process than are required under existing GAAP. Transportation revenue within our USAT Logistics segment under the new standard changed from recognition of revenue at completion to recognizing revenue proportionately as the transportation services are performed. This change did *not* materially impact our operations or IT infrastructure. In our Trucking segment, where revenue is recognized as services are provided, revenue recognition remained the same. The Company adopted ASU 2014-09 effective *January 1, 2018* using the modified retrospective method. The effect of adoption was immaterial to retained earnings at *January 1, 2018* and to net income for the *three* and *six* month periods ended *June 30, 2018*.

In *February 2016*, the FASB issued ASU No. 2016-02, Leases, which requires lessees to recognize a right-to-use asset and a lease obligation for all leases. Lessees are permitted to make an accounting policy election to *not* recognize an asset and liability for leases with a term of *twelve* months or less. Lessor accounting under the new standard is substantially unchanged. Additional qualitative and quantitative disclosures, including significant judgments made by management, will be required. The new standard, which will become effective for the Company beginning with the *first* quarter of 2019, requires a modified retrospective transition approach and includes a number of practical expedients. The Company expects the adoption of this standard to have a material impact on our consolidated balance sheets, but *not* our statement of operations. See Note 9 for further discussion of our lease types and positions.

### **NOTE 3 – REVENUE RECOGNITION**

Revenue is measured based upon consideration specified in a contract with a customer. The Company recognizes revenue when contractual performance obligations are satisfied by transferring the benefit of the service to our customer. The benefit is transferred to the customer as the service is being provided and revenue is recognized accordingly via time based metrics. The Company is entitled to receive payment as it satisfies performance obligations with customers. Our business consists of *two* reportable segments, Trucking and USAT Logistics. For more detailed information about our reportable segments, see Note 4.

Table of Contents*Disaggregation of revenue*

The Company's revenue types are line haul, fuel surcharge and accessorial. Line haul revenue represents the majority of our revenue and consists of fees earned for freight transportation, excluding fuel surcharge. Fuel surcharge revenue consists of additional fees earned by the Company in connection with the performance of line haul services to partially or completely offset the cost of fuel. Accessorial revenue consists of ancillary services provided by the Company, including but *not* limited to, stop-off charges, loading and unloading charges, tractor or trailer detention charges, expedited charges, repositioning charges, etc. These accessorial charges are recognized as revenue throughout the service provided. The following tables set forth revenue disaggregated by revenue type (in thousands):

Revenue type	Three Months Ended June 30,					
	2018			2017		
	USAT		Total	USAT		Total
	Trucking	Logistics		Trucking	Logistics	
Freight	\$72,925	\$44,624	\$117,549	\$61,667	\$32,742	\$94,409
Fuel surcharge	12,123	4,151	16,274	8,828	2,492	11,320
Accessorial	521	1,037	1,558	1,050	579	1,629
Total	\$85,569	\$49,812	\$135,381	\$71,545	\$35,813	\$107,358

Revenue type	Six Months Ended June 30,					
	2018			2017		
	USAT		Total	USAT		Total
	Trucking	Logistics		Trucking	Logistics	
Freight	\$139,729	\$85,102	\$224,831	\$121,516	\$60,844	\$182,360
Fuel surcharge	23,298	7,710	31,008	18,015	5,147	23,162
Accessorial	1,275	3,280	4,555	2,294	1,212	3,506
Total	\$164,302	\$96,092	\$260,394	\$141,825	\$67,203	\$209,028

**NOTE 4 – SEGMENT REPORTING**

The Company's *two* reportable segments are Trucking and USAT Logistics.

*Trucking.* Trucking is comprised of *one*-way truckload and dedicated freight motor carrier services. Truckload provides *one*-way motor carrier services as a common and contract carrier, in which volumes typically are *not* contractually committed, and dedicated contract motor carrier services, in which a combination of equipment and drivers is contractually committed to a particular customer, typically for a duration of at least *one* year, subject to certain cancellation rights. USA Truck has provided truckload motor carrier services since its inception, and continues to derive the largest portion of its gross revenue from these services.

*USAT Logistics.* USAT Logistics' service offerings consist of freight brokerage, logistics, and rail intermodal services. Each of these service offerings match customer shipments with available equipment of authorized *third*-party motor carriers and other service providers and provide services that complement the Company's Trucking operations. The Company provides these services primarily to existing Trucking customers, many of whom prefer to rely on a single service provider, or a small group of service providers, to provide all their transportation solutions.

Revenue equipment assets are *not* allocated to USAT Logistics as freight services for customers are brokered through arrangements with *third*-party motor carriers who utilize their own equipment. To the extent rail intermodal operations require the use of Company-owned assets, they are obtained from the Company's Trucking segment on an as-needed basis. Depreciation and amortization expense is allocated to USAT Logistics based on the Company-owned assets specifically utilized to generate USAT Logistics revenue. All intercompany transactions between segments reflect rates similar to those that would be negotiated with independent *third* parties. All other expenses for USAT Logistics are specifically identifiable direct costs or are allocated to USAT Logistics based on relevant cost drivers, as determined by management.

In determining its reportable segments, the Company's management focuses on financial information, such as operating revenue, operating expense categories, operating ratios and operating income, as well as on key operating statistics, to make operating decisions.

Table of Contents

A summary of operating revenue by segment is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<b>Operating revenue</b>	<b>2018</b>	2017	<b>2018</b>	2017
Trucking revenue (1)	<b>\$85,685</b>	\$71,731	<b>\$164,531</b>	\$142,202
Trucking intersegment eliminations	<b>(116 )</b>	(186 )	<b>(229 )</b>	(377 )
Trucking operating revenue	<b>85,569</b>	71,545	<b>164,302</b>	141,825
USAT Logistics revenue	<b>50,616</b>	36,878	<b>97,391</b>	69,528
USAT Logistics intersegment eliminations	<b>(804 )</b>	(1,065 )	<b>(1,299 )</b>	(2,325 )
USAT Logistics operating revenue	<b>49,812</b>	35,813	<b>96,092</b>	67,203
Total operating revenue	<b>\$135,381</b>	\$107,358	<b>\$260,394</b>	\$209,028

Includes foreign revenue of \$11.0 million and \$20.9 million for the *three* and *six* months ended *June 30, 2018*, (1) respectively, and \$9.1 million and \$17.9 million for the *three* and *six* months ended *June 30, 2017*, respectively. All foreign revenue is collected in U.S. dollars.

A summary of operating income (loss) by segment is as follows (in thousands):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
<b>Operating income (loss)</b>	<b>2018</b>	2017	<b>2018</b>	2017
Trucking	<b>\$2,153</b>	\$(4,843)	<b>\$1,689</b>	\$(11,971)
USAT Logistics	<b>2,158</b>	1,877	<b>5,014</b>	2,606
Total operating income (loss)	<b>\$4,311</b>	\$(2,966)	<b>\$6,703</b>	\$(9,365 )

A summary of depreciation and amortization by segment is as follows (in thousands):

	Three Months		Six Months Ended	
	Ended		June 30,	
	June 30,		June 30,	
<b>Depreciation and amortization</b>	<b>2018</b>	2017	<b>2018</b>	2017
Trucking	<b>\$7,299</b>	\$6,759	<b>\$14,325</b>	\$14,323
USAT Logistics	<b>178</b>	120	<b>332</b>	200
Total depreciation and amortization	<b>\$7,477</b>	\$6,879	<b>\$14,657</b>	\$14,523



**NOTE 5 – EQUITY COMPENSATION AND EMPLOYEE BENEFIT PLANS**

The Company adopted the 2014 Omnibus Incentive Plan (the “Incentive Plan”) in May 2014. The Incentive Plan replaced the 2004 Equity Incentive Plan and provided for the granting of up to 500,000 shares of common stock through equity-based awards to directors, officers and other key employees and consultants. The First Amendment to the Incentive Plan was adopted in May 2017, which, among other things, increased the number of shares of common stock available for issuance under the Incentive Plan by an additional 500,000 shares. As of June 30, 2018, 577,028 shares remain available under the Incentive Plan for the issuance of future equity-based compensation awards.

**NOTE 6 – ACCRUED EXPENSES**

Accrued expenses consisted of the following (in thousands):

	<b>June</b>	December
	<b>30,</b>	31,
<b>Accrued expenses</b>	<b>2018</b>	2017
Salaries, wages and employee benefits	<b>\$5,569</b>	\$ 3,604
Federal and state tax accruals	<b>4,995</b>	3,587
Restructuring, impairment and other costs	--	770
Other (1)	<b>934</b>	1,147
Total accrued expenses	<b>\$11,498</b>	\$ 9,108

(1) As of June 30, 2018 and December 31, 2017, no single item included within other accrued expenses exceeded 5.0% of our total current liabilities.

Table of Contents**NOTE 7 – INSURANCE PREMIUM FINANCING**

In *October 2017*, the Company executed an unsecured note payable for *\$4.1* million to a *third-party* financing company for a portion of the Company’s annual insurance premiums. The note, which is payable in installments of principal and interest of approximately *\$1.4* million, bears interest at *3.0%* and matures in *October 2018*. The balance of the note payable as of *June 30, 2018* was *\$1.3* million.

