USA TRUCK INC
Form 10-Q
November 03, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended **September 30, 2017**
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	**71-0556971**

(State or other jurisdiction of incorporation or organization)	(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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [X] 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):

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	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 October 25, 2017, was 8,297,879.

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USA TRUCK, INC.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
USA TRUCK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except share data)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash	$ ***193***	$ *122*
Accounts receivable, net of allowance for doubtful accounts of $1,047 and $608, respectively	***58,814***	*55,127*
Other receivables	***3,509***	*6,986*
Inventories	***427***	*413*
Assets held for sale	***622***	*4,661*
Prepaid expenses and other current assets	***3,451***	*6,187*
Total current assets	***67,016***	*73,496*
Property and equipment:		
Land and structures	***32,493***	*31,500*
Revenue equipment	***254,462***	*269,953*
Service, office and other equipment	***25,256***	*25,295*
Property and equipment, at cost	***312,211***	*326,748*
Accumulated depreciation and amortization	***(117,206)***	*(106,465)*
Property and equipment, net	***195,005***	*220,283*
Other assets	***1,024***	*1,189*
Total assets	$ ***263,045***	$ *294,968*
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ ***29,399***	$ *18,779*
Current portion of insurance and claims accruals	***11,736***	*10,665*
Accrued expenses	***7,665***	*7,533*
Current maturities of capital leases	***15,021***	*16,742*
Insurance premium financing	***--***	*3,943*
Total current liabilities	***63,821***	*57,662*
Deferred gain	***531***	*652*
Long-term debt	***77,500***	*96,600*
Capital leases, less current maturities	***28,382***	*35,133*
Deferred income taxes	***31,890***	*37,775*
Insurance and claims accruals, less current portion	***9,424***	*8,558*

Total liabilities	***211,548***	*236,380*
Commitments and contingencies		
Stockholders' equity:		
Preferred Stock, $.01 par value; 1,000,000 shares authorized; none issued	--	**--**
Common Stock, $.01 par value; 30,000,000 shares authorized; issued 12,149,376 shares, and 12,156,376 shares, respectively	***121***	*122*
Additional paid-in capital	***68,498***	*68,375*
Retained earnings	***50,638***	*57,963*
Less treasury stock, at cost (3,853,064 shares, and 3,849,815 shares, respectively)	***(67,760***)	*(67,872*)
Total stockholders' equity	***51,497***	*58,588*
Total liabilities and stockholders' equity	**$*263,045***	$*294,968*

See accompanying notes to condensed consolidated financial statements.

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USA TRUCK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
Revenue				
Operating revenue	**$114,235**	$105,458	**$323,263**	$325,964
Operating expenses				
Salaries, wages and employee benefits	**29,813**	29,131	**89,674**	92,332
Fuel and fuel taxes	**11,759**	10,932	**33,012**	32,512
Depreciation and amortization	**6,790**	7,411	**21,313**	22,282
Insurance and claims	**5,344**	5,620	**19,236**	15,826
Equipment rent	**2,703**	1,861	**7,449**	5,582
Operations and maintenance	**8,259**	8,170	**22,780**	27,682
Purchased transportation	**42,543**	37,218	**120,951**	111,650
Operating taxes and licenses	**972**	1,003	**2,946**	3,384
Communications and utilities	**679**	673	**1,943**	2,404
Gain on disposal of assets, net	**(215)**	(181)	**(551)**	(759)
Restructuring, impairment and other costs	**--**	--	**--**	5,264
Other	**3,784**	3,578	**12,071**	10,683
Total operating expenses	**112,431**	105,416	**330,824**	328,842
Operating income (loss)	**1,804**	42	**(7,561)**	(2,878)
Other expenses				
Interest expense, net	**970**	913	**2,922**	2,209
Other, net	**86**	87	**311**	423
Total other expenses, net	**1,056**	1,000	**3,233**	2,632
Income (loss) before income taxes	**748**	(958)	**(10,794)**	(5,510)
Income tax expense (benefit)	**339**	(224)	**(3,469)**	(1,623)
Consolidated net income (loss) and comprehensive income (loss)	**$409**	$(734)	**$(7,325)**	$(3,887)
Net earnings (loss) per share				
Average shares outstanding (basic)	**8,027**	8,069	**8,029**	8,736
Basic income (loss) per share	**$0.05**	$(0.09)	**$(0.91)**	$(0.44)
Average shares outstanding (diluted)	**8,039**	8,069	**8,029**	8,736
Diluted loss per share	**$0.05**	$(0.09)	**$(0.91)**	$(0.44)

See accompanying notes to condensed consolidated financial statements.

