USA TRUCK INC
Form 10-Q
August 12, 2014

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 June 30, 2014

OR

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

For the transition period from __________ to __________

Commission File Number 0-19858

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

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

(479) 471-2500
(Registrant's telephone number, including area code)
Not applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated Filer _____ Accelerated Filer _____ Non-Accelerated Filer _____ Smaller Reporting Company X
(Do not check if a Smaller Reporting Company)

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

The number of shares outstanding of the registrant's Common Stock, par value $.01, as of July 25, 2014 is 10,532,028.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

USA TRUCK, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	(in thousands, except share amounts)			
	June 30, 2014		December 31, 2013 (as revised – see note 13)	
Assets				
Current assets:				
Cash	$	39	$	14
Accounts receivable:				
Trade, less allowance for doubtful accounts of $804 in 2014 and $610 in 2013		77,548		64,682
Other		3,908		3,463
Inventories		1,625		1,425
Deferred income taxes		3,766		2,787
Prepaid expenses and other current assets		16,959		16,064
Total current assets		103,845		88,435
Property and equipment:				
Land and structures		31,547		31,502
Revenue equipment		353,950		353,587
Service, office and other equipment		15,950		15,613
Property and equipment, at cost		401,447		400,702
Accumulated depreciation and amortization		(181,036)		(176,506)
Property and equipment, net		220,411		224,196
Note receivable		1,939		1,953
Other assets		360		362
Total assets	$	326,555	$	314,946
Liabilities and Stockholders' Equity				
Current liabilities:				
Bank drafts payable	$	2,425	$	3,345
Trade accounts payable		30,559		17,674
Current portion of insurance and claims accruals		9,680		9,444
Accrued expenses		12,524		8,732
Note payable		343		1,023
Current maturities of long-term debt and capital leases		21,743		19,025
Total current liabilities		77,274		59,243
Deferred gain		624		627
Long-term debt and capital leases, less current maturities		103,002		108,843
Deferred income taxes		36,305		36,647
Insurance and claims accruals, less current portion		11,194		10,656
Commitments and contingencies		--		--
Stockholders' equity:				
Preferred Stock, $.01 par value; 1,000,000 shares authorized; none issued		--		--
		--		--

Preferred Share Purchase Rights, $0.01 par value; 150,000 shares authorized; none issued				
Common Stock, $.01 par value; 30,000,000 shares authorized; issued 11,881,451 shares in 2014 and 11,881,232 shares in 2013		119		119
Additional paid-in capital		65,627		65,527
Retained earnings		54,182		55,049
Less treasury stock, at cost (1,349,423 shares in 2014 and 1,356,400 shares in 2013)		(21,772)		(21,765)
Total stockholders' equity		98,156		98,930
Total liabilities and stockholders' equity	$	326,555	$	314,946

See notes to condensed consolidated financial statements.

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,	
	2014	2013	2014	2013
Revenue:				
Trucking revenue	$ 83,207	$ 81,434	$ 163,414	$ 161,227
Strategic Capacity Solutions revenue	41,762	30,028	79,166	55,123
Base revenue	124,969	111,462	242,580	216,350
Fuel surcharge revenue	28,329	28,276	56,207	55,416
Total revenue	153,298	139,738	298,787	271,766
Operating expenses and costs:				
Purchased transportation	44,538	35,730	85,788	66,208
Salaries, wages and employee benefits	38,703	34,663	74,542	70,230
Fuel and fuel taxes	30,704	33,017	63,707	68,613
Operations and maintenance	11,629	13,649	24,691	25,157
Depreciation and amortization	11,148	10,852	22,603	21,767
Insurance and claims	5,903	7,024	11,887	12,413
Operating taxes and licenses	1,355	1,696	2,801	2,704
Communications and utilities	1,094	984	2,133	2,069
Gain on disposal of assets, net	(179)	(429)	(522)	(819)
Other	4,146	3,497	7,943	7,195
Total operating expenses and costs	149,041	140,683	295,573	275,537
Operating income (loss)	4,257	(945)	3,214	(3,771)
Other expenses (income):				
Interest expense	744	947	1,455	1,784
Defense costs	2,163	--	2,528	--
Other, net	(16)	(46)	48	(99)
Total other expenses, net	2,891	901	4,031	1,685
Income (loss) before income taxes	1,366	(1,846)	(817)	(5,456)

Income tax expense (benefit)	644	(448)	50	(1,584)
Net income (loss) and Comprehensive income (loss)	$ 722	$ (1,398)	$ (867)	$ (3,872)
Net income (loss) per share information:				
Average shares outstanding (Basic)	10,346	10,293	10,343	10,299
Basic earnings (loss) per share	$ 0.07	$ (0.14)	$ (0.08)	$ (0.38)
Average shares outstanding (Diluted)	10,478	10,293	10,343	10,299
Diluted earnings (loss) per share	$ 0.07	$ (0.14)	$ (0.08)	$ (0.38)

See notes to condensed consolidated financial statements.

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, 2013, as reported	11,881	$ 119	$ 65,527	$ 56,657	$ (21,765)	$ 100,538
Prior period revision of net deferred tax liability	--	--	--	(1,608)	--	(1,608)
Balance at December 31, 2013, as revised (see note 13)	11,881	119	65,527	55,049	(21,765)	98,930
Exercise of stock options	2	--	4	--	--	4
Transfer of stock into (out of) Treasury Stock	--	--	7	--	(7)	--
Stock-based compensation	--	--	219	--	--	219
Restricted stock award grant	15	--	--	--	--	--
Forfeited restricted stock	(8)	--	--	--	--	--
Net share settlement related to restricted stock vesting	(9)	--	(130)	--	--	(130)
Net loss	--	--	--	(867)	--	(867)
Balance at June 30, 2014	11,881	$ 119	$ 65,627	$ 54,182	$ (21,772)	$ 98,156

See notes to condensed consolidated financial statements.

