

USA Truck

Second Quarter 2017 Conference Call

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**CORPORATE PARTICIPANTS**

**Jimmie Acklen**

**James Reed** – *President and Chief Executive Officer*

**Jason Bates** – *Chief Financial Officer*

## **PRESENTATION**

### **Operator**

Good day and welcome to the USA Truck Second Quarter 2017 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 0. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then 1 on a touchtone phone. To withdraw your question, please press star then 2. Please note, this event is being recorded.

I would like to turn the conference over to Jimmie Acklen. Please go ahead.

### **Jimmie Acklen**

Good morning and welcome to USA Truck's Second Quarter Earnings Conference Call. Joining us this morning from the company are James Reed, President and Chief Executive Officer, and Jason Bates, Executive Vice President and Chief Financial Officer.

Please be reminded 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. And such statements are subject to the Safe Harbor created by those sections, and are made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995 as amended. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements. Please 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 & Exchange Commission. Any forward-looking statements speaks only as of the date on which it is made.

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 statements. A reconciliation of these non-GAAP measures to GAAP is provided in the tables at the end of the slide presentation that is accompanying today's conference call.

Now, I will turn the call over to James.

### **James Reed**

Thanks, Jimmie. I want to start by acknowledging the various new additions to our leadership team, which were all onboarded in the second quarter, which you can see on Slide 3 of the presentation. Jason Bates, our EVP and CFO and Cheryl Stone, who is our Senior Vice President of HR, were both announced at our last earnings release and have had the immediate impact and heightened our capabilities just as expected.

Werner Hugo joined in the quarter as our Senior Vice President of Trucking Operations, and as a former driver, trucking company owner, and operational leader in other US-based transportation companies, has brought an energy, accountability and perspective to the day-to-day operation of our business that has even exceeded my own high expectations. We also added Kim Littlejohn as our Chief Technology Officer in the quarter. Kim has many years of Logistics experience and her abilities will prove invaluable in getting us on a technology roadmap to compete with the best in our industry.

Rick Hainen returned to US Truck as our Vice President of Revenue Operations where he leads our network, pricing and customer service. His is an end-to-end accountability to the operational elements of the revenue cycle. He is widely regarded as one of the best in the business, and that will become

apparent as we talk about the quarters' result and his immediate contribution upon joining our team.

Finally, Allen Lowry joins USA Truck as our Vice President of Safety, just here in the third quarter. Please reference our press release from earlier this week for more on Allen. Know this, though, his role is as important as any on our team and we are counting on him to make us one of the safest organizations in American industry, not just in transportation.

The second quarter marked my first full quarter as CEO and my immediate priority was to assemble a leadership team that is capable and committed to helping this company return to profitability in short order. As I look at our team, I'm confident we have delivered on that objective. Each of these leaders has had an immediate impact on our business in meaningful ways, and all have either relocated or are in the process of relocating to the Van Buren/Ft. Smith area. And that is noteworthy, because it hasn't been the case in the recent past. We now have a team with families in our communities, children in our schools and on our sports teams, and a combined unified and equal interest in our mutual success. In fact, Werner is not in the room with us today because he is literally moving his belongings to western Arkansas as we speak.

Each of these leaders truly represents the type of principled, focused, experience and results-driven people that it will take to get USA Truck to its full potential. We know this will not happen overnight; however, this new leadership team and I are helping the entire organization feel the appropriate sense of urgency around immediately improving results. While we are not happy with the consolidated results for the second quarter, they do show progress in the specific focus areas we had previously outlined. And with the team now fully assembled, we expect progress to accelerate.

Just as we said last quarter, our approach is working as we again improve yield, we again improve tractor productivity and we again improve our revenue proceeded truck in the quarter. It's true that we have further to go, but we are outpacing the industry in our operational improvements and we see that as a positive indicator of our potential.

Let's now turn to Slide 4 for a look at our consolidated results. The second quarter was filled with relatively soft freight markets throughout the quarter. The freight trends in April were slightly lower than the other two months. As we progressed through the quarter, our focus in our Trucking business was on unlocking rates through changes in network management and working hand-in-hand with our customers to accomplish this without compromising our service. The Logistics environment throughout the second quarter remained relatively soft as well as capacity tightened, costs rose and margins were under pressure.

June was the best month of the quarter with much of that momentum carrying over to July for a strong start to the third quarter. July has historically been a seasonally difficult month in our business, and the Fourth of July holiday caused the month to get off to a slow start in both our Logistics and Trucking businesses. However, we have been pleased with the positive momentum coming out of the holiday in both volume and pricing as the month continued to build.

For the second quarter, consolidated operating revenue was down 2.3% over last year, and we had an operating income loss of \$3 million or a net income loss of \$2.8 million. Our operating ratio was 102.8, below our results for the 2016 period.

There were a couple of noteworthy items recorded during the second quarter that we want to draw your attention to, as we feel they are unusual in nature and should be taken into consideration when evaluating the operational results for the quarter. The \$2.8 million net consolidated loss included the following: a \$1.3 million or \$0.10 per share net of tax expenses related to the onboarding of our new

management team for the relocation and sign-on expenses; there is also a \$300,000 or \$0.02 per share net of tax related to the change in the expensing of board compensation. I want to be clear that the board of directors elected to receive their customary annual equity award in cash and each director then used the net tax proceeds to purchase shares in the open market. This decision was made to preserve shares under our 2014 omnibus incentive plan, especially in light of the company's recent stock price that consumes more shares when granting awards. The net results is an acceleration of expenses into the period, but not an incremental increase in director compensation for the year.

Another item was \$300,000 or \$0.02 per share net of tax relating to non-[indiscernible] liabilities to various jurisdictions that was also recorded in the quarter. And finally, we had \$100,000 or a penny per share net of tax of severance costs related to some personnel changes in the quarter.

Also recall that in 2016, the company bought back shares and then in the second quarter of 2016, there were 700,000 or 8.1% more diluted shares outstanding, which accounts for approximately \$0.03 per diluted share of the consolidated earnings impact on a comparative basis.

In Trucking, we had an operating loss of \$4.8 million, largely driven by a smaller seated tractor count. We had 159 fewer tractors than we did in the second quarter of 2016, which had they been seated, would have accounted for an additional \$6.3 million in additional revenue.

Another contributing factor was carrying more unseated tractors than expected in the fleet that we did have. These challenges were partially offset by improvements in rate, combined with an approximately \$2.4 million improvement in operations and maintenance expense year-over-year, or \$0.04 per mile.

In Logistics – and this is a huge accomplishment given the environment – we generated a 4.2% increase in operating revenue when compared to the same period in 2016, and an impressive 14.1% sequential increase. We generated operating income of \$1.9 million in the second quarter of 2017, which was down \$300,000 from the same period in 2016, but a remarkable increase of 157.5% sequentially.

Let's now move to Slide 5. As I alluded to previously, we instituted new leadership in our Trucking business, which was a key factor in the second quarter, as Werner Hugo joined the organization on May 22<sup>nd</sup> and Rick Hainen joined May 30<sup>th</sup>. They both were on board for the last month of the quarter. Their immediate focus was on key metrics such as revenue per seated tractor per week and miles per seated tractor per week, which has led to immediate progress.

Although the second quarter started off disappointingly in both revenue and utilizations, we saw improved market demand in the impact of our network engineering initiative as rate increases began to take hold in May and June. Notably, rate per loaded mile increased \$0.05 per mile in the second quarter 2017 when compared to the second quarter of 2016, moving from \$1.71 per mile to \$1.76, or nearly a 3% increase. We believe this is a unique accomplishment when compared to the industry this quarter and speaks to the work of Rick and our network engineering team in conjunction with Werner and the operations' teams execution on the network changes.