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USA TRUCK, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(in thousands)

	Common Stock Shares	Par Value	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2016	*12,156*	$ *122*	$ *68,041*	$ *58,172*	$ *(67,872)*	$ *58,463*
Effect of adoption of share-based payment pronouncement ASU 2016-09 (see note 2)	--	--	*334*	*(209)*	--	*125*
Balance at December 31, 2016, as recast	*12,156*	$ *122*	$ *68,375*	$ *57,963*	$ *(67,872)*	$ *58,588*
Issuance of treasury stock	--	--	*(170)*	--	*112*	*(58)*
Stock-based compensation	--	--	*289*	--	--	*289*
Restricted stock award grant	*197*	*1*	*(2)*	--	--	*(1)*
Forfeited restricted stock	*(204)*	*(2)*	*2*	--	--	--
Net share settlement related to restricted stock vesting	--	--	*4*	--	--	*4*
Net loss	--	--	--	*(7,325)*	--	*(7,325)*
Balance at September 30, 2017	***12,149***	**$ *121***	**$ *68,498***	**$ *50,638***	**$ *(67,760)***	**$ *51,497***

See accompanying notes to condensed consolidated financial statements.

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USA TRUCK, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)

	Nine Months Ended September 30, **2017**	2016
Operating activities:		
Net loss	$(7,325)	$(3,887)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,313	22,282
Provision for doubtful accounts	--	458
Deferred income tax (benefit) provision, net	(5,885)	2,139
Share-based compensation	289	695
Gain on disposal of assets, net	(551)	(759)
Impairment of property and equipment	--	1,070
Other	(121)	(49)
Changes in operating assets and liabilities:		
Accounts receivable	(1,766)	(3,257)
Inventories and prepaid expenses	2,722	1,575
Accounts payable and accrued liabilities	9,471	3,418
Insurance and claims accruals	1,937	1,315
Other long-term assets and liabilities	164	162
Net cash provided by operating activities	20,248	25,162
Investing activities:		
Capital expenditures	(7,645)	(62,435)
Proceeds from sale of property and equipment	9,306	22,564
Proceeds from operating sale leaseback	10,980	--
Net cash provided by (used in) investing activities	12,641	(39,871)
Financing activities:		
Borrowings under long-term debt	20,755	62,341
Payments on long-term debt	(44,065)	(33,041)
Payments on capitalized lease obligations	(8,205)	(7,530)
Net change in bank drafts payable	(1,249)	1,595
Excess tax benefit from exercise of stock options	--	(75)
Purchase of common stock	--	(28,372)
Proceeds from capital sale leaseback	--	19,927
Net payments on stock-based awards	4	(81)
Proceeds from issuance of treasury stock	(58)	--
Net cash (used in) provided by financing activities	(32,818)	14,764
(Decrease) increase in cash	71	55

Cash:		
Beginning of period	***122***	*87*
End of period	**$*193***	$*142*
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	**$*2,908***	$*2,199*
Income taxes	***138***	*158*

See accompanying notes to condensed consolidated financial statements.

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USA TRUCK, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2017

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 *nine* month periods ended *September 30, 2017* are *not* necessarily indicative of the results that *may* be expected for the year ending *December 31, 2017.* 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, 2016.*

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. The standard provides for using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU *2014-09* recognized at the date of adoption (which includes additional footnote disclosures). In *August 2015,* the FASB issued ASU *2015-14,* Revenue From Contracts with Customers – Deferral of the Effective Date, which delayed the effectiveness of ASU *2014-09* to annual periods beginning after *December 15, 2017,* and interim periods therein. The Company believes our transportation revenue recognized under the new standard will change our revenue recognition within our USAT Logistics segment. We expect to transition from recognition of revenue at completion to recognizing USAT Logistics transportation revenue proportionately as the transportation services are performed. The Company does *not* expect this change to materially impact our operations or IT infrastructure. In our Trucking segment, where revenue is recognized as services are provided, we expect revenue recognition to remain the same. The Company expects to adopt ASU *2014-09* using the full retrospective method.

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 *2019,* requires a modified retrospective transition approach and includes a number of practical expedients. Early adoption of the standard is permitted. The Company is currently evaluating the impacts the adoption of this accounting guidance will have on the condensed consolidated financial statements.

In *March 2016,* the FASB issued ASU *2016-09, Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. The Company adopted the provisions of ASU *2016-09* as of *January 1, 2017.* As a result, the Company changed its accounting policy to recognize forfeitures as they occur. Accordingly, the Company recognized a net cumulative adjustment of *$0.1* million for the adoption of the impact of removing forfeitures, net of income taxes, charged to stockholder’s equity at *December 31, 2016.* The requirement to recognize excess tax benefits and deficiencies as income tax expense or benefit in the income statement was applied prospectively, with *no* material impact on the financial statements for the *three* and *nine* months ended *September 30, 2017.*

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NOTE *3* – NOTE RECEIVABLE

During *2010,* the Company sold its terminal facility in Shreveport, Louisiana. In connection with this sale, the Company received cash in the amount of *$0.2* million and a note receivable in the amount of *$2.1* million which was recorded in the line item “Other Receivables” in the accompanying condensed consolidated balance sheets at *December 31, 2016.* The purchaser-debtor was to make monthly payments to the Company, with interest, until the balance of the note receivable was paid through a lump sum payment due in *November 2015.* The Company had previously deferred *$0.7* million of gain on the sale of the property, with the gain recognized into earnings only as monthly payments on the note receivable were received.

