SAIA INC
Form 10-Q
August 04, 2008

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

OR

o **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: 0-49983

SAIA, INC.
(Exact name of registrant as specified in its charter)

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

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 definition of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer þ Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting Company o

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

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 July 28, 2008**
Common Stock, par value $.001 per share	13,450,472

SAIA, INC.
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Saia, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share data)
(unaudited)

	June 30, 2008	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 5,565	$ 6,656
Accounts receivable, net	127,690	107,116
Prepaid expenses and other	52,504	37,837
Total current assets	185,759	151,609
Property and Equipment, at cost	609,641	596,357
Less-accumulated depreciation	242,229	227,585
Net property and equipment	367,412	368,772
Goodwill, net	35,470	35,470
Other Intangibles, net	3,444	3,860
Other Noncurrent Assets	904	872
Total assets	$ 592,989	$ 560,583
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable and checks outstanding	$ 62,632	$ 42,732
Wages, vacation and employees benefits	36,790	32,862
Other current liabilities	48,322	38,138
Current portion of long-term debt	15,188	12,793
Total current liabilities	162,932	126,525
Other Liabilities:		
Long-term debt	144,682	160,052
Deferred income taxes	54,661	55,961
Claims, insurance and other	24,717	17,393
Total other liabilities	224,060	233,406
Commitments and Contingencies		
Shareholders 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, 13,450,472 and 13,448,602 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	13	13
Additional paid-in-capital	171,379	170,260
	(2,859)	(2,584)

Deferred compensation trust, 164,117 and 144,507 shares of common stock at cost at June 30, 2008 and December 31, 2007, respectively		
Retained earnings	37,464	32,963
Total shareholders equity	205,997	200,652
Total liabilities and shareholders equity	$ 592,989	$ 560,583

See accompanying notes to condensed consolidated financial statements.

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Saia, Inc.
Condensed Consolidated Statements of Operations
For the quarter and six months ended June 30, 2008 and 2007
(in thousands, except per share data)
(unaudited)

	Second Quarter		Six Months	
	2008	**2007**	**2008**	**2007**
Operating Revenue	$ 276,050	$ 252,762	$ 525,380	$ 484,589
Operating Expenses:				
Salaries, wages and employees benefits	136,871	135,237	270,218	265,042
Purchased transportation	21,704	19,073	40,688	35,240
Fuel, operating expenses and supplies	79,940	55,910	146,413	106,304
Operating taxes and licenses	9,083	8,762	18,046	17,083
Claims and insurance	7,474	9,463	16,919	18,261
Depreciation and amortization	10,375	9,796	20,542	18,816
Operating gains, net	(267)	(58)	(299)	(223)
Integration charges				2,427
Total operating expenses	265,180	238,183	512,527	462,950
Operating Income	10,870	14,579	12,853	21,639
Nonoperating Expenses:				
Interest expense	3,102	2,352	6,288	4,557
Other, net	(30)	(128)	67	(279)
Nonoperating expenses, net	3,072	2,224	6,355	4,278
Income Before Income Taxes	7,798	12,355	6,498	17,361
Income Tax Provision	1,593	4,951	1,127	6,936
Income from Continuing Operations	6,205	7,404	5,371	10,425
Loss from Discontinued Operations	(872)		(872)	
Net Income	$ 5,333	$ 7,404	$ 4,499	10,425
Weighted average common shares outstanding basic	13,290	14,135	13,294	14,186
Weighted average common shares outstanding diluted	13,484	14,405	13,480	14,459
Basic Earnings Per Share-Continuing Operations	$ 0.47	$ 0.52	$ 0.40	$ 0.73
Diluted Earnings Per Share-Continuing Operations	$ 0.46	$ 0.51	$ 0.40	$ 0.72

Basic Loss Per Share-Discontinued Operations	$	(0.07)			$	(0.07)		
Diluted Loss Per Share-Discontinued Operations	$	(0.06)			$	(0.06)		
Basic Earnings Per Share	$	0.40	$	0.52	$	0.34	$	0.73
Diluted Earnings Per Share	$	0.40	$	0.51	$	0.33	$	0.72

See accompanying notes to condensed consolidated financial statements.