This quarter's results continue our string of revenue per loaded mile increases in three of the last four quarters, and represents our highest rate per loaded mile in the last five quarters. The combination of gains in truck utilization at the higher rate per mile led to improvement in revenue per seated truck per week, highlighted by the second quarter of 2017's \$3046 per seated truck per week compared to the second quarter 2016's \$2969. That's an increase of \$77 or 2.6% year-over-year.

I think it's worth noting that June's revenue per seated truck was 3,181, nearly 6% higher than the

same month last year and 5% higher than just this May. And June miles per seated tractor was 2,070 miles per seated tractor, up 57 miles versus Q1 and 58 miles versus May, or 3% higher. That's immediate results from Werner and his team.

This is all about asset utilization and the ultimate measure of that utilization is revenue per truck per week, which we are steadily and consistently improving through our efforts. Additionally, in the quarter, miles per seated truck per week marginally increased year-over-year from 1985 miles to 2007 (miles). Revenue per truck and utilization per truck improvements reflect a more efficiently deployed fleet of company assets.

Our unseated truck count is above our expectations and has been an inhibitor to topline revenue progress. A smaller fleet this year put a greater premium on seating trucks, and we have come up short, ending the second quarter with 8% unseated trucks; effectively flat over last quarter. As a reminder, our goal is to maintain this measure around 5%.

Last quarter, we outlined a number of retention initiatives that have worked as planned to address this issue. However, when we realized our retention efforts were not increasing seated trucks, a deeper analysis revealed our recruiting efforts as the culprit. We have immediately responded to this by increasing our capacity recruiting, engaging outside recruiters to help fill our pipeline, and increasing targeted spend and internal driver-based recruiting efforts to drive immediate results. Although this is just a point in time, I'm pleased to say that as of today, our unseated truck count is down to 112. So significant, immediate improvement.

I think this example is worth spending a little time on because it indicative of how we are doing things at the new USA Truck. We failed on this metric, period. As long as we fail fast, use analysis to root cause the problems, and immediately enact countermeasures as we did in this case to address shortcomings, I'm okay. That's exactly what we've done here.

So our outlook in the second half of 2017 remains positive. Q3 market conditions are favorable, which combined with accelerated traction from our earlier rate, network and operational improvements, lends support to improved performance expectation. Leadership's time and attention is focused on the key operational metrics of a well-managed truck operation. And while the market is helping, we are not relying on it to improve our results. We control that ourselves.

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

### **Jason Bates**

Thank you, James. I'll go ahead and cover the USAT Logistics portion for the call today and would like to excuse Jim, who is spending some well-deserved time with his family. So, turning to Slide 6, the second quarter of 2017 for USAT Logistics started with the same general market challenges experienced during the previous three quarters. April demand for capacity in the brokerage market remains soft, and Logistics revenues and margins proved disappointing. We saw improving market conditions in May, which were more favorable to our Logistics Asset Life Operating model, and led to the strongest month since March of 2016. June continued to strengthen through the month.

While second quarter revenues were up \$1.4 million, or 4.2% over the same quarter in 2016, gross margins still trailed prior year. Even more exciting is the fact that the sequential quarterly improvement in revenue was close to 15%, and more than 18% in the month of June. This revenue growth reflects year-over-year improvement for the first time in ten consecutive quarters, despite a difficult operating environment.

Margins are similarly strong and improving. For June 2017, year-over-year gross margin increased 16.8%. We are encouraged that this trend has continued into July with both revenue and gross margin improving year-over-year.

Despite the improving financial results, we continue to focus on cost control and improving our operating model. Late in the second quarter, we closed one of the last remaining branch model locations in support of our regional center network model concept. Our two largest regional centers are delivering the kind of result that validate the migration to this model, generating second quarter year-over-year revenue increases of 54% and 77% respectively.

The combination of office closures, along with other headcount reductions, eliminated over half a million dollars in annual expenses for the Logistics segment. Last month, we realigned our carrier manager duties with the geographic origin of the freight versus the location of the customer relationship. This will allow us to develop deeper carrier relationships, strengthen market rate and capacity knowledge, create greater density and realize the associated leverage to improve our buy rates, which will positively impact yields.

The improvement in revenue and margin, coupled with the operational changes noted above, give us confidence in our strategy. We will continue to stay the course, support and expand our customer base, while aggressively managing overhead.

Turning to Slide 7, I'll give you a quick update on our balance sheet and liquidity. As of June 30, 2017, our total debt and capital lease obligations net of cash, or net debt, was \$127.6 million and our stockholders equity was \$51 million. Net debt to adjusted EBITDA increased sequentially to 6.4 times compared with 5.6 times as of the end of the first quarter.

The company had approximately \$42.2 million available under its credit facility as of the end of the second quarter. We have a modest cap ex plan for the remainder of the year. Any free cash flow will be directed towards the repayment of debt with the goal of further reducing our leverage ratio to more comfortable levels.

Through the actions discussed by James, we expect our operating cash flow to increase over our 2016 levels. Then noting this outcome, coupled with our reduced cap ex requirements for the remainder of the year, we expect to make significant progress on reducing our leverage ratio towards our long-term goal of 2.5 times to 3 times adjusted EBITDA.

With that, I'll now pass the call back over to James.

**James Reed**

Thanks, Jason.

As a recap, I'd like to highlight some of the comments we made in this and prior releases. We have previously provided operating income improvement ranges as outlined on Slides 8 and 9, and remain committed to these initiatives. Our team is now in place. As Werner and Rick have hit the ground running, we saw immediate impact in our revenue per tractor per week and our operational execution that we expect to continue and accelerate in coming quarters.

Allen is starting a journey to make us one of the safest fleets in our industry, which will affect lives and save costs. We will update you as that strategy takes shape.

We have noted our relentless focus on fixed cost reductions and we have kept that commitment. We

targeted \$3 (million) to \$4.5 million in fixed cost reductions in our third quarter of 2016 release. As of last quarter, we indicated that we had about \$1 million to \$2 million remaining through the remainder of 2017 to hit that goal. And in the second quarter of '17, we delivered on that commitment by eliminating another \$1.6 million in annualized fixed cost headcount reductions.

We expect to grow to 20% of our fleet and independent contractors, and we ended this quarter at 18% of the fleet. We are on track and now refining our model to ensure its positive contribution to net results. We expect USAT Logistics to generate approximately 35% of consolidated revenue by the end of 2017. In the second quarter, it represented just north of 33% of consolidated revenue. And our Logistics business grew revenues, as Jason said, quarter-over-quarter for the first time in ten quarters.

We expect improved cash flow and EBITDA versus 2016, sufficient to cover future cap ex requirements going into 2018 and maintaining our fleet strategy. We reiterate an expectation of a return to operating profit in the third quarter of 2017 and beyond, especially as expected industry dynamics materialize.

We still hate losing at USA Truck and are disappointed to report these results. But as noted above, we are making and keeping the commitments made to the market and our employees, and confirm that the actions we have been taking are the right ones to build a solid operating company with a bright future and more consistent results. As we evaluate our journey to this point, we see a natural progression in rehabilitating a company that was not well. In recent quarters, we wrote down assets held for sale to appropriate levels. Next, we reevaluated reserves on claims. And most recently, we incurred expenses to bring on one of the best teams in our industry and tighten up execution administratively. Those things are unusual in nature and if we consider them in that context, we'll have a quarter that while yet unprofitable shows real progress. We are running a transportation company that has seen Logistics growth for the first time in 2.5 years, and a Trucking business with fundamentals improving steadily quarter-after-quarter, and an environment that looks like it may help a bit in the coming quarters.

