

OLD DOMINION FREIGHT LINE INC/VA

Form 10-Q

November 05, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number: 0-19582

OLD DOMINION FREIGHT LINE, INC.  
(Exact name of registrant as specified in its charter)

VIRGINIA  
(State or other jurisdiction of  
incorporation or organization)  
500 Old Dominion Way  
Thomasville, NC 27360  
(Address of principal executive offices)  
(Zip Code)  
(336) 889-5000  
(Registrant's telephone number, including area code)

56-0751714  
(I.R.S. Employer  
Identification No.)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

As of November 4, 2014 there were 86,164,917 shares of the registrant's Common Stock (\$0.10 par value) outstanding.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## OLD DOMINION FREIGHT LINE, INC.

## CONDENSED BALANCE SHEETS

(In thousands, except share and per share data)	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$8,169	\$30,174
Customer receivables, less allowances of \$9,471 and \$8,067, respectively	322,395	248,069
Other receivables	7,086	10,225
Prepaid expenses and other current assets	29,841	21,262
Deferred income taxes	27,110	23,249
Total current assets	394,601	332,979
Property and equipment:		
Revenue equipment	1,163,523	1,009,936
Land and structures	1,044,678	990,256
Other fixed assets	320,084	266,563
Leasehold improvements	7,096	6,378
Total property and equipment	2,535,381	2,273,133
Accumulated depreciation	(804,487	) (730,074 )
Net property and equipment	1,730,894	1,543,059
Goodwill	19,463	19,463
Other assets	43,581	36,588
Total assets	\$2,188,539	\$1,932,089

Note: The Condensed Balance Sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

The accompanying notes are an integral part of these condensed financial statements.

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OLD DOMINION FREIGHT LINE, INC.  
 CONDENSED BALANCE SHEETS  
 (CONTINUED)

	September 30, 2014 (Unaudited)	December 31, 2013
(In thousands, except share and per share data)		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$47,285	\$36,788
Compensation and benefits	123,220	97,187
Claims and insurance accruals	41,948	38,784
Other accrued liabilities	25,826	21,480
Income taxes payable	12,608	2,168
Current maturities of long-term debt	35,714	35,715
Total current liabilities	286,601	232,122
Long-term liabilities:		
Long-term debt	148,203	155,714
Other non-current liabilities	138,180	123,054
Deferred income taxes	185,828	189,117
Total long-term liabilities	472,211	467,885
Total liabilities	758,812	700,007
Commitments and contingent liabilities		
Shareholders' equity:		
Common stock - \$0.10 par value, 140,000,000 shares authorized, 86,164,917 shares outstanding at September 30, 2014 and December 31, 2013	8,616	8,616
Capital in excess of par value	134,401	134,401
Retained earnings	1,286,710	1,089,065
Total shareholders' equity	1,429,727	1,232,082
Total liabilities and shareholders' equity	\$2,188,539	\$1,932,089

Note: The Condensed Balance Sheet at December 31, 2013 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements.

The accompanying notes are an integral part of these condensed financial statements.

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OLD DOMINION FREIGHT LINE, INC.  
 CONDENSED STATEMENTS OF OPERATIONS  
 (UNAUDITED)

(In thousands, except share and per share data)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenue from operations	\$743,586	\$616,458	\$2,066,849	\$1,745,178
Operating expenses:				
Salaries, wages and benefits	363,420	303,853	1,014,910	862,614
Operating supplies and expenses	111,670	96,792	327,881	287,610
General supplies and expenses	21,931	18,311	61,955	53,711
Operating taxes and licenses	21,338	18,155	61,006	53,406
Insurance and claims	10,118	8,395	27,927	23,267
Communications and utilities	6,320	5,726	19,156	17,215
Depreciation and amortization	37,707	32,914	106,920	93,265
Purchased transportation	34,590	28,500	96,883	78,860
Building and office equipment rents	2,880	2,849	7,899	9,136
Miscellaneous expenses, net	7,350	2,887	13,303	4,501
Total operating expenses	617,324	518,382	1,737,840	1,483,585
Operating income	126,262	98,076	329,009	261,593
Non-operating expense (income):				
Interest expense	1,463	2,479	5,161	7,282
Interest income	(19	) (45	) (78	) (101
Other expense, net	951	389	1,761	797
Total non-operating expense	2,395	2,823	6,844	7,978
Income before income taxes	123,867	95,253	322,165	253,615
Provision for income taxes	45,958	35,104	124,520	94,658
Net income	\$77,909	\$60,149	\$197,645	\$158,957
Earnings per share:				
Basic	\$0.90	\$0.70	\$2.29	\$1.84
Diluted	\$0.90	\$0.70	\$2.29	\$1.84
Weighted average shares outstanding:				
Basic	86,164,917	86,164,917	86,164,917	86,164,917
Diluted	86,164,917	86,164,917	86,164,917	86,164,917

The accompanying notes are an integral part of these condensed financial statements.





