USA Truck, Inc.

Second Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jody Burfening - *IR*

Randy Rogers - *President and CEO*

Martin Tewari - *President, Trucking*

Jim Craig - *President, USAT Logistics*

Joe Kaiser - *VP and Principal Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the USA Truck Second Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by zero. After today's presentation, there will an opportunity to ask questions. To ask a question, you may press star, then one on your touchtone phone. To withdraw your question, please press star, then two. Please note this event is being recorded.

I would now like to turn the conference over to Ms. Jody Burfening. Please go ahead.

Jody Burfening
Thank you, Aaronson, and good morning, everyone, and welcome to USA Truck's second quarter earnings conference call. Joining us this morning from the company are Randy Rogers, President and Chief Executive Officer, Martin Tewari, President, Trucking, Jim Craig, President, USAT Logistics, and Joe Kaiser, Vice President and Chief Principal Financial Officer.

Before beginning the call, I would like remind everyone that this call will contain 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. Forward-looking statements may be identified by the use of terms or phrases such as expects, estimates, anticipates, projects, believes, plans, goals, intends, may, will, should, could, potential, continued, future, strategy, and terms and phrases of similar substance.

Forward-looking statements are based on the current beliefs and expectations of management, and are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth and contemplated by the underlying forward-looking statements. Accordingly, the company's actual results may differ from those set forth in the forward-looking statements.

Investors should review and consider factors that may affect future results, and other disclosures by the company in its press release, annual reports, and Form 10-K, and other filings with the Securities and Exchange Commission. The company disclaims any obligation to update or revise any forward-looking statements to reflect actual results or changes in factors affecting the forward-looking information.

Also, on today's conference call, management will be referring to certain non-GAAP financial measures, in its analysis of the results that supplement the GAAP financial statement. A reconciliation of these non-GAAP measures to GAAP is provided in the tables at the end of the slide presentation, accompanying today's conference call's prepared remarks.

With those housekeeping items out of the way, I would now like to turn the call over to Randy. Good morning, Randy.

Randy Rogers
Morning, Jody, and good morning, everyone. I'll begin this morning's call by giving you an overview of our consolidated second quarter results, and the strategies we have underway to strengthen our operations and financial results.

After that, Martin and Jim will go through more specifics on our trucking and logistics businesses, and

Joe will summarize our balance sheet and liquidity. I'll then come back on, to update you on the whole company outlook.

With that introduction, let's turn to slide 3, please. This clearly wasn't the quarter that we neither anticipated nor wanted to report. For the second quarter of 2016, we had operating revenue of $109.9 million. Both Trucking and USAT Logistics, our asset-light division, were negatively impacted by soft freight conditions, and we saw the rate environment deteriorate markedly, as the quarter continued.

In trucking, base revenue per loaded mile was down $0.17 or 9.1%, compared to last year's period. This reduction was due in part to a loss of volume from certain dedicated customers, who chose to take advantage of either favorable one-way rates or in-sourcing strategies, creating an overall less favorable mix for the company. While we were awarded new business, neither the phasing nor the volume was sufficient to offset the lost business. Late Q2 and early Q3 awards of better quality freight should begin to contribute to reducing that impact.

For the period, USAT Logistics produced operating income of $2.2 million. But this was overshadowed by trucking's $2.7 million operating loss. For the quarter, trucking's operating OR was 103%, compared to 96.8% for the prior year period. Despite these challenges, as you'll see on slide 4, we've been making progress in trucking, to lower our cost structure and improve operational efficiencies. We reduced overhead costs, and we'll realize savings of approximately $2 million annually, through the reduction in force we implemented in Q2. That's on top of the reduction in force we implemented in the prior quarter, when we reduced our staff department headcount by about 10%.

We've also taken further steps to reduce company-owned tractors and capital employed. Since year-end we've reduced 84 tractors, including 73 in the second quarter alone, to better manage market demand. At the same time, we've accelerated our migration to an asset-light model. In Q2, we expanded our independent operator fleet by 17.6%, and we increased USAT Logistics load count 12.3% year-over-year, while still maintaining a gross margin of 18.1%.