We are more in the details and day to day grind than just about anywhere I've ever seen before and we love it. And our response to improved results is to raise the bar higher and higher until we take our place as one of the best names in the business.

So with that, Francesca, I'll hand the call back over to you for Q&A.

## **QUESTIONS AND ANSWERS**

### **Operator**

We will now begin the question and answer session. To ask a question, you may press the 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 the star then two.

The first question comes from Brad Deck of Stevens. Please go ahead.

### **Brad Deck**

Good morning, James. Good morning, Jason. How are you?

### **James Reed**

Hey, Brad. We're well, thanks. How are you doing?

### **Brad Deck**

Good. James, you probably answered most of my questions just given all the detail and I appreciate all

the color you provide us, but I want to touch on the unseated truck count because to me that was the key issue here in the quarter and I know you alluded to seeing improvements. Just want to get more details on what is driving the improvement in the unseated truck count. Was it the market, things strengthening in June or do you think it's something more specific than that?

**James Reed**

I think there are two things and I'll address them really head on. So the first one, Brad is, as we said in last quarter's release, we put some retention initiatives in place around what I call a concierge, white glove onboarding service for new drivers that has been really successful. We have a team internally that has been focused on driver retention. And although we don't repeat the number, we've seen especially our experienced driver retention improve significantly to what I'd say is kind of in the range of industry average turnaround. So that's real progress for us. But as that was going through the quarter, we saw about halfway through the quarter that those efforts weren't materializing into improved seated tractor counts and I really personally take accountability for not realizing it sooner.

So we had a rather heated discussion in my office where the analyst in me kicked in and we very quickly discerned that we didn't have enough recruiting capacity on our recruiting team to handle the recruiting leads that we'd been getting. So it's really not a market dynamic, it's more of a recruiting shortfall. So what we've done immediately is we've added two recruiters. We are adding some temporary recruiters. We've gone to some outside recruiters to help us fill our pipeline and it is absolutely the most important thing. I think I've been consistent on these calls and in our discussions with the market to say that the two things we're focusing on is seating trucks and raising prices. We've done a great job raising price, but seating trucks, we're focused on it right now.

Then your second question is, well, why is it suddenly better? It's suddenly better because all of those things that I talked about are taking root over the last two weeks as we got our advertising spend and our targeting really started materializing. And the last two classes, both this week and last week, were significantly larger than the classes we had in prior weeks. So, sorry to get so tactical, but it's at that detail level where we're working.

**Brad Deck**

Just to be clear, I think we heard some of this from other industry calls, the driver market is challenging. Some people are willing to push through driver wage increases without corresponding rate. I shouldn't read into this. Is that something that you've contemplated or are doing?

**James Reed**

I'll just remind everybody that we were on the front end of that curve. So we consistently benchmark our driver pay strategy against the marketplace with some readily available data. We realized in Q1 that we were a little bit lower than we had hoped to be, so in April we instituted a driver pay change that on a weighted average basis we estimated to be about a penny and a half per mile. In our last call, what we told the market was that it's about a \$1.8 million annualized impact of that increase. So, we already did that.

**Jason Bates**

Just to add to that, Brad, we feel like obviously for the drivers it's about the total take home, and we have a lot of – right, wrong or otherwise – opportunity with regard to the amount of miles we put on these trucks every week. Therefore, with the relatively competitive pay structure that we have in the market, we get them more miles. It helps accomplish the same thing.

**Brad Deck**

Absolutely. And then, James, I think last quarter you said you expect to see \$6 (million) to \$10 million



of operating improvement. I think I saw it on the slide, you've changed that range. But that, in terms of how we should interpret that guidance and I think maybe you reference something relative to EBITDA as well, you expect to see that type of improvement relative to 2016. Is that fair?

**James Reed**

Thanks for asking that question, because we probably should have addressed that. Yes, we still think that range is appropriate. Yes, it's fair. Yes, it's a comparison versus '16, but don't forget, if you now look at Q1 and Q2, we had that \$4.5 million bogey that hurt us with respect to claims adjustment, reserve adjustment in the first quarter and this \$2 million of exceptional items that we just talked about on the call here. So I would net that against those to get an idea of where we think we're going to land vis-à-vis last year.

**Brad Deck**

So if I do that, and I've done that math, it suggests that you're going to generate \$13 million of operating income in the second half of the year? It seems like a pretty dramatic inflection, unless we should just go through this offline.

**James Reed**

I think we should talk about it offline, because that's not where our head is right now. I think we need to talk about this a little bit more with you, Brad, and with others. So let us take a look at it. If we need to update some disclosures to make sure everybody's aware of what we really think on this, we'll do that. It's a fair question.

**Brad Deck**

Finally, Jason, these unusual items, is there any color you can give us on what specific cost buckets those impacted in the quarter? And then maybe if those expenses were allocated to USAT or Trucking, because I think when you guys were talking about the ORs in each of those segments, those were on a GAAP basis. I'm just curious if you have allocated any of these unusual items to those specific segments?

**Jason Bates**

Yes. Fair question. So, the \$1.3 million is recorded under salaries and wages. The \$300,000 associated with the acceleration of the board of directors compensation would be recorded under Other. Then we have the settlement of the liabilities which would also flow through Other. Then finally, we have the \$100,000 of severance, which also flows through salaries and wages.

Now as it relates to the allocation to the various segments, it does get allocated out to both the Trucking business as well as the Logistics business. Each of these different line items have different types of allocation methodologies that we use, different drivers, but the methodology is consistent.

**Brad Deck**

Okay, that's good enough. Thanks, Jason. Thanks, James, for the time.

**James Reed**

Thanks.

**Jason Bates**

Thanks, Brad.

**Operator**

The next question comes from Jason Seidl of Cowen. Please go ahead.

**Matt Alcott**

Good morning, gentlemen. This is Matt Alcott for Jason. Thanks for taking our question. I was wondering, you did reiterate your operating profitability target in the third quarter. I was wondering when you expect to maybe reach a net profitability. And once you reach operating profitability in the third quarter, how sustainable do you think that is beyond the third quarter and into 2018?

**Jason Bates**

Great question, Matt. And James has talked about this a lot, and we want to be careful here. We have a lot of internal goals and targets that we've set for ourselves and James alluded to the fact on the call that once we achieve one, we raise that bar and raise that bar. So, I think James has stated publicly that we strive to be profitable every day. As it relates to getting to that net income profitability, we haven't given a firm timeline for that, but I will tell you that that is the goal. But as it relates to right now, we're looking at a company and I've been here just a little under 90 days now and we're trying to do a lot of things in a short period of time, and some of those things are going to take some time to take hold, but we also recognize that it has to happen faster. So our goal for the third quarter is to generate operating income profitability.

Then in terms of your question about sustainability, we don't plan on turning back. So the intent is to take that operating income profitability and build on it each sequential quarter so that we get some positive momentum, positive trajectory, and that each year, each quarter we're having year-over-year improvement, and that's been the goal. And while we don't provide monthly financials, I think if you were to look at the trajectory setting aside one-time items that we experienced, in the second quarter, quite frankly, from April to May to June, I think it would give you some comfort around the trend and the trajectory that we're seeing. And we're, like I say, cautiously optimistic about that direction.

**Matt Alcott**

That's very helpful, Jason. Thanks for that. Would you then say that you are a bit more confident in reaching the operating profitability target in the third quarter than you were when you first talked about this?

