SAIA INC
Form 10-Q
April 30, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2015

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 0-49983

Saia, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**48-1229851**
(State of incorporation)	**(I.R.S. Employer Identification No.)**
11465 Johns Creek Parkway, Suite 400	
Johns Creek, GA	**30097**
(Address of principal executive offices)	**(Zip Code)**

(770) 232-5067

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock	**Outstanding Shares at April 30, 2015**
Common Stock, par value $.001 per share	25,089,833

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SAIA, INC. AND SUBSIDIARIES

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Item 1. Financial Statements

Saia, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(unaudited)

	March 31, 2015	December 31, 2014
	(in thousands, except share and per share data)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 196	$ 4,367
Accounts receivable, net	140,330	128,367
Prepaid expenses and other	55,492	56,902
Total current assets	196,018	189,636
Property and Equipment, at cost	924,466	891,145
Less-accumulated depreciation	417,271	407,505
Net property and equipment	507,195	483,640
Goodwill and Identifiable Intangibles, net	30,987	8,174
Other Noncurrent Assets	5,323	4,995
Total assets	$ 739,523	$ 686,445
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 57,346	$ 42,388
Wages, vacation and employees benefits	33,187	28,777
Other current liabilities	46,948	50,176
Current portion of long-term debt	9,560	9,138
Total current liabilities	147,041	130,479
Other Liabilities:		
Long-term debt, less current portion	98,076	73,897
Deferred income taxes	76,853	78,406
Claims, insurance and other	38,300	36,757
Total other liabilities	213,229	189,060
Commitments and Contingencies		
Stockholders Equity:		

Preferred stock, $0.001 par value, 50,000 shares authorized, none issued and outstanding				
Common stock, $0.001 par value, 50,000,000 shares authorized, 25,089,833 and 24,871,806 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively		25		25
Additional paid-in-capital		223,846		223,713
Deferred compensation trust, 202,407 and 193,607 shares of common stock at cost at March 31, 2015 and December 31, 2014, respectively		(2,580)		(2,189)
Retained earnings		157,962		145,357
Total stockholders equity		379,253		366,906
Total liabilities and stockholders equity	$	739,523	$	686,445

See accompanying notes to condensed consolidated financial statements.

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Saia, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

For the quarters ended March 31, 2015 and 2014

(unaudited)

	First Quarter	
	2015	2014
	(in thousands, except per share data)	
Operating Revenue	$ 293,022	$ 299,730
Operating Expenses:		
Salaries, wages and employees benefits	157,729	150,222
Purchased transportation	17,714	21,991
Fuel, operating expenses and supplies	67,145	79,959
Operating taxes and licenses	9,096	8,975
Claims and insurance	4,837	9,518
Depreciation and amortization	15,199	13,841
Operating losses (gains), net	69	(7)
Total operating expenses	271,789	284,499
Operating Income	21,233	15,231
Nonoperating Expenses:		
Interest expense	1,019	1,316
Other, net	(51)	(30)
Nonoperating expenses, net	968	1,286
Income Before Income Taxes	20,265	13,945
Income Tax Provision	7,660	5,369
Net Income	$ 12,605	$ 8,576
Weighted average common shares outstanding basic	24,803	24,382
Weighted average common shares outstanding diluted	25,513	25,361
Basic Earnings Per Share	$ 0.51	$ 0.35
Diluted Earnings Per Share	$ 0.49	$ 0.34

See accompanying notes to condensed consolidated financial statements.

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Saia, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the quarters ended March 31, 2015 and 2014

(unaudited)

	First Quarter 2015	First Quarter 2014
	(in thousands)	
Operating Activities:		
Net income	$ 12,605	$ 8,576
Noncash items included in net income:		
Depreciation and amortization	15,199	13,841
Other, net	2,060	2,048
Changes in operating assets and liabilities, net	(3,704)	(20,346)
Net cash provided by operating activities	26,160	4,119
Investing Activities:		
Acquisition of business	(23,080)	
Acquisition of property and equipment	(30,064)	(8,379)
Proceeds from disposal of property and equipment	294	156
Net cash used in investing activities	(52,850)	(8,223)
Financing Activities:		
Repayment of revolving credit agreement	(72,277)	(116,297)
Borrowing of revolving credit agreement	93,854	119,128
Proceeds from stock option exercises	1,842	1,956
Other Financing Activities	(900)	
Net cash provided by financing activities	22,519	4,787
Net (Decrease) Increase in Cash and Cash Equivalents	(4,171)	683
Cash and cash equivalents, beginning of period	4,367	159
Cash and cash equivalents, end of period	$ 196	$ 842
Non Cash Investing Activities		
Equipment financed with capital leases	$ 3,471	$

See accompanying notes to condensed consolidated financial statements.