On slide 5, I've listed again, for emphasis, the four key initiatives of the strategy we adopted to improve USA Truck's performance. Although our results for this quarter were disappointing, we think these actions will produce improved results moving forward.

At this point, I'll ask Martin to explain some of the trends in trucking operations, and give us more detail on the segment's improvement plans and rate outlook. Martin?

Martin Tewari
Thanks, Randy. Moving to slide 6, you'll see a summary of Trucking's results over the past four quarters. There are a lot a numbers here for you to review, so I'll call out a few you need to know to properly interpret this quarter's metrics. First on the plus side, we're continuing to refine our network to transition from a back-haul to more profitable head-haul markets. We increased total miles sequentially, and, for the third quarter, improved our average weekly miles per truck bringing that metric up 3.4% to 1985.

Second, as you know, reducing collision frequency and overall safety performance is one of our goals. This quarter's insurance and claims line was up sequentially one penny, due to actuarial adjustments for prior year occurrences, and is not reflective of the actual safety improvements realized this year.

Third, our operations and maintenance line for the quarter included $0.02 per mile, related to the write-off of uncollectable warranty receivables, and to the timing of trailer disposals, which, in turn, generated higher maintenance cost during the quarter. With new tractor deliveries being delayed until Q3, the continued operation of 2012 trucks created a drag on maintenance performance.

Finally, with respect to non-asset component of our fleet, we expect our expectations and our independent contractor recruiting growing 17.6% over the last year, and 16.3% year-to-date. As a result, our purchased transportation costs per mile were 12.2% higher.

Moving ahead to slide 7, I'd like to provide more details on maintenance and our strategy. We're making headway in transitioning from a fixed to variable maintenance cost by closing maintenance shops, outsourcing more direct repair of maintenance spend, and operating only a modest footprint of four shops focused on preventative maintenance, minor repairs, and trade preparation. In June, we launched the restructuring of our road assist program, which we expect to produce savings of approximately half a million in the second half of the year.

We're also in the process of negotiating national agreements with third-party service providers, to reduce the cost of parts and repairs. At the same time, we're continuing to reduce our fleet, to better match demand. We reduced a number of company-owned tractors by 73 units in Q2, and plan to reduce the fleet by a total of 130 owned tractors and more than 400 trailers in 2016. We plan to retire all 2012 tractors by the end of Q3, and we'll also accelerate the retirement of approximately 220 2013s.

As you can see from the box on the left side of your screen, that shows maintenance cost per mile by tractor year model. This will have a very positive impact on our maintenance cost. As of the end of June the average of our fleet was 27 months for tractors, and 57 months for trailers. We're purchasing tractors with multi-year warranties, and our goal is for 100% of our fleet to be covered this way.

Moving to slide 8, I'd like to touch on our rate outlook, our plan to increase our base revenue per mile for the second half of the year over the second quarter. Factors we expect to help us accomplish this are a strong pipeline of new business opportunities we've been building to better support our network. New freight awards we received in June and July will help us recoup some of the ground lost in Q2. Of course, there's always some wins and losses during the quarter, but we expect new awards to put us in a good position for the rest of the year. Third are the reductions we're making in our reliance in the spot market, while increasing the amount of committed freight we handle, and, finally, better pricing we've been receiving by being more selective, upgrading our lanes and tightening our capacity.

With that, I'll turn the call over to Jim.

Jim Craig
Thanks, Martin. Let's turn to slide 9, for a summary of the results of our asset-light business. For the quarter, net revenue was down 10.7%, due to a combination of soft freight volumes manifesting, itself as significant dollar revenue per invoice, and lower fuel surcharge revenue. As you probably know, the expected June freight lift, that has taken place almost every year for the past three decades, did not occur in 2016. Nonetheless, we held our gross margin at 18.1%, and year-over-year our load count was up 12.3%. Relative to the first quarter, it was up 7.5%. Both numbers indicate continued market share gains, resulting from early traction of our revised sales and operating model, an energized USAT Logistics team, and daily focus on aggressive business development activities.