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Saia, Inc.
Condensed Consolidated Statements of Cash Flows
For the six months ended June 30, 2008 and 2007
(in thousands)
(unaudited)

	Six Months	
	2008	**2007**
Operating Activities:		
Net cash from operating activities continuing operations	30,823	$ 19,855
Net cash from (used in) operating activities discontinued operations	717	(117)
Net cash from operating activities	31,540	19,738
Investing Activities:		
Acquisition of property and equipment	(20,614)	(29,002)
Proceeds from disposal of property and equipment	994	487
Acquisition of business		(2,344)
Net cash used in investing activities	(19,620)	(30,859)
Financing Activities:		
Proceeds from long-term debt	25,000	12,916
Repayment of long-term debt	(38,011)	(1,401)
Repurchase of common stock		(5,408)
Proceeds from stock option exercises		624
Net cash from (used in) financing activities	(13,011)	6,731
Net Decrease in Cash and Cash Equivalents	(1,091)	(4,390)
Cash and cash equivalents, beginning of period	6,656	10,669
Cash and cash equivalents, end of period	$ 5,565	$ 6,279
Supplemental Cash Flow Information:		
Income taxes paid, net	517	$ 2,504
Interest paid	6,469	3,229

See accompanying notes to condensed consolidated financial statements.

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Saia, Inc.
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 regional transportation subsidiary, Saia Motor Freight Line, LLC (together the Company or Saia). The financial statements include the financial position and results of operations of The Connection Company (the Connection) since its acquisition date of November 18, 2006 and Madison Freight Systems, Inc. (Madison Freight) since its acquisition date of February 1, 2007.

The condensed consolidated financial statements have been prepared by the Company, without audit by independent registered public accountants. In the opinion of management, all normal recurring adjustments necessary for a fair presentation of the statement of the financial position, results of operations and cash flows for the interim periods included herein have been made. These interim 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, 2007. Operating results for the quarter and six-months ended June 30, 2008, are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2008.

Business

The Company provides regional and interregional less-than-truckload (LTL) services and selected national LTL and time-definite services across the United States through its wholly owned subsidiary, Saia Motor Freight Line, LLC (Saia Motor Freight).

Integration Charges

Integration charges totaling zero and $2.4 million were expensed in the quarter and six-months ended June 30, 2007 in connection with the acquisitions of the Connection and Madison Freight. These integration charges consist of employee retention and stay bonuses, training, communications, fleet re-logoing, technology integration and other related items.

New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157, *Fair Value Measurements* (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value and requires enhanced disclosures about fair value measurements. Statement 157 requires companies to disclose the fair value of financial instruments according to a fair value hierarchy. Additionally, companies are required to provide certain disclosures regarding instruments within the hierarchy, including a reconciliation of the beginning and ending balances for each major category of assets and liabilities. Statement 157 is effective for the Company s fiscal year beginning January 1, 2008. The adoption of Statement 157 has not had a material effect on the Company s consolidated financial statements. In February 2008, the FASB issued Staff Positions No. 157-1 and No. 157-2 which partially defer the effective date of Statement 157 for one year for certain nonfinancial assets and liabilities and remove certain leasing transactions from its scope. The Company will evaluate the manner in which the nonfinancial items covered by Statement 157 will be adopted.

In February 2007, the FASB issued Statement No. 159, *Fair Value Options for Financial Assets and Financial Liabilities* (Statement 159), which permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Statement 159 is effective for the Company s fiscal year beginning January 1, 2008. The adoption of Statement 159 has not had a material effect on the Company s consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* (Statement 141R). Statement 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. Statement 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. Statement 141R is effective for fiscal years beginning after December 15, 2008. The Company will assess the impact of the business combination provisions of Statement 141R upon the occurrence of a business combination.