The purchaser-debtor defaulted on the note receivable in *November 2015,* at which time the Company began legal action to collect the remaining balance. The foreclosure sale was held on *April 26, 2017,* and a successful bid was placed by a *third* party for *$1.6* million, which exceeded the *$1.4* million carrying value of the note. During the *second* quarter of *2017,* the Company received cash from the foreclosure sale and recognized a *$0.2* million gain.

NOTE *4* – 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 *September 30, 2017, 590,969* shares remain available under the Incentive Plan for the issuance of future equity-based compensation awards.

NOTE *5* – 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 motor carrier services as a medium to long-haul common and contract carrier. 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. Dedicated freight provides truckload motor carrier services to specific customers for movement of freight over particular routes at specified times.

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.

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.

Revenue equipment assets are *not* allocated to USAT Logistics because USAT Logistics brokers freight services for customers 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Operating revenue	**2017**	2016	**2017**	2016
Trucking revenue (1)	**$*76,811***	$*73,644*	**$*219,013***	$*225,430*
Trucking intersegment eliminations	***(361)***	*(277)*	***(738)***	*(857)*
Trucking operating revenue	***76,450***	*73,367*	***218,275***	*224,573*
USAT Logistics revenue (2)	***41,907***	*33,476*	***111,435***	*106,473*
USAT Logistics intersegment eliminations	***(4,122)***	*(1,385)*	***(6,447)***	*(5,082)*
USAT Logistics operating revenue	***37,785***	*32,091*	***104,988***	*101,391*
Total operating revenue	**$*114,235***	$*105,458*	**$*323,263***	$*325,964*

(*1*) Includes foreign revenue of *$9.6* million and *$27.2* million for the *three* and *nine* months ended *September 30, 2017,* respectively, and *$9.4* million and *$28.7* million for the *three* and *nine* months ended *September 30, 2016,* respectively. All foreign revenue is collected in U.S. dollars.

(*2*) USAT Logistics de Mexico was established on *March 4, 2017.* Foreign revenue for the *three* and *nine* months ended *September 30, 2017* was *$0.7* million and *$0.9* million, 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 Ended September 30,		Nine Months Ended September 30,	
Operating income (loss)	**2017**	2016	**2017**	2016
Trucking	**$*(1,194)***	$*(1,505)*	**$*(13,165)***	$*(8,607)*
USAT Logistics	***2,998***	*1,547*	***5,604***	*5,729*
Total operating income (loss)	**$*1,804***	$*42*	**$*(7,561)***	$*(2,878)*

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Depreciation and amortization	**2017**	2016	**2017**	2016
Trucking	**$*6,659***	$*7,298*	**$*20,982***	$*21,918*
USAT Logistics	***131***	*113*	***331***	*364*
Total depreciation and amortization	**$*6,790***	$*7,411*	**$*21,313***	$*22,282*

NOTE *6* – ACCRUED EXPENSES

Accrued expenses consisted of the following (in thousands):

Accrued expenses	**September 30, 2017**	December 31, 2016
Salaries, wages and employee benefits	**$ *4,127***	$ *2,480*
Federal and state tax accruals	***1,539***	*1,579*
Restructuring, impairment and other costs (1)	***841***	*1,404*
Other (2)	***1,158***	*2,070*
Total accrued expenses	**$ *7,665***	$ *7,533*

(*1*) Refer to Note *12* for additional information regarding the restructuring, impairment and other costs.

(*2*) As of *September 30, 2017* and *December 31, 2016, no* single item included within other accrued expenses exceeded *5.0%* of our total current liabilities.

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NOTE *7* – LONG-TERM DEBT

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

	September 30, 2017	December 31, 2016
Revolving credit agreement	**$ *77,500***	$ *96,600*

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"). Contemporaneously with the funding of the Credit Facility, the Company paid off the obligations under and terminated its prior credit facility.

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 springs in the event excess availability under the Credit Facility falls below *10%* of the lenders' total commitments. Management believes the Company's excess availability will *not* fall below *10%,* or *$17.0* million, and expects the Company to remain in compliance with all debt covenants during the next *twelve* months. The Company *no* longer anticipates falling below *$34.0* million in availability, or *20%* of the lenders' commitments under the Credit Facility, during *2017.*

The Credit Facility includes usual and customary events of default for a facility of this nature and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the Credit Facility *may* be accelerated, and the lenders' commitments *may* be terminated. The Credit Facility contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions, affiliate transactions and other indebtedness.