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

	(in thousands) Six Months Ended June 30,	
	2014	2013
Operating activities:		
Net loss	$ (867)	$ (3,872)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,603	21,767
Provision for doubtful accounts	423	(90)
Deferred income taxes, net	(1,321)	(1,978)
Stock-based compensation	219	44
Gain on disposal of assets, net	(522)	(819)
Other	(4)	16
Changes in operating assets and liabilities:		
Accounts receivable	(13,734)	(2,175)
Inventories and prepaid expenses	(1,095)	(387)
Trade accounts payable and accrued expenses	11,037	3,281
Insurance and claims accruals	1,779	3,045
Net cash provided by operating activities	18,518	18,832
Investing activities:		
Purchases of property and equipment	(22,534)	(7,209)
Proceeds from sale of property and equipment	8,881	5,149
Change in other assets, net	15	32
Net cash used in investing activities	(13,638)	(2,028)
Financing activities:		
Borrowings under long-term debt	43,817	126,956
Restricted stock vesting and stock option exercise	(126)	--
Principal payments on long-term debt	(37,239)	(130,147)
Principal payments on capitalized lease obligations	(9,706)	(10,536)
Principal payments on note payable	(681)	(899)
Net increase in bank drafts payable	(920)	(3,053)
Net cash used in financing activities	(4,855)	(17,679)
Increase (Decrease) in cash	25	(875)
Cash:		
Beginning of period	14	1,742
End of period	$ 39	$ 867
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,710	$ 1,905

Income taxes	324	48
Supplemental disclosure of non-cash investing activities:		
Liability incurred for leases on revenue equipment	--	21,989
Purchases of revenue equipment included in accounts payable	5,650	1,359
Purchases of fixed assets included in long-term debt	4	295

See notes to condensed consolidated financial statements.

USA TRUCK, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2014, are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. For further information, refer to the financial statements, and footnotes thereto, included in our Annual Report on Form 10-K for the year ended December 31, 2013.

The balance sheet at December 31, 2013 has been derived from the audited condensed consolidated financial statements at that date, revised for the effect of the prior period revision of our deferred tax liability referred to in footnote 13. The December 31, 2013 balance sheet does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

NOTE 2 – REVENUE RECOGNITION

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

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

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

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

NOTE 3 – STOCK-BASED COMPENSATION

The USA Truck, Inc. 2004 Equity Incentive Plan, which expired on May 5, 2014, provided for the granting of incentive or nonqualified options or other equity-based awards covering up to 1,125,000 shares of Common Stock to directors, officers and other key employees. The exercise prices of outstanding options granted under the 2004 Equity Incentive Plan range from $2.88 to $18.58 as of June 30, 2014. Because the 2004 Equity Incentive Plan expired on May 5, 2014, no shares are available for future options or other equity awards thereunder.

On May 23, 2014, our stockholders approved the USA Truck, Inc. 2014 Omnibus Incentive Plan (the “Incentive Plan”). The Incentive Plan replaces the 2004 Equity Incentive Plan and provides for the granting of incentive or nonqualified options or other equity-based awards covering up to 500,000 shares of common stock to directors, officers and other key employees and consultants. At June 30, 2014, 486,327 shares were available for future options or other equity awards under the Incentive Plan.

On February 25, 2014, the Executive Compensation Committee approved the USA Truck, Inc. 2014 Management Bonus Plan. Plan participants, consisting of executive and other key management personnel, will be paid a cash percentage and an equity percentage of their base salaries (payable in restricted stock), corresponding with the achievement of certain levels of consolidated 2014 pretax income.

NOTE 4 – SEGMENT REPORTING

We have three operating segments: Trucking (which consists of our Truckload and Dedicated Freight service offerings), Strategic Capacity Solutions (which consists entirely of our freight brokerage service offering), and Intermodal (which consists of our rail intermodal service offering). These three operating segments are disclosed as two reportable segments with Strategic Capacity Solutions and Intermodal being aggregated into one reportable segment, which we refer to as “SCS”.

The service offerings we provide relate to the transportation of truckload quantities of freight for customers in a variety of industries. The services generate revenue, and incur expenses, primarily on a per mile basis.

	Percent of Total Base Revenue			
	Trucking		SCS	
Three Months Ended				
June 30, 2014	66.6	%	33.4	%
June 30, 2013	73.1	%	26.9	%
Six Months Ended				
June 30, 2014	67.4	%	32.6	%
June 30, 2013	74.5	%	25.5	%

While the operations of our SCS and Intermodal operating segments typically do not involve the use of our equipment and drivers, we nevertheless provide truckload freight services to our customers through arrangements with third party carriers who are subject to the same general regulatory environment and cost sensitivities imposed upon our Trucking operations. Therefore, we have aggregated the reporting of our Intermodal operations with our reporting for SCS operations. Based on Intermodal's relatively small size, and the interrelationship of SCS and Intermodal operations, we determined that separate reporting was not justified.

Assets are not allocated to our SCS or Intermodal operating segments, as those operations provide truckload freight services to our customers through arrangements with third party carriers who utilize their own equipment. To the extent our Intermodal operations require the use of Company-owned tractors or trailers, they are obtained from our Trucking segment on an as-needed basis. Accordingly, we allocate all of our assets to our Trucking segment. However, depreciation and amortization expense is allocated to our SCS and Intermodal operating segments based on the various assets specifically utilized to generate revenue. All intercompany transactions between segments are consummated at rates similar to those negotiated with independent third parties. All other expenses are allocated to our SCS and Intermodal operating segments based on headcount and specifically identifiable direct costs, as appropriate.

A summary of base revenue and fuel surcharge revenue by reportable segments is as follows:

	(in thousands) Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Base Revenue				
Trucking	$ 83,353	$ 81,441	$ 163,689	$ 161,244
SCS	43,918	31,434	83,323	58,222
Eliminations	(2,302)	(1,413)	(4,432)	(3,116)
Total base revenue	124,969	111,462	242,580	216,350
Fuel Surcharge Revenue				
Trucking	22,957	23,392	45,535	45,615
SCS	5,978	5,260	11,825	10,638
Eliminations	(606)	(376)	(1,153)	(837)
Total fuel surcharge revenue	28,329	28,276	56,207	55,416
Total revenue	$ 153,298	$ 139,738	$ 298,787	$ 271,766

A summary of operating income (loss) by reportable segments is as follows:

	(in thousands) Operating Income (Loss)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Operating Income (Loss)				
Trucking	$ (1,734)	$ (3,108)	$ (7,855)	$ (7,086)
SCS	5,991	2,163	11,069	3,315
Operating income (loss)	$ 4,257	$ (945)	$ 3,214	$ (3,771)

A summary of assets by reportable segments is as follows:

	(in thousands) Total Assets	
	June 30, 2014	December 31, 2013
Total Assets		
Trucking	$ 197,184	$ 200,168
Corporate and Other	129,371	114,778
Total assets	$ 326,555	$ 314,946