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OLD DOMINION FREIGHT LINE, INC.  
 CONDENSED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

(In thousands)	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 197,645	\$ 158,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	106,920	93,265
Gain on sale of property and equipment	(2,300	) (2,194
Deferred income taxes	(7,150	) 30,301
Other operating activities, net	(17,100	) (26,943
Net cash provided by operating activities	278,015	253,386
Cash flows from investing activities:		
Purchase of property and equipment	(311,993	) (229,199
Proceeds from sale of property and equipment	19,485	9,354
Net cash used in investing activities	(292,508	) (219,845
Cash flows from financing activities:		
Principal payments under long-term debt agreements	(35,715	) (36,290
Net proceeds on revolving line of credit	28,203	1,996
Net cash used in financing activities	(7,512	) (34,294
Decrease in cash and cash equivalents	(22,005	) (753
Cash and cash equivalents at beginning of period	30,174	12,857
Cash and cash equivalents at end of period	\$8,169	\$12,104

The accompanying notes are an integral part of these condensed financial statements.



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NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, interim condensed financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and, in management's opinion, contain all adjustments (consisting of normal recurring items) necessary for a fair presentation, in all material respects, of the financial position and results of operations for the periods presented. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements.

The preparation of condensed financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Our operating results are subject to seasonal trends; therefore, the results of operations for the interim period ended September 30, 2014 are not necessarily indicative of the results that may be expected for subsequent quarterly periods or the year ending December 31, 2014.

The condensed financial statements should be read in conjunction with the financial statements and related notes, which appear in our Annual Report on Form 10-K for the year ended December 31, 2013. There have been no significant changes in the accounting principles and policies, long-term contracts or estimates inherent in the preparation of the condensed financial statements of Old Dominion Freight Line, Inc. as previously described in our Annual Report on Form 10-K for the year ended December 31, 2013.

Unless the context requires otherwise, references in these Notes to "Old Dominion," the "Company," "we," "us" and "our" refer to Old Dominion Freight Line, Inc.

Fair Values of Financial Instruments

The carrying values of financial instruments in current assets and current liabilities approximate their fair value due to the short maturities of these instruments. The carrying value of our long-term debt was \$183.9 million and \$191.4 million at September 30, 2014 and December 31, 2013, respectively. The estimated fair value of our total long-term debt was \$187.6 million and \$196.5 million at September 30, 2014 and December 31, 2013, respectively. The fair value measurement of our senior notes was determined using market interest rates for similar issuances of private debt. Since this methodology is based upon indicative market interest rates, the measurement is categorized as Level 2 under the three-level fair value hierarchy as established by the Financial Accounting Standards Board (the "FASB"). The fair value of our other long-term debt approximates carrying value due to the variable interest rates within these instruments.

Earnings Per Share

Earnings per share is computed using the weighted average number of common shares outstanding during the period.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers. This ASU supersedes the previous revenue recognition requirements in Accounting Standards Codification ("ASC") 605—Revenue Recognition and most industry-specific guidance throughout the ASC. The core principle within this ASU is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. The Company continues to assess the method of application and impact, if any, of the adoption of ASU 2014-09 on its financial position, results of operations and cash flows.

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## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

In June 2014, the FASB issued ASU 2014-12, Compensation—Stock Compensation: Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments of this ASU require that a performance target, which affects vesting and could be achieved after the requisite service period, be treated as a performance condition under the existing guidance in ASC Topic 718. This ASU is effective for annual and interim periods beginning after December 15, 2015, and early adoption is permitted. The Company does not believe the adoption of ASU 2014-12 will have an impact on its financial position, results of operations or cash flows.

## Note 2. Long-Term Debt

Long-term debt consisted of the following:

(In thousands)	September 30, 2014	December 31, 2013
Senior notes	\$ 155,714	\$ 191,429
Revolving credit facility	28,203	—
Total long-term debt	183,917	191,429
Less: Current maturities	(35,714	) (35,715
Total maturities due after one year	\$ 148,203	\$ 155,714

We have three outstanding unsecured senior note agreements with an aggregate amount outstanding of \$155.7 million and \$191.4 million at September 30, 2014 and December 31, 2013, respectively. These notes call for periodic principal payments with maturities that range from 2015 to 2021, of which \$35.7 million is due in the next twelve months. Interest rates on these notes are fixed and range from 4.00% to 5.85%. The weighted average interest rate on our outstanding senior note agreements was 4.87% and 4.99% at September 30, 2014 and December 31, 2013, respectively.