**NOTE 8 – LONG-TERM DEBT**

Long-term debt consisted of the following (in thousands):

	<b>June</b>	December
	<b>30,</b>	31,
	<b>2018</b>	2017
Revolving credit agreement	<b>\$54,950</b>	\$ 61,225

In *February 2015*, the Company entered into a new senior secured revolving credit facility (the “Credit Facility”) with a group of lenders and Bank of America, N.A., as agent (“Agent”).

The Credit Facility is structured as a *\$170.0* million revolving credit facility, with an accordion feature that, so long as *no* event of default exists, allows the Company to request an increase in the revolving credit facility of up to *\$80.0* million, exercisable in increments of *\$20.0* million. The Credit Facility is a *five-year* facility scheduled to terminate on *February 5, 2020*. Borrowings under the Credit Facility are classified as either “base rate loans” or “LIBOR loans”. Base rate loans accrue interest at a base rate equal to the Agent’s prime rate plus an applicable margin between *0.25%* and *1.00%* that is adjusted quarterly based on the Company’s consolidated fixed charge coverage ratio. LIBOR loans accrue interest at the London Interbank Offered Rate (“LIBOR”) plus an applicable margin between *1.25%* and *2.00%* that is adjusted *two* days prior to each *30-day* interest period for a term equivalent to such period based on the Company’s consolidated fixed charge coverage ratio. The Credit Facility includes, within its *\$170.0* million revolving credit facility, a letter of credit sub-facility in an aggregate amount of *\$15.0* million and a swingline sub-facility (the “Swingline”) in an aggregate amount of *\$20.0* million. An unused line fee of *0.25%* is applied to the average daily amount by which the lenders’ aggregate revolving commitments exceed the outstanding principal amount of revolver loans and the aggregate undrawn amount of all outstanding letters of credit issued under the Credit Facility. The Credit Facility is secured by a pledge of substantially all of the Company’s assets, except for any real estate or revenue equipment financed outside the Credit Facility.

Borrowings under the Credit Facility are subject to a borrowing base limited to the lesser of (A) \$170.0 million; or (B) the sum of (i) 90% of eligible investment grade accounts receivable (reduced to 85% in certain situations), plus (ii) 85% of eligible non-investment grade accounts receivable, plus (iii) the lesser of (a) 85% of eligible unbilled accounts receivable and (b) \$10.0 million, plus (iv) the product of 85% multiplied by the net orderly liquidation value percentage applied to the net book value of eligible revenue equipment, plus (v) 85% multiplied by the net book value of otherwise eligible newly acquired revenue equipment that has *not* yet been subject to an appraisal. The borrowing base is reduced by an availability reserve, including reserves based on dilution and certain other customary reserves.

The Credit Facility contains a single financial covenant, which requires a consolidated fixed charge coverage ratio of at least 1.0 to 1.0 that is triggered in the event excess availability under the Credit Facility falls below 10% of the lenders' total commitments. Also, certain restrictions regarding the Company's ability to pay dividends, make certain investments, prepay certain indebtedness, execute share repurchase programs and enter into certain acquisitions and hedging arrangements are triggered in the event excess availability under the Credit Facility falls below 20% of the lenders' total commitments. Management believes the Company's excess availability will *not* fall below 20%, or \$34.0 million, and expects the Company to remain in compliance with all debt covenants during the next *twelve* months.

The Company had borrowings of \$0.7 million under the Swingline as of *June 30, 2018*. The average interest rate including all borrowings made under the Credit Facility as of *June 30, 2018*, was 3.62%. As debt is repriced on a monthly basis, the borrowings under the Credit Facility approximate fair value. As of *June 30, 2018*, the Company had outstanding \$5.4 million in letters of credit and had approximately \$68.2 million available to borrow under the Credit Facility.

Table of Contents**Note 9 – LEASES AND Commitments**

As of *June 30, 2018*, the future minimum payments, including interest, under capitalized leases with initial terms of *one* year or more and future rentals under operating leases for certain facilities, office equipment and revenue equipment with initial terms of *one* year or more were as follows for the years indicated (in thousands):

	2018	2019	2020	2021	2022	Thereafter
Capital leases, including interest component	\$ 5,228	\$ 12,317	\$ 16,050	\$ 327	\$ 327	\$ 1,578
Operating leases	5,894	8,135	4,792	729	235	371

***CAPITAL LEASES***

The Company leases certain equipment under capital leases with terms ranging from *15* to *60* months. Balances related to these capitalized leases are included in property and equipment in the accompanying condensed consolidated balance sheets and are set forth in the table below for the periods indicated (in thousands):

	Capitalized Costs	Accumulated Amortization	Net Book Value
<b>June 30, 2018</b>	<b>\$ 51,429</b>	<b>\$ 16,308</b>	<b>\$ 35,121</b>
December 31, 2017	66,785	23,254	43,531

The Company has capitalized lease obligations relating to revenue equipment as of *June 30, 2018* of \$34.0 million, of which \$8.0 million represents the current portion. Such leases have various termination dates extending through *November 2024* and contain renewal or fixed price purchase options. The effective interest rates on the leases range from *nil* to *3.11%* as of *June 30, 2018*. The lease agreements require payment of property taxes, maintenance and operating and non-operating expenses. Amortization of capital leases was \$1.2 million and \$2.7 million for the *three* and *six* months ended *June 30, 2018*, respectively, and \$1.7 million and \$3.6 million for the *three* and *six* months ended *June 30, 2017*, respectively.

***OPERATING LEASES***

Rent expense associated with operating leases was \$2.6 million and \$5.6 million for the *three* and *six* months ended *June 30, 2018*, respectively, and \$3.1 million and \$5.6 million for the *three* and *six* months ended *June 30, 2017*, respectively. Rent expense relating to tractors, trailers and other operating equipment is included in the “Equipment rent,” line item while rent expense relating to office equipment is included in the “Operations and maintenance” line item in the accompanying condensed consolidated statements of operations and comprehensive income (loss).

During the quarter ended *June 30, 2018*, the Company completed a sale-leaseback transaction under which it sold certain owned trailers to an unrelated party for proceeds of \$5.3 million and entered into an operating lease with the buyer for a term of *six* months. The \$5.3 million was recorded in the “Other receivables” line item in the accompanying condensed consolidated balance sheet at *June 30, 2018*. Cash was received from the purchaser in early *July*. The Company recorded a liability of approximately \$1.3 million representing the gain on the sale and will amortize such amount to earnings ratably over the lease term. The deferred gain is included in the “Deferred gain” line item in the accompanying condensed consolidated balance sheet.

### ***OTHER COMMITMENTS***

As of *June 30, 2018*, the Company had \$54.2 million in commitments for purchases of both revenue and non-revenue equipment, of which *none* are cancellable. We anticipate funding these commitments with operating and financing cash flows.

### **NOTE 10 – INCOME TAXES**

During the *three* months ended *June 30, 2018* and *2017*, the Company’s effective tax rate was 24.4% and 29.6%, respectively. During the *six* months ended *June 30, 2018* and *2017*, the Company’s effective tax rate was 25.7% and 33.0%, respectively. The Company’s effective tax rate, when compared to the federal statutory rate of 21%, is primarily affected by state income taxes, net of federal income tax effect for *2018* periods, and permanent differences, the most significant of which is the effect of the partially non-deductible per diem pay structure for our 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 the Company’s drivers’ net pay per mile, after taxes, while decreasing gross pay, before taxes. Per diem pay is partially non-deductible by the Company under current IRS regulations. As a result, salaries, wages and employee benefits costs are slightly lower and effective income tax rates are higher than the statutory rate. Due to the partially non-deductible effect of per diem pay, the Company’s tax rate will change based on fluctuations in earnings (losses) and in the number of drivers who elect to receive this pay structure. Generally, as pretax income or loss increases, the impact of the driver per diem program on the Company’s effective tax rate decreases, because aggregate per diem pay becomes smaller in relation to pretax income or loss, while in periods where earnings are at or near breakeven the impact of the per diem program on the Company’s effective tax rate can be significant.



Table of Contents

When the result of the expected annual effective tax rate is *not* deemed reliable and distorts the income tax provision for an interim period, the Company calculates the income tax provision or benefit using the cut-off method, which results in an income tax provision or benefit based solely on the year-to-date pretax income or loss as adjusted for permanent differences on a pro rata basis.

**NOTE 11 – 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 restricted stock. The computation of diluted earnings (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 June 30,		Six Months Ended June 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
Numerator:				
Net income (loss)	<b>\$2,544</b>	\$(2,846)	<b>\$3,579</b>	\$(7,736)
Denominator:				
Denominator for basic earnings (loss) per share – weighted average shares	<b>8,205</b>	8,028	<b>8,141</b>	8,028
Effect of dilutive securities:				
Employee restricted stock	<b>22</b>	--	<b>26</b>	--
Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversion	<b>8,227</b>	8,028	<b>8,167</b>	8,028
Basic earnings (loss) per share	<b>\$0.31</b>	\$(0.35 )	<b>\$0.44</b>	\$(0.96 )
Diluted earnings (loss) per share	<b>\$0.31</b>	\$(0.35 )	<b>\$0.44</b>	\$(0.96 )
Weighted average anti-dilutive employee restricted stock	<b>99</b>	--	<b>61</b>	2

**NOTE 12 – LEGAL PROCEEDINGS**

The Company is party to routine litigation incidental to its business, primarily involving claims for personal injury and property damage incurred in the transportation of freight. The Company maintains insurance to cover liabilities in

excess of certain self-insured retention levels. Though management believes these claims to be immaterial to the Company's long-term financial position, adverse results of *one* or more of these claims could have a material adverse effect on the Company's financial position or results of operations in any given reporting period.