For USAT Logistics, volume is job one, and we've had encouraging growth, increasing loads per person per day by nearly 20%, from an average of 3.2 in January, to 4.6 at the end of the second quarter. Three of our highest performing offices in the second quarter were early adopters of our new sales and operating model, under which we have client managers who focus on business development, customer service, and pricing responsibilities, and carrier managers who are responsible for carrier selection, negotiation, dispatch, and load management. We expect this model to further enhance productivity, produce better customer service, and improve yields over time.

As you recall from our Q1 call, we are placing a lot of focus on recruiting, training, and supporting superior talent. We recently added 11 logistics professionals with strong customer relationships, and are already seeing meaningful contributions from those new employees.

Slide 10 lays out some of our important initiatives for the second half of the year. To further drive our market share expansion intentions, as of July 1st, we have fully implemented the roll out of USAT Logistics' new client and carrier-focused roles I outlined earlier, across our network of offices. We now have dedicated local sales reps at seven of our nine regional centers, as well as recently introducing an outside sales agent program.

We'll continue to invest in revenue-generated talent in our regional centers, while holding the line on administrative and support positions, and we'll push forward with our rebranding efforts, which include a new website, collateral, press coverage, and trade show activities. We'll be driving to keep enhancing productivity, with a goal of six loads per person per day by the end of the year, and we'll be adding to our array of services, including the expanse flatbed service offering that we think will enhance our value to both current and future customers.

And with that, I'll pass the call over to Joe Kaiser for a quick financial discussion.

Joe Kaiser
Thank you, Jim. On Slide 11, you'll find highlights of our balance sheet and capital expenditures. We ended the quarter with a $131.4 million in total debt and capital lease obligations net of cash, compared to $101.3 million at the end of 2015. Debt to adjusted EBITDA was 2.6 times, compared to 1.8 times at the end of March 2016. With $58 million liquidity under our revolver, we have the liquidity for investments needed to execute on our strategy, which is focused on driving increased return on invested capital.

In the second half of 2016 we expect to acquire $15 million to $23 million of new revenue equipment, primarily under capital lease arrangements, to fulfill existing commitments. Based on our forecasts for equipment sales proceeds, net cash capital will now only be about $15 million to $20 million. During the second quarter, we repurchased just over 718,000 shares under our stock repurchase authorization, at a cost of $13.4 million.

I'll now pass the baton back to Randy to wrap things up.

Randy Rogers
Thanks, Joe. Turning to slide 12, you'll see the initiatives we're focused on for the second half of the year. In our Trucking business, we're going to reduce maintenance costs and continue to transition to a more asset-light model, in an effort to improve adjusted OR over the first half of the year.

As for USAT Logistics, we're going to continue to drive our load count, in an effort to advance toward our goal of reaching 50% of total consolidated revenue.

In closing, the results we reported today are disappointing to all of us, and, speaking for myself very frankly, frustrating. They're frustrating, because we believe all the initiatives we have underway, the steps we're taking to improve utilization, sales productivity, reduce costs, and focusing on those things within our control will yield sustained or sustainable improvements in our Trucking business.

We clearly have a great team in place, we're improving the fundamentals of the business in large ways and small, and we're on the right track. We have a great strategy in place to accelerate growth at USAT Logistics, and over time shift our mix of asset-light based revenue. There's no getting around the fact that this quarter set us back, but we're on the right path, and fully committed to achieving our objectives and increasing return on invested capital for USA Trucking and our shareholders.

Thank you for your attention. At this point, operator, we'd like to open the call for questions.

QUESTIONS AND ANSWERS

Operator
Certainly. We will now begin the question and answer session. To ask a question, you may press star, then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

And our first question comes from Brad Delco of Stephens. Please go ahead.

Brad Delco
Good morning, Randy, good morning, guys.

Randy Rogers
Hi, Brad.

Martin Tewari
Good morning.

Brad Delco
Martin, can you talk first? You made some comments of winning some business in late June and July, and you think that's going to help improve base rates. My sense is that the later in the bid season, the more aggressive people got on pricing. Can you just help us understand how we'll see rates inflect here from second to third, and maybe in the fourth, based on these recent awards?