A summary of amortization and depreciation by reportable segments is as follows:

	(in thousands) Depreciation and Amortization			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Depreciation and Amortization				

Trucking	$ 10,567	$ 10,198	$ 21,432	$ 20,452
SCS	44	62	92	141
Corporate and Other	537	592	1,079	1,174
Total depreciation and amortization	$ 11,148	$ 10,852	$ 22,603	$ 21,767

NOTE 5 –PROPERTY AND EQUIPMENT

We review our long-lived assets for impairment in accordance with Topic ASC 360, Property, Plant and Equipment. This authoritative guidance provides that whenever there are certain significant events or changes in circumstances, the value of long-lived assets or groups of assets must be tested to determine if their value can be recovered from their future cash flows. In the event that undiscounted cash flows expected to be generated by the asset are less than the carrying amount, the asset or group of assets must be evaluated to determine if an impairment of value exists. Impairment exists if the carrying value of the asset exceeds its fair value.

In light of our operating results in recent years, triggering events and changes in circumstances have occurred, which required us to test our long-lived assets for recoverability at June 30, 2014.

We test for the recoverability of all of our long-lived assets as a single group at the entity level and examine the forecasted future cash flows generated by our revenue equipment, including its eventual disposition, to determine if those cash flows exceed the carrying value of our long-lived assets. At June 30, 2014, we determined that no impairment of value existed.

NOTE 6 – ACCRUED EXPENSES

Accrued expenses consisted of the following:

	(in thousands)	
	June 30, 2014	December 31, 2013
Salaries, wages and employee benefits	$ 5,598	$ 4,747
Other (1)	6,926	3,985
Total accrued expenses	$ 12,524	$ 8,732

(1) As of June 30, 2014 and December 31, 2013, no single item included within other accrued expenses exceeded 5.0% of our total current liabilities.

NOTE 7 – LONG-TERM DEBT

Long-term debt consisted of the following:

	(in thousands) June 30, 2014	December 31, 2013
Revolving credit agreement (1)	$ 70,700	$ 64,000
Capitalized lease obligations and other long-term debt (2)	54,045	63,868
	124,745	127,868
Less current maturities	(21,743)	(19,025)
Long-term debt and capital leases, less current maturities	$ 103,002	$ 108,843

(1) In 2012, we entered into a $125.0 million Revolver with Wells Fargo Capital Finance, LLC, as Administrative Agent, and PNC Bank. The Revolver, which expires in 2017, is collateralized by substantially all of our assets, and includes letters of credit not to exceed $15.0 million. In addition, the Revolver has an accordion feature whereby we may elect to increase the size of the Revolver by up to $50.0 million, subject to customary conditions and lender participation. The Revolver is governed by a borrowing base with advances against eligible billed and unbilled accounts receivable and eligible revenue equipment, and has a first priority perfected security interest in all of the business assets (excluding tractors and trailers financed through capital leases and real estate) of the Company. Proceeds are used to finance working capital, to fund capital expenditures and for general corporate purposes.

The Revolver contains a minimum excess availability requirement equal to 15.0% of the maximum revolver amount (currently $18.8 million) and an annual capital expenditure limit ($73.5 million in 2014 and with further increases thereafter). Under the Revolver's terms, we are required to maintain a minimum collateral cushion above the maximum facility size, referred to as "suppressed availability." During 2014 (after giving effect to an amendment to the Revolver signed on March 14, 2014, and effective as of December 31, 2013), if we do not maintain the minimum suppressed availability threshold of $30.0 million, our borrowing availability will reduce by the amount of the shortfall below $30.0 million. After 2014, if we do not maintain the minimum suppressed availability threshold, the advance rate on eligible revenue equipment will reduce and a permanent amortization of the revenue equipment portion of our borrowing base at the rate of 1/72nd, or approximately $1.5 million, per month would result based on the June 30, 2014, revenue equipment collateral. At June 30, 2014, our suppressed availability was $41.8 million, which did not reduce our borrowing availability. Future fluctuations in the amount and value of equipment serving as collateral under the Revolver will impact our borrowing availability. If our suppressed availability falls below $20.0 million, there will be additional restrictions on which items of revenue equipment may be included in our eligible revenue equipment. The Revolver does not contain any financial maintenance covenants.

The Revolver bears interest at rates typically based on the Wells Fargo prime rate or LIBOR, in each case plus an applicable margin. The Base Rate is equal to the greatest of (a) the prime lending rate as publicly announced from time to time by Wells Fargo Bank N.A., (b) the Federal Funds Rate plus 1.0%, and (c) the three month LIBOR Rate plus 1.0%. The Base Rate at June 30, 2014 was 1.5%. The LIBOR Rate is the rate at which dollar deposits are offered to major banks in the London interbank market two business days prior to the commencement of the requested interest period. Most borrowings are expected to be based on the LIBOR rate option. The applicable margin ranges from 2.25% to 2.75% based on average excess availability and at June 30, 2014, it was 2.5%.

The Revolver 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 Revolver may be accelerated, and the lenders' commitments may be terminated. The Revolver also includes a cross default to other indebtedness with certain monetary threshold and acceleration requirements. Although there are no negative covenants relating to financial ratios or minimum balance sheet requirements, the Revolver contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions outside of the ordinary course of business and affiliate transactions.

Applicable Margin means, as of any date of determination, the following margin based upon the most recent average excess availability calculation; provided, however, that for the period from the closing date through the testing period ended June 30, 2014, the Applicable Margin was at Level II and at any time that an Event of Default exists, the Applicable Margin shall be at Level III.

Level	Average Excess Availability	Applicable Margin in respect of Base Rate Loans under the Revolver	Applicable Margin in respect of LIBOR Rate Loans under the Revolver
I	≥ $50,000,000	1.25%	2.25%
II	< $50,000,000 but ≥ $30,000,000	1.50%	2.50%
III	< $30,000,000	1.75%	2.75%

We are required to pay a fee on the unused amount of the Revolver as set forth in the table below, which is due and payable monthly in arrears. For the period from the closing date through June 30, 2014, the unused fee was at Level II.