**NOTE 13 – RESTRUCTURING, IMPAIRMENT AND OTHER COSTS**

During *first* quarter of *2018*, the Company's Trucking maintenance facility in South Holland, Illinois was reopened, after having been closed in the *first* quarter of *2016*. Accrued restructuring, impairment and other costs relating to the closure in the amount of *\$0.6* million were reversed during the *three* months ended *March 31, 2018*.



Table of Contents

The following tables summarize the Company's liabilities, charges, and cash payments related to the restructuring plan made during the *six* months ended *June 30, 2018* (in thousands):

	Accrued			Accrued	
	Balance	Costs		Expenses/	Balance
	December	Incurred	Payments	Charges	June 30,
	31,				2018
	2017				
Compensation and benefits	\$ --	\$ --	\$ --	\$ --	\$ --
Facility closing expenses	770	(639 )	(131 )	--	--
Total	\$ 770	\$ (639 )	\$ (131 )	\$ --	\$ --

	Three	Six Months		
	Months	Ended		
	Ended		June 30,	June 30,
	June 30,	2018	2017	2018
	2018	2017	2018	2017
Costs incurred	2018	2017	2018	2017
Trucking	\$--	\$ --	\$(587)	\$ --
USAT Logistics	--	--	(52 )	--
Total	\$--	\$ --	\$(639)	\$ --

On *March 26, 2018*, the Company announced the retirement of Mr. James A. Craig, the Company's Executive Vice President, Chief Commercial Officer, and President – USAT Logistics. Effective *March 23, 2018*, in connection with Mr. Craig's retirement, the Executive Compensation Committee (the "Committee") approved a separation agreement (the "Separation Agreement") with the following terms: (i) salary continuation through *May 31, 2018*, (ii) non-compete payments equal to his current salary for a period of *twelve* months subject to ongoing compliance with certain non-competition, non-solicitation, non-disparagement, and confidentiality covenants in favor of the Company, (iii) a prorated cash payment, if and to the extent earned, under the short-term cash incentive compensation program adopted by the Committee for *2018*, and (iv) accelerated vesting of *5,488* shares of time-vested restricted stock of the Company scheduled to vest on *July 30, 2018* and *5,488* shares of performance-vested restricted stock of the Company scheduled to vest on *July 30, 2018* depending on performance relative to USAT Logistics performance goals. At *June 30, 2018*, the Company had accrued severance costs associated with the Mr. Craig's retirement of approximately *\$0.4* million. Total costs associated with Mr. Craig's retirement were *\$0.7* million and were recorded in the "Salaries, wages and employee benefits" line item in the accompanying condensed consolidated statements of operations and comprehensive income (loss).

Edgar Filing: USA TRUCK INC - Form 10-Q

The following tables summarize the Company's liabilities, charges, and cash payments related to executive severance agreements made during the *six months ended June 30, 2018* (in thousands):

	Accrued				Accrued
	Balance	Costs		Expenses/	Balance
	December	Incurred	Payments	Charges	June 30,
	31,				2018
	2017				
Severance costs included in salaries, wages and employee benefits	\$ 35	\$ 711	\$ (318 )	\$ --	\$ 428

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
Costs incurred	2018	2017	2018	2017
Trucking	\$--	\$ 56	\$484	\$642
USAT Logistics	--	26	227	257
Total	\$--	\$ 82	\$711	\$899

Table of Contents

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

**Forward-Looking Statements**

*This report contains certain statements that may be considered 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, (the "Exchange Act") and such statements are subject to the safe harbor created by those sections, and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation:*

*any projections of earnings, revenue, costs, or other financial items;*  
*any statement of projected future operations or processes;*  
*any statement of plans, strategies, goals, and objectives of management for future operations;*  
*any statement concerning proposed new services or developments;*  
*any statement regarding future economic conditions or performance; and*  
*any statement of belief and any statement of assumptions underlying any of the foregoing.*

*In this Quarterly Report on Form 10-Q, statements relating to:*

*future driver market,*  
*future ability to grow market share,*  
*future driver and customer-facing employee compensation,*  
*future ability and cost to recruit and retain drivers,*  
*future asset utilization, the amount, timing and price of future acquisitions and dispositions of revenue equipment,*  
*size and age of the Company's fleet, mix of fleet between Company-owned and independent contractors and anticipated gains or losses resulting from dispositions,*  
*future safety performance,*  
*future profitability,*  
*future industry capacity,*  
*future effects of restructuring actions,*  
*future pricing rates and freight network,*  
*future fuel prices and surcharges, fuel efficiency and hedging arrangements,*  
*future insurance and claims and litigation expense,*  
*future salaries, wages and employee benefits costs,*  
*future purchased transportation use and expense,*  
*future operations and maintenance costs,*  
*future USAT Logistics growth and profitability,*  
*future impact on expenses from growth in independent contractors and USAT Logistics,*  
*future use of derivative financial instruments and the impact of increasing interest rates and diesel fuel costs,*

*our strategy,  
our intention about the payment of dividends,  
inflation,  
future indebtedness,  
future liquidity and borrowing availability and capacity,  
the impact of pending and future litigation and claims,  
future availability and compliance with covenants under our revolving credit facility,  
expected amount and timing of capital expenditures,  
expected liquidity and sources of capital resources, including the mix of capital and operating leases,  
future size of our independent contractor fleet, and  
future income tax  
rates*

*among others, are forward-looking statements. Such statements may be identified by their use of terms or phrases such as “expects,” “estimates,” “projects,” “believes,” “anticipates,” “intends,” “plans,” “goals,” “may,” “will,” “would,” “should,” “could,” “potential,” “continue,” “future” and similar terms and phrases. Forward-looking statements are based on currently available operating, financial and competitive information. Forward-looking statements 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. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled “Item 1.A, Risk Factors,” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 and other filings with the Securities and Exchange Commission (the “SEC”).*

## Table of Contents

*All such forward-looking statements speak only as of the date of this report. You are cautioned not to place undue reliance on such forward-looking statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in management's expectations with regard thereto or any change in the events, conditions or circumstances on which any such information is based, except as required by law.*

*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" or similar terms refer to USA Truck, Inc. and its subsidiary.*

## **Overview**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader more fully understand the operations and present business environment of USA Truck, Inc. MD&A is provided as a supplement to, and should be read in conjunction with, the condensed 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 the consolidated results of operations for the periods presented in the condensed consolidated financial statements included in this filing and a discussion of seasonality, the potential impact of inflation and fuel availability and cost.

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

## **Our Business**

USA Truck offers a broad range of truckload motor carrier and freight brokerage and logistics services to a diversified customer base that spans a variety of industries. The Company has two reportable segments: (i) Trucking, consisting of one-way truckload motor carrier services, in which volumes typically are not contractually committed, and dedicated contract motor carrier services, in which a combination of equipment and drivers is contractually committed to a particular customer, typically for a duration of at least one year, subject to certain cancellation rights, and (ii) USAT Logistics, consisting of freight brokerage, logistics, and rail intermodal service offerings.

The Trucking segment provides one-way truckload transportation, including dedicated services, of various products, goods and materials. The Trucking segment primarily uses its own purchased or leased tractors and trailers to provide services to customers and is commonly referred to as “asset-based” trucking. The Company’s USAT Logistics services match customer shipments with available equipment of authorized third-party motor carriers and other service providers and provide services that complement the Company’s Trucking operations. USAT Logistics provides these services primarily to existing Trucking customers, many of whom prefer to rely on a single service provider, or a small group of service providers, to provide all their transportation solutions.

Revenue for the Company’s Trucking segment is substantially generated by transporting freight for customers, and is predominantly affected by the rates per mile received from customers, the number of tractors in operation, and the number of revenue-generating miles per tractor. The Company supplements its Trucking operating revenue by charging for fuel surcharge and ancillary services such as stop-off pay, loading and unloading activities, tractor and trailer detention and other similar services.

Operating expenses that have a major impact on the profitability of the Trucking segment fall into two categories: variable and fixed. Variable costs, or mostly variable costs, constitute the majority of the costs associated with transporting freight for customers, and include driver wages and benefits, fuel and fuel taxes, payments to independent contractors for purchased transportation, operating and maintenance expense and insurance and claims expense. These costs vary primarily according to miles operated, but also have controllable components based on percentage of compensated miles, shop and dispatch efficiency, and safety and claims experience.

Table of Contents

The most significant fixed costs, or mostly fixed costs, include the capital costs of our assets (depreciation, rent and interest), compensation of non-driving employees and portions of insurance and maintenance expenses. These expenses are partially controllable through management of fleet size and facilities infrastructure, headcount efficiency, and operating safely.