Martin Tewari
Yes, Brad, on these recent awards, it looks like the amount of business is about 4% or 5% of our base revenue, and we're looking at improved rate numbers, over what we reported in the second quarter. As we go through the quarter and renegotiate rates with customers, as well as look at the future pricing opportunities, the season starts in September where customers are repricing their business. We'll be taking a firmer position, going forward, with improved service in our business, and delivering better customer value.

Brad Delco
Okay, but consistently what I've heard from others is as a lot of these contracts go effective over the course of the year, third quarter's generally when you see the most rate pressure. Are you saying that you don't think that's necessarily the case, based on the cadence of how these contracts have come on?

Martin Tewari
We've seen that most of our contracts have been implemented with our customers, and we're transitioning right now into new agreements and new pricing terms with customers, going forward. So, we will see an uptick in our rate per mile in the second half of this year.

Brad Delco
Okay. Jim, the comments about the 11 additions to your team, can you remind us when those came on? Is that the reason why we had a similar gross margin year-over-year, but just a little bit more SG&A costs, which put pressure on EBIT?

Jim Craig
Those hires have been taking place throughout the second quarter, and now into July. I've given a mandate to all of my regional centers that are operating profitably to continue to invest in their capacity, their assets, which are people. We'll continue to do so. The intention, of course, is that those individuals be self-funding very quickly, and once the new hire is what we call self-funding, we'll go out to the market and find the next talented person to join the team.

A couple of those people that you saw on the press release were leadership roles, over our agent initiative and our enterprise sales strategy. But the majority of them are front line, market-facing individuals out in the offices, generating revenue every day.

Randy Rogers
Brad, this is Randy. I think the really exciting part on the USAT Logistics side is, with the restructuring of the way we operate there, the productivities per person, measured by low counts per day, is seeing a considerable increase. I think that's a very favorable, very positive sign.

Brad Delco
Absolutely. Jim, just to follow up, it seems like you made the investment, you didn't necessarily see all the revenue that was expected to be generated occur yet. So we should see improvement, second to third, all else being equal, on the net revenue side?

Jim Craig
On the net revenue side, you see improvement. Productivity, again, we're aiming for six loads per person per day, which is an 80% improvement over where we started the year. So like I said, we're not going to be irresponsible and hire people just for sake of hiring, we're going to hire them very strategically, and only after we've seen a return on those investments will we make additional investments.

Brad Delco
Okay. I thought, Jim, you made a comment that you did not see a seasonal uptick in June. It seems like a lot of other transportation folks have said that they saw seasonality, saw strengthening in June and into early July. Why do you think you might not have seen that in your logistics business?

Jim Craig
I think, as a third party, we're the last ones to enjoy that lift, because, again, a lot of our business is overflow. The asset providers may have seen some additional volumes, but not enough to impact us very positively. Our biggest setback in June, quite frankly, was the DOT roadside inspections that took place in the second week of June, I believe. Since that was announced well in advance, a lot of our smaller carriers, a lot of the independent drivers chose to take that week off of their trucks, go on a vacation, to avoid the roadside inspections. We had some capacity situation pop up, where we were paying significantly more for trucks to cover our business. Our net revenues during that week and a little bit of hangover in the next week really hurt our June results.

Brad Delco
I wonder why they would do that.

Jim Craig
Again, surprise roadside inspections that they announced a month in advance.

Brad Delco
Randy, just a high-level question for you. Can you give us an update on the CFO role and what you're looking for there?

Randy Rogers
Sure. We've engaged a professional search firm. We've received resumes, we've been screening, and we're starting to begin the interview process there.

Brad Delco
Okay. But no timing that you could provide us?

Randy Rogers
No, our timing is going to be finding the right person, really. We've received a number of resumes that we're interested in exploring, and we're going to do that over the coming weeks.

Brad Delco
Joe, I'm going to include as well. Can you give us the CapEx for the quarter? Net CapEx, for second quarter?