Level	Average Unused Portion of the Revolver plus Outstanding Letters of Credit	Applicable Unused Revolver Fee Margin
I	≥ $60,000,000	0.375%
II	< $60,000,000	0.500%

Overnight borrowings were $0.7 million under the Revolver at June 30, 2014. The interest rate on our overnight borrowings under the Revolver at June 30, 2014 was 4.75%. The interest rate including all borrowings made under the Revolver at June 30, 2014 was 3.0%. The weighted average interest rate on our borrowings under the Revolver for the three months ended June 30, 2014 was 3.0%. The Revolver is collateralized by all non-leased revenue equipment having a net book value of approximately $140.2 million at June 30, 2014, and all billed and unbilled accounts receivable. As we reprice our debt on a monthly basis, the borrowings under the Revolver approximate its fair value. At June 30, 2014, we had outstanding $3.8 million in letters of credit and had approximately $31.7 million available under the Revolver (net of the minimum availability we are required to maintain of approximately $18.8 million).

(2) Capitalized lease obligations relating to revenue equipment in the amount of $53.6 million have various termination dates extending through August 2018 and contain renewal or fixed price purchase options. The effective interest rates on the leases range from 1.6% to 3.1% at June 30, 2014. The lease agreements require us to pay property taxes, maintenance and operating expenses.

In May 2012, we entered into a long-term financing agreement in the amount of approximately $360,000 for the purchase of information technology related hardware. The agreement matured on May 31, 2014, and was payable in annual installments of principal and interest of approximately $122,000, due May 31, 2013 and 2014, and bore imputed interest at 3.2%.

In January 2013, we entered into a long-term financing agreement in the amount of approximately $295,000 for the purchase of information technology related hardware. The agreement, which is scheduled to mature on January 31, 2017, is payable in annual installments of principal and interest of approximately $63,000, due on January 31st of each year, and bears imputed interest at 3.1%. The balance of the agreement at June 30, 2014 was approximately $179,000.

In April 2013, we entered into a long-term financing agreement in the amount of approximately $300,000 for the purchase of information technology related hardware. The agreement, which is scheduled to mature on March 31, 2018, is payable in monthly installments of principal and interest of approximately $5,600 and bears interest at 4.5%. The balance of the agreement at June 30, 2014 was approximately $230,000.

The current maturities of the above financing agreements amount to approximately $118,000.

NOTE 8 – LEASES AND COMMITMENTS

LEASES

We lease certain revenue equipment under capital leases with terms of 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 as of June 30, 2014 for the periods indicated.

	(in thousands)		
	Capitalized Costs	Accumulated Amortization	Net Book Value
June 30, 2014	$ 79,042	$ 23,673	$ 55,369
December 31, 2013	84,410	20,942	63,468

Amortization of leased assets is included in depreciation and amortization expense in the accompanying condensed consolidated statements of operations and comprehensive income (loss). Rent expense relating to operating leases for facilities and certain revenue equipment is included in operations and maintenance expense and rent expense relating to operating leases for office equipment is included in other operating expenses and costs. The total rent expense incurred is included in the accompanying condensed consolidated statements of operations and comprehensive income (loss). Amortization of leased assets and rent expense under operating leases are reflected in the table below for the periods indicated.

	(in thousands)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013

Amortization of leased assets	$	3,156	$	2,707	$	6,587	$	5,557
Rent expense under operating leases		1,240		709		2,514		1,622

At June 30, 2014, we have entered into leases with lenders who do not participate in our Revolver. Currently, such leases do not contain cross-default provisions with the Revolver, however, we have had leases in the past that did contain such provisions.

At June 30, 2014, the future minimum payments 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)					
	2014	2015	2016	2017	2018	Thereafter
Future minimum payments	$22,747	$18,080	$12,294	$ 1,106	$ 1,646	$ --
Future rentals under operating leases	1,293	642	520	467	274	166

We entered into three operating leases to finance the acquisition of revenue equipment. Accordingly, this equipment is not recorded on the condensed consolidated balance sheet.

As of June 30, 2014, the remaining minimum capital lease payments were $54.0 million, which excludes amounts representing interest of $1.9 million. The current portion of net minimum lease payments, including interest, is $21.7 million.

OTHER COMMITMENTS

In February 2014, the Board of Directors authorized the use of up to $20.0 million in new capital leases under existing facilities through 2014 and we have not utilized any of this authorization as of June 30, 2014. As of June 30, 2014, for the remainder of 2014, we had approximately $1.2 million in commitments for purchases of non-revenue equipment and commitments for purchases of revenue equipment in the amount of approximately $16.0 million. We anticipate taking delivery of these purchases throughout the remainder of 2014.

In October 2013, the Executive Compensation Committee of the Board of Directors approved a retention bonus plan (the "Retention Bonus Plan") and a change in control/severance plan (the "Management Severance Plan") for certain of our officers and members of our management team. The Executive Compensation Committee determined that it was appropriate to adopt the Retention Bonus Plan and the Management Severance Plan as a means of assuring the continued focus of the new and expanded management team that is critical to the successful execution of our turnaround strategy, and mitigating any uncertainty regarding future employment resulting from Knight Transportation, Inc.'s unsolicited proposal to acquire the Company and its efforts to disrupt our turnaround.

On April 11, 2014, each participant in the Retention Bonus Plan, who was employed on October 30, 2013, received a percentage of his annualized base salary, determined as of the date of adoption of the Retention Bonus Plan. Mr. John Simone, our President and CEO, who also participates in the plan, received a partial payment of his bonus in December 2013. If a participant in the Retention Bonus Plan voluntarily terminates his employment at any time after receipt of the bonus payment and before the one-year anniversary of the adoption of the Retention Bonus Plan, or October 30, 2014, the plan participant will be required to repay his or her retention bonus award to the Company.

The Management Severance Plan provides that the plan participants will enter into substantially identical Change in Control/Severance Agreements with the Company (each, a "Severance Agreement") and will be entitled to certain severance benefits thereunder if (i) following adoption of the Management Severance Plan, a participant is terminated by us without "cause" (as defined in the Severance Agreement) other than in connection with or following a "change in control" (as defined in the Severance Agreement) (the "Severance Benefit") or (ii) in the event of and for the twelve-month period following a "change in control," we or our successor terminates a participant's employment without "cause" or the participant is subject to a "constructive termination" (as defined in the Severance Agreement) (the "Change-in-Control Benefit"). The Management Severance Plan provides that the Severance Benefit and the Change-in-Control Benefit are mutually exclusive and a plan participant would not be entitled to both benefits.

With respect to the Severance Benefit, plan participants will be entitled to receive a monthly severance payment equal to the participant's base monthly salary at the time of termination without "cause" for a fixed period of time ranging from six months to twelve months.

