

OLD DOMINION FREIGHT LINE INC/VA
Form 10-Q
May 09, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

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

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

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(Address of principal executive offices)

(Zip Code)

(336) 889-5000

(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 No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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 May 7, 2007 there were 37,284,675 shares of the registrant's Common Stock (\$0.10 par value) outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****OLD DOMINION FREIGHT LINE, INC.****CONDENSED BALANCE SHEETS**

<i>(In thousands, except share data)</i>	March 31, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,990	\$ 2,564
Short-term investments	54,270	85,160
Customer receivables, less allowances of \$10,519 and \$10,677, respectively	146,776	141,087
Other receivables	3,170	3,904
Prepaid expenses	15,350	11,332
Deferred income taxes	12,614	12,320
Total current assets	234,170	256,367
Property and equipment:		
Revenue equipment	537,989	494,046
Land and structures	331,849	308,537
Other fixed assets	117,512	111,854
Leasehold improvements	2,111	2,045
Total property and equipment	989,461	916,482
Less accumulated depreciation and amortization	(319,096)	(308,894)
Net property and equipment	670,365	607,588
Other assets	29,102	28,238
Total assets	\$ 933,637	\$ 892,193

Note: The Condensed Balance Sheet at December 31, 2006 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

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

Table of Contents**OLD DOMINION FREIGHT LINE, INC.****CONDENSED BALANCE SHEETS**

(CONTINUED)

	March 31,	December 31,
	2007	2006
	(Unaudited)	2006
<i>(In thousands, except share data)</i>		
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 51,136	\$ 37,686
Compensation and benefits	35,757	35,649
Claims and insurance accruals	32,756	23,871
Other accrued liabilities	15,665	11,643
Income taxes payable	4,657	
Current maturities of long-term debt	12,528	12,697
Total current liabilities	152,499	121,546
Long-term liabilities:		
Long-term debt	255,181	261,885
Other non-current liabilities	40,971	39,027
Deferred income taxes	53,795	52,115
Total long-term liabilities	349,947	353,027
Total liabilities	502,446	474,573
Shareholders' equity:		
Common stock \$0.10 par value, 70,000,000 shares authorized, 37,284,675 shares outstanding at March 31, 2007 and December 31, 2006	3,728	3,728
Capital in excess of par value	90,893	90,893
Retained earnings	336,570	322,999
Total shareholders' equity	431,191	417,620
Commitments and contingencies		
Total liabilities and shareholders' equity	\$ 933,637	\$ 892,193

Note: The Condensed Balance Sheet at December 31, 2006 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

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

Table of Contents**OLD DOMINION FREIGHT LINE, INC.****CONDENSED STATEMENTS OF OPERATIONS****(Unaudited)**

	Three Months Ended	
	2007	2006
	March 31,	
<i>(In thousands, except share and per share data)</i>		
Revenue from operations	\$ 319,942	\$ 291,631
Operating expenses:		
Salaries, wages and benefits	176,255	160,058
Operating supplies and expenses	49,490	45,554
General supplies and expenses	9,299	9,310
Operating taxes and licenses	12,221	11,035
Insurance and claims	11,112	8,484
Communications and utilities	3,882	3,802
Depreciation and amortization	18,432	15,537
Purchased transportation	9,792	10,006
Building and office equipment rents	2,717	2,770
Miscellaneous expenses, net	1,698	1,493
Total operating expenses	294,898	268,049
Operating income	25,044	23,582
Non-operating expense (income):		
Interest expense	3,750	1,631
Interest income	(727)	(20)
Other expense, net	251	271
Total non-operating expense	3,274	1,882
Income before income taxes	21,770	21,700
Provision for income taxes	8,199	8,680
Net income	\$ 13,571	\$ 13,020
Basic and diluted earnings per share	\$ 0.36	\$ 0.35
Weighted average shares outstanding:		
Basic and Diluted	37,284,675	37,284,675