Joe Kaiser
Net CapEx for the quarter was $16.3 million. But [indiscernible] some trailers and tractors during the quarter, primarily trailers from the second quarter.

Brad Delco
But the guidance is for 15% to 20% for the year?

Joe Kaiser
Yes.

Brad Delco
And '$16 million is a net number?

Joe Kaiser
Correct.

Brad Delco
Alright, well, that's it for me, guys. Thank you.

Randy Rogers
Thanks, Brad.

Operator
Our next question comes from John Larkin of Stifel. Please go ahead.

John Larkin
Hey, good morning, gentlemen.

Randy Rogers

Good morning, John.

John Larkin
Just wanted to talk a little bit about the independent contractor or owner operator strategy, it sounds like that's working quite well, as your owner operator count is up quite nicely. Are you recruiting experienced owner operators, or are you creating your own owner operators through some assort of a lease purchase program. Could you give us a little more detail on that please?

Martin Tewari
Hey, John, Martin. The owner operators, it's a mixture of both. We probably have about 50%, 60% are experienced owner operators coming in, and probably about 30%, 40% are drivers that want to become owner operators or independent contractors. We're not in the equipment leasing business, but we try to help them out with options.

John Larkin
Got it. You mentioned that you've lost a couple of dedicated contracts in the second quarter, as some customers are opting to take their carriage in-house, and others are opportunistically taking advantage of the low spot market rates. Are there any other dedicated contracts that you have that could be at risk, in the second half of the year, of going the same route?

Martin Tewari
We're pretty solid with the remainder of our dedicated accounts going forward. Most of them are in multi-year agreements. I think we have one customer that isn't in a multi-year agreement.

John Larkin
Got it. And then, as far as the diminishing size of the fleet is concerned, have you been able to keep the fleet fully seated throughout this process? I noticed your utilization is rising nicely. But the other part of that equation of, course is do you have all the operational trucks fully seated with qualified drivers?

Martin Tewari
We're hovering at around the 5.5%, 6% mark, as far as unseated tractors.

John Larkin
Where would you like to see that?

Martin Tewari
That's a good number. I think if we can keep it right in that 5% to 6% range, we'll be happy with that.

John Larkin
How have you seen the turnover behave this year, compared to last year at this time?

Martin Tewari
It's been about flat for us. We haven't seen any increase or decrease. Obviously, we'd like to continue to make improvement on turnover. But it's been flat, year-over-year.

John Larkin
Do you share a turnover percentage with investors?

Martin Tewari
We don't.

John Larkin
Okay. Fair enough, everybody calculates it a different way, anyway, so it's probably—

Martin Tewari
Yes.

John Larkin
—a meaningless number. You mentioned that the productivity of each of the individual brokers in the asset-light division is up 20% since the beginning of the year, yet the load count, year-over-year, which maybe an apples-to-oranges comparison, is up 12%. Does that imply that there has been some forced turnover, you've eliminated some of the less productive people, and are actively trying to replace those with some of these seasoned professionals that you spoke about earlier?

Randy Rogers
Yes, John, if you remember from our previous earnings call, we closed the Kansas City and Salt Lake City offices. Shortly after my arrival here, they didn't make strategic sense. We took out five positions there. In the second quarter we closed our El Paso office. El Paso had just opened when I got here. I thought the right thing to do was to give them six months to prove themselves, and justify a return on that investment. Unfortunately, tough market conditions, and, frankly, it was El Paso, so they struggled to be successful, and so we made the tough decision to close that office and eliminate three positions there. We have fewer people facing the market, more loads, 12% becomes 20%.

John Larkin
And then since your revenue per loaded mile pre-fuel surcharge is down a little bit more than some others in the publicly-traded space, was that due to those dedicated contracts, or was it due to more exposure to the spot market than others? It does sound as if you're trying to reduce that spot market exposure. Can you give us a sense for how that's progressing?

Martin Tewari
Sure. The majority of that decline in rate was associated with the hit that we took on the dedicated side of our business. In the spot market, we're continuing to reduce that, and we hope to reduce our exposure in the spot market another 30% going forward, in the second half of the year.