(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):

	Second Quarter		Six Months	
	2008	**2007**	**2008**	**2007**
Numerator:				
Income from continuing operations	$ 6,205	$ 7,404	$ 5,371	$ 10,425
Loss from discontinued operations, net	(872)		(872)	
Net income	$ 5,333	$ 7,404	$ 4,499	$ 10,425
Denominator:				
Denominator for basic earnings per share weighted average common shares	13,290	14,135	13,294	14,186
Effect of dilutive stock options	95	211	94	219
Effect of other common stock equivalents	99	59	92	54
Denominator for diluted earnings per share adjusted weighted average common shares	13,484	14,405	13,480	14,459
Basic Earnings Per Share Continuing Operations	$ 0.47	$ 0.52	$ 0.40	$ 0.73
Basic (Loss) Per Share Discontinued Operations	(0.07)		(0.07)	
Basic Earnings Per Share	$ 0.40	$ 0.52	$ 0.34	$ 0.73
Diluted Earnings Per Share Continuing Operations	$ 0.46	$ 0.51	$ 0.40	$ 0.72
Diluted (Loss) Per Share Discontinued Operations	(0.06)		(0.06)	
Diluted Earnings Per Share	$ 0.40	$ 0.51	$ 0.33	$ 0.72

For the quarters ended June 30, 2008 and 2007 respectively, options for 329,300 and 49,510 shares were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive. For the six months ended June 30, 2008 and 2007 respectively, options for 320,613 and 117,360 shares were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive.

(3) Commitments and Contingencies

Fuel Surcharge Litigation. In late July 2007, a lawsuit was filed in the United States District Court for the Southern District of California against Saia and several other major LTL freight carriers alleging that the defendants conspired to fix fuel surcharge rates in violation of federal antitrust laws and seeking injunctive relief, treble damages and attorneys fees. Since the filing of the original case, similar cases have been filed against Saia and other LTL freight carriers, each with the same allegation of conspiracy to fix fuel surcharge rates. The cases were consolidated and transferred to the United States District Court for the Northern District of Georgia, and the plaintiffs in these cases are seeking class action certification.

Plaintiffs filed their Amended Consolidated Complaint on May 23, 2008. Plaintiffs voluntarily dismissed the following carriers from the Amended Consolidated Complaint without prejudice: R&L Carriers, Inc., New England Motor Freight, Inc., Southeast Freight Lines, Inc., AAA Cooper Transportation, Jevic Transportation, Inc. (Jevic) and Sun Capital Partners. Plaintiffs also voluntarily dismissed Southern Motor Carriers Rate Conference, Inc. without prejudice.

On June 25, 2008, Defendants filed their Motion to Dismiss Plaintiffs Consolidated Class Action Complaint on the grounds that it failed to adequately plead collusion and conspiracy. Given the nature and status of the claims, we cannot yet determine the amount or a reasonable range of potential loss, if any. We believe that these claims have no merit and intend to vigorously defend ourselves.

California Labor Code Litigation. The Company is a defendant in a lawsuit originally filed in July 2007 in California state court on behalf of California dock workers alleging various violations of state labor laws. In August 2007, the case was removed to the United States District Court for the Central District of California. The claims include the alleged failure of the Company to provide rest and meal breaks and the alleged failure to reimburse the employees for the cost of work shoes, among other claims. In January 2008, the parties negotiated a conditional class-wide settlement under which the Company would pay $0.8 million to settle these claims. This pre-certification settlement is subject to court approval. In March 2008, the District Court denied preliminary approval and the named Plaintiff filed a petition with the United States Court of Appeal for the Ninth Circuit seeking permission to appeal this ruling. The petition is now pending. The proposed settlement has been reflected as a liability of $0.8 million as of June 30, 2008 and was recorded as other operating expenses in the fourth quarter of 2007.