On September 12, 2013, we entered into an agreement with a firm to act as our financial advisor in connection with our response to the unsolicited proposal made by Knight Transportation, Inc., and certain potential strategic and financial alternatives. The agreement contained provisions for us to pay a retainer fee and certain other fees that would become payable upon the consummation of certain events as defined in the agreement. At June 30, 2014, we have accrued $1.7 million for these fees.

NOTE 9 – INCOME TAXES

During the three months ended June 30, 2014 and 2013, our effective tax rates were 47.1% and 24.3%, respectively. During the six months ended June 30, 2014 and 2013, our effective tax rates were (6.1%) and 29.0%, respectively. Income tax expense varies from the amount computed by applying the statutory federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Drivers may elect to receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases our drivers' net pay per mile, after taxes, while decreasing gross pay, before taxes. As a result, salaries, wages and employee benefits are slightly lower, and our effective income tax rate is higher than the statutory rate. Generally, as pre-tax income increases, the impact of the driver per diem program on our effective tax rate decreases because aggregate per diem pay becomes smaller in relation to pre-tax income. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

We account for any uncertainty in income taxes by determining whether it is more likely than not that a tax position we have taken in a tax return will be sustained upon examination by the appropriate taxing authority based on the technical merits of the position. In that regard, we have analyzed filing positions in our federal and applicable state tax returns as well as in all open tax years. The only periods subject to examination for our federal returns are the 2010, 2011, 2012 and 2013 tax years. In February 2013, we received notice that our 2011 federal tax return is being examined. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. In conjunction with the above, our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as operating expenses. We have not recorded any unrecognized tax benefits through June 30, 2014.

We believe we have adequately provided for our future tax consequences based upon current facts and circumstances and current tax law; however, based on improving results from operations and other factors, during 2014 we expect to fully utilize our net operating loss carry forwards from prior years.

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 stock options and 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 income (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,	
	2014	2013	2014	2013
Numerator:				
Net income (loss)	$ 722	$ (1,398)	$ (867)	$ (3,872)
Denominator:				
Denominator for basic earnings (loss) per share – weighted average shares	10,346	10,293	10,343	10,299
Effect of dilutive securities:				
Employee stock options and restricted stock	132	--	--	--
Denominator for diluted earnings (loss) per share – adjusted weighted average shares and assumed conversions	10,478	10,293	10,343	10,299
Basic earnings (loss) per share	$ 0.07	$ (0.14)	$ (0.08)	$ (0.38)
Diluted earnings (loss) per share	$ 0.07	$ (0.14)	$ (0.08)	$ (0.38)
Weighted average anti-dilutive employee stock options and restricted stock	2	168	7	185

NOTE 11 – LEGAL PROCEEDINGS

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

NOTE 12 – STOCKHOLDER RIGHTS PLAN

In November 2012, the Board of Directors declared a dividend of one preferred share purchase right (a “Right”) for each outstanding share of our Common Stock, which dividend was paid on November 21, 2012 to stockholders of record at the close of business on such date. The Board of Directors also adopted the Rights Agreement by and between the Company and Registrar and Transfer Company, as Rights Agent (the “Rights Agreement”). Until certain events described in the Rights Agreement and noted in the following paragraph, the Rights were not exercisable and did not trade separately from our common stock.

The Rights were to become exercisable (subject to customary exceptions) only if a person or group (an "acquiring person") without approval of the Board of Directors acquired 15% or more of our common stock or launched a tender offer that, if consummated, would result in them becoming an acquiring person. In such event, each holder of a Right, except the acquiring person, would have the right to purchase from us that number of shares of common stock (or to purchase common stock from an entity that completes a business combination with us) having an aggregate market price on the date on which such Rights first became exercisable, equal to twice the Exercise Price, for an amount in cash equal to the Exercise Price. The Exercise Price was set initially at $12.00 per share.

On April 9, 2014, the Board of Directors unanimously voted to terminate our Rights Agreement effective April 11, 2014.

NOTE 13 – REVISION OF PRIOR PERIOD RESULTS

During the first quarter of 2014, we identified an error in 2009 related to the calculation of the deferred income tax asset for tax net operating loss carry forwards. The error resulted in an approximate $1.6 million understatement of the net deferred tax liability and overstatement of retained earnings and stockholders' equity at December 31, 2009, and all subsequent periods through December 31, 2013.

We assessed the materiality of this error in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin 99 and concluded that the previously issued financial statements were not materially misstated. In accordance with the Securities and Exchange Commission's Staff Accounting Bulletin 108, we have corrected the immaterial error by revising the previously issued December 31, 2013 consolidated balance sheet included in this document. The effect of this revision on the line items within our condensed consolidated balance sheet is as follows (in thousands):

	December 31, 2013		
	As Reported	Revisions	As Revised
Deferred Income Taxes	$ 35,039	$ 1,608)	$ 36,647
Retained Earnings	56,657	(1,608)	55,049
Total Stockholders' Equity	100,538	(1,608)	98,930

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. generally accepted accounting principles ("GAAP"). The core principle of ASU 2014-09 is to recognize revenues 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 U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2016, and interim periods therein, 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). We are currently evaluating the impact of our pending adoption of ASU 2014-09 on our condensed consolidated financial statements and have not yet determined the method by which we will adopt the standard in our fiscal year commencing January 1, 2017.

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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, revenues, or other financial items; any statement of plans, strategies, and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; and any statements of belief and any statement of assumptions underlying any of the foregoing. In this Item 2, statements relating to future insurance and claims experience, future driver market, future ability to recruit and retain drivers, future acquisitions and dispositions of revenue equipment, future profitability, future ability to execute our turnaround strategy, future fuel prices, our ability to recover costs through our fuel surcharge program, future purchased transportation expense, future operations and maintenance costs, future legal and defense related costs, future depreciation and amortization, future effects of inflation, expected capital resources and sources of liquidity, future indebtedness, expected capital expenditures, 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," "should," " "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 our Annual Report on Form 10-K for the year ended December 31, 2013. Readers should review and consider the factors that may affect future results and other disclosures by the Company in its press releases, Annual Report on Form 10-K and other filings with the Securities and Exchange Commission.

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. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in the events, conditions, or circumstances on which any such information is based.