Randy Rogers
I think that's going to be aided by the reduction in our fleets that allow us to upgrade some of the freight, and eliminate some of that lower yielding freight.

John Larkin
Got it. Alright, thanks very much, gentlemen.

Randy Rogers
Thank you.

Operator
Our next question comes from Donald Broughton of Avondale Partners. Please go ahead.

Donald Broughton
Good morning, gentlemen.

Randy Rogers
Good morning, Don.

Martin Tewari
Good morning.

Donald Broughton
Let's dig a little further into the spot market. You have some fairly aggressive goals to reduce the amount of spot market exposure. Certainly, in today's market, it probably makes a lot of sense. The question is what percentage of your overall book is in the spot, versus under contract?

Martin Tewari
Donald, it's less than 5% of our business, and we want to continue to reduce on that number.

Donald Broughton
So, if the spot and the loss of dedicated drove 9% drop, a $0.17 a mile drop, the contract rates was relatively even, or did you see a significant decrease in contract rates as well?

Martin Tewari
In contract rates, we did see a decrease in the 2.5%, 3% range.

Donald Broughton
Okay, that makes some sense then. For a second, it looked like, maybe; the tail is wagging the dog, so to speak. I understand about disposal of the older equipment. Certainly, the numbers you're showing in your slide presentation are not atypical, over the age of a truck. Any of us driving a car knows that the older the car gets, the more maintenance it costs. Am I hearing that you're going to bring the average age of the fleet down? Or is it just that you're going to dispose of the oldest equipment?

Joe Kaiser
John, this is Joe. We're definitely looking to bring the average age of our fleet down, as we thought it a couple of quarters ago. With us downsizing our fleet, it will help get our tractors newer, and then, with limited investments, we have been able to bring that mark down. With the indication that we'd take out the 2012s by Q3 and then the 2013s, we're going to start aggressively taking those out as well, that should help lower our average age of our fleet.

Donald Broughton
But that's because of the disposal of the oldest, not the addition of new. Or am I missing something here? Because, given your CapEx plans, it sounds as if you're just jettisoning the oldest equipment, but not really buying them any new?

Joe Kaiser
As our total company-owned tractors reduces, we don't have to make as much of an investment, but we're still making the investment this year. We have $15 million to $23 million less in Q3 here to take and most of that'd be on capital leases.

Donald Broughton
Okay. Help me out with something, because I'm looking at the results here, and, just to comment on the elephant in the middle of the room, margins and your logistics business have gone down, on a year-over-year basis. I suspect you may be the only publicly-traded logistics business that reported that kind of a result, pretty sure you are, and, obviously, margins at your asset base business deteriorated dramatically. Yours is a business in which operating fundamentals, you know what financial results are

going to be, before you actually do the math. With the deterioration in these operating fundamentals, you had to, early on in the quarter, know that there was a high likelihood you were going to print a loss, a negative number. Is that not correct?

Randy Rogers
Don, the rate environment was what deteriorated on us, and it was progressively, over the quarter. There are a number of different things and a lot of puts and takes in this that we needed to evaluate. Obviously, we've been reorienting our network, adding new customers, reducing certain lanes with existing customers because they don't fit our network, and being much more disciplined in our network approach.

Obviously, the dedicated losses affected us. There were so many puts and takes. It was a pretty significant effort to truly understand the impact of that, and we needed to work through that, more towards the end of the quarter.

Donald Broughton
So you did or didn't see this coming?

Randy Rogers
Quite honestly, we're still working with some of these customers. These were specific lanes that we lost, and some of them we decided, or at least in one case, we decided, as they adopted one way rates, not to participate, and that's simply because it didn't fit our new network. I'll give an example of a West Coast move. Now that we've taken out all of our capacity in the West Coast, focusing on our footprint in the East, that simply didn't make sense for us.

These changes were fairly quickly implemented, and we also had new business that we were generating from existing customers in different lanes. We had to see how that shaped out, so it was very difficult to get a very clear picture of the overall impact very quickly.