**Jason Bates**

Well, I can speak for myself. When we first talked about it, I'd been here for like two days. So, I can say definitely I'm more confident now having been here for 90 days than I was when it was said after I'd been here for two days.

But in all sincerity, Werner has been here for a month, month and a half. Rick's been here for a month. And the things that I've seen them do in terms of execution, in terms of revamping the network and the things they've been able to unlock in terms of value creation that just given my 15 years in the industry, some of these things are part of the reason I'm here. There are certain levers that are going to drive huge value, and rate is one of them, and we're unlocking a lot of rate. And it's not by going to customers and demanding huge rate increases, although we're working on that as well, but it's just we're being smarter about how we manage this network. There's a lot of untapped potential here and the quicker we can unlock that and the more time we give Rick and Werner in their seats to be able to do that, the sooner we're going to be see some really positive results here, and we're excited about it.

But again, James says it all the time and he's ingrained it in my mind, too, this can't happen fast enough. So we want everyone here to know that while we want to be cautious and realistic about the timetable for the turnaround, internally we are pushing very hard and we recognize it needs to happen yesterday.

**Matt Alcott**

Got it. And now that you've been there, you've been at USA Truck for a few months, and this is also for James, you guys knew there were major issues that needed to be addressed coming in. Would you say now that you've been there a few months things are actually worse than you thought they were or not as bad?

**James Reed**

I'll take that one first, Matt. It's a great question because I'm trying to remember where my mind set was nine months ago when I first started at USA Truck and talking to folks.

Look, my job immediately before this was also a turnaround at a trucking company, which for a period of time we more or less accomplished. And the issues that are here at USA Truck I would not say are unique. There was an era of family-owned trucking companies or newly started or even public trucking companies that had trouble with technology; that had trouble with generational handoffs from the first to the second to the third generation of leadership; it had trouble with consistency of execution, discipline and just day to day rigor and decision making. I think it's fun to sit back and hear Jason talk to you guys, because, one, you know him, but two, to have somebody that's so equally minded and equally yoked in helping turn this business around. And if Werner and Jim were here, they're right in this with us together. So it's no worse than what I expected, because I've seen this movie before and we know how to fix it.

The thing that I will say to you is I have confidence in our team fixing some administrative things that we don't talk a lot about, but the discipline that was missing in our network, in our pricing, in our execution also existed in our back office. So as we've been rectifying those things and improving those things, you look at a transportation business that, frankly, it's not that complicated. We fix the fundamentals, which we substantially have done over the last three quarters, and begin operating at our potential, as Jason said, around price and around productivity, we have a great opportunity to be just as good as anybody else in our space. So, my synopsis to your question would be, no, it's no worse than what I expected. There are little gremlins that you find occasionally that can be incredibly frustrating, but every company has those and we're working through them methodically and we're working through them quickly. So, I don't know if you have a different opinion, Jason.

**Jason Bates**

I would say having been in a little bit of a different environment for the last 14-15 years, but having been through various ups and downs in that prior life, when I looked at the financials, when I talked to people in the industry, I asked a lot of questions of a lot of really smart people, several of you and your peers as well. And the thing that stood out to me was that there were a lot of very fixable things, and that's what got me excited. I looked at a lot of these things, whether it be cost, take outs, whether it be rate enhancement, whether it be utilization, and those things are very fixable and scalable as well in terms of the impact that they have.

So, yes, were there things that as I got more into the details over the last 90 days that I was like, "Ah, that's a little bit of a nuisance and something we need to deal with"? Yes, there have been some of those. But some of those things just come with having five different CEO's over the last five years and people throughout the organization getting a little distracted and people focusing on one thing and then shifting gears and focusing on other things. And so for me what I was really looking for when I came here was do we have a team that really wants to win and can we provide direction and strategy and leadership to them, and then get out of their way and let them execute? And are they willing and capable and do they have the desire to do that?

And the answer to that after 90 days, from what I've seen, is absolutely. We have a great group of

people here, we have a great team. We have great asset base, we have a good customer base, and now it's just a matter of putting it all together. And I'm excited about the opportunity, because in spite of what many would say are headwinds or things that we have done to ourselves over the past five to seven years, I look at that and I say there's a ton of untapped potential and a lot of opportunity.

So, on the one hand it can be a little frustrating and it can't happen quick enough. But on the other hand, it's like, man, when we get this thing, all these different things going in the right direction, this is just going to be exciting.

### **Matt Alcott**

You guys have provided a lot of great detail on your plans and the improvements so far. That's very, very encouraging to see that. Going forward, things that you don't control, there are many dynamics going on in the trucking industry right now, there are some opportunities and there are some threats to the opportunities. The rate environment seems to be recovering, that's starting to look more and more sustainable as we go. On the other hand, we have ELDs, which could exacerbate the driver retention issues. What keeps you up at night? I know you're doing all the things within your control and you feel very confident about the steps that you're taking, but what is it that you dread maybe waking up and hearing something that you did not expect in the market? What's the major potential threat that you wouldn't control that could derail your efforts?

### **James Reed**

I'm a finance guy by training, I come from that side of the house, and so my answer will probably surprise you. With respect to the market, there's not a lot that keeps me up at night. We have to remind ourselves, depending on which one of the sell side guys I look at, the market's between \$500 (billion) and \$700 billion. It's a gigantic market. And so my perspective is that there's plenty of freight for great operators.

Even in a down market, there's plenty of freight for good operators. So, some of those things that you talked about, ELDs, shifting rate environment, even a prior question we had about driver availability, those are realities of our market, but they don't keep me up at night.

The thing, honestly, that keeps me up at night is our people. How do we keep our people safe? How do we teach them correct principles such that they can govern their own daily actions and make the right and best decision, because the force multiplier that comes of getting that values alignment and goal alignment all the way down to every soul in the organization, that to me is the hardest part of our job. It's taking an organization – I said this two quarters ago – we have a company that's gotten used to losing. Last night with the passing of Notre Dame's famous coach who brought them back to glory, that team, he said, got used to losing and he taught them to win again, and we're trying to teach our people to win again. And as Jason alluded to and I gave some specifics in my remarks, we have outstanding performance on a revenue per tractor per week in June. We have significant, measurable increases in our productivity per tractor. Those things are not from inanimate objects; those are from human beings doing their job and getting it better and getting it right every single day. So for me, the thing that keeps me up is getting this into the hearts and the souls and the bones of the people that work with us and for us.

I know that's kind of a mushy answer, but that's really what concerns me most about our path forward.

### **Matt Alcott**

Great. Thank you very much for that, James. And thanks very much for the time, James and Jason.

### **James Reed**

Thank you.

**Jason Bates**

Our pleasure. Thanks, Matt.

**Operator**

The next question comes from Kevin Rendino of 180 Degree Capital. Please go ahead.

**Kevin Rendino**

Thanks, guys. A couple of my questions have been answered. Really two questions – one is big picture and one is in the weeds.

On the big picture, can you talk about ELD? A lot of attempts to stuff bills and get the thing delayed here, so anxious to hear your views on what's going to happen between now and the end of the year.

Then, back to just in the weeds, you talked a lot about specifics relative to the unseated tractor problem that you're undergoing. Can you talk about specifics? I know you mentioned execution and unlocking value. Relative to the average miles per seated truck per week, what are one or two of the things that you actually are doing that's enhancing those numbers? I know you're enhancing the numbers; I want to know how. Those are my two questions. Thanks.

**James Reed**

Sure thing, Kevin. I'll answer both of those. So thanks for asking.