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

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

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

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand USA Truck, Inc., our operations and our present business environment. MD&A is provided as a supplement to, and should be read in conjunction with, our 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:

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

Results of Operations – an analysis of our consolidated results of operations for the periods presented in our condensed consolidated financial statements and a discussion of seasonality, the potential impact of inflation and fuel availability and cost.

Off-Balance Sheet Arrangements – a discussion of significant financial arrangements, if any, that are not reflected on our balance sheet.

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

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

Our Business

We operate primarily in the for-hire truckload segment of the trucking industry. Customers in a variety of industries engage us to haul truckload quantities of freight, with the trailer we use to haul that freight being assigned exclusively to that customer's freight until delivery. Our three operating segments are classified into two reportable segments: (i) Trucking, consisting of our Truckload and Dedicated Freight and (ii) Strategic Capacity Solutions ("SCS"), consisting of our freight brokerage service offering and our rail intermodal service offering. We previously reported each operating segment separately; however, during the second quarter of 2013, based on several factors including the relatively small size of Intermodal and the interrelationship of SCS and Intermodal operations, we aggregated Intermodal with the SCS operating segment.

Substantially all of our base revenue is generated by transporting, or arranging for the transportation of, freight for customers and is predominantly affected by the rates per mile received from our customers and similar operating costs.

Our SCS and Intermodal operating segments are intended to provide services which complement our Trucking services, primarily to existing customers of our Trucking operating segment. A majority of the customers using our SCS and Intermodal services are also customers of our Trucking operating segment.

The following tables describe the base revenue of our two reportable segments.

Trucking:	Three Months Ended June 30,		Six Months Ended, June 30,	
	2014	2013	2014	2013
Base revenue (in thousands)	83,208	81,434	163,414	161,227
Percent of revenue	66.6 %	73.1 %	67.4 %	74.5 %

SCS:	Three Months Ended June 30,		Six Months Ended, June 30,	
	2014	2013	2014	2013
Base revenue (in thousands)	41,761	30,028	79,166	55,123
Percent of revenue	33.4 %	26.9 %	32.6 %	25.5 %

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

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

- Truckload. Our Truckload service offering provides truckload freight services as a medium- to long-haul common carrier. We have provided Truckload services since our inception, and we derive the largest portion of our revenues from these services.

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

Strategic Capacity Solutions. Our SCS reportable segment consists of our freight brokerage service offering and our rail intermodal service offering, both of which match customer shipments with available equipment of authorized carriers and provide services that complement our Trucking operations. Additionally, our rail intermodal service offering provides our customers cost savings over Truckload with a slightly slower transit speed. We provide these services primarily to our existing Trucking customers, many of whom prefer to rely on a single carrier, or a small group of carriers, to provide all their transportation needs.

Results of Operations

Executive Overview

We posted our first quarter of positive net income in three years. While continuing the work of implementing our turnaround plan, the progress we are making is evident in many areas of our business. Despite the harsh winter that impacted the trucking industry as the year began, our results, on an adjusted basis, for the first six months of 2014 are also positive, with adjusted earnings per share of $0.07 compared to a loss of ($0.38) in last year’s period.

Our improved second-quarter performance was driven by a 12.1% increase in base revenue, while operating expenses net of fuel surcharge collections increased only 7.4%, yielding a 410-basis point improvement in operating margin – a testament to the multiple revenue growth, operational and cost-efficiency initiatives we have implemented.

Our asset-light Strategic Capacity Solutions (SCS) business was an especially important contributor, turning in a second consecutive record quarter. Base revenue increased 39.1% to $41.8 million and operating margin expanded by 700 basis points. This performance was made possible by strong execution within this highly efficient service against the backdrop of a market characterized by strengthening demand and tight capacity. Our SCS segment accounted for over one-third of our consolidated base revenue during the quarter, substantially strengthening and diversifying our integrated business model.

Trucking continued to improve its performance, with base revenue growth of 2.2% and a 170-basis-point improvement in operating ratio. In the quarter, we increased revenue per total mile by 5.7% and grew miles per seated tractor per week by 1.3% to their highest level in more than three years. Although fixed costs were pressured during the quarter by elevated employee medical benefit plan costs, we achieved improvements in critical areas such as insurance and claims, fuel and maintenance costs. We also took steps we believe will increase our seated truck count, which remains one of management’s top priorities as the availability of qualified drivers continues to be problematic across the truckload industry.

We are encouraged by the accomplishments made possible by the disciplined execution of our strategic plan. Although the shortage of drivers and more restrictive hours-of-service rules continue to present challenges for our industry, the demand and pricing environment in the truckload marketplace is healthy and we believe our 2014 goals of positive consolidated operating income and adjusted EPS are achievable.

Financial Results

Total base revenue increased 12.1% to $125.0 million for the quarter ended June 30, 2014, from $111.5 million for the same quarter of 2013. Trucking revenue, excluding fuel surcharge, increased 2.2% to $83.2 million, while SCS revenue rose 39.1% to $41.8 million. Net income was $0.7 million, or $0.07 per diluted share, for the second quarter of 2014 compared to a net loss of ($1.4) million, or ($0.14) per share, for the same quarter of 2013. Adjusted net income, excluding defense costs, was $2.1 million, or $0.20 per diluted share, for the second quarter of 2014.

Total base revenue increased 12.1% to $242.6 million for the six months ended June 30, 2014, from $216.3 million for the same period of 2013. Net loss was ($0.9) million, or ($0.08) per diluted share, for the six months ended June 30, 2014, compared to a net loss of ($3.9) million, or ($0.38) per share, for the same period of 2013. Adjusted net income, excluding defense costs, was $0.7 million, or $0.07 per diluted share, for the six months ended June 30, 2014.

A reconciliation of net income (loss) to adjusted net income (loss) is provided in the Use of Non-GAAP Financial Information below.

Defense Costs

In the second quarter of 2014, we recorded approximately $2.2 million, or $0.13 per diluted share, in defense costs. For the six month period ended June 30, 2014, we recorded approximately $2.5 million, or $0.15 per diluted share, in defense costs. These costs were incurred primarily in connection with Knight Transportation's unsolicited proposal to acquire USA Truck, the related litigation and the February 2014 Settlement Agreement. These unusual non-operating costs have been recorded in "Other expenses (income)" in the accompanying condensed consolidated statement of operations and comprehensive income (loss). We do not expect significant additional costs related to the above matters in the second half of 2014.