Fuel and fuel tax expense can fluctuate significantly with changes in diesel fuel prices and is one of our most volatile variable expenses. To mitigate the Company's exposure to fuel price increases, it recovers from its customers fuel surcharges that historically have recouped a majority of the increased fuel costs; however, the Company cannot assure the recovery levels experienced in the past will continue in future periods. Although the Company's fuel surcharge program mitigates some exposure to rising fuel costs, the Company continues to have exposure to increasing fuel costs related to empty miles, out-of-route miles, fuel inefficiency due to engine idle time and other factors, including the extent to which the surcharge paid by the customer is insufficient to compensate for higher fuel costs, particularly in times of rapidly increasing fuel prices. The main factors that affect fuel surcharge revenue are the price of diesel fuel and the number of loaded miles. The fuel surcharge is billed on a lagging basis, meaning the Company typically bills customers in the current week based on the previous week's applicable United States Department of Energy, or DOE, index. Therefore, in times of increasing fuel prices, the Company does not recover as much in fuel surcharge revenue as it pays for fuel. In periods of declining prices, the opposite is true.

The key statistics used to evaluate Trucking segment performance, net of fuel surcharge revenue, include (i) base Trucking revenue per available tractor per week, (ii) base revenue per loaded mile, (iii) loaded miles per available tractor per week, (iv) deadhead percentage, (v) average loaded miles per trip, (vi) average number of available tractors and (vii) adjusted operating ratio. In general, the Company's loaded miles per available tractor per week, rate per mile and deadhead percentage are affected by industry-wide freight volumes, industry-wide trucking capacity and the competitive environment, which factors are mostly beyond the Company's control, as well as by its sales and marketing efforts, service levels and efficiency of its operations, over which the Company has significant control.

Unlike the Trucking segment, the USAT Logistics segment is non-asset based and is instead dependent upon qualified employees, information systems and qualified third-party capacity providers. The largest expense related to the USAT Logistics segment is purchased transportation expense. Other operating expenses consist primarily of salaries, wages and employee benefits. The Company evaluates the financial performance of the USAT Logistics segment by reviewing gross margin (USAT Logistics operating revenue less purchased transportation expense) and the gross margin percentage (USAT Logistics operating revenue less purchased transportation expense expressed as a percentage of USAT Logistics operating revenue). The gross margin can be impacted by the rates charged to customers and the costs of securing third-party capacity. USAT Logistics often achieves better gross margins during periods of imbalance between supply and demand than times of balanced supply and demand, although periods of transition to tight capacity also can compress margins.

We plan to continue our focus on improving results through disciplined network management and pricing, enhanced partnerships with customers, and improved execution in our day-to-day operations, as well as our ongoing safety initiatives. By focusing on these key objectives, management believes it will make progress on its goals of improving

the Company's operating performance and increasing stockholder value.

15

---



Table of Contents**Results of Operations**

The following table sets forth the condensed consolidated statements of operations and comprehensive income (loss) in dollars (in thousands) and percentage of consolidated operating revenue and the percentage increase or decrease in the dollar amounts (in thousands) of those items compared to the prior year.

	Three Months Ended June 30, 2018			2017			% Change in Dollar Amounts
	\$	% Operating Revenue	% Adjusted Operating Ratio (1)	\$	% Operating Revenue	% Adjusted Operating Ratio (1)	
Base revenue	\$119,107	88.0	%	\$96,038	89.5	%	24.0
Fuel surcharge revenue	16,274	12.0		11,320	10.5		43.8
<b>Operating revenue</b>	<b>\$135,381</b>	<b>100.0</b>	<b>%</b>	<b>\$107,358</b>	<b>100.0</b>	<b>%</b>	<b>26.1</b>
Operating expenses	131,070	96.8	96.4	110,324	102.8	103.0	18.8
<b>Operating income (loss)</b>	<b>4,311</b>	<b>3.2</b>	<b>3.6</b>	<b>(2,966 )</b>	<b>(2.8 )</b>	<b>(3.0 )</b>	<b>245.3</b>
<b>Other expenses:</b>							
Interest expense	833	0.6		950	0.9		(12.3 )
Other, net	113	0.1		128	0.1		(11.7 )
Total other expenses, net	946	0.7		1,078	1.0		(12.2 )
<b>Income (loss) before income taxes</b>	<b>3,365</b>	<b>2.5</b>		<b>(4,044 )</b>	<b>(3.8 )</b>		<b>183.2</b>
<b>Income tax expense (benefit)</b>	<b>821</b>	<b>0.6</b>		<b>(1,198 )</b>	<b>(1.1 )</b>		<b>(168.5 )</b>
<b>Consolidated net income (loss)</b>	<b>\$2,544</b>	<b>1.9</b>	<b>%</b>	<b>\$(2,846 )</b>	<b>(2.7 )</b>	<b>%</b>	<b>189.4</b>

	Six Months Ended June 30, 2018			2017			% Change in Dollar
	\$	% Operating Revenue	% Adjusted Operating Ratio	\$	% Operating Revenue	% Adjusted Operating Ratio	

Edgar Filing: USA TRUCK INC - Form 10-Q

			Ratio (1)				Ratio (1)	Amounts
Base revenue	\$229,386	88.1	%	\$185,866	88.9	%		23.4 %
Fuel surcharge revenue	31,008	11.9		23,162	11.1			33.9
<b>Operating revenue</b>	<b>\$260,394</b>	<b>100.0</b>	<b>%</b>	<b>\$209,028</b>	<b>100.0</b>	<b>%</b>		<b>24.6</b>
Operating expenses	253,691	97.4		218,393	104.5		104.6	% 16.2
<b>Operating income</b>	<b>6,703</b>	<b>2.6</b>	<b>3.0</b>	<b>(9,365 )</b>	<b>(4.5 )</b>	<b>(4.6 )</b>		<b>171.6</b>
<b>Other expenses:</b>								
Interest expense	1,651	0.6		1,953	0.9			(15.5 )
Other, net	233	0.1		226	0.1			3.1
Total other expenses, net	1,884	0.7		2,179	1.0			(13.5 )
<b>Income before income taxes</b>	<b>4,819</b>	<b>1.9</b>		<b>(11,544 )</b>	<b>(5.5 )</b>			<b>141.7</b>
<b>Income tax expense (benefit)</b>	<b>1,240</b>	<b>0.5</b>		<b>(3,808 )</b>	<b>(1.8 )</b>			<b>(132.6 )</b>
<b>Consolidated net income</b>	<b>\$3,579</b>	<b>1.4</b>	<b>%</b>	<b>\$(7,736 )</b>	<b>(3.7 )</b>	<b>%</b>		<b>146.3 %</b>

Adjusted operating ratio is calculated as operating expenses, less restructuring, impairment and other costs and severance costs included in salaries, wages and employee benefits, net of fuel surcharge revenue, as a percentage of operating revenue excluding fuel surcharge revenue. Adjusted operating ratio is a non-GAAP financial measure. See "Use of Non-GAAP Financial Information", "Consolidated Reconciliations" and "Segment Reconciliations" below for the uses and limitations associated with adjusted operating ratio and other non-GAAP financial measures.

Table of Contents

**Use of Non-GAAP Financial Information**

The Company uses the terms “adjusted operating ratio” and “adjusted earnings (loss) per diluted share” throughout this Form 10-Q. Adjusted operating ratio and adjusted earnings (loss) per diluted share, as defined here, are non-GAAP financial measures as defined by the SEC. Management uses adjusted operating ratio and adjusted earnings (loss) per diluted share as supplements to the Company’s GAAP results in evaluating certain aspects of its business, as discussed below.

Adjusted operating ratio is calculated as operating expenses less restructuring, impairment and other costs and severance costs included in salaries, wages and employee benefits, net of fuel surcharge revenue, as a percentage of operating revenue excluding fuel surcharge revenue. Adjusted earnings (loss) per diluted share is defined as net income (loss) per share plus the per share impact of restructuring, impairment and other, and severance costs included in salaries, wages and employee benefits, less the per share tax impact of those adjustments using a statutory income tax rate. The per share impact of each item is determined by dividing it by the weighted average diluted shares outstanding.

The Company’s chief operating decision-makers focus on adjusted operating ratio and adjusted earnings (loss) per diluted share as indicators of the Company’s performance from period to period.

Management believes removing the impact of the above described items from the Company’s operating results affords a more consistent basis for comparing results of operations. Management believes its presentation of adjusted operating ratio and adjusted earnings (loss) per diluted share is useful to investors and other users because it provides them the same information that we use internally for purposes of assessing our core operating performance.

Adjusted operating ratio and adjusted earnings (loss) per diluted share are not substitutes for operating margin or any other measure derived solely from GAAP measures. There are limitations to using non-GAAP measures such as adjusted operating ratio and adjusted earnings (loss) per diluted share. Although management believes that adjusted operating ratio and adjusted earnings (loss) per diluted share can make an evaluation of the Company’s operating performance more consistent because these measures remove items that, in management’s opinion, do not reflect its core operating performance, other companies in the transportation industry may define adjusted operating ratio and adjusted earnings (loss) per diluted share differently. As a result, it may be difficult to use adjusted operating ratio, adjusted earnings (loss) per diluted share or similarly named non-GAAP measures that other companies may use, to compare the performance of those companies to USA Truck’s performance.

Pursuant to the requirements of Regulation S-K, reconciliations of non-GAAP financial measures to GAAP financial measures have been provided in the tables below (dollar amounts in thousands).