We have a five-year, \$200.0 million senior unsecured revolving credit facility pursuant to the terms of a second amended and restated credit agreement dated August 10, 2011 (the “Credit Agreement”), with Wells Fargo Bank, National Association (“Wells Fargo”) serving as administrative agent for the lenders. Of the \$200.0 million line of credit commitments, \$150.0 million may be used for letters of credit and \$20.0 million may be used for borrowings under the Wells Fargo Sweep Plus Loan Program. We utilize the sweep program to manage our daily cash needs, as the sweep program automatically initiates borrowings to cover overnight cash requirements up to an aggregate of \$20.0 million. In addition, we have the right to request an increase in our existing line of credit commitments by an additional \$100.0 million in minimum increments of \$25.0 million. At our option, revolving loans under the facility bear interest at either: (a) the Applicable Margin Percentage for Base Rate Loans plus the higher of Wells Fargo’s prime rate, the federal funds rate plus 0.5% per annum, or the one month LIBOR Rate plus 1.0% per annum; (b) the LIBOR Rate plus the Applicable Margin Percentage for LIBOR Loans; or (c) the LIBOR Market Index Rate (“LIBOR Index Rate”) plus the Applicable Margin Percentage for LIBOR Market Index Loans. The Applicable Margin Percentage is determined by a pricing grid in the Credit Agreement and ranges from 1.0% to 1.875% based upon the ratio of debt to total capitalization. The Applicable Margin Percentage was 1.0% at September 30, 2014 and December 31, 2013. Revolving loans under the sweep program bear interest at the LIBOR Index Rate. There were \$63.3 million and \$57.7 million of outstanding letters of credit at September 30, 2014 and December 31, 2013, respectively.

## Note 3. Income Taxes

Our effective tax rate generally exceeds the federal statutory rate of 35% due to the impact of state taxes and, to a lesser extent, certain other non-deductible items. For the three and nine months ended September 30, 2014, our effective tax rate was 37.1% and 38.7%, respectively, as compared to 36.9% and 37.3% for the same periods in 2013, respectively. Our effective tax rate for the nine months ended September 30, 2013 included favorable tax credits for the use of alternative fuels provided by the American Taxpayer Relief Act of 2012, which expired in 2013. Our effective tax rates for each of the three and nine months ended September 30, 2014 and 2013 were impacted by favorable adjustments related to state taxes and other federal credits.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS (UNAUDITED) (CONTINUED)

Note 4. Commitments and Contingencies

We are involved in various legal proceedings and claims that have arisen in the ordinary course of our business and have not been fully adjudicated, some of which are covered in whole or in part by insurance. Certain of these claims include class-action allegations. We do not believe that the resolution of any of these legal proceedings or claims will have a material adverse effect upon our financial position, results of operations or cash flows.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

We are a leading, less-than-truckload (“LTL”), union-free motor carrier providing regional, inter-regional and national LTL services and other logistics services from a single integrated organization. In addition to our core LTL services, we offer a broad range of value-added services including international freight forwarding, ground and air expedited transportation, container delivery, truckload brokerage, supply chain consulting, warehousing and consumer household pickup and delivery. More than 95% of our revenue has historically been derived from transporting LTL shipments for our customers, whose demand for our services is generally tied to industrial production and the overall health of the U.S. domestic economy.

In analyzing the components of our revenue, we monitor changes and trends in our LTL services using the following key metrics, which exclude certain transportation and logistics services where pricing is generally not determined by weight:

**LTL Revenue Per Hundredweight** - This measurement reflects the application of our pricing policies to the services we provide, which are influenced by competitive market conditions and our growth objectives. Generally, freight is rated by a class system, which is established by the National Motor Freight Traffic Association, Inc. Light, bulky freight typically has a higher class and is priced at higher revenue per hundredweight than dense, heavy freight. Fuel surcharges, accessorial charges, revenue adjustments and revenue for undelivered freight are included in this measurement. Revenue for undelivered freight is deferred for financial statement purposes in accordance with our revenue recognition policy; however, we believe including it in our revenue per hundredweight metrics results in a better indicator of changes in our yields by matching total billed revenue with the corresponding weight of those shipments.