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Saia, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(unaudited)

(1) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Saia, Inc. and its wholly-owned subsidiaries (together, the Company or Saia). All significant intercompany accounts and transactions have been eliminated in the condensed consolidated financial statements.

The condensed consolidated financial statements have been prepared by the Company without audit by the independent registered public accounting firm. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the condensed consolidated balance sheets, statements of operations and cash flows for the interim periods included herein have been made. These interim condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information, the instructions to Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted from these statements. The accompanying condensed consolidated financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the quarter ended March 31, 2015 are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2015.

Business

The Company offers customers a wide range of less-than-truckload, non-asset truckload, expedited and logistics services across the United States through its wholly-owned subsidiaries. Effective February 2, 2015, the Company s subsidiaries were as follows: Saia Motor Freight Line, LLC, doing business as Saia LTL Freight; Saia TL Plus, LLC, formerly Robart Transportation, Inc., Saia Sales, LLC, Saia Logistics Services, LLC, formerly The RL Services Group, LLC, Saia MetroGo, LLC, formed on January 22, 2015 and LinkEx, Inc. acquired on February 2, 2015.

New Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers,* which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services. The ASU will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles when it becomes effective. The new standard is effective for the Company on January 1, 2017. Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it completed its evaluation of the effect of the standard on its ongoing financial reporting.

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(2) Computation of Earnings Per Share

The calculation of basic earnings per common share and diluted earnings per common share was as follows (in thousands, except per share amounts):

	First Quarter	
	2015	**2014**
Numerator:		
Net income	$ 12,605	$ 8,576
Denominator:		
Denominator for basic earnings per share weighted average common shares	24,803	24,382
Effect of dilutive stock options	155	244
Effect of other common stock equivalents	555	735
Denominator for diluted earnings per share adjusted weighted average common shares	25,513	25,361
Basic Earnings Per Share	$ 0.51	$ 0.35
Diluted Earnings Per Share	$ 0.49	$ 0.34

For the quarter ended March 31, 2015, options to purchase 74,480 shares of common stock of the Company were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive. For the quarter ended March 31, 2014, options to purchase 259,880 shares of common stock of the Company were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive.

(3) Commitments and Contingencies

The Company is subject to legal proceedings that arise in the ordinary course of its business. The Company believes that adequate provisions for the resolution of all contingencies, claims and pending litigation have been made for probable losses and that the ultimate outcome of these actions will not have a material adverse effect on our consolidated financial position but could have a material adverse effect on the results of operations in a quarter or annual period.

(4) Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and other current liabilities approximated fair value as of March 31, 2015 and December 31, 2014 because of the relatively short maturity of these instruments. Based on the borrowing rates currently available to the Company for debt with similar terms and remaining maturities the estimated fair value of total debt at March 31, 2015 and December 31, 2014 was $108.3 million and $83.7 million, respectively, based upon level two in the fair value hierarchy. The carrying value of the debt was $107.6 million and $83.0 million at March 31, 2015 and December 31, 2014, respectively.

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(5) Debt and Financing Arrangements

At March 31, 2015 and December 31, 2014, debt consisted of the following (in thousands):

	March 31, 2015	December 31, 2014
Credit Agreement with Banks, described below	$ 66,577	$ 45,000
Senior Notes under a Master Shelf Agreement, described below	21,429	21,429
Capital Leases, described below	19,630	16,606
Total debt	107,636	83,035
Less: current portion of long-term debt	9,560	9,138
Long-term debt, less current portion	$ 98,076	$ 73,897

On March 6, 2015, the Company entered into the Fifth Amended and Restated Credit Agreement with its banking group (as amended, the Restated Credit Agreement). The amendment increased the amount of the revolver from $200 million to $250 million and extended the term until March 2020. The amendment also reduced the interest rate pricing grid, eliminated both the borrowing base and the minimum tangible net worth covenant. On the same date, the Company also entered into the Second Amended and Restated Master Shelf Agreement with its long term note holders (as amended, the Restated Master Shelf Agreement) that made changes to this agreement to conform with certain changes in the Restated Credit Agreement.