The Company had *no* overnight borrowings under the Swingline as of *September 30, 2017.* The average interest rate including all borrowings made under the Credit Facility as of *September 30, 2017,* was *3.05%.* As debt is repriced on a monthly basis, the borrowings under the Credit Facility approximate fair value. As of *September 30, 2017,* the Company had outstanding *$5.4* million in letters of credit and had approximately *$45.4* million available under the Credit Facility.

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Note *8* – LEASES AND Commitments

As of *September 30, 2017,* 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).

	2017	2018	2019	2020	2021	Thereafter
Capital leases	$*16,125*	$*8,073*	$*14,859*	$*6,158*	$--	$ --
Operating leases	*11,178*	*8,845*	*6,299*	*852*	*256*	*499*

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
September 30, 2017	**$ *69,367***	**$ *23,824***	**$*45,543***
December 31, 2016	*69,748*	*17,428*	*52,320*

The Company has capitalized lease obligations relating to revenue equipment as of *September 30, 2017* of *$43.4* million, of which *$15.0* million represents the current portion. Such leases have various termination dates extending through *October 2020* and contain renewal or fixed price purchase options. The effective interest rates on the leases range from *nil* to *3.11%* as of *September 30, 2017.* The lease agreements require payment of property taxes, maintenance and operating and non-operating expenses. Amortization of capital leases was *$1.6* million and *$5.2* million for the *three* and *nine* months ended *September 30, 2017,* respectively, and *$1.8* million and *$4.3* million for the *three* and *nine* months ended *September 30, 2016,* respectively.

OPERATING LEASES

Rent expense associated with operating leases was *$3.2* million and *$8.7* million for the *three* and *nine* months ended *September 30, 2017,* respectively, and *$2.3* million and *$7.2* million for the *three* and *nine* months ended *September 30, 2016,* 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 *first* quarter of *2017,* the Company completed a sale-leaseback transaction under which it sold certain owned tractors to an unrelated party for net proceeds of *$11.0* million and entered into an operating lease with the buyer for a term of *41* months. The Company recorded a deferred gain of approximately *$0.03* million on the sale, which will be amortized to earnings ratably over the lease term. The deferred gain is included in the "Deferred gain" line item in the accompanying condensed consolidated balance sheets.

OTHER COMMITMENTS

As of *September 30, 2017,* the Company had *$3.3* million in commitments for purchases of revenue and non-revenue equipment, of which *none* are cancellable.

NOTE *9* – INCOME tAXES

During the *three* months ended *September 30, 2017* and *2016,* the Company's effective tax rate was *45.3%* and *23.4%,* respectively. During the *nine* months ended *September 30, 2017* and *2016,* the Company's effective tax rate was *32.1%* and *29.5%,* respectively. Income tax expense varies from the amount computed by applying the statutory federal tax rate to income before income taxes primarily due to state income taxes and certain non-deductible expenses including a per diem pay structure for drivers. Drivers *may* elect to receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases 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 is significant.

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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 *10* – 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 September 30,		Nine Months Ended September 30,	
Numerator:	**2017**	2016	**2017**	2016
Net income (loss)	**$*409***	$*(734*)	**$*(7,325*)**	$*(3,887)*
Denominator:				
Denominator for basic earnings (loss) per share – weighted average shares	***8,027***	*8,069*	***8,029***	*8,736*
Effect of dilutive securities:				
Employee restricted stock	***12***	--	**--**	--
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversion	***8,039***	*8,069*	***8,029***	*8,736*
Basic income (loss) per share	**$*0.05***	$*(0.09*)	**$*(0.91*)**	$*(0.44*)
Diluted income (loss) per share	**$*0.05***	$*(0.09*)	**$*(0.91*)**	$*(0.44*)
Weighted average anti-dilutive employee restricted stock	**--**	*17*	***2***	*12*

NOTE *11* – 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 *12* – RESTRUCTURING, IMPAIRMENT AND OTHER COSTS

During *2016,* the Company took steps to streamline and simplify its operations to better align its cost structure. The Company closed a total of *four* facilities, and reduced headcount across multiple departments. Expenses incurred in implementing the restructuring plan included cancellation penalties for certain contracts with independent contractors, costs related to involuntary terminations, facility lease termination costs, costs associated with the development, communication and administration of these initiatives and asset write-offs.