Revenue per hundredweight is a commonly-used indicator of pricing trends, but this metric can be influenced by many other factors, such as changes in fuel surcharges, weight per shipment, length of haul and the class, or mix, of our freight. As a result, changes in revenue per hundredweight do not necessarily indicate actual changes in underlying base rates.

**LTL Weight Per Shipment** - Fluctuations in weight per shipment can indicate changes in the mix of freight we receive from our customers, as well as changes in the number of units included in a shipment. Generally, increases in weight per shipment indicate higher demand for our customers' products and overall increased economic activity. Changes in weight per shipment generally have an inverse effect on our revenue per hundredweight, as an increase in weight per shipment will typically cause a decrease in revenue per hundredweight.

**Average Length of Haul** - We consider lengths of haul less than 500 miles to be regional traffic, lengths of haul between 500 miles and 1,000 miles to be inter-regional traffic, and lengths of haul in excess of 1,000 miles to be national traffic. This metric is used to analyze our tonnage and pricing trends for shipments with similar characteristics, and also allows comparison with other transportation providers serving specific markets. By analyzing this metric, we can determine the success and growth potential of our service products in these markets. Changes in length of haul generally have a direct effect on our revenue per hundredweight, as an increase in length of haul will typically cause an increase in revenue per hundredweight.

Our primary revenue focus is to increase “density,” which is shipment and tonnage growth within our existing infrastructure. Increases in density allow us to maximize our asset utilization and labor productivity, which we measure over many different functional areas of our operations including linehaul load factor, pickup and delivery (“P&D”) stops per hour, P&D shipments per hour, platform pounds handled per hour and platform shipments per hour.

In addition to our focus on density and operating efficiencies, it is critical for us to obtain an appropriate yield on the shipments we handle. We manage our yields by focusing on individual account profitability. We believe yield management and improvements in efficiency are key components in our ability to produce profitable growth.

Our primary cost elements are direct wages and benefits associated with the movement of freight, fuel and other operating supplies and expenses, and depreciation of our equipment fleet and service center facilities. We

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gauge our overall success in managing costs by monitoring our operating ratio, a measure of profitability calculated by dividing total operating expenses by revenue, which also allows industry-wide comparisons with our competition.

We continually upgrade our technological capabilities to improve our customer service and lower our operating costs. Our technology provides our customers with visibility of their shipments throughout our network, increases the productivity of our workforce and provides key metrics that we use to monitor and enhance our processes.

The following table sets forth, for the periods indicated, expenses and other items as a percentage of revenue from operations:

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2014	2013	2014	2013	
Revenue from operations	100.0	% 100.0	% 100.0	% 100.0	%
Operating expenses:					
Salaries, wages and benefits	48.9	49.3	49.1	49.4	
Operating supplies and expenses	15.0	15.7	15.9	16.5	
General supplies and expenses	2.9	3.0	3.0	3.1	
Operating taxes and licenses	2.9	2.9	3.0	3.1	
Insurance and claims	1.4	1.4	1.3	1.3	
Communications and utilities	0.8	0.9	0.9	1.0	
Depreciation and amortization	5.1	5.3	5.2	5.4	
Purchased transportation	4.6	4.6	4.7	4.5	
Building and office equipment rents	0.4	0.5	0.4	0.5	
Miscellaneous expenses, net	1.0	0.5	0.6	0.2	
Total operating expenses	83.0	84.1	84.1	85.0	
Operating income	17.0	15.9	15.9	15.0	
Interest expense, net *	0.2	0.4	0.2	0.5	
Other expense, net	0.1	0.0	0.1	0.0	
Income before income taxes	16.7	15.5	15.6	14.5	
Provision for income taxes	6.2	5.7	6.0	5.4	
Net income	10.5	% 9.8	% 9.6	% 9.1	%

\* For the purpose of this table, interest expense is presented net of interest income.

## Results of Operations

Key financial and operating metrics for the three- and nine-month periods ended September 30, 2014 and 2013 are presented below:

	Three Months Ended September 30,			Nine Months Ended September 30,				
	2014	2013	% Change	2014	2013	% Change		
Work days	64	64	—	% 191	191	—	%	
Revenue (in thousands)	\$743,586	\$616,458	20.6	% \$2,066,849	\$1,745,178	18.4	%	
Operating ratio	83.0	% 84.1	%	84.1	% 85.0	%		
Net income (in thousands)	\$77,909	\$60,149	29.5	% \$197,645	\$158,957	24.3	%	
Diluted earnings per share	\$0.90	\$0.70	28.6	% \$2.29	\$1.84			