**Consolidated Reconciliations****Adjusted operating ratio:**

	Three Months Ended June 30,		Six Months Ended June 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
Operating revenue	<b>\$135,381</b>	\$107,358	<b>\$260,394</b>	\$209,028
Less:				
Fuel surcharge revenue	<b>16,274</b>	11,320	<b>31,008</b>	23,162
Base revenue	<b>119,107</b>	96,038	<b>229,386</b>	185,866
Operating expense	<b>131,070</b>	110,324	<b>253,691</b>	218,393
Adjusted for:				
Severance costs in salaries, wages and employee benefits	--	(82 )	(711 )	(899 )
Restructuring, impairment and other costs (reversal)	--	--	<b>639</b>	--
Fuel surcharge revenue	<b>(16,274 )</b>	(11,320 )	<b>(31,008 )</b>	(23,162 )
Adjusted operating expense	<b>\$114,796</b>	\$98,922	<b>\$222,611</b>	\$194,322
<b>Operating ratio</b>	<b>96.8 %</b>	102.8 %	<b>97.4 %</b>	104.5 %
Adjusted operating ratio	<b>96.4 %</b>	103.0 %	<b>97.0 %</b>	104.6 %

Table of Contents*Adjusted earnings (loss) per diluted share:*

	Three Months Ended June 30,		Six Months Ended June 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
Earnings (loss) per diluted share	<b>\$0.31</b>	\$(0.35)	<b>\$0.44</b>	\$(0.96)
Adjusted for:				
Severance costs in salaries, wages and employee benefits	--	0.01	<b>0.09</b>	0.11
Restructuring, impairment and other costs (reversal)	--	--	<b>(0.08)</b>	--
Income tax expense (benefit) effect of adjustments	--	--	--	(0.04)
Adjusted earnings (loss) per diluted share	<b>\$0.31</b>	\$(0.34)	<b>\$0.45</b>	\$(0.89)

**Segment Reconciliations***Trucking Segment*

	Three Months Ended June 30,		Six Months Ended June 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
Revenue	<b>\$85,685</b>	\$71,731	<b>\$164,531</b>	\$142,202
Less: intersegment eliminations	<b>116</b>	186	<b>229</b>	377
Operating revenue	<b>85,569</b>	71,545	<b>164,302</b>	141,825
Less: fuel surcharge revenue	<b>12,123</b>	8,828	<b>23,298</b>	18,015
Base revenue	<b>73,446</b>	62,717	<b>141,004</b>	123,810
Operating expense	<b>83,416</b>	76,388	<b>162,613</b>	153,796
Adjusted for:				
Severance costs in salaries, wages and employee benefits	--	(56 )	<b>(484 )</b>	(642 )
Restructuring, impairment and other costs (reversal)	--	--	<b>587</b>	--
Fuel surcharge revenue	<b>(12,123)</b>	(8,828 )	<b>(23,298 )</b>	(18,015 )
Adjusted operating expense	<b>\$71,293</b>	\$67,504	<b>\$139,418</b>	\$135,139
<b>Operating ratio</b>	<b>97.5 %</b>	106.8 %	<b>99.0 %</b>	108.4 %
Adjusted operating ratio	<b>97.1 %</b>	107.6 %	<b>98.9 %</b>	109.2 %

*USAT Logistics Segment*

	Three Months Ended June 30,		Six Months Ended June 30,	
	<b>2018</b>	2017	<b>2018</b>	2017
Revenue	<b>\$50,616</b>	\$36,878	<b>\$97,391</b>	\$69,528
Less: intersegment eliminations	<b>804</b>	1,065	<b>1,299</b>	2,325
Operating revenue	<b>49,812</b>	35,813	<b>96,092</b>	67,203
Less: fuel surcharge revenue	<b>4,151</b>	2,492	<b>7,710</b>	5,147
Base revenue	<b>45,661</b>	33,321	<b>88,382</b>	62,056

Edgar Filing: USA TRUCK INC - Form 10-Q

Operating expense	<b>47,654</b>	33,936	<b>91,078</b>	64,597
Adjusted for:				
Severance costs in salaries, wages and employee benefits	--	(26 )	(227 )	(257 )
Restructuring, impairment and other costs (reversal)	--	--	<b>52</b>	--
Fuel surcharge revenue	<b>(4,151 )</b>	(2,492 )	<b>(7,710 )</b>	(5,147 )
Adjusted operating expense	<b>\$43,503</b>	\$31,418	<b>\$83,193</b>	\$59,193
<b>Operating ratio</b>	<b>95.7 %</b>	94.8 %	<b>94.8 %</b>	96.1 %
Adjusted operating ratio	<b>95.3 %</b>	94.3 %	<b>94.1 %</b>	95.4 %

18

---

Table of Contents**Key Operating Statistics by Segment**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Trucking:</b>				
Operating revenue ( <i>in thousands</i> )	<b>\$85,569</b>	\$71,545	<b>\$164,302</b>	\$141,825
Operating income (loss) ( <i>in thousands</i> ) (1)	<b>\$2,153</b>	\$(4,843)	<b>\$1,689</b>	\$(11,971)
Operating ratio (2)	<b>97.5 %</b>	106.8 %	<b>99.0 %</b>	108.4 %
Adjusted operating ratio (3)	<b>97.1 %</b>	107.6 %	<b>98.9 %</b>	109.2 %
Total miles ( <i>in thousands</i> ) (4)	<b>39,560</b>	40,833	<b>78,103</b>	81,283
Deadhead percentage (5)	<b>13.5 %</b>	12.8 %	<b>13.1 %</b>	13.0 %
Base revenue per loaded mile	<b>\$2.145</b>	\$1.762	<b>\$2.078</b>	\$1.751
Average number of seated tractors (6)	<b>1,558</b>	1,584	<b>1,546</b>	1,573
Average number of available tractors (7)	<b>1,638</b>	1,672	<b>1,628</b>	1,663
Average number of in-service tractors (8)	<b>1,668</b>	1,722	<b>1,661</b>	1,713
Loaded miles per available tractor per week	<b>1,608</b>	1,637	<b>1,612</b>	1,644
Base revenue per available tractor per week	<b>\$3,449</b>	\$2,885	<b>\$3,350</b>	\$2,879
Average loaded miles per trip	<b>522</b>	560	<b>532</b>	569
<b>USAT Logistics:</b>				
Operating revenue ( <i>in thousands</i> )	<b>\$49,812</b>	\$35,813	<b>\$96,092</b>	\$67,203
Operating income ( <i>in thousands</i> ) (1)	<b>\$2,158</b>	\$1,877	<b>\$5,014</b>	\$2,606
Gross margin ( <i>in thousands</i> ) (9)	<b>\$7,513</b>	6,620	<b>15,397</b>	11,979
Gross margin percentage (10)	<b>15.1 %</b>	18.5 %	<b>16.0 %</b>	17.8 %

(1) Operating income (loss) is calculated by deducting operating expenses from operating revenue.

(2) Operating ratio is calculated as operating expenses as a percentage of operating revenue.

Adjusted operating ratio is calculated as operating expenses less restructuring, impairment and other costs, and

(3) severance costs included in salaries, wages and employee benefits, net of fuel surcharge revenue, as a percentage of operating revenue excluding fuel surcharge revenue.

(4) Total miles include both loaded and empty miles.

(5) Deadhead percentage is calculated by dividing empty miles into total miles.

(6) Seated tractors are those occupied by a driver, both Company-paid and independent contractor.

(7) Available tractors are all those Company-tractors that are available to be dispatched, including available unseated tractors, and our independent contractor fleet.

(8) In-service tractors include all of the tractors in the Company fleet, including Company-operated tractors and independent contractors.

(9) Gross margin is calculated by deducting purchased transportation expense from USAT Logistics operating revenue.

(10) Gross margin percentage is calculated as gross margin divided by USAT Logistics operating revenue.

**Results of Operations—Segment Review**

***Trucking operating revenue***

During the three months ended June 30, 2018, Trucking operating revenue increased 19.6% to \$85.6 million, compared to \$71.5 million for the same period in 2017. Trucking base revenue increased 17.1% to \$73.4 million, compared to \$62.7 million for the second quarter of 2017. The increase in operating revenue was the result of a 21.7% increase in base rate per loaded mile, partially offset by a 3.8% decrease in loaded miles driven by a 1.6% decrease in average seated tractor count and a 70 basis point increase in deadhead percentage.

During the six months ended June 30, 2018, Trucking operating revenue increased 15.8% to \$164.3 million, compared to \$141.8 million for the same period of 2017. Trucking base revenue increased 13.9% to \$141.0 million, from \$123.8 million for the same period in 2017. The positive changes in operating revenue and base revenue were primarily attributable to an 18.7% increase in base rate per loaded mile paired with a 2.8% increase in number of Trucking shipments, offset by a 1.7% decrease in the average number of seated tractors and a 10 basis point increase in deadhead percentage. Looking ahead, the Company expects year-over-year improvements in rate per mile when compared to those experienced during the prior year due to the favorable relationship between industry capacity and demand and the implementation of Company initiatives.



Table of Contents

***Trucking operating income***

For the second quarter of 2018, Trucking reported operating income of \$2.2 million compared to an operating loss of \$4.8 million for the same period in 2017, primarily resulting from a 19.6% increase in operating revenue caused by a 19.5% increase in base revenue per available tractor per week, offset by 9.2% higher operating expenses.