Restated Credit Agreement

The Restated Credit Agreement is a revolving credit facility for up to $250 million expiring in March 2020. The Restated Credit Agreement also has an accordion feature that allows for an additional $75 million availability, subject to lender approval. The Restated Credit Agreement provides for a LIBOR rate margin range from 112.5 basis points to 225 basis points, base rate margins from minus 12.5 basis points to plus 50 basis points, an unused portion fee from 20 basis points to 30 basis points and letter of credit fees from 112.5 basis points to 225 basis points in each case based on the Company s leverage ratio.

Under the Restated Credit Agreement, the Company must maintain certain financial covenants including a minimum fixed charge coverage ratio and a maximum leverage ratio, among others. The Restated Credit Agreement also provides for a pledge by the Company of certain land and structures, certain tractors, trailers and other personal property and accounts receivable, as defined in the Restated Credit Agreement.

At March 31, 2015, the Company had borrowings of $66.6 million and outstanding letters of credit of $41.3 million under the Restated Credit Agreement. At December 31, 2014, the Company had borrowings of $45.0 million and outstanding letters of credit of $47.3 million under the Restated Credit Agreement. The available portion of the Restated Credit Agreement may be used for general corporate purposes, including future capital expenditures, working capital and letter of credit requirements as needed.

Restated Master Shelf Agreement

On September 20, 2002, the Company issued $100 million in Senior Notes under a $125 million (amended to $150 million in April 2005) Master Shelf Agreement with Prudential Investment Management, Inc. and certain of its affiliates. The Company issued another $25 million in Senior Notes on November 30, 2007 and $25 million in Senior Notes on January 31, 2008 under the same Master Shelf Agreement.

The initial $100 million Senior Notes had a fixed interest rate of 7.38 percent. Payments due under the $100 million Senior Notes were interest only until June 30, 2006 and at that time semi-annual principal payments began with the final payment due December 2013. The November 2007 issuance of $25 million Senior Notes has a fixed interest rate of 6.14 percent. The January 2008 issuance of $25 million Senior Notes has a fixed interest rate of 6.17 percent. Payments due for both $25 million issuances were interest only until June 30, 2011 and at that time semi-annual principal payments began with the final payments due January 1, 2018. Under the terms of the Senior Notes, the Company must maintain certain financial covenants including a minimum fixed charge coverage ratio and a maximum leverage ratio, among others.

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Capital Leases

The Company is obligated under capital leases which include obligations covering revenue equipment totaling $19.6 million with a seven year term. Amortization of assets held under the capital leases is included in depreciation expense. The weighted average interest rate for the capital leases at March 31, 2015 is 2.90%.

The principal maturities of long-term debt instruments (in thousands) are as follows:

	Amount
2015	$ 9,358
2016	10,097
2017	10,097
2018	2,955
2019	2,955
Thereafter	74,355
Total	$ 109,817
Less: Amounts Representing Interest on Capital Leases	2,181
Total	$ 107,636

(6) Acquisitions

On February 2, 2015, the Company acquired LinkEx, Inc., an asset-light third party logistics business based in Dallas, Texas. The Company believes this acquisition is a future growth opportunity for its portfolio of services in the asset-light market. This acquisition fits into the Company s strategic goal of diversifying Saia s portfolio of service offerings. Pursuant to the terms of the purchase agreement, the Company paid a purchase price of approximately $25 million, subject, in part, to meeting profit targets.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

This Management s Discussion and Analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and our 2014 audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. Those consolidated financial statements include additional information about our significant accounting policies, practices and the transactions that underlie our financial results.

Forward-Looking Statements

The Securities and Exchange Commission (the SEC) encourages companies to disclose forward-looking information so that investors can better understand the future prospects of a company and make informed investment decisions. This Quarterly Report on Form 10-Q, including Management s Discussion and Analysis of Financial Condition and Results of Operations, contains these types of statements, which are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as anticipate, estimate, expect, project, intend, m plan, predict, believe, should and similar words or expressions are intended to identify forward-looking statements. Investors should not place undue reliance on forward-looking statements, and the Company undertakes no obligation to publicly update or revise any forward-looking statements. All forward-looking statements reflect the present expectation of future events of our management as of the date of this Quarterly Report on Form 10-Q and are subject to a number of important factors, risks, uncertainties and assumptions that could cause actual results to differ materially from those described in any forward-looking statements. These factors, risks, assumptions and uncertainties include, but are not limited to, general economic conditions including downturns in the business cycle; the creditworthiness of our customers and their ability to pay for services; failure to achieve acquisition synergies; competitive initiatives and pricing pressures, including in connection with fuel surcharge; loss of significant customers; the Company s need for capital and uncertainty of the credit markets; the possibility of defaults under the Company s debt agreements (including violation of financial covenants); possible issuance of equity which would dilute stock ownership; integration risks; the effect of litigation including class action lawsuits; cost and availability of qualified drivers, fuel, purchased transportation, real property, revenue equipment and other assets; governmental regulations, including but not limited to Hours of Service, engine emissions, the Compliance, Safety, Accountability (CSA) initiative, compliance with legislation requiring companies to evaluate their internal control over financial reporting, changes in interpretation of accounting principles and Homeland Security; dependence on key employees; inclement weather; labor relations, including the adverse impact should a portion of the Company s workforce become unionized; effectiveness of Company-specific performance improvement initiatives; terrorism risks; self-insurance claims and other expense volatility; increased costs as a result of healthcare reform legislation; social media risks; and other financial, operational and legal risks and uncertainties detailed from time to time in the Company s SEC filings. These factors and risks are described in Part II, Item 1A. Risk Factors of the Company s Annual Report on Form 10-K for the year ended December 31, 2014, as updated by Part II, Item 1A. of this Quarterly Report on Form 10-Q.