Donald Broughton
Let me help you out with where I'm going with this. If you're looking at the quarter, and as things are proceeding, it becomes increasingly obvious that you're going to lose money, not make money. How do you sit in front of your board and say "we're being fiduciarily responsible," to go out and repurchase 8.3% of our outstanding shares, 718,000 shares of our own stock, when we know we're about to print a money losing quarter? How do you justify that?

Randy Rogers
Certainly, repurchase is one of the three pillars of our model to increase shareholder value over time. We believe the stock is a long-term value.

Donald Broughton
But if you're losing money, and you're paying 2 times book for the stock, there is a whole host of people that would argue that's not being fiduciarily responsible. But all right. Good luck, gentlemen. It's a tough environment out there, I know.

Randy Rogers
Okay. Thanks, Don.

Operator
And our next question comes from Matthew Frankel of Cowen. Please go ahead.

Matthew Frankel
Hi, good morning, guys. Thanks for taking the question.

Randy Rogers
Sure, thank you.

Martin Tewari
Hi, Matt.

Matthew Frankel
Couple of questions. First is on the new outside sales agent program. I just want to better understand what that program is. I know a lot of companies that have introduced the program tend to battle a conflict between the independent agents and the in-house sales people, or there's a fine line to walk there. Can you talk about walking that line, and just explain that program a little bit better?

Randy Rogers
Sure. We're focusing on secondary markets, where we don't plan on making our own direct investments any time in the near future. Call it the fly-over states, if you will. You're absolutely right on the conflict issue and concern. Fortunately, I have a lot of experience and some scar tissue from that very experience, in my previous stops. We're designing our program to be very disciplined. We're not looking to sign up every person who might want to represent our brand in the marketplace, but being quite selective.

Unlike many other programs, we are putting geographic and market restrictions on our agent candidates where they will have a pre-defined list of customers that they have insight and relationships to that we do not have, to speed the sales cycle on our behalf. They'll be working closely with our regional center managers, to make sure they're part of our sales strategies and market engagement, and not another competitor in the marketplace.

Matthew Frankel
Okay. Is there a goal to get to X amount of agents over X amount of time, or is it just grow as much as you can grow it?

Randy Rogers
No, we have some specific goals. We have a very experienced talented leader over that segment, and she's got some very clear goals for agent recruiting, between now and the end of the year. I have some aspirations for a significant contribution to our revenue and margin results in 2017.

Matthew Frankel
Okay. On the fleet side itself, because you're shaking down another 8% from where we are today by the end of the year. If the market weren't to improve much from where it is today, and we have just a natural capacity tightening in the marketplace, would you actually expect to reduce the size of that fleet a little bit further next year? Where do you think you'll be at the end of this year, relative to where you want to be? Is it idiosyncratic with USA Truck, or is it more "just see where the market is and we'll take it from there?"

Joe Kaiser
Matt, I think you're exactly right. This is Joe. We're going to match our fleet to the demand out there in the market, and keep it in line with that. We're not going to be reckless and chase the rates down.

Matthew Frankel
Okay. In the used truck market, I think your net CapEx for the quarter; you said earlier it was about $16 million. That's right in the middle of the range of what it will be for the year. What does the used truck market look like, in terms of pricing today? How conservative do you think you're being with what you expect to get for the assets you've got, and does it even really matter? Is it just a matter of you need shrink the fleet today and over the next few months, so whatever the market is, the market is?

Joe Kaiser
Yes. I think that that's exactly right. The market is soft as we all know. We think that there's more value to the company, long-term, to get these assets off our books.

Matthew Frankel
Okay. Fair enough, understood. Thanks for the time, guys.

Randy Rogers
Thank you.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Randy Rogers for any closing remarks.

CONCLUSION

Randy Rogers
Okay. Thanks, everybody, for attending the call, and for asking insightful questions. We're planning to be in Boston for the Cowen Conference on September 8th, and hope to see some of you there. We also look forward to giving you our Q3 update in November. Enjoy the rest of the day, and the rest of the summer. Thank you.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.