For the six months ended June 30, 2018, operating income increased 114.1% to \$1.7 million from a loss of \$12.0 million for the corresponding period in 2017, primarily resulting from the 15.8% increase in operating revenue driven by the increased base revenue per available tractor per week mentioned above and offset by a 5.7% increase operating expenses.

***USAT Logistics operating revenue***

For the three months ended June 30, 2018, USAT Logistics operating revenue increased 39.1% to \$49.8 million compared to \$35.8 million for the same period in 2017. The year-over-year change in operating revenue was the result of a 31.7% increase in revenue per load combined with a 5.6% increase in load volume.

For the six months ended June 30, 2018, operating revenue increased 43.0% to \$96.1 million from \$67.2 million, for the corresponding period in 2017, primarily resulting from a 38.0% increase in revenue per load, paired with a 3.6% increase in load volumes.

***USAT Logistics operating income***

USAT Logistics generated operating income of \$2.2 million in the second quarter of 2018, an increase of \$0.3 million, or 15.0%, compared to \$1.9 million in the second quarter of 2017. As mentioned above, the 39.1% increase in operating revenue and 5.6% increase in load volume contributed primarily to the growth in operating income, but were offset by a 40.4% increase in operating expenses.

For the six months ended June 30, 2018, operating income increased 92.4% to \$5.0 million from \$2.6 million for the corresponding period in 2017. This change was the result of the 43.0% increase in operating revenue mentioned above, driven by the increased revenue per load and load volumes, offset by a 41.0% increase in operating expenses.

**Consolidated Operating Expenses**

Edgar Filing: USA TRUCK INC - Form 10-Q

The following table summarizes the consolidated operating expenses (dollar amounts in thousands) and percentage of consolidated operating revenue, consolidated base revenue and the percentage increase or decrease in the dollar amounts of those items compared to the prior year.

	Three Months Ended June 30,											
	2018					2017					% Change	
Operating Expenses:	\$	%	Adjusted		\$	%	Adjusted		2018 to 2017			
			Operating Revenue	Operating Ratio (1)			Operating Revenue	Operating Ratio (1)				
Salaries, wages and employee benefits	\$31,645	23.4	%	26.5	% (1)	\$29,221	27.2	%	30.3	% (1)	8.3	%
Fuel and fuel taxes	13,984	10.3		(1.9)	) (2)	10,479	9.8		(0.9)	) (2)	33.4	
Depreciation and amortization	7,477	5.5		6.3		6,879	6.4		7.2		8.7	
Insurance and claims	5,341	4.0		4.5		5,561	5.2		5.8		(4.0)	)
Equipment rent	2,151	1.6		1.8		2,633	2.5		2.7		(18.3)	)
Operations and maintenance	8,913	6.6		7.5		7,950	7.3		8.3		12.1	
Purchased transportation	55,817	41.2		46.9		41,005	38.2		42.7		36.1	
Operating taxes and licenses	1,262	0.9		1.0		1,024	1.0		1.1		23.2	
Communications and utilities	677	0.5		0.6		598	0.6		0.6		13.2	
Gain on disposal of assets, net	(395)	(0.3)	)	(0.3)	)	(77)	(0.1)	)	(0.1)	)	413.0	
Other	4,198	3.1		3.5		5,051	4.6		5.3		(16.9)	)
Total operating expenses	\$131,070	96.8	%	96.4	%	\$110,324	102.8	%	103.0	%	18.8	%

Table of Contents

	Six Months Ended June 30,									
	2018					2017				
<b>Operating Expenses:</b>	\$	% Operating Revenue	Adjusted Operating Ratio (1)			\$	% Operating Revenue	Adjusted Operating Ratio (1)		
Salaries, wages and employee benefits	\$63,882	24.5 %	27.5 % (1)		\$59,860	28.6 %	31.7 % (1)			6.7 %
Fuel and fuel taxes	27,463	10.5	(1.6 ) (2)		21,253	10.2	(1.0 ) (2)			29.2
Depreciation and amortization	14,657	5.6	6.4		14,523	6.9	7.8			0.9
Insurance and claims	10,943	4.2	4.8		13,893	6.7	7.5			(21.2 )
Equipment rent	4,869	1.9	2.1		4,747	2.3	2.6			2.6
Operations and maintenance	16,874	6.5	7.4		14,521	7.0	7.8			16.2
Purchased transportation	104,855	40.3	45.7		78,408	37.5	42.2			33.7
Operating taxes and licenses	1,764	0.7	0.8		1,974	0.9	1.1			(10.6 )
Communications and utilities	1,390	0.5	0.6		1,264	0.6	0.7			10.0
Gain on disposal of assets, net	(564 )	(0.2 )	(0.3 )		(337 )	(0.2 )	(0.2 )			67.4
Restructuring, impairment and other costs (reversal)	(639 )	(0.2 )	--		--	--	--			--
Other	8,197	3.1	3.6		8,287	4.0	4.4			(1.1 )
Total operating expenses	\$253,691	97.4 %	97.0 %		\$218,393	104.5 %	104.6 %			16.2 %

Adjusted operating ratio is calculated as the applicable operating expense less restructuring, impairment and other (1) costs and severance costs included in salaries, wages and employee benefits, net of fuel surcharge revenue, as a percentage of operating revenue excluding fuel surcharge revenue.

(2) Calculated as fuel and fuel taxes, net of fuel surcharge revenue.

### *Salaries, wages and employee benefits*

The change in salaries, wages and employee benefits expense during the second quarter of 2018 was primarily due to the accrual of severance benefits related to the retirement of the Company's Chief Commercial Officer, Mr. James A. Craig, increased employee benefit costs, and the establishment of an employee performance bonus program.

For the six months ended June 30, 2018, salaries, wages and employee benefits expense decreased more than 400 basis points as a percentage of operating revenue while increasing in terms of dollars spent. The decrease as a percentage of operating revenue was due to the 18.9% increase sequentially in the independent contractor fleet. The rate of compensation paid to Company drivers per mile has increased in recent periods and we expect this cost will

increase in future periods due to driver pay increases, the most recent of which became effective during the second quarter of 2017. Management believes that the market for drivers will remain tight, and as such, expects driver wages and hiring expenses, which include recruiting and advertising costs, to continue to increase in order to attract and retain sufficient numbers of qualified drivers to operate the Company's fleet. This expense item will also be affected by the percentage of Trucking miles operated by independent contractors instead of Company employed drivers and the percentage of revenue generated by USAT Logistics, for which costs are reflected in purchased transportation.

***Fuel and fuel taxes***

Fuel and fuel taxes consist primarily of diesel fuel expense for Company-owned tractors and fuel taxes. The primary factors affecting the Company's fuel expense are the cost of diesel fuel, the fuel economy of Company equipment and the number of miles driven by Company drivers. The increases in fuel and fuel taxes for the three and six month periods ended June 30, 2018 resulted from a 25.3% increase in average diesel fuel prices per gallon year over year, as reported by the DOE, offset by a 3-4% decrease in total revenue miles for both quarter and year to date when compared to the same periods in 2017. The Company has undertaken fuel efficiency initiatives, such as installing trailer skirts, idle control, more fuel-efficient engines and implementing driver training programs, which have contributed to improvements in our fuel expense on a cost per Company tractor mile basis.

The Company expects to continue managing its idle time and truck speeds and partnering with customers to adjust fuel surcharge programs to recover a fair portion of rising fuel costs. Going forward, the Company's net fuel expense is expected to fluctuate as a percentage of revenue based on factors such as diesel fuel prices, percentage recovered from fuel surcharge programs, deadhead percentage, the percentage of revenue generated from independent contractors and the success of fuel efficiency initiatives.

Table of Contents

***Depreciation and amortization and equipment rent***

Depreciation and amortization of property and equipment consists primarily of depreciation for Company-owned tractors and trailers and amortization of those financed with capital leases. The primary factors affecting this expense include the number and age of Company tractors and trailers, the acquisition cost of new equipment and the salvage values and useful lives assigned to the equipment. Equipment rent expenses are those related to revenue equipment under operating leases. These largely fixed costs fluctuate as a percentage of base revenue primarily with increases and decreases in average base revenue per tractor and the percentage of base revenue contributed by Trucking versus USAT Logistics. In addition, the mix of capital and operating leases will cause fluctuations on a line item basis between equipment rent expense and depreciation and amortization expense. For the three month period ended June 30, 2018, equipment rent expense decreased due to an operational rebate on our leased tractors.

The decrease in depreciation and amortization expense as a percentage of both operating and base revenue for the three and six month periods ended June 30, 2018, as compared to the same period in 2017, is primarily attributable to a smaller Company fleet. For the six month period ended June 30, 2018, equipment rent expense increased due to the increased use of operating leases on trailers. The Company intends to continue to focus on improving asset utilization, matching customer demand and strengthening load profitability initiatives. Further, the acquisition costs of new revenue equipment could increase due to the continued implementation of emissions requirements and the inclusion of improved safety and fuel efficiency features. As a result, management expects to see an increase in depreciation and amortization expense from new tractors, and expects equipment rent to increase as the use of operating leases increases.