Balance Sheet and Liquidity

Our debt increased modestly during the second quarter, rising by $0.6 million sequentially to $125.1 million as we continued to refresh our tractor and trailer fleet. Net of cash, this represented 56.0% of our total capitalization. Year to date, however, our debt is down $3.8 million. At quarter end, we had $31.7 million of net borrowing availability on our revolving credit facility (net of the minimum availability we are required to maintain of approximately $18.8 million).

Use of Non-GAAP Financial Information

In addition to our GAAP results, this quarterly report on Form 10-Q also includes certain non-GAAP financial measures as defined by the Securities and Exchange Commission. We define adjusted net income (loss) as net income (loss), excluding certain adjustments more specifically outlined in the table below. Management believes this measurement is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the comparative evaluation of companies. Because not all companies use identical calculations, our presentation of adjusted net income (loss) may not be comparable to similarly titled measures of other companies. Adjusted net income (loss) is not a recognized term under GAAP and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity.

Pursuant to the requirements of Regulation G, we have provided a reconciliation of adjusted net income (loss) to GAAP net income (loss) in the table below.

	(in thousands, except per share data)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013		2013
Other expenses, net	$ (2,891)	$ (901)	$ (4,031)	$ (1,685)
Defense costs	2,163	--	2,528	--
Adjusted other expenses, net	(728)	(901)	(1,503)	(1,685)
Pretax income (loss)	1,366	(1,846)	(817)	(5,456)
Defense costs adjustment	2,163	--	2,528	--
Adjusted pretax income (loss)	3,529	(1,846)	1,711	(5,456)
Income tax expense (benefit)	644	(448)	50	(1,584)
Tax effect adjustment	831	--	971	--
Adjusted income tax expense (benefit)	1,475	(448)	1,021	(1,584)
Net income (loss)	722	(1,398)	(867)	(3,872)
Defense costs adjustment, net of tax	1,332	--	1,557	--
Adjusted net income (loss)	$ 2,054	$ (1,398)	$ 690	$ (3,872)
Income (loss) per share	$ 0.07	$ (0.14)	$ (0.08)	$ (0.38)
Per share effect of adjustment	0.13	--	0.15	--
Adjusted income (loss) per share	$ 0.20	$ (0.14)	$ 0.07	$ (0.38)

Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Results of Operations – Combined Services

Total revenue increased 9.7% from $139.7 million to $153.3 million. Total base revenue increased 12.1% from $111.5 million to $125.0 million. We reported net income for all service offerings of $0.7 million or $0.07 earnings per share, for the quarter ended June 30, 2014 as compared to a net loss of ($1.4) million, or ($0.14) per share, for the comparable prior year period.

Our effective tax rate was 47.1% for the quarter ended June 30, 2014, compared to 24.3% for the same quarter of 2013. Income tax expense varies from the amount computed by applying the federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Due to the partially nondeductible effect of per diem payments, our tax rate will vary in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

Results of Operations – Trucking

Relationship of Certain Items to Total Trucking Revenue

The following table sets forth the percentage relationship of certain items to total revenue of our Trucking operating segment for the periods indicated.

	Three Months Ended June 30,	
	2014	2013
Total revenue	100.0%	100.0%
Operating expenses and costs:		
Salaries, wages and employee benefits	33.8	30.9
Fuel and fuel taxes	28.9	31.5
Operations and maintenance	10.8	12.7
Depreciation and amortization	10.5	10.3
Purchased transportation	6.2	5.7
Insurance and claims	5.5	6.7
Operating taxes and licenses	1.3	1.6
Communications and utilities	1.0	0.8
Gain on disposal of revenue equipment, net	(0.2)	(0.4)
Other	3.8	3.3
Total operating expenses and costs	101.6	103.1
Operating loss	(1.6)%	(3.1)%

Relationship of Certain Items to Base Trucking Revenue

The following table sets forth the percentage relationship of certain items to base revenue of our Trucking operating segment for the periods indicated. Fuel and fuel taxes are shown net of fuel surcharges.

	Three Months Ended June 30,	
	2014	2013
Base revenue	100.0%	100.0%
Operating expenses and costs:		
Salaries, wages and employee benefits	43.1	39.7
Operations and maintenance	13.8	16.3
Depreciation and amortization	13.3	13.2
Fuel and fuel taxes	9.3	11.8
Purchased transportation	7.9	7.3
Insurance and claims	7.0	8.6
Operating taxes and licenses	1.6	2.1
Communications and utilities	1.2	1.1
Gain on disposal of revenue equipment, net	(0.2)	(0.5)
Other	5.1	4.2
Total operating expenses and costs	102.1	103.8
Operating loss	(2.1)%	(3.8)%

Key Operating Statistics:

	Three Months Ended June 30,			
		2014		2013
	(unaudited)			
Trucking:				
Operating loss (in thousands) (1)	$	(1,734)	$	(3,108)
Operating ratio (2)		102.1%		103.8%
Total miles (in thousands) (3)		54,796		56,715
Empty mile factor		13.0%		11.8%
Base Trucking revenue per loaded mile	$	1.745	$	1.629
Average number of in-service tractors (4)		2,196		2,241
Unseated tractor percentage		8.1%		5.6 %
Average number of seated tractors (5)		2,019		2,116
Average miles per seated tractor per week		2,088		2,062
Base Trucking revenue per seated tractor per week	$	3,170	$	2,961
Average loaded miles per trip		614		597

(1) Operating income or loss is calculated by deducting total operating expenses and costs from total revenues.
(2) Operating ratio is calculated by dividing total operating expenses, net of fuel surcharge revenue, by base revenue.
(3) Total miles include both loaded and empty miles.
(4) Tractors include Company-operated tractors in service, plus tractors operated by independent contractors.
(5) Seated tractors are those occupied by drivers.

In comparing our second quarter 2014 results to the 2013 second quarter, our base Trucking revenue increased 2.2% from $81.4 million to $83.2 million and our operating loss decreased 44.2% from $3.1 million to $1.7 million. The increase in our base Trucking revenue resulted primarily from a 7.1% increase in our average revenue per loaded mile, and a 1.3% increase in miles per seated tractor per week. These improvements were suppressed by a

4.6% decrease in the average number of seated tractors.