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

Table of Contents**OLD DOMINION FREIGHT LINE, INC.****CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

<i>(In thousands)</i>	Common Stock	Capital in	Retained	Total	
	Shares	Amount	excess of par value	earnings	
Balance as of December 31, 2006	37,285	\$ 3,728	\$ 90,893	\$ 322,999	\$ 417,620
Net income (Unaudited)				13,571	13,571
Balance as of March 31, 2007 (Unaudited)	37,285	\$ 3,728	\$ 90,893	\$ 336,570	\$ 431,191

Note: The Condensed Statements of Changes in Shareholders' Equity includes information derived from the audited financial statements as of December 31, 2006, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

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

Table of Contents**OLD DOMINION FREIGHT LINE, INC.****CONDENSED STATEMENTS OF CASH FLOWS**

	Quarter Ended March 31,	
	2007	2006
<i>(In thousands)</i>	(Unaudited)	(Unaudited)
Cash flows from operating activities:		
Net income	\$ 13,571	\$ 13,020
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	18,432	15,537
Loss on sale of property and equipment	66	356
Deferred income taxes	1,386	(580)
Changes in assets and liabilities, net	23,134	19,474
Net cash provided by operating activities	56,589	47,807
Cash flows from investing activities:		
Purchase of property and equipment	(82,189)	(65,095)
Proceeds from sale of property and equipment	1,009	701
Purchase of short-term investment securities	(80,250)	
Proceeds from sale of short-term investment securities	111,140	
Acquisition of business assets		(7,372)
Net cash used for investing activities	(50,290)	(71,766)
Cash flows from financing activities:		
Principal payments under long-term debt agreements	(6,873)	(7,659)
Net proceeds from revolving line of credit		31,701
Net cash (used for) provided by financing activities	(6,873)	24,042
(Decrease) Increase in cash and cash equivalents	(574)	83
Cash and cash equivalents at beginning of period	2,564	986
Cash and cash equivalents at end of period	\$ 1,990	\$ 1,069

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

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NOTES TO 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 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 footnotes required by U.S. generally accepted accounting principles for complete financial statements.

The preparation of condensed financial statements in accordance with U.S. generally accepted accounting principles 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. The results of operations for the interim period ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The condensed financial statements should be read in conjunction with the financial statements and related footnotes, which appear in our Annual Report on Form 10-K for the year ended December 31, 2006.

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. or significant changes in our commitments and contingencies as previously described in our Annual Report on Form 10-K for the year ended December 31, 2006, other than the changes described in this quarterly report.

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.

Earnings Per Share

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

Note 2. Income Taxes

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which clarified the accounting for uncertainty in income tax positions in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. We adopted FIN 48 on January 1, 2007 without a material impact on our financial position, results of operations or cash flows and no cumulative effect adjustment was required. The balance of our liability for unrecognized income tax benefits, including interest and penalties, was not material to our financial position at the date of adoption or at quarter-end March 31, 2007. Changes in our liability for unrecognized income tax benefits could affect our effective tax rate if recognized, but we do not expect any material changes in the next twelve months. Interest and penalties related to uncertain income tax positions are recorded in our Provision for income taxes.

We are subject to U.S. federal income tax as well as income tax of multiple state tax jurisdictions. We remain open to examination by the Internal Revenue Service for tax year 2004 through the current period of 2007. We remain open to examination by substantially all of our state tax jurisdictions for tax year 2003 through the current period of 2007.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

Note 3. Commitments and Contingencies

We are involved in various legal proceedings and claims that have arisen in the ordinary course of our business that have not been fully adjudicated. Many of these are covered in whole or in part by insurance. Our management does not believe that these actions, when finally concluded, will have a significant adverse effect upon our financial position or results of operations.