On the ELD picture, yes, we've all seen the pieces and the squawking, if you will, about some legislation hitting the floor. Look, I'm not a politician. I don't know what's going to happen. Here's what I do know is that we have had ELDs in our trucks for the last two years. Any productivity impact that's occurred to us or other big carriers that are playing by the rules – small carriers are playing by the rules, for that matter – has already impacted us and we're living with it day to day and we're figure out how to be even more effective every single day.

I will say that as the leader of the company, I actually, irrespective of what Congress decides, I think ELD's are a good thing for our business. It helps us to be safe, it helps us to be compliant with the rules that we have committed to play by and it help us be more disciplined in our day to day execution. Maybe going a little further than you wanted there, but I don't know what's going to happen, but I think ultimately it's a good thing for our business and it helps us manage more tightly and more disciplined fashion.

On your question in the weeds, I'll give you some real specifics about what we're doing to improve miles per truck per week and the network and the pricing because I think those were inter-related things. So, I've described in the past, to many of you, that if you look at the network that we inherited when we got here it's like taking a game of pick-up sticks, and dropping it on the table. And if you look at the freight characteristics and net worth in the US, the preponderance of the freight is east of I-35 in this country, which, not coincidentally, is where we run, but we've lacked discipline in running that in a dense way.

So, with Rick coming on, we've identified through some pretty robust analytics where are our power lanes that we want to run, where we have customers on those lanes. We've used our sales force to go target those lanes to fill in freight where we didn't have it. Then, I'll just give you a very specific example. We did a five-week analysis of our density on our network. One of our biggest and best and more important customers for us had sent us, over a 5-week period, on 800, one-way loads that didn't

have back haul associated with them. We wouldn't characterize them as being in our core network. That could be devastating if not managed well.

We went to the customer and instead of just cutting him off, said, "Hey, look, we know you want us to be profitable because no one wants an unprofitable partner in the business," and as I said, they're a great partner. We suggested some alternatives. They came back to us. They immediately helped us improve the network and densify it. I'm happy to say we're not running those 800 one-offs anymore. I think of those a lot like an athlete that off balance. You get a driver out of your network without a back haul with a lot of time to get online and find another job and get frustrated. You have higher fuel costs. You have higher over the road repairs because you don't have economies of scale, but being in the densest part of your network. There are a lot of bad things that happen. Like an unbalanced athlete, you can push us over with one finger when we do that.

So, that's a specific example where we went to a customer; we remediated it almost immediately, and it had two, really important effects. One, it increased the trust and confidence between the customer and us. Two, to your question, it improved our ability to run miles respectively and efficiently. It helped us raise our price. It helped us with our drivers. So, we're really happy about those kinds of things. And it's at that level of tactical execution that we're looking at this every single day.

**Kevin Risen**

Thanks, guys.

**James Reed**

Thanks, Kevin.

**Operator**

The next question comes from Andrew Stein of AJS Capital. Please go ahead.

**Andrew Stein**

Hi, guys. Interesting commentary. Just had a couple questions, a little macro in nature. You guys talked a little bit about going through five different CEO's and different people trying to optimize the network, but when you look at it today, I know a lot of folks are talking about rate going to bounce, but if you look at a well-run trucking company, Jason worked at Swift, or Knight (now they're the same thing), these companies that are spot market trucking businesses— they're doing 20 ORs and EDORs 20% operating margin and then, when the world ends, and freight comes out, they end of going low double-digits. At 110 operating ratio, that looks like— I don't know what this business looks like with lower rate and lower volume, 130. You guys aren't generating any profits. You have 130 of debt.

If I look at a well-run company like Knight or Swift, maybe you chime in on Interstate— these companies, their networks are balanced and utilized because they're well-run organizations, but those organizations started with two trucks, and then, they built the network around that. So the network built over 30 years.

So now, you've got a pick-up stick network. You gave a nice little story about how you fixed the back haul, but as you're well aware, in a game of pick-up sticks, if you've got one, and you fix it, you've still got 50,000 other sticks on the ground. My question to you would be, as an executive at this company, you've got two roles: one to protect shareholders, and two, to protect the people within the organization. It sounds to me like you guys are optimistic. You're working through it, but how do you balance protecting shareholders because when I look at the financials of this company, it looks like if rate comes down or we hit an economic thing, this company is dead— I mean more than dead.

So, I'm just trying to think about how you balance that. The previous CEO gave guidance. Then, in four weeks, they missed it. I know you guys aren't giving guidance, but this is a company that's never been able to perform. In many ways, this is a company that— I don't know. To me it seems to be like it's the more likely chance that this company goes bankrupt and doesn't make it than not. So, how do you balance trying to operate against your plan and then trying to make sure that you preserve some semblance of shareholder value?

**James Reed**

I understand, Andrew. Thanks for asking the question.

**Andrew Stein**

I've got one after when you're done, more granular but thank you.

**James Reed**

Yes, sure. So, a couple things. Part of why I love the pick-up stick example, for those that have played the game, is not only are there more sticks lying there, but when you move one stick, you sometimes move other sticks. That's the same thing that happens in a network model.

I think one of the key differences, not in all, but in some of the examples that you offered, is exposure to spot rate versus contracted rate. What we have found is, as we go to— and these are name brand, the usual suspects that are the top 10 or 20 customers. As you go to them, they want stable, contractual relationships. We play less than 5% of our businesses in the spot market. We do very little in the spot market. So, going back to my earlier comments on Kevin's question, we believe, (1) there's an abundance of freight even in low times; (2) that relationships matter in this business and that being able to service at a fair price with your customers provides you some insulation in even tougher times. The third thing I would say is, as we look at this abundance of freight, it becomes about your ability to put together a profitable network and be disciplined about staying out of the places that hurt you.

So, we think we have, in the June numbers that we shared in particular, real evidence that (1) there's upside, but (2) that upside is unique to USA Truck because of the reasons you outlined. We have not been as disciplined. We weren't built the way some of these were built. Because of that, in our own network, we've got untapped, unlocked value that, just by organizing ourselves better, we can get and will sustain the test of time. I will not provide guidance on this call, but I will tell you, my long-term expectation is that we're running a business that 8 out of 10 years is in that 88 to 92 OR space on trucking. That's where we're headed.

One other thing I want to say to your comment is, yes, I do have a responsibility for our employees. It's sobering at times. I take it very seriously. They probably won't like to hear this, but I consider it my highest priority taking care of our shareholders. Our shareholders aren't in the room to represent themselves. So, Jason and Jim and Werner and I have to do that every single day. We take that very seriously. So, our current thesis is the best and highest use of the precious resources that they've given us is to be a going concern and fix this and get the business performing at those levels that we discussed; but, we are ever mindful of the other alternative. As leaders, we have to be.

So, we think there's plenty of room in this market. We think there's plenty of room in our network. We just need to organize ourselves better. We think our strong dependence on contracted rate give us an opportunity to be more consistent over time.

**Andrew Stein**

Yes, that's helpful. One or two more things. The other thing is, when I talk to other folks about this company who've been invested off and on, one of the previous management teams had suggested that

the business needs to get bigger to become profitable. Basically, they said they were fully against shrinking the fleet because they thought that there would be deleveraging at terminals and stuff like that. It turns out that that person was actually right. Wrong about lots of other things, but right about that.

What it seems to me, at least looking at the results, is that as you shrink the tractor count, while some are in the per mile metrics and whatever based revenue and this, have improved or stabilized, you have this massive deleveraging that's coming from sales. Now, you would say, "Well, some of that is rate", which is 100% margin. Some of it is lack of sales.