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The following tables summarize the Company's liabilities, charges, and cash payments related to the restructuring plan made during the *nine* months ended *September 30, 2017 (*in thousands):

	Accrued Balance December 31, 2016	Costs Incurred	Payments	Expenses/ Charges	**Accrued Balance September 30, 2017**
Compensation and benefits	$ *81*	$ --	$ *(81*)	$ --	$ --
Facility closing expenses	*1,323*	--	*(482*)	--	***841***
Total	$ *1,404*	$ --	$ *(563*)	$ --	**$ *841***

	Three Months Ended September 30,		Nine Months Ended September 30,	
Costs incurred	**2017**	2016	**2017**	2016
Trucking	**$ --**	**$ --**	**$--**	$*4,848*
USAT Logistics	**--**	**--**	**--**	*416*
Total	**$ --**	**$ --**	**$--**	$*5,264*

The following tables summarize the Company's liabilities, charges, and cash payments related to executive severance agreements made during the *nine* months ended *September 30, 2017 (*in thousands):

	Accrued Balance December 31, 2016	Costs Incurred	Payments	Expenses/ Charges	**Accrued Balance September 30, 2017**
Severance costs included in salaries, wages and employee benefits	$ *277*	$ *930*	$ *(1,022*)	$ --	**$ *185***

	Three Months Ended September 30,		Nine Months Ended September 30,	
Costs incurred	**2017**	2016	**2017**	2016
Trucking	**$*23***	$ --	**$*665***	$*697*
USAT Logistics	***8***	--	***265***	--
Total	**$*31***	$ --	**$*930***	$*697*

In *May 2016,* the Company's board of directors unanimously approved a separation agreement between Michael K. Borrows and the Company and accepted Mr. Borrows' resignation as Executive Vice President and Chief Financial Officer. The Company recognized severance costs associated with Mr. Borrows' departure of approximately *$0.7* million, which were recorded in the "Salaries, wages and employee benefits" line item in the condensed consolidated statements of operations and comprehensive income (loss) for the Company's Form *10*-Q for the quarter ended *September 30, 2016.* At *September 30, 2017,* the Company had approximately *$43,000* accrued for severance benefits remaining to be paid to Mr. Borrows.

In *January 2017,* the Company's board of directors unanimously approved separation agreements between John R. Rogers (the "Rogers Separation Agreement"), the Company's former President and Chief Executive Officer, and Christian C. Rhodes (the "Rhodes Separation Agreement"), the Company's former Chief Information Officer. Per the material terms of the Rogers Separation Agreement, Mr. Rogers received (i) severance pay in the form of salary continuation payments equal to his base salary at the time his employment ended (*$425,000*) 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, (ii) a lump sum separation payment of *$120,000* and (iii) a lump sum payment of *$30,000* for moving and transition expenses. Per the material terms of the Rhodes Separation Agreement, Mr. Rhodes received a lump sum payment of *$171,125.* The Company recognized severance costs associated with the departures of Messrs. Rogers and Rhodes of approximately *$0.6* million and *$0.2* million, respectively, which were recorded in the "Salaries, wages and employee benefits" line item in the accompanying condensed consolidated statements of operations and comprehensive income (loss). At *September 30, 2017,* the Company had approximately *$142,000* and *nil* accrued for severance benefits remaining to be paid to Mr. Rogers and Mr. Rhodes, respectively.

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NOTE *13* – CHANGE IN ESTIMATE

The Company reviews the estimated useful lives and salvage values of its fixed assets on an ongoing basis, based upon, among other things, our experience with similar assets, conditions in the used revenue equipment market, and prevailing industry practice. During the *third* quarter of *2017,* the Company reevaluated the estimated useful lives of its trailers, increasing such lives from *10* to *14* years. Additionally, given the soft used equipment market, the Company lowered the salvage values of its tractor fleet to reflect current estimates of the value of such equipment upon its retirement. The Company believes that these changes more accurately reflect the value of the revenue equipment on the accompanying condensed consolidated balance sheets. These changes are being accounted for as a change in estimate. During the quarter ended *September 30, 2017,* these changes in estimates resulted in a reduction of depreciation expense on a pre-tax basis of approximately *$0.2* million and on a net-of-tax basis of approximately *$0.1* million, or *$0.01* per diluted share. On an annualized basis, based on the number of used trailers and tractors owned at *September 30, 2017,* the Company anticipates these changes in estimates will result in approximately *$1.0* million lower depreciation each year, or approximately *$0.08* per diluted share, net-of-tax, using share count at *September 30, 2017.*

NOTE *14* – SUBSEQUENT EVENT

On *October 1, 2017,* the Company entered into an unsecured note payable of *$4.2* million to a *third* party financing company for a portion of the Company's annual insurance premiums. The note, which is payable in quarterly installments of principal and interest of approximately *$1.4* million, bears interest at *3.0%,* and matures in *October 2018.*

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 and customer-facing employees,
future asset utilization,
the amount, timing and price of future acquisitions and dispositions of revenue equipment, size and age of the Company's fleet and anticipated gains or losses resulting from dispositions,
future depreciation and amortization expense, including useful lives and salvage values of equipment,
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,
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,

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expected liquidity and sources of capital resources,
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, 2016, the section entitled "Item 1.A, Risk Factors" in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, the section entitled "Item 1.A, Risk Factors" in this Quarterly Report on Form 10-Q, and other filings with the Securities and Exchange Commission (the "SEC").

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, safety and claims experience.