Other. The Company is subject to legal proceedings that arise in the ordinary course of its business. In the opinion of management, the aggregate liability, if any, with respect to 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) Debt and Financing Arrangements

At June 30, 2008 debt consisted of the following (in thousands):

	June 30, 2008	December 31, 2007
Credit Agreement with Banks, described below	$ 18,506	$ 48,724
Senior Notes under a Master Shelf Agreement, described below	130,000	110,000
Subordinated debentures, interest rate of 7.0% semi-annual installment payments due from 2005 to 2011	11,364	14,121
Total Debt	159,870	172,845
Current Maturities	15,188	12,793
Long-Term Debt	$ 144,682	$ 160,052

On September 20, 2002, Saia 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. Saia 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 are unsecured and have 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 are unsecured and have a fixed interest rate of 6.14 percent. The January 2008 issuance of $25 million Senior Notes are unsecured and have a fixed interest rate of 6.17 percent. Payments due for both recent $25 million issuances will be interest only until June 30, 2011 and at that time semi-annual principal payments will begin with the final payments due January 1, 2018. Under the terms of the Senior Notes, Saia must maintain certain financial covenants including a maximum ratio of total indebtedness to earnings before interest, taxes, depreciation, amortization and rent (EBITDAR), a minimum interest coverage ratio and a minimum tangible net worth, among others. At June 30, 2008, the Company was in compliance with these financial covenants.

At December 31, 2007, Saia also had a $110 million Agented Revolving Credit Agreement (the Credit Agreement) with Bank of Oklahoma, N.A., as agent. The Credit Agreement was unsecured with an interest rate based on LIBOR or prime at the Company s option, plus an applicable spread, in certain instances, and had a maturity date of

January 2009. On January 28, 2008, Saia amended and restated the Credit Agreement, increasing it to $160 million, extending the maturity to January 28, 2013 and adjusting the interest rate schedule. In addition, the financial covenants were revised to a fixed charge coverage ratio, leverage ratio and adjusted leverage ratio, removing the minimum tangible net worth test. At June 30, 2008, Saia had $18.5 million of borrowings under the Credit Agreement, at an interest rate of 5.00 percent, $54.2 million in letters of credit outstanding under the Credit Agreement and, subject to the satisfaction of existing debt covenants, availability of $87.3 million. The available portion of the Credit Agreement may be used for future capital expenditures, working capital and letter of credit requirements as needed. Under the terms of the Credit Agreement, Saia must satisfy a tangible net worth covenant and maintain a fixed charge coverage ratio, leverage ratio and adjusted leverage ratio. At June 30, 2008, Saia was in compliance with these financial covenants.

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 June 30, 2008 and December 31, 2007 is $160.3 million and $181.8 million, respectively.

The principal maturities of long-term debt for the next five years (in thousands) are as follows:

	Amount
2008	$ 5,000
2009	18,938
2010	18,938
2011	22,196
2012	25,714
Thereafter through 2018	69,084

(5) Income Taxes

In May 2008, the Company was approved as an alternative fueler by the IRS. As a result of receiving approval, the Company recorded, as a discrete item in the quarter, a tax benefit of $1.4 million which represents the amount of the alternative fuel credit for 2006 and 2007. Additionally, the Company has included the estimated amount of the 2008 alternative fuel credit (approximately $1 million) in the calculation of its estimated annual effective tax rate for 2008. As a result, the current estimated annual effective tax rate before discrete item for the alternative fuel credit is approximately 38 percent as compared to an estimated annual effective tax rate of approximately 41 percent at the end of the first quarter 2008.

(6) Discontinued Operations

The Company sold the stock of Jevic Transportation, Inc. (Jevic) on June 30, 2006 and remains a guarantor under indemnity agreements, primarily with certain insurance underwriters with respect to Jevic s self-insured retention (SIR) obligation for workers compensation, bodily injury and property damage and general liability claims against Jevic arising out of occurrences prior to the transaction date. The SIR obligation was estimated to be approximately $15.3 million as of the June 30, 2006 transaction date. In connection with the transaction, Jevic provided collateral in the form of a $15.3 million letter of credit with a third party bank in favor of the Company. The amount of the letter of credit was reduced in April 2008 to $13.6 million following a draw by the Company on the letter of credit to fund the SIR portion of a settlement of a bodily injury claim against Jevic arising prior to the transaction date. Jevic filed bankruptcy in May 2008 and the Company recorded liabilities for all residual indemnification obligations in claims, insurance and other current liabilities, based on the current estimates of the indemnification obligations as of June 30, 2008. Accordingly, the Company established a liability of $14.6 million for open Jevic claims for occurrences prior to June 30, 2006. Additionally, the Company recorded a receivable of $13.6 million, included in prepaid expenses and other current assets, for the amounts available under the letter of credit. The income statement impact of $0.9 million, net of taxes, is reflected as discontinued operations in the second quarter of 2008.