So, there's two holes in that. One of it's going to be productivity of your existing equipment, but everyone's going to say we just be productive, productive, productive. The other argument is going to be, which is more sustainable, what is the correct cost structure to be associated with the lower revenue base. Understanding that your revenue base is going to be around, right, the rate is something you can't control. You can try and control as much as you want, try to get as much contracted business, this and that, still, they're going to push back. It's a commodity business. Do your best.

But my question to you back is, do you think that this business is subscale? What are you doing to reduce— and this goes to the employee thing and shareholder thing, which is this business is a big employer in Fort Smith, and everyone is always saying, "We want to save Fort Smith. We don't want to move it." There was talk about moving a company to Texas and lowering— the dispatchers cost less money, that taxes cost less money. It doesn't seem to me like you guys are taking the really hard steps to try and optimize the business. If your network is someone else, why do you have everybody coming back through Fort Smith to do maintenance. What I'm saying is, if this is really being run for shareholders and not employees, why have the really hard decisions not been made, which is really en masse reductions in headcount or moving the business or selling the building or doing— I don't know, doing stuff which can really get you to the bottom line?

Because, I think, as I've followed the story for a number of years, this has largely been a story around yield enhancement and revenue productivity. I think those are things that get built over a very long time, getting— relationships with great customers don't get built overnight. You don't just build a great relationship with contract overnight. Those are things that get built over time. You do good service; they come back to you. So those are things that I credit as a multi-year story, but the stuff that you can do to prevent insolvency— I look at this as almost inevitability. I don't know about you guys, but when I look at the financial results, insolvency is effectively an inevitability because the economy is great. You've got Amazon; you've got people moving stuff. This is not a bad economic environment.

So, my question to you is, what steps are being made to make sure that this thing, that insolvency isn't inevitability? To me, those are things which are— \$50 million in G&A costs. Moving the company. Doing things like that. Where is that in this plan?

### **James Reed**

Those are great questions. It almost sounds like, maybe on a microphone, in one of mine and Jason's recent conversations. We talked about all of these things, but actions are more important. If you go back to November of last year when I started, to date, we have cut over \$3 million in payroll costs out of our non-driving associates in that short period of time. I think that's a pretty hard and drastic thing to do that's gotten, we think, our cost structure more in line as compared to other competing transportation companies.

With respect to other big questions, we're not prepared to talk about some of those things, but I can



confidently tell you that we plan to be in the Fort Smith/Van Buren area long-term, but as it pertains to the rest of our terminal network and what we do there, we are working on some things that we'll probably share at a later date.

**Jason Bates**

One thing I would add to that is I think you have to take into account the scalability of things as it relates to rate and utilization and the impact that those can have on the financials. I'm assuming you've probably got models. You've probably run scenarios. The bottom line is, if you get a penny of rate, just one penny, you're talking about \$1.5 million that drops straight to the bottom line. When you got 8 million shares outstanding, that adds up real quick. Right? You start looking at profitability, not in the way distant future, but right around the corner, especially when you—

**Andrew Stein**

But how do you get a penny of rate? If you model rate—

**Jason Bates**

Yes, but let me finish talking. I'll help you understand. So, you look at the network. So, we talked about how just by reshuffling the network and saying no to customers on certain lanes and hauling more of freight in other lanes, just without going to customers and demanding rate increases, you can improve your rate per loaded mile, which has a straight flow through the bottom line. James talked about, just in the month, from May to June and June to July, since we've brought Rick on board and Werner on board, we've seen substantial increases in rate per load of mile. Again, we're going to continue to exact those types of rate increases as we continue to work on refining the network.

As you do those things, it's not a function of needing the market to dramatically improve or ELDs to have this gigantic impact to the bottom line in terms of capacity and imbalance in the market. It's a matter of us being smarter about how we balance our own network and extracting rate that way, irrespective of what's going on in the broader market.

**Andrew Stein**

I think we've heard that argument from other CEO's in the past, that it's all about there's an infinite amount of freight and it's how we manage our network. But, my question back to you is that, you look at rates where they were in 2008, '09, and '10, before we had that big boom in '14 or whatever you want to call it. Rates were so much lower. We can argue that maybe some of that has to do with driver shortage, and some of it is there to stay, but if you model similar rates to '12 or '13 against this cost structure, it's over. Game over. TNT.

So, again, I understand you guys want to fire bad customers and put in good customers and get your rate and load and all these things. It's one big calculus equation when it all comes together, but I'm having déjà vu because I feel like I'm hearing the exact same thing, over and over again. So, I'm just curious. Maybe you guys feel like rates can go down 50% and you can be profitable because of X, Y, and Z, but what if you're not? I still am not really gotten the question answered as to like what is the backup plan?

**Jason Bates**

If you're saying what rate go down 50%, well, tell me someone in the industry if rates go down 50% that's going to be just doing great.

**Andrew Stein**

No. Knight. Knight. Knight.

**Jason Bates**

Really?

**Andrew Stein**

Knight.

**Jason Bates**

Really?

**Andrew Stein**

Yes.

**Jason Bates**

Look at what happened to Knight when rates went down substantially back when the spot market bounced. So, their numbers dropped dramatically. So again, we're not Knight. We're not Swift. We don't have the capital structure or the infrastructure that they have, but we can scale based on what we have today. There's tons of opportunity. You know what? Honestly, if you don't believe in this story and you don't believe in the team, then I would say, go invest in Knight. But if you believe in—

**Andrew Stein**

We short you. Invest in them and we short you, right?

**Jason Bates**

Yes, and then, figure out whether or not that ends up being a winning bet or not. Let us—

**Andrew Stein**

You guys sound like good guys. My question is, even good guys with a bad asset, with a cancer can't win. So, all I'm saying is, when you have good guys, and you have guys who want to win, guys with winning cultures, and it meets a bad asset, the asset always wins. So, I'm guess what I'm trying to get out of win is to understand what you guys are going to do to make sure the cancer doesn't kill you.

**James Reed**

It's a fair question, Andrew. Like I said, we're focused on cost reduction. We've been reducing costs. We continue to look at that. There are a couple of wins in the quarter and things we haven't [indiscernible] that we didn't talk about for obvious reasons, but going back to the— I understand your concerns on the asset side, but on the rate side, we did increase rates \$0.05 year over year. I don't know anybody else that did that. We did increase rates two-point-two cents quarter over quarter. I don't know anybody else who's doing that.

We have latent, unlocked opportunity just to catch up with other people. I would just implore you and others: don't make this harder than it is. Yes, we have to manage the cost side. Yes, we have to ask hard questions, but the fundamental, underlying question, for me on the revenue side, is why does USA Truck need to be any different than anybody else? In a contracted rate environment, what we're finding is we're able to raise rates without the tailwinds of the industry. We've done it, and nobody else has been doing it. So, I'm not going to opine on other people's stock or other people's performance, but we really do believe in our story. We, I think, take your counsel the way you intended it, which is we got to get fit for the long race.

What I said— it's funny where you might have been listening to me and Jason in his office the other day. I told him that as the prices rise— so one of my favorite axioms that you've all heard is the rising tide raises all the boats in the harbor, but it also hides all the rocks.

**Andrew Stein**

That was 2014 at USA Truck. That's exactly what—

**James Reed**

Yes. We do not buy the thesis that price will save this company. We were talking the other day that our attitudes and our conversation and our tone cannot sway from what you've been talking about. So, as we get better and better and better results, I expect the my ops guys are going to come to me and want to grow the fleet. We're not going to grow this business until it's fit to do so. We're going to have to have the discipline to make sure our cost structure and all the things you alluded to are right so we can move forward.