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 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 seated tractor per week, (ii) average base revenue per loaded mile, (iii) average miles per seated tractor per week, (iv) deadhead percentage, (v) average loaded miles per trip, (vi) average number of seated tractors and (vii) adjusted operating ratio. In general, the Company’s average miles per seated 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.

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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 September 30,						
	2017			2016			
	$	**% Operating Revenue**	**% Adjusted Operating Ratio (1)**	$	% Operating Revenue	% Adjusted Operating Ratio (1)	% Change in Dollar Amounts
Base revenue	**$102,386**	**89.6 %**		$94,661	89.8 %		8.2 %
Fuel surcharge revenue	**11,849**	**10.4**		10,797	10.2		9.7
Operating revenue	**$114,235**	**100.0 %**		$105,458	100.0 %		8.3
Operating expenses	**112,431**	**98.4**	**98.2 %**	105,416	100.0	100.0 %	6.7
Operating income	**1,804**	**1.6**	**1.8**	42	0.0	0.0	4,195.2
Other expenses:							
Interest expense	**970**	**0.8**		913	0.9		6.2
Other, net	**86**	**0.1**		87	0.1		(1.1)
Total other expenses, net	**1,056**	**0.9**		1,000	1.0		5.6
Income (loss) before income taxes	**748**	**0.7**		(958)	(0.9)		178.1
Income tax expense (benefit)	**339**	**0.3**		(224)	(0.2)		251.3
Consolidated net income (loss)	**$409**	**0.4 %**		$(734)	(0.7)%		155.7 %

Nine Months Ended September 30,						
2017			2016			
$	**% Operating Revenue**	**% Adjusted Operating Ratio (1)**	$	% Operating Revenue	% Adjusted Operating Ratio (1)	% Change in Dollar Amounts

Base revenue	**$288,252**	**89.2 %**		$296,191	90.9 %		(2.7)%
Fuel surcharge revenue	**35,011**	**10.8**		29,773	9.1		17.6
Operating revenue	**$323,263**	**100.0 %**		$325,964	100.0 %		(0.8)
Operating expenses	**330,824**	**102.3**	**102.3 %**	328,842	100.9	99.0 %	0.6
Operating loss	**(7,561)**	**(2.3)**	**(2.3)**	(2,878)	(0.9)	1.0	162.7
Other expenses:							
Interest expense	**2,922**	**0.9**		2,209	0.7		32.3
Other, net	**311**	**0.1**		423	0.1		(26.5)
Total other expenses, net	**3,233**	**1.0**		2,632	0.8		22.8
Loss before income taxes	**(10,794)**	**(3.3)**		(5,510)	(1.7)		95.9
Income tax benefit	**(3,469)**	**(1.1)**		(1,623)	(0.5)		113.7
Consolidated net loss	**$(7,325)**	**(2.2)%**		$(3,887)	(1.2)%		88.4 %

(1) 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. See Note 12 of the footnotes in this Form 10-Q for additional information regarding these costs. 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.

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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 September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
Operating revenue	**$114,235**	$105,458	**$323,263**	$325,964
Less:				
Fuel surcharge revenue	**11,849**	10,797	**35,011**	29,773
Base revenue	**102,386**	94,661	**288,252**	296,191
Operating expense	**112,431**	105,416	**330,824**	328,842
Adjusted for:				
Restructuring, impairment and other costs	**--**	--	**--**	(5,264)
Severance costs included in salaries, wages and employee benefits	**(31)**	--	**(930)**	(697)
Fuel surcharge revenue	**(11,849)**	(10,797)	**(35,011)**	(29,773)
Adjusted operating expense	**$100,551**	$94,619	**$294,883**	$293,108
Operating ratio	**98.4 %**	100.0 %	**102.3 %**	100.9 %
Adjusted operating ratio	**98.2 %**	100.0 %	**102.3 %**	99.0 %

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Adjusted earnings (loss) per diluted share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
Earnings (loss) per diluted share	**$0.05**	$(0.09)	**$(0.91)**	$(0.44)
Adjusted for:				
Severance costs included in salaries, wages and employee benefits	**--**	--	**0.12**	0.08
Restructuring, impairment and other costs	**--**	--	**--**	0.60
Income tax effect of adjustments	**--**	--	**(0.04)**	(0.26)
Adjusted earnings (loss) per diluted share	**$0.05**	$(0.09)	**$(0.83)**	$(0.02)