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

This discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and our 2007 audited consolidated financial statements included in the Company s annual report on Form 10-K for the year ended December 31, 2007. Those financial statements include additional information about our significant accounting policies, practices and the transactions that underlie our financial results.

Executive Overview

The Company s business is highly correlated to the general economy and, in particular, industrial production. The Company s priorities are focused on increasing volume within existing geographies while managing both the mix and yield of business to achieve increased profitability. 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). Technology is important to supporting both customer service and operating management. The Company grew operating revenue by 9.2 percent in the second quarter of 2008 over the second quarter of 2007. Revenue growth was attributable to improvement in yield (revenue per hundred weight) through the impact of higher fuel surcharges and increased length of haul.

Operating income was $10.9 million for the second quarter of 2008, a decrease of $3.7 million from the prior-year quarter. The Company recorded a pre-tax benefit of $0.6 million in the second quarter of 2008 for equity-based compensation compared to a pre-tax expense of $0.8 million in the second quarter of 2007 as a result of the impact of stock price changes in the respective periods. The Company also recorded a tax benefit in the second quarter of 2008 for the prior period impact of an alternative fuel tax credit of $1.4 million. Earnings from continuing operations in the second quarter of 2008 were $0.46 per share compared to $0.51 per share in the second quarter of 2007. Second quarter 2008 operating income was impacted by the soft freight environment, escalating fuel prices and higher costs. The operating ratio (operating expenses divided by operating revenue) of 96.1 percent in the second quarter of 2008 compared to 94.2 percent in the second quarter of 2007.

The Company had $30.8 million in cash from operating activities of continuing operations through the first six months of the year compared with $19.9 million generated in the prior-year period. Cash flows from operating activities of discontinued operations were $0.7 million for the six months ended June 30, 2008 versus $0.1 million of cash used in operating activities of discontinued operations for the six months ended June 30, 2007. The Company had net cash used in investing activities of $19.6 million during the first six months of 2008 for the purchase of property and equipment compared to $30.9 million in the first six months of 2007, which included the acquisition of Madison Freight. The Company s cash used in financing activities during the first six months of 2008 included proceeds from borrowings on long-term debt of $25 million, which was more than offset by $38.0 million of debt repayments. The Company had borrowings of $18.5 million and $54.2 million in letters of credit outstanding on its credit agreement and a cash balance of $5.6 million as of June 30, 2008.

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. (also referred to as Saia and the Company).

The Company is an asset-based transportation company based in Johns Creek, Georgia providing regional and multi-regional LTL services and selected national LTL and guaranteed service solutions to a broad base of customers across the United States through its wholly owned subsidiary, Saia Motor Freight, LLC.

Our business is highly correlated to the general economy and, in particular, industrial production. It also is impacted by a number of other factors as detailed in the *Forward Looking Statements* section of this Form 10-Q. 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. Fuel surcharges have remained in effect for several years and are a significant component of revenue and pricing. Fuel surcharges are a more integral part of annual customer contract renewals, blurring the distinction between base price increases and recoveries under the fuel surcharge program.

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Results of Operations

Saia, Inc.
Selected Results of Operations and Operating Statistics Continuing Operations
For the quarters ended June 30, 2008 and 2007
(in thousands, except ratios and revenue per hundredweight)
(unaudited)

	2008	2007	Percent Variance 08 v. 07
Operating Revenue	$276,050	$252,762	9.2%
Operating Expenses:			