So, appreciate your questions. We look forward to talking to you some more. Francesca, are there any other people in the queue?

**Operator**

The next question comes from Mike Vermut of Newland Capital.

**Mike Vermut**

Hi, guys. How are you doing?

**James Reed**

Hi, Mike.

**Mike Vermut**

That was entertaining. Can you just give us a progression? I have a couple of quick questions here. When we look out a little longer term, obviously, you guys have some internal plans. Where should we— could this thing be [audio disruption] getting down there? Then, coming back a little closer, the progression of the July, what you're seeing in August, have we hit profitability yet on a month-to-month basis, a little more granular.

**James Reed**

Fair question, and Mike, I'm probably not going to answer. On the July and August, here is what I will say. We don't disclose our internal plans to the marketplace, but we have said that we expect to be at a positive operating income for the third quarter. Coming out of July, we reiterate that. So, having seen our initial blush on that, we are still— that's still where our head is and that's why we reiterated it on this call.

In terms of long term, we haven't even completed our 2018 planning yet, but I would say that, especially on the trucking side, being able to get to a 95 OR in that 18/19 range, by golly, we better get there. So, I think those are reasonable intimations to make.

**Mike Vermut**

That's excellent. Also, just looking at liquidity, which is obviously a concern. Obviously, there are not real covenants in our line is that as good a line as I've ever seen. Is that how you look at it?

**Jason Bates**

Yes, correct. I actually met with our entire banking syndicate last week. We had a great meeting. That was an agreement that we entered into a couple years back. It goes out through 2020. We don't have any restrictive covenants. In fact, all we have is a fixed charge coverage ratio that can inhibit dividend payments and things like that, but as you know, right now, our focus is on paying down debt and using

any excess free cash flow to help the business move forward. So yes, we've got a great [indiscernible] and are very supportive syndicate.

**Mike Vermut**

Excellent. Yes, contrary to that last one, I would say the biggest risk here is another acquire, or someone looks at the company at this vulnerable state with all the overhead that's there. I assume that's a concern of yours at this early stage of the turnaround?

**James Reed**

That's a really— Mike, that's an interesting question. I've even had this kind of philosophical discussion with you in the past. Again, this is touchy with respect to our employees, but going back to Andrew's question, which I respect and I think are really fair questions, my job as a CEO every day is to think about, should we just sell all the assets and give the money back to the shareholders? Should we merge, sell or otherwise combine with another company, or are we best to operate as a going concern.

I would just tell you, I'm relatively unemotional about those three alternatives. I'm a capitalist at heart. My job is to create shareholder value the best way possible. If we had somebody approach us that made a deal for our shareholders that was the best option of those three alternatives, I am duty bound and frankly, legally bound to do it. So, no, it doesn't concern me.

Right now, we believe that the best way to create value for all of our shareholders is as a going concern, but there's a realm and a world of possibility. We've all seen it with— deals happen that make sense. We have to remain open to those. It doesn't concern me. I think it's a reality of business.

**Mike Vermut**

I just hope it doesn't happen too soon. Let's see some of this profitability develop. Thanks, guys.

**James Reed**

Just, if I may— thank you for your questions, Mike, but if I may, I do say to Jason privately often, my biggest worry about what we're doing, because I really want to see this through because I think there's immense value that we can unlock here. My biggest concern is the market won't let us do it. That's code for what you just asked about.

**Mike Vermut**

One last thing. Is there any reason here— is there anything structurally, you've been here for a year, why we shouldn't be operating equal to our peers and possibly the higher ranked peers in our group?

**James Reed**

Not to correct you, but I've been here nine months, but it feels like a year.

It's funny, again, going back to Andrew's question— our customers, Mike, love us. I've been 15 years in tech and 6 years now in trucking. We receive a better reception at our customers than I've ever seen in any industry that I've been a part of. So it speaks highly of the long and enduring relationships that have existed here for over 30 years.

If you really look back at the history of the company and like be a historian for a second. Our immediate situation or our immediate past are not reflective of our potential, nor are they reflective of the history of the company. We have a preponderance of history that suggests this can be a great company. So, I don't want to say and I always resist the urge to say, "Just give us time," but Rick started on May 30<sup>th</sup> and has already had an immediate impact on our rate. Werner started on May 22<sup>nd</sup> and has an immediate impact on our execution. Jason— it's undeniable the value that he brings to our decision-

making and our rigor of thought. These things are, at some level, a matter of time.

Q3 is the quarter where we expect to have operating profit, and then, beyond that, it's just a matter of continuing to refine the network, continuing to get price. As Andrew talked passionately about continuing to improve our cost structure so that we should be comparable with our competitors. Our internal voice is that we want that year to be 2019. We want 2020 to be the best year in the history of the company. We haven't put numbers to any of that stuff, but that's our cheerleading.

**Mike Vermut**

Excellent. Okay. Thanks, guys.

**Jason Bates**

Thank you.

**Operator**

Next question is feedback from Jason Seider of Cowen.

**Jason Seider**

Hi, guys. This time, it's me. I was on another call. So, listening in to some of the questions just had a couple follow-ups. I've been doing this 19 years, been in trucking 25. I really hope we don't see rates fall 50%.

You mentioned that there's some things that you can do and it sounds like more of paring down the company to some extent. Can you talk to us— can you give us any ballpark range about what that might mean in savings? Are some of these things maybe some asset sales that could be, in turn, used to pay down some debt?

**James Reed**

Yes, Jason, I don't want you to misinterpret my comments though I appreciate you asking the clarifying questions. We do not intend to pare down the company. As you look at our last four out of five quarters of performance where we're increasing our revenue per tractor per week, we think that's really solid evidence that continue to see tractors and grow by virtue of being more productive on our existing assets is warranted. So, we don't intend to shrink the business.

When I talked about cost savings, they may be a little bit counterintuitive, but we don't intend to close other facilities, although we have been consolidating some of our business around the logistics business. We just think that's smart to go to a super-regional type model, but on the trucking side, we actually feel like we have some cost exposure because we don't have some facilities in the right spot. So you may see us rework our footprint, as it were, to further drive variable costs lower and lower and lower. We got to be smart about that. We can't burn the balance sheet with additional debt in doing that.

I don't want to say much more about that, but I do not want to mislead anyone. We have no intentions of selling off our buildings, shrinking the fleet or anything like that.

**Jason Bates**

Yes, just to add to that, I think Andrew or someone made the comment about shrinking your way to profitability. We are firmly aligned and of one mind between James and myself and as an organization that's just not going to work. You just can't shrink your way to profitability. So, we need to figure out how to be more efficient with the way our network is designed and have higher expectations with regard to what we can run on a truck in any given week in terms of miles. Then, you pair that up with having

difficult conversations with customers on rates and where we're going to haul freight for them and where we won't. Also, having difficult conversations about headcount and staffing. I think James alluded to some of the things that we have done on that front over the last nine months.

So, we understand we got to play all the keys of the piano to make this work. We're aggressively focusing on all those areas, but yes, shrinking to profitability— there's a certain fixed cost coverage that you've got to have.

**Jason Seider**

I appreciate the clarification. A couple others and I apologize if they've actually been stated before. You guys obviously are more focused on a contractual market versus the spot market. Can you talk a little bit about the percentages of business that rolls over in the third quarter and into the fourth quarter? Then, could you talk a little bit about driver pay and what are your expectations going forward?