Segment reconciliations

Trucking Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
Revenue	**$76,811**	$73,644	**$219,013**	$225,430
Less: intersegment eliminations	**361**	277	**738**	857
Operating revenue	**76,450**	73,367	**218,275**	224,573
Less: fuel surcharge revenue	**9,540**	8,451	**27,555**	23,499
Base revenue	**66,910**	64,916	**190,720**	201,074
Operating expense	**77,644**	74,872	**231,440**	233,180
Adjusted for:				
Restructuring, impairment and other costs	**--**	--	**--**	(4,848)
Severance costs included in salaries, wages and employee benefits	**(23)**	--	**(665)**	(697)
Fuel surcharge revenue	**(9,540)**	(8,451)	**(27,555)**	(23,499)
Adjusted operating expense	**$68,081**	$66,421	**$203,220**	$204,136
Operating ratio	**101.6 %**	102.1 %	**106.0 %**	103.8 %
Adjusted operating ratio	**101.8 %**	102.3 %	**106.6 %**	101.5 %

USAT Logistics Segment	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
Revenue	**$41,907**	$33,476	**$111,435**	$106,473
Less: intersegment eliminations	**4,122**	1,385	**6,447**	5,082
Operating revenue	**37,785**	32,091	**104,988**	101,391
Less: fuel surcharge revenue	**2,309**	2,346	**7,456**	6,274
Base revenue	**35,476**	29,745	**97,532**	95,117

Operating expense	**34,787**	30,544	**99,384**	95,662
Adjusted for:				
Restructuring, impairment and other costs	--	--	--	(416)
Severance costs included in salaries, wages and employee benefits	**(8)**	--	**(265)**	--
Fuel surcharge revenue	**(2,309)**	(2,346)	**(7,456)**	(6,274)
Adjusted operating expense	**$32,470**	$28,198	**$91,663**	$88,972
Operating ratio	**92.1 %**	95.2 %	**94.7 %**	94.3 %
Adjusted operating ratio	**91.5 %**	94.8 %	**94.0 %**	93.5 %

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Key Operating Statistics by Segment

	Three Months Ended September 30,		Nine Months Ended September 30,	
Trucking:	**2017**	2016	**2017**	2016
Operating revenue *(in thousands)*	**$76,450**	$73,367	**$218,275**	$224,573
Operating loss *(in thousands)* (1)	**$(1,194)**	$(1,505)	**$(13,165)**	$(8,607)
Operating ratio (2)	**101.6 %**	102.1 %	**106.0 %**	103.8 %
Adjusted operating ratio (3)	**101.8 %**	102.3 %	**106.6 %**	101.5 %
Total miles *(in thousands)* (4)	**41,081**	43,365	**122,365**	132,216
Deadhead percentage (5)	**12.3 %**	13.2 %	**12.8 %**	12.8 %
Base revenue per loaded mile	**$1.856**	$1.725	**$1.787**	$1.743
Average number of in-service tractors (6)	**1,742**	1,742	**1,722**	1,797
Average number of seated tractors (7)	**1,628**	1,648	**1,591**	1,717
Average miles per seated tractor per week	**1,920**	2,002	**1,972**	1,967
Base revenue per seated tractor per week	**$3,127**	$2,997	**$3,074**	$2,992
Average loaded miles per trip	**546**	590	**561**	582
USAT Logistics:				
Operating revenue *(in thousands)*	**$37,785**	$32,091	**$104,988**	$101,391
Operating income *(in thousands)* (1)	**$2,998**	$1,547	**$5,604**	$5,729
Gross margin *(in thousands)* (8)	**$7,619**	$6,050	**$19,598**	$19,481
Gross margin percentage (9)	**20.2 %**	18.9 %	**18.7 %**	19.2 %

(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.
(3) 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. See GAAP to non-GAAP reconciliations above.
(4) Total miles include both loaded and empty miles.
(5) Deadhead percentage is calculated by dividing empty miles into total miles.
(6) Tractors include Company-operated tractors in service, plus tractors operated by independent contractors.
(7) Seated tractors are those occupied by drivers.
(8) Gross margin is calculated by deducting purchased transportation expense from USAT Logistics operating revenue.
(9) 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 September 30, 2017, Trucking operating revenue increased 4.2% to $76.5 million, compared to $73.4 million for the same period in 2016. Trucking base revenue increased 3.1% to $66.9 million, compared to $64.9 million for the third quarter of 2016. The increase in operating revenue was the result of a 7.6% increase in base revenue per loaded mile, partially offset by a 4.2% decrease in loaded miles.

For the nine months ended September 30, 2017, Trucking operating revenue decreased 2.8% to $218.3 million, compared to $224.6 million for the same period of 2016. Trucking base revenue decreased 5.1% to $190.7 million, from $201.1 million for the same period in 2016. The decreases in operating revenue and base revenue were attributable to a 7.3% decrease in the average number of seated tractors, and a 4.0% decrease in the number of Trucking shipments, partially offset by a 2.5% increase in base revenue per loaded mile.