As a result of these and other factors, no assurance can be given as to our future results and achievements. Accordingly, a forward-looking statement is neither a prediction nor a guarantee of future events or circumstances and those future events or circumstances may not occur. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this Form 10-Q. We are under no obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Executive Overview

The Company s business is highly correlated to non-service sectors of the general economy. The Company s strategy is to improve profitability by increasing yield while also increasing volumes to build density in existing geography. The Company s business is labor intensive, capital intensive and service sensitive. The Company looks for opportunities to improve cost effectiveness, safety and asset utilization (primarily tractors and trailers). The pricing initiatives that were implemented in 2010 and continued since then have had a positive impact on yield and profitability. The Company continues to execute targeted sales and marketing programs along with initiatives to align costs with volumes and improve customer satisfaction. Technology continues to be an important investment that is facilitating operational efficiencies and improving Company image.

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The Company s operating revenue decreased by 2.2 percent in the first quarter of 2015 compared to the same period in 2014. The decrease resulted primarily from decreased tonnage and fuel surcharges largely offset by effective yield management.

Consolidated operating income was $21.2 million for the first quarter of 2015 compared to consolidated operating income of $15.2 million in the first quarter of 2014. In the first quarter of 2015, LTL tonnage per workday was down 6.6 percent versus the prior year quarter. Diluted earnings per share were $0.49 in the first quarter of 2015, compared to diluted earnings per share of $0.34 in the prior year quarter. The operating ratio (operating expenses divided by operating revenue) was 92.8 percent in the first quarter of 2015. This compares to 94.9 percent in the first quarter of 2014.

The Company had $26.2 million in cash provided by operating activities through the first three months of 2015 compared with cash provided in the amount of $4.1 million in the prior-year period largely due to working capital fluctuations. The Company had net cash used in investing activities of $52.9 million during the first three months of 2015 compared to $8.2 million in the first three months of 2014, which was primarily for the purchase of revenue equipment and the acquisition of LinkEx, Inc. The Company s cash provided by financing activities was $22.5 million through the first three months of 2015 compared to $4.8 million provided by financing activities in the prior year period. The Company had $66.6 million in borrowings under its revolving credit agreement, outstanding letters of credit of $43.1 million and cash and cash equivalents balance of $0.2 million at March 31, 2015. The Company was in compliance with the debt covenants under its debt agreements at March 31, 2015.

General

The following Management s Discussion and Analysis describes the principal factors affecting the results of operations, liquidity and capital resources, as well as the critical accounting policies of Saia, Inc. and Subsidiaries (also referred to as Saia or the Company).

The Company is a transportation company headquartered in Johns Creek, Georgia providing a wide range of less-than-truckload, non-asset truckload, expedited and logistics services across the United States.

Our business is highly correlated to non-service sectors of the general economy. It also is impacted by a number of other factors as discussed under Forward Looking Statements and Part II, Item 1A. Risk Factors . The key factors that affect our operating results are the volumes of shipments transported through our network, as measured by our average daily shipments and tonnage; the prices we obtain for our services, as measured by revenue per hundredweight (a measure of yield) and revenue per shipment; our ability to manage our cost structure for capital expenditures and operating expenses such as salaries, wages and benefits; purchased transportation; claims and insurance expense; fuel and maintenance; and our ability to match operating costs to shifting volume levels.

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Results of Operations

Saia, Inc. and Subsidiaries

Selected Results of Operations and Operating Statistics

For the quarters ended March 31, 2015 and 2014

(unaudited)

Percent Variance