Overall, our operating ratio for the second quarter improved by 1.7 percentage points of base Trucking revenue to 102.1% from 103.8%, and by 1.5 percentage points of total Trucking revenue to 101.6% from 103.1% as a result of the net effect of the following factors:

- Salaries, wages and employee benefits expense increased 2.9 percentage points of total Trucking revenue, and 3.4 percentage points of base Trucking revenue. Increases were predominately due to higher non-driver labor costs and associated payroll taxes and increased workers' compensation and employee medical benefit costs resulting from an increase in claims activity. In July 2014, we implemented a limited pay increase for drivers, which could result in an upward trend in this expense in the future.

- Fuel and fuel taxes expense decreased 2.6 percentage points of total Trucking revenue, and 2.5 percentage points of base Trucking revenue, primarily due to the recovery of a greater percentage of our fuel costs through fuel surcharge revenue programs with our customers, more favorable fuel pricing discounts from our suppliers and 6.8% better fuel economy within our fleet. Fuel costs will continue to be affected in the future by price fluctuations, the terms and collectability of fuel surcharge revenue and the percentage of total miles driven by independent contractors.

- Operations and maintenance expense decreased 1.9 percentage points of total Trucking revenue and 2.5 percentage points of base Trucking revenue, primarily due to a $2.1 million decrease in direct repair costs on tractors and trailers, which is the result of our strategy of performing more maintenance in our own facilities and less work at outside vendors where repair costs are considerably higher. While we anticipate some fluctuation in repair costs in the future, we believe we are experiencing the expected results of our equipment maintenance strategy.

- Depreciation and amortization changed slightly, increasing by 0.2 percentage points of total Trucking revenue, and 0.1 percentage points of base Trucking revenue, primarily due to increased purchase prices on new tractors, trailers and mobile communications systems.

- Purchased transportation expenses increased 0.5 percentage points of total Trucking revenue, and 0.6 percentage points of base Trucking revenue. The increase was primarily the result of a 21.7% increase in the size of our owner-operator fleet from 115 to 140, and 3.3% growth in our cross-border Mexico revenue in which we compensate Mexican carriers for the transportation of our customers' freight within Mexico.

- Insurance and claims expense decreased 1.2 percentage points of total Trucking revenue, and 1.6 percentage points of base Trucking revenue, primarily due to improved experience on auto liability losses for both new and existing claims. Our Department of Transportation recordable accident frequencies continue to improve and we expect insurance and claims expense to decrease over the long-term, but they will remain volatile from period-to-period.

- Other expenses increased 0.5 percentage points of total Trucking revenue, and 0.9 percentage points of base Trucking revenue. Among other things, other expenses include an upward adjustment in our bad debt reserve based on an increase in accounts receivable and write-offs, expenses relating to driver retention, employee recruiting and relocation.

Results of Operations – Strategic Capacity Solutions

The following table sets forth certain information relating to our SCS reportable segment for the periods indicated:

	Three Months Ended June 30, 2014	2013
Total SCS revenue (1)	$ 49,896	$ 36,695
Intercompany revenue	(2,744)	(1,781)
Total net revenue	$ 47,152	$ 34,914
Operating income (in thousands)	$ 5,991	$ 2,163
Gross margin (2)	18.4%	14.0%

(1) Includes fuel surcharge revenue.
(2) Gross margin is calculated by taking total revenue less purchased transportation and dividing that amount by total revenue. This calculation includes intercompany revenue and expenses.

In comparing our second quarter 2014 results to the 2013 second quarter, total net revenue from SCS increased 35.0% to $47.2 million from $34.9 million, while operating income increased 176.9% to $6.0 million from $2.2 million.

The increased operating income was due to improved gross margin in our SCS brokerage service. Net revenue increased 35.0% while operating expenses increased 25.7%. Our efforts to focus on delivering customized solutions to our diverse customer base while controlling costs continues to result in greater load volumes and load margins for our SCS segment.

Revenue productivity per employee increased 13.8% and revenue per load increased 19.2% for our brokerage services. Those factors were partially offset by a decrease in net revenue for our Intermodal service.

Other Expenses

In the second quarter of 2014, we recorded approximately $2.2 million, or $0.13 per diluted share, in defense costs, consisting of financial advisory and legal fees. These costs were incurred primarily in connection with Knight Transportation's unsolicited proposal to acquire USA Truck, the related litigation and the February 2014 Settlement Agreement. We do not expect significant additional costs related to the above matters in the second half of 2014.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Results of Operations – Combined Services

Total base revenue increased 12.1% to $242.6 million for the six months ended June 30, 2014 from $216.3 million for the same quarter of 2013. We reported a net loss of ($0.9) million, or ($0.08) per share, for the six months ended June 30, 2014 as compared to a net loss of ($3.9) million, or ($0.38) per share, for the comparable prior year period.

Our effective tax rate was (6.1%) for the six months ended June 30, 2014 compared to 29.0% for the same period of 2013. Income tax expense varies from the amount computed by applying the federal tax rate to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers. Due to the partially nondeductible effect of per diem payments, our tax rate will vary in future periods based on fluctuations in earnings and in the number of drivers who elect to receive this pay structure.

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Results of Operations – Trucking

Relationship of Certain Items to Total Trucking Revenue

The following table sets forth the percentage relationship of certain items to total revenue of our Trucking operating segment for the periods indicated.

	Six Months Ended June 30,			
	2014		2013	
Total revenue	100.0	%	100.0	%
Operating expenses and costs:				
Salaries, wages and employee benefits	33.1		31.6	
Fuel and fuel taxes	30.5		33.1	
Operations and maintenance	11.7		11.8	
Depreciation and amortization	10.8		10.5	
Purchased transportation	6.3		5.3	
Insurance and claims	5.6		6.0	
Operating taxes and licenses	1.3		1.3	
Communications and utilities	1.0		0.9	
Gain on disposal of revenue equipment, net	(0.2)		(0.4)	
Other	3.7		3.4	
Total operating expenses and costs	103.8		103.5	
Operating loss	(3.8)	%	(3.5)	%

Relationship of Certain Items to Base Revenue

The following table sets forth the percentage relationship of certain items to base revenue of our Trucking operating segment for the periods indicated. Fuel and fuel taxes are shown net of fuel surcharges.

	Six Months Ended June 30,			
	2014		2013	
Base Trucking revenue	100.0	%	100.0	%
Operating expenses and costs:				
Salaries, wages and employee benefits	42.4		40.5	
Operations and maintenance	15.0		15.1	
Fuel and fuel taxes	11.1		14.2	
Depreciation and amortization	13.8		13.4	
Purchased transportation	8.0			