While the freight market was challenging throughout the first half of 2017, improvements were seen during the third quarter of 2017. Extreme weather paired with increased economic activity in the third quarter resulted in a capacity constrained market, which enabled the Company to capture a higher rate per mile in the spot market and on long-term contracts, but the weather also had unfavorable effects on asset utilization. The Company continues to believe the upcoming changes in Trucking regulations should tighten the capacity market through the remainder of 2017 and into 2018, if implemented as currently scheduled. Also during the third quarter of 2017, the Company continued its strategic review of its current customer base, lanes, pricing and network positions with the goal of further improving rate per loaded mile. Looking ahead, the Company expects year-over-year improvements in rate per mile when compared to those experienced during the fourth quarter of 2016 due to the favorable relationship between industry capacity and demand and the implementation of Company initiatives.

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Trucking operating loss

For the third quarter of 2017, Trucking produced an operating loss of $1.2 million compared to an operating loss of $1.5 million for the same period in 2016, primarily resulting from a 4.3% increase in base revenue per seated tractor per week, offset slightly by a 1.2% decrease in average seated tractor count driving 4.2% fewer loaded miles.

Trucking operating loss increased to $13.2 million for the nine months ended September 30, 2017, compared to an operating loss of $8.6 million for the 2016 period, primarily the result of a 7.5% decrease in total revenue miles and a 4.0% decrease in number of Trucking shipments, slightly offset by a 2.5% increase in base revenue per loaded mile. Also, during the first quarter 2017, a significant increase in insurance and claims expense resulting from a $4.4 million reserve adjustment stemming from adverse development in prior year claims layers, contributed to the increased loss.

USAT Logistics operating revenue

For the three months ended September 30, 2017, USAT Logistics operating revenue increased 17.7% to $37.8 million compared to $32.1 million for the same period in 2016. For the third quarter of 2017, gross margin increased 130 basis points to 20.2% compared to 18.9% for the comparable 2016 quarter. Additionally, USAT Logistics saw higher quarterly volumes when compared to the same period last year, driven primarily by increased spot market freight due to favorable movement in industry demand relative to capacity. While this market dynamic has been a positive one for USAT Logistics, we remain committed to our plan of building strong long-term customer relationships through superior service and competitive pricing.

USAT Logistics operating revenue for the nine months ended September 30, 2017, increased 3.5% to $105.0 million from $101.4 million, compared to the corresponding period in 2016, attributable to improved market conditions during the third quarter of 2017.

USAT Logistics operating income

USAT Logistics generated operating income of $3.0 million in the third quarter of 2017, an increase of $1.5 million, or 93.8%, compared to $1.5 million in the third quarter of 2016. Increased operating income was largely due to the 130 basis point improvement in gross margin percentage due to increased spot market freight, as discussed above.

For the nine months ended September 30, 2017, operating income decreased 2.2% to $5.6 million from $5.7 million in the corresponding period in 2016, primarily resulting from the difficult logistics environment in the first half of 2017, resulting from tighter capacity and associated higher costs to procure capacity for contracted logistics business.

Consolidated Operating Expenses

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 September 30,						% Change
	2017			2016			
Operating Expenses:	**$**	**% Operating Revenue**	Adjusted Operating Ratio (1)	$	% Operating Revenue	Adjusted Operating Ratio (1)	2017 to 2016
Salaries, wages and employee benefits	**$29,813**	**26.1 %**	29.1 % (1)	$29,131	27.6 %	30.8 % (1)	2.3 %
Fuel and fuel taxes	**11,759**	**10.3**	(0.1) (2)	10,932	10.4	0.1 (2)	7.6
Depreciation and amortization	**6,790**	**5.9**	6.6	7,411	7.0	7.8	(8.4)
Insurance and claims	**5,344**	**4.7**	5.2	5,620	5.3	5.9	(4.9)
Equipment rent	**2,703**	**2.4**	2.6	1,861	1.8	2.0	45.2
Operations and maintenance	**8,259**	**7.2**	8.1	8,170	7.8	8.6	1.1
Purchased transportation	**42,543**	**37.2**	41.6	37,218	35.3	39.3	14.3
Operating taxes and licenses	**972**	**0.9**	0.9	1,003	1.0	1.1	(3.1)
Communications and utilities	**679**	**0.6**	0.7	673	0.6	0.7	0.9
Gain on disposal of assets, net	**(215)**	**(0.2)**	(0.2)	(181)	(0.2)	(0.1)	18.8
Other	**3,784**	**3.3**	3.7	3,578	3.4	3.8	5.8
Total operating expenses	**$112,431**	**98.4 %**	98.2 %	$105,416	100.0 %	100.0 %	6.7 %

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	Nine Months Ended September 30,						
	2017			2016			% Change 2017 to 2016
Operating Expenses:	**$**	**% Operating Revenue**	Adjusted Operating Ratio (1)	$	% Operating Revenue	Adjusted Operating Ratio (1)	
Salaries, wages and employee benefits	**$89,674**	**27.7 %**	30.8 % (1)	$92,332	28.3 %	31.0 % (1)	(2.9)%
Fuel and fuel taxes	**33,012**	**10.2**	(0.7) (2)	32,512	10.0	1.0	