**James Reed**

Yes, so you're right, we do, as I said earlier, have a huge dependence on our contract rate in terms of rolling it over. I think I talked about in prior quarters that we had about \$60 million of a \$300 million— excuse me, \$100 million of \$300 million basket that had been rebid in the first half of the year. That leaves about two-thirds of our business going through the bid process, which is happening right now. And so getting Rick on, getting our network strategy figured out, we actually just presented it to the board yesterday. So, it's a really triple witching hour for us to really see what we can do with this horse because the great gains that we've seen just in the couple months that Rick has been here have been, as Jason said earlier, not by going to customers, not by repricing, but just being more disciplined about running the existing freight we've had, and it's had material impact.

I'm sorry, your second question, Jason, was about drive—

**Jason Seider**

Driver wage increases, but if I can for a second just to ask a quick follow-up to that one. What's the conversation like now with your customers as you said they were starting the conversations versus in the beginning of the year? Could you talk a little bit of how that might be different now, if it is at all?

**James Reed**

Yes, it's really interesting. Our customer conversations in the first part of the year, people were relatively, I guess from their perspective bullish, from our perspective bearish, about wanting to have flat pricing. I think you'll recall, and I don't remember the stats off the top of my head, but we had some pretty good success with that third of our freight basket getting, you know, 0.3% increases, and that just was we were being smarter about bidding freight and better lanes even before Rick got here, but as we go into the second half of the year, there's not a lot of— other than one notable big customer in the Southeast, who has publicly said that they expect rates to be up, there's not a lot of customers that are expecting rates to be up.

And, our conversations are less about rate a lot of times and more about the network. So we just shared an example with our board yesterday where a customer, a big name brand customer that you would all know, came back to us and asked us if we made a mistake on our bid because we had eliminated 500 lanes that we had previously run, and we said, "No, that's not a mistake. We're just being more disciplined." So, maybe not the answer you were looking for, but their questions are more about, "Are you sure?" and, "Oh my gosh," almost like, "Wow, USA Truck now knows what they're doing, and we can't take advantage of their low pricing on some of these random lanes that we used to bid."

**Jason Seider**

So, it's more about, in other words as a company you seem to be much more freight selective than you were in the first half of the year.

**James Reed**

100%, and our customers would tell you the exact same thing. It's cool, right? And again, I don't mean to be too detailed but a significant change in our strategies. In the past, we'd get bids, we'd bid every lane, and we'd try to run the lanes that were best for us, but then our customers, ostensibly they were directing what freight we would run, and we would run all over the place and without discipline. So this one customer that I'm speaking of, literally came back to us after a third round bid, so you can probably guess who it is now, but— and said, "Are you sure this is what you want to do?"

Not only were we sure, we increased our revenues with them and we increased our rate per mile with them more than \$0.05. So, it just totally worked out for our good, and it's all about discipline. And, it's not relying on industry tailwinds. It's a unique story for USA Truck because we've been so undisciplined in that network execution in the past.

**Jason Bates**

Then the follow-up about the drivers.

**James Reed**

Yes, Jason did you want to add something?

**Jason Bates**

No, no, no, I was just going to remind you about the second piece.

**James Reed**

So, with respect to drivers, you know somebody asked that question earlier. We did a driver, and I don't know if you were on the call when we talked about it, Jason, but we did a driver pay increase that was effective in April that we've talked about in the past that was essentially a weighted average penny and a half impact to our non-dedicated drivers. And, we don't see a need for us to increase our driver pay.

We look at it every quarter to make sure that we remain competitive. We have a strategic idea that we kind of want to be in the bottom of the top third of pay structures. And so we'll continue to look at and evaluate that, but we don't see, even with some of the noise that's been out there about other people raising their pay, we don't think that bumps us out of the position that we want to be in. Fair enough?

**Jason Bates**

Yes, and as I alluded to a liter earlier, we feel like, given the utilization deficiency that we've operated at, just getting the drivers more miles and being more effective and disciplined, and that comes through an enhanced network, but it also comes through Warner and the team that he's got out downstairs just redefining the expectation of how many miles these drivers can run every week legally.

And, we have a lot of opportunity there. And so as these drivers come to realize that, and we push them, and help them, they're able to make more money for their families in the same amount of time just given the confines of being more efficient about utilization.

**Jason Seider**

Gentlemen, thank you for your time. I appreciate it.

**Jason Bates**

Thank you, Jason.

**James Reed**

Thanks.

**Operator**

The next question is the feedback from Mike Vermut from Newland Capital.

**Mike Vermut**

Hi, just two quick ones. Was that right you said, two-thirds of your freight is going to be re-priced in the back half of the year? That's a little unusual. It's fortunate but it's a little unusual.

**James Reed**

Yes, I think in the first half, we had said on a prior call that about \$100 million year-to-date had been. So, it's about right, Mike.

**Mike Vermut**

That's great, fortunate. And then also just looking at systems, I know how some maybe companies that are running at a little better OR, the system's in place, how you look at profitability of freight. Do you get to see this on a weekly basis, on a monthly basis? How does that turn out, and how is that changing in the organization? I know you're quite attentive looking at that. Has anything changed the culture of the company really looking at that base profitability?

**James Reed**

Yes, I think that's a fair question. Yes, so Rick looked at profitability of every load, every lane, every day, and he has tools that we put in place that help us to do that. In terms of culture, we have goals now that are set at the operating manager level. They understand, and we're starting to roll out, even at a driver manager level, revenue per tractor per day goals that ostensibly tie back to profitability of freight, right?

In this market, rate is a proxy for profitability. If you have two lanes, you want to run the lane that gives you the best opportunity to do that. We look at our network in terms of power triangles or other geometric shapes that net net give us the best options.

So, yes, we have tools, optimizers, that help us understand. So, there are times where you may look at two pieces of freight that the lower-priced freight is a better option because it gets you into a market that, on the combined turns, what Rick calls it, it's a more profitable move because of where it lands you and what the opportunities are that arise from that. But, that's a new discipline.

We have had optimizers in place in the past, but I think it's fair to say they haven't been consistently used. And so, yes, I think it's changing the culture. We didn't announce them, but we have some helpers in the room from operations. They're nodding their head going yes, that's right. So yes, I think it really has changed and I think it's something quite fundamental.

**Mike Vermut**

Excellent, okay. Thanks, guys.

**CONCLUSION****Operator**



This concludes our question and answer session. I would like to turn the conference back over to James Reed for any closing remarks.

**James Reed**

Great, thanks, everybody for participating in our call this morning. We really appreciate the questions and the dialogue. I'd like to sum up by saying that company-wide, we've been consistent and steady in our focus on execution and accountability. I wish everyone could witness our team at work. We are seeing exactly what I had hoped, engaged leaders and associates all pulling in the same direction and creating results like we've seen this quarter in a better and more disciplined network, consistently improving yields, lower driver turnover, and better cost performance.

I had a 30-year veteran of our company approach me a few weeks ago and say, "It's happening." When I asked him what he meant, he shared that our energy, focus, and commitment is happening all around him, and it's palpable. Things are happening for the good at USA Truck, and we're excited to have a role in the success that is to come.

Don't get me wrong, we are not in the business of cheerleading poor financial results, but we believe the hard work of returning this company to its once great and consistent performance is in reach. We will forge ahead. We are improving. We are increasingly excellent in our execution.

We are more engaged than ever, and there are pockets of maximum effort emerging in our ranks that are beginning to show the expected results. And, as we like to say around here, when we do all of the above, we win together.

Jason and I will be in Boston for an industry conference early next month. You will see details in an upcoming advisory announcement. We look forward to meeting you and discussing our plans for the business at that time. Thanks again for your attendance today. Have a great day.

**Operator**

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