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

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

Overview

We are a leading non-union less-than-truckload (LTL) multi-regional motor carrier providing timely one-to-five day service among five regions in the United States and next-day and second-day service within these regions. Through our four branded product groups, OD-Domestic, OD-Expedited, OD-Global and OD-Technology, we offer an expanding array of innovative products and services. At March 31, 2007, we provided full-state coverage to 37 of the 47 states that we served directly within the Southeast, South Central, Northeast, Midwest and West regions of the country. Through marketing and carrier relationships, we also provide service to and from the remaining states as well as international services around the globe.

We plan to continue to expand our service center network, as opportunities arise, to achieve our strategic goal of providing full-state coverage throughout the continental United States. We opened new service centers in West Atlanta, Georgia and Cedar Rapids, Iowa during the first quarter of 2007, thereby increasing our total network to 184 service centers. We were able to increase our full-state coverage to 38 states in April 2007, adding Washington, with our acquisition of Priority Freight Lines, Inc. We expect that additions to our service center network will provide a platform for future growth and ensure that our service center network has sufficient capacity.

Our revenue is derived from transporting shipments and providing logistical services to our customers, whose demand for our services is generally tied to the overall health of the U.S. domestic economy. We compete with regional, inter-regional and national LTL carriers and, to a lesser extent, with truckload carriers, small package carriers, airfreight carriers, railroads and non-asset based logistical providers. We believe that we provide greater geographic coverage than most of our regional competitors and our transit times are generally faster than those of our principal national competitors. Our diversified mix and scope of regional and inter-regional services enable us to provide our customers with a single source to meet their LTL shipping needs, which we believe provides us with a distinct advantage over our regional, multi-regional and national competition. Additionally, we offer our services through one operating company, as opposed to many of our competitors offering a similar mix of services through multiple operating companies or divisions, which we believe allows us to be more responsive and flexible for our customers.

In analyzing the components of our revenue, we monitor changes and trends in the following key metrics:

Revenue Per Hundredweight This measurement reflects our pricing policies, 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. Changes in the class, packaging of the freight and length of haul of the shipment can also affect this average. Fuel surcharges, accessorial charges and revenue adjustments, excluding adjustments for undelivered freight, are included in this measurement for all periods presented in this report. We believe excluding revenue adjustments for undelivered freight, which are required for financial statement purposes in accordance with the Company's revenue recognition policy, from this calculation results in a better indicator of changes in our pricing.

Weight Per Shipment Fluctuations in weight per shipment can indicate changes in the class, or 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.

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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. By segmenting our revenue into lengths of haul, we can determine our market share and the growth potential of our service products in those markets.

Revenue Per Shipment This measurement is primarily determined by the three metrics listed above and is used, in conjunction with the number of shipments we receive, to calculate total revenue, excluding adjustments for undelivered freight.

Our primary revenue focus is to increase shipment and tonnage growth within our existing infrastructure, generally referred to as increasing density, thereby maximizing asset utilization and labor productivity. We measure density over many different functional areas of our operations including revenue per service center, linehaul load factor, pickup and delivery (P&D) stops per hour, P&D shipments per hour and platform pounds handled per hour. We believe continued improvement in density is a key component in our ability to sustain profitable growth.

Our primary cost elements are direct wages and benefits associated with the movement of freight; operating supplies and expenses; and depreciation of our equipment fleet and service center facilities. We gauge our overall success in managing these 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. This technology provides our customers with visibility of their shipments throughout our systems, while providing key metrics from which we can monitor our processes.

We are subject to market changes in insurance rates, and we continue to evaluate our balance of excess insurance coverage and self-insurance to minimize that cost. We are self-insured for bodily injury and property damage claims up to \$2,750,000 per occurrence. Cargo loss and damage claims are self-insured up to \$100,000 per occurrence. We are exposed to workers' compensation claims up to \$1,000,000 per occurrence, through either self-insurance or insurance deductibles, for the states in which we operate. Group health claims are self-insured up to \$325,000 per occurrence and long-term disability claims are self-insured to a maximum per individual of \$3,000 per month.

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

**Three
Months
Ended**