***Insurance and claims***

Insurance and claims expense consists of insurance premiums and the accruals the Company makes for estimated payments and expenses for claims for third-party bodily injury, property damage, cargo damage and other casualty events. The primary factors affecting the Company's insurance and claims expense are the number of miles driven by its Company drivers and independent contractors, the frequency and severity of accidents, trends in the development factors used in the Company's actuarial accruals, developments in prior-year claims and insurance premiums and self-insured amounts. For the three months ended June 30, 2018, the decrease in insurance and claims expense year over year was largely attributable to the more normalized expense for the current quarter compared to a large actuarial adjustment made during second quarter 2017.

As mentioned above, the decrease in insurance and claims expense during the six months ended June 30, 2018 is the result of having a more normal insurance expense during the current period when compared to the same period in 2017, in which a \$3.0 million actuarial adjustment as recorded stemming from adverse development in our prior year claim layers. The Company expects insurance and claims expense to continue to be volatile over the long-term. In addition, insurance carriers have generally raised premiums for many businesses, including those in the trucking industry, and the Company's insurance and claims expense could increase if it has a similar experience at renewal or replacement, or the Company could find it necessary to raise its self-insured retention levels or decrease its aggregate coverage limits.

***Operations and maintenance***

Operations and maintenance expense consists primarily of vehicle repairs and maintenance, general and administrative expenses and other costs. Operating and maintenance expenses are primarily affected by the age of the Company-owned fleet of tractors and trailers, the number of miles driven in a period and, to a lesser extent, by efficiency measures in the Company's maintenance facilities. Operations and maintenance expense increased for the three months ended June 30, 2018, due to heightened maintenance costs on the Company fleet, which is comprised of older, revenue equipment that tends to have higher maintenance costs. Delays in OEM tractor deliveries during the quarter have slowed down the receipt of new tractors that management believes may reduce maintenance costs in the future.

For the six month period ended June 30, 2018, the increase in operations and maintenance expense was primarily the result of increased repair costs on the Company fleet, which is currently comprised of older, revenue equipment that tends to have higher maintenance costs. Delays in OEM tractor deliveries have contributed to the increase in this line item.

***Purchased transportation***

Purchased transportation consists of the payments the Company makes to independent contractors, railroads and third-party carriers that haul loads brokered to them by the Company, including fuel surcharge reimbursement paid to such parties. For the second quarter of 2018, purchased transportation expense increased primarily due to an increase in USAT Logistics freight volumes when compared to the same period in 2017.

Table of Contents

For the six months ended June 30, 2018, the increase in purchased transportation expense was primarily due to increased freight volumes in USAT Logistics. Moving forward, the Company is continuing to pursue its objective of growing its independent contractor fleet as a percentage of its total fleet and growing USAT Logistics, which, if successful, could further increase purchased transportation expense, particularly if the Company needs to pay independent contractors more to stay with the Company in light of expected regulatory changes. Increasing independent contractor capacity has shifted (and assuming all other factors remain equal, is expected to continue to shift), and growth of USAT Logistics will shift, expenses to the “Purchased transportation” line item with offsetting reductions in employee driver wages and related expenses, net fuel expense (as independent contractors generate fuel surcharge revenue, while the related cost of their fuel is included with their compensation in purchased transportation), maintenance and capital expenditures.

***Gain on disposal of assets, net***

During the three and six months ended June 30, 2018, gain on disposal of assets, net, increased when compared to the same periods in 2017. Management believes the used equipment market may continue to show volatility in 2018 and beyond.

***Other expenses***

The decreases in other expenses during the three and six months ended June 30, 2018 were primarily resulting from a decrease in professional services costs and corporate hiring and relocation expenses.

***Restructuring, impairment and other costs (reversal)***

See Note 13 to the condensed consolidated financial statements for discussion of restructuring, impairment and other costs, which discussion is incorporated herein by reference.

***Interest expense***

For both the three and six months ended June 30, 2018, interest expense decreased primarily due to reduced outstanding borrowings. As of June 30, 2018, the Company decreased its debt outstanding on the Credit Facility by approximately \$6.3 million, as compared to December 31, 2017. See Note 8 to the condensed consolidated financial statements for further discussion of the Company’s Credit Facility.

***Income tax expense***

During the three months ended June 30, 2018 and 2017, the Company’s effective tax rate was 24.4% and 29.6%, respectively. During the six months ended June 30, 2018 and 2017, the Company’s effective tax rate was 25.7% and

33.0%, respectively. The Company's effective tax rate for the 2018 periods, when compared to the federal statutory rate of 21%, is primarily affected by state income taxes, net of federal income tax effect, and permanent differences, the most significant of which is the effect of the partially non-deductible per diem pay structure for our 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 the Company's drivers' net pay per mile, after taxes, while decreasing gross pay, before taxes. Per diem pay is partially non-deductible by the Company under current IRS regulations. As a result, salaries, wages and employee benefits costs are slightly lower and effective income tax rates are higher than the statutory rate. Due to the partially non-deductible effect of per diem pay, the Company's tax rate will change based on fluctuations in earnings (losses) and in the number of drivers who elect to receive this pay structure. Generally, as pretax income or loss increases, the impact of the driver per diem program on the Company's effective tax rate decreases, because aggregate per diem pay becomes smaller in relation to pretax income or loss, while in periods where earnings are at or near breakeven the impact of the per diem program on the Company's effective tax rate can be significant. Due to the effect of the non-deductible per diem payments, the Company's tax rate will fluctuate in future periods based on fluctuations in earnings (losses) and in the number of drivers who elect to participate in the per diem program.

When the result of the expected annual effective tax rate is not deemed reliable and distorts the income tax provision for an interim period, the Company calculates the income tax provision or benefit using the cut-off method, which results in an income tax provision or benefit based solely on the year-to-date pretax income or loss as adjusted for permanent differences on a pro rata basis.

### *Seasonality*

In the trucking industry, revenue typically follows a seasonal pattern for various commodities and customer businesses. Peak freight demand has historically occurred in the months of September, October and November. After the December holiday season and during the remaining winter months, freight volumes are typically lower as many customers reduce shipment levels. Operating expenses have historically been higher in the winter months due primarily to decreased fuel efficiency, increased cold weather-related maintenance costs of revenue equipment and increased insurance and claims costs attributed to adverse winter driving conditions. Revenue can also be impacted by weather, holidays and the number of business days that occur during a given period, as revenue is directly related to the available working days of shippers.



Table of Contents

***Inflation***

Most of the Company's operating expenses are inflation sensitive, and as such, are not always able to be offset through increases in revenue per mile and cost control efforts. The effect of inflation-driven cost increases on overall operating costs is not expected to be greater for the Company than for its competitors.

***Fuel Availability and Cost***

The trucking industry is dependent upon the availability of fuel. In the past, fuel shortages or increases in fuel taxes or fuel costs have adversely affected our profitability and may continue to do so. The Company has not experienced difficulty in maintaining necessary fuel supplies, and in the past has generally 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 average price of fuel increases above an agreed upon baseline price per gallon. Typically, the Company is not able to fully recover increases in fuel prices through freight rate increases and fuel surcharges, primarily because those items are not available with respect to empty and out-of-route miles and idling time, for which the Company generally does not receive compensation from customers. Additionally, most fuel surcharges are based on the average fuel price as published by the DOE for the week prior to the shipment, meaning the Company typically bills customers in the current week based on the previous week's applicable index. Accordingly, in times of increasing fuel prices, the Company does not recover as much as it is currently paying for fuel. In periods of declining prices, for a short period of time the inverse is true. Overall, average diesel fuel prices per gallon, as reported by the DOE, increased 25.3% and 21.4%, respectively, for the three and six month periods ended June 30, 2018, compared to the same periods in 2017.

As of June 30, 2018, the Company did not have any long-term fuel purchase contracts, and has not entered into any fuel hedging arrangements.

***Equity***

As of June 30, 2018, the Company had total stockholders' equity of \$70.1 million and total debt and capital leases including current maturities and insurance premium financing, of \$90.3 million, resulting in a total debt, less cash, to total capitalization ratio of 56.3% compared to 61.7% as of December 31, 2017.

***Purchases and Commitments***

The Company routinely monitors equipment acquisition needs and adjusts purchase schedules from time to time based on analysis of factors such as new equipment prices, the condition of the used equipment market, demand for freight services, prevailing interest rates, technological improvements, fuel efficiency, equipment durability, equipment specifications, operating performance and the availability of qualified drivers.

As of June 30, 2018, the Company had \$54.2 million in commitments for the acquisition of both revenue and non-revenue equipment, none of which are cancellable. We anticipate funding these commitments with operating and financing cash flows.

## **Liquidity and Capital Resources**

USA Truck's business has required, and will continue to require, significant capital investments. In the Company's Trucking segment, where capital investments are the most substantial, the primary investments are in new revenue equipment and to a lesser extent, in technology and working capital. In the Company's USAT Logistics segment, where capital investments are generally more modest, the primary investments are in technology and working capital. USA Truck's primary sources of liquidity have been funds provided by operations, borrowings under the Company's Credit Facility, sales of used revenue equipment, and capital and operating leases. Based on expected financial conditions, net capital expenditures, results of operations and related net cash flows and other sources of financing, management believes the Company's sources of liquidity to be adequate to meet current and projected needs.

The Credit Facility contains a single financial covenant, which requires a consolidated fixed charge coverage ratio of at least 1.0 to 1.0 that is triggered in the event excess availability under the Credit Facility falls below 10% of the lenders' total commitments. Also, certain restrictions regarding the Company's ability to pay dividends, make certain investments, prepay certain indebtedness, execute share repurchase programs and enter into certain acquisitions and hedging arrangements are triggered in the event excess availability under the Credit Facility falls below 20% of the lenders' total commitments. Management believes the Company's excess availability will not fall below 20%, or \$34.0 million, and expects the Company to remain in compliance with all debt covenants during the next twelve months.

Table of Contents

Long-term debt, financing notes and capital leases decreased to \$90.3 million, a decrease of \$17.2 million from \$107.5 million at December 31, 2017. As of June 30, 2018, the Company had outstanding \$5.4 million in letters of credit and had approximately \$68.2 million available to borrow under the Credit Facility. Net of cash, debt represented 56.3% of total capitalization. Fluctuations in the outstanding balance and related availability under the Credit Facility are driven primarily by cash flows from operations and the timing and nature of property and equipment additions that are not funded through other sources of financing, as well as the nature and timing of receipt of proceeds from disposals of property and equipment.

***Cash Flows***

	Six Months Ended	
	June 30,	
<i>(in thousands)</i>	<b>2018</b>	2017
Net cash provided by operating activities	\$ 18,428	\$ 9,462
Net cash (used in) provided by investing activities	(1,522 )	17,368
Net cash used in financing activities	(16,948)	(26,786)

**Operating Activities** – Net cash provided by operating activities increased by approximately \$9.0 million in the first six months of 2018, compared to the same period in 2017. This increase was primarily the result of an approximate \$11.3 million increase in net income and an approximate \$3.3 million decrease in deferred income tax liability, offset by \$7.4 million change in receivables and an approximately \$9.5 million increase in accounts payable and accrued liabilities.

**Investing Activities** – For the six months ended June 30, 2018, net cash used in investing activities was \$1.5 million, compared to \$17.4 million provided by investing activities during the same period in 2017. The \$18.9 million decrease in cash provided by investing activities primarily reflects \$11.0 million of proceeds from a sale leaseback undertaken in first quarter 2017, combined with an approximately \$7.1 million decrease in the proceeds from the sale of property and equipment in the 2018 period compared to the 2017 period, offset by an approximately \$0.8 million decrease in capital expenditures for the 2018 period.

**Financing Activities** – Cash used in financing activities was \$16.9 million for the six months ended June 30, 2018, compared to \$26.8 million used by financing activities during the same period in 2017. The \$9.8 million decrease in cash used in financing activities was primarily attributable to increased borrowings of long-term debt of \$5.6 million, a \$2.5 million change in bank drafts payable, and approximately \$1.8 million decrease in net payments on long-term debt and capital lease obligations. At June 30, 2018, the Company had borrowings of long-term debt, financing notes and capital leases of \$90.3 million, down from \$107.5 million at December 31, 2017.

***Debt and Capitalized Lease Obligations***

See Notes 7, 8 and 9 to the condensed consolidated financial statements for further discussion of the Company's Credit Facility, capital lease obligations and other financing arrangements.

***Off-Balance Sheet Arrangements***

Operating leases have been an important source of financing for equipment used in operations, office equipment and certain facilities. As of June 30, 2018, the Company leased certain revenue equipment, facilities and information technology software under operating leases. Assets held under operating leases are not carried on the condensed consolidated balance sheets, and lease payments with regard to such assets are reflected in the condensed consolidated statements of operations and comprehensive income (loss) in the "Equipment rent" and, for office equipment, in the "Operations and maintenance" line items. Equipment rent expense related to the Company's revenue equipment operating leases was \$2.2 million and \$2.6 million for the three months ended June 30, 2018, and 2017, respectively. Rent expense related to the Company's revenue equipment operating leases was \$4.9 million and \$4.7 million for the six months ended June 30, 2018, and 2017, respectively.

Rent expense related to the other equipment and facilities leases was \$0.4 million for both the three month periods ended June 30, 2018, and 2017, respectively. Rent expense related to the other equipment and facilities leases was \$0.8 million for both the six month periods ended June 30, 2018, and 2017, respectively. Other than such operating leases, the Company has no other off-balance sheet arrangements that have or are reasonably likely to have a material effect on the condensed consolidated financial statements.

Table of Contents

The following table represents outstanding contractual obligations for rent expense under operating leases as of June 30, 2018 (in thousands):

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Non-Revenue equipment	\$2,076	\$667	\$872	\$332	\$205
Revenue equipment	18,080	5,227	12,055	632	166
Total rental obligations	\$20,156	\$5,894	\$12,927	\$964	\$371

**Critical Accounting Policies and 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. The Company bases its assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time its condensed consolidated financial statements are prepared. Actual results could differ from those estimates, and such differences could be material. During the six months ended June 30, 2018, there were no material changes to the Company's critical accounting policies and estimates, compared to those disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

The Company experiences various market risks, including changes in interest rates and commodity prices. Because the Company's operations are largely confined to the U.S., the Company is not subject to a material amount of foreign currency risk.

*Interest Rate Risk.* The Company is exposed to interest rate risk primarily from its Credit Facility. The Company's Credit Facility bears variable interest based on the type of borrowing and on the Agent's prime rate or the LIBOR plus, in each case, a certain percentage determined based on a pricing grid that is determined quarterly based on the Company's consolidated fixed charge coverage ratio. As of June 30, 2018, the Company had \$55.0 million outstanding pursuant to its Credit Facility, excluding letters of credit of \$5.4 million. Assuming the outstanding balance as of June 30, 2018 remained constant; a hypothetical one-percentage point increase in interest rates applicable to its Credit Facility would increase the Company's interest expense over a one-year period by approximately \$0.6 million.

*Commodity Price Risk.* The Company is subject to commodity price risk with respect to purchases of fuel. In recent years, fuel prices have fluctuated greatly. In some periods, the Company's operating performance was adversely affected because it was not able to fully offset the impact of higher diesel fuel prices through increased freight rates and fuel surcharge revenue recoveries. Management cannot predict how fuel price levels will continue to fluctuate in the future or the extent to which fuel surcharge revenue recoveries could be collected to offset any increases. As of June 30, 2018, the Company did not have any derivative financial instruments to reduce its exposure to fuel price fluctuations, but may use such instruments in the future. Accordingly, volatile fuel prices may continue to impact the Company significantly. A significant increase in fuel costs, or a shortage of diesel fuel, could materially and adversely affect the Company's results of operations. Further, higher fuel costs could contribute to driver shortages in the trucking industry generally by forcing independent contractors to cease operations. Based on the Company's expected fuel consumption for the remainder of 2018, a 10% increase in the average price per gallon would result in an increase of approximately \$1.4 million in fuel expense before taking into account application of the Company's fuel surcharge program.

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

The Company has established disclosure controls and procedures that are designed to ensure that relevant material information, including information pertaining to any consolidated subsidiaries, is made known to the officers who certify the financial reports and to other members of senior management and the board of directors. Management, with the participation of the Principal Executive Officer (the "PEO") and the Principal Financial Officer (the "PFO") conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the PEO and PFO have concluded that as of June 30, 2018 the Company's disclosure controls and procedures are effective at a reasonable assurance level to ensure that the information required to be disclosed in the reports filed or submitted by the Company under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to management, including the PEO and PFO, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

There has been no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2018, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management has confidence in the Company's internal controls and procedures. Nevertheless, management, including the PEO and PFO, understand that the Company's disclosure procedures and controls and its internal controls cannot prevent all errors or intentional fraud. An internal controls system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal controls system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal controls systems, no evaluation of controls can provide absolute assurance that all controls issues and instances of fraud, if any, have been, or will be, detected.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

While the Company attempts to identify, manage and mitigate risks and uncertainties associated with its business, some level of risk and uncertainty will always be present. The section entitled "Item 1A, Risk Factors," in the Company's Annual Report on Form 10-K for the year ended December 31, 2017, describes some of the risks and uncertainties associated with the Company's business. These risks and uncertainties have the potential to materially affect the Company's business, financial condition, results of operations, cash flows, projected results and future prospects.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**ITEM 5. OTHER INFORMATION**

None.

27

---



Table of Contents

**ITEM 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibit</b>
3.1	<u>Restated and Amended Certificate of Incorporation of the Company as currently in effect, including all Certificates of Amendment thereto (incorporated by reference to Exhibit 3.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2013).</u>
3.2	<u>Bylaws of USA Truck, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on March 24, 2017).</u>
4.1	<u>Specimen certificate evidencing shares of the common stock, \$.01 par value, of USA Truck, Inc. (incorporated by reference to Exhibit 4.1 of the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2017).</u>
10.1*	# <u>Employment Letter between the Company and Timothy W. Guin</u>
10.2*	# <u>Executive Severance and Change in Control Agreement between the Company and Timothy W. Guin, dated April 23, 2018</u>
31.1	# <u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	# <u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	## <u>Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2	## <u>Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

References:

- \* Management contract or compensatory plan, contract or arrangement.
- # Filed herewith.
- ## Furnished herewith.

Table of Contents

**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: July 27, 2018 By: /s/ James D. Reed  
(Signature)

**James D. Reed**  
*President and Chief Executive Officer*

Date: July 27, 2018 By: /s/ Jason R. Bates  
(Signature)

**Jason R. Bates**  
*Executive Vice President and Chief Financial Officer*