

SAIA INC
Form 10-Q
October 26, 2016

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 SEPTEMBER 30, 2016

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
(State of incorporation)

48-1229851
(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)

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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 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 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 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

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 October 26, 2016
Common Stock, par value \$.001 per share	25,207,381

SAIA, INC. AND SUBSIDIARIES

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Item 1. Financial Statements

Saia, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(unaudited)

	September 30, 2016	December 31, 2015
	(in thousands, except share and per share data)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 789	\$ 124
Accounts receivable, net	143,461	124,222
Prepaid expenses and other	22,152	34,643
Total current assets	166,402	158,989
Property and Equipment, at cost	1,104,495	995,514
Less-accumulated depreciation	492,577	456,335
Net property and equipment	611,918	539,179
Goodwill and Identifiable Intangibles, net	25,815	26,986
Other Noncurrent Assets	4,477	4,039
Total assets	\$ 808,612	\$ 729,193
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	\$ 48,129	\$ 54,754
Wages, vacation and employees' benefits	38,277	27,834
Other current liabilities	50,300	46,360
Current portion of long-term debt	16,695	12,432
Total current liabilities	153,401	141,380
Other Liabilities:		
Long-term debt, less current portion	77,543	56,540
Deferred income taxes	74,091	67,417
Claims, insurance and other	34,687	35,967
Total other liabilities	186,321	159,924
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, 25,207,381 and 25,141,799 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	25	25
Additional paid-in-capital	234,045	230,593
Deferred compensation trust, 168,827 and 165,971 shares of common	(3,229)	(3,102)

stock at cost at September 30, 2016 and December 31, 2015, respectively		
Retained earnings	238,049	200,373
Total stockholders' equity	468,890	427,889
Total liabilities and stockholders' equity	\$ 808,612	\$ 729,193

See accompanying notes to condensed consolidated financial statements.

Saia, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

For the quarters and nine months ended September 30, 2016 and 2015

(unaudited)

	Third Quarter		Nine Months	
	2016	2015	2016	2015
	(in thousands, except per share data)			
Operating Revenue	\$316,442	\$317,199	\$918,258	\$933,701
Operating Expenses:				
Salaries, wages and employees' benefits	178,687	177,623	524,877	505,817
Purchased transportation	15,657	19,314	42,439	57,212
Fuel, operating expenses and supplies	59,345	65,122	172,411	201,432
Operating taxes and licenses	10,061	9,258	30,227	27,765
Claims and insurance	9,988	9,146	28,949	20,344
Depreciation and amortization	19,927	16,765	56,910	48,525
Operating losses, net	133	126	496	247
Total operating expenses	293,798	297,354	856,309	861,342
Operating Income	22,644	19,845	61,949	72,359
Nonoperating Expenses (Income):				
Interest expense	1,183	1,033	3,410	3,126
Other, net	(104)	46	(147)	(19)
Nonoperating expenses, net	1,079	1,079	3,263	3,107
Income Before Income Taxes	21,565	18,766	58,686	69,252
Income Tax Provision	7,739	6,989	21,010	25,623
Net Income	\$13,826	\$11,777	\$37,676	\$43,629
Weighted average common shares outstanding – basic	25,038	24,963	25,022	24,901
Weighted average common shares outstanding – diluted	25,658	25,555	25,625	25,525
Basic Earnings Per Share	\$0.55	\$0.47	\$1.51	\$1.75
Diluted Earnings Per Share	\$0.54	\$0.46	\$1.47	\$1.71

See accompanying notes to condensed consolidated financial statements.

Saia, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

For the nine months ended September 30, 2016 and 2015

(unaudited)

	Nine Months	
	2016	2015
	(in thousands)	
Operating Activities:		
Net income	\$37,676	\$43,629
Noncash items included in net income:		
Depreciation and amortization	56,910	48,525
Other, net	8,908	5,538
Changes in operating assets and liabilities, net	14,165	16,346
Net cash provided by operating activities	117,659	114,038
Investing Activities:		
Acquisition of business, net of cash received	—	(22,238)
Acquisition of property and equipment	(108,871)	(68,835)
Proceeds from disposal of property and equipment	1,046	665
Net cash used in investing activities	(107,825)	(90,408)
Financing Activities:		
Repayment of revolving credit agreement	(143,298)	(217,906)
Borrowing of revolving credit agreement	143,263	197,906
Proceeds from stock option exercises (including excess tax benefits)	248	2,816
Repayment of senior notes	(3,571)	(3,571)
Repayment of capital leases	(5,811)	(2,247)
Other financing activity	—	(455)
Net cash used in financing activities	(9,169)	(23,457)
Net Increase in Cash and Cash Equivalents	665	173
Cash and cash equivalents, beginning of period	124	4,367
Cash and cash equivalents, end of period	\$789	\$4,540
Non Cash Investing Activities		
Equipment financed with capital leases	\$34,683	\$23,979

See accompanying notes to condensed consolidated financial statements.

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, 2015. Operating results for the quarter and nine months ended September 30, 2016 are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2016.

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. The Company has one operating segment.

Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. In July 2015, the FASB updated ASU No. 2014-09 to defer the effective date by one year. The new standard is effective for the Company on January 1, 2018, at which point the Company plans to adopt this standard. 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.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), a leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. generally accepted accounting principles. The new standard is effective for the Company on January 1, 2019. Early adoption is permitted. The standard requires the use of a modified retrospective transition method. The Company is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. The Company has not completed its evaluation of the effect of the standard on its ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which requires entities to recognize the income tax effects of stock awards in the income statement when the awards vest or are settled. Further, the ASU allows entities to withhold up to the maximum individual statutory tax rate without classifying the stock awards as a liability and to account for forfeitures either upon occurrence or by estimating forfeitures. The new standard is effective for the Company on January 1, 2017, at which point the Company plans to adopt this standard. The Company is evaluating the effect that ASU No. 2016-09 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.

(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):

	Third Quarter		Nine Months	
	2016	2015	2016	2015
Numerator:				
Net income	\$13,826	\$11,777	\$37,676	\$43,629
Denominator:				
Denominator for basic earnings per share—weighted				
average common shares	25,038	24,963	25,022	24,901
Effect of dilutive stock options	52	87	46	113
Effect of other common stock equivalents	568	505	557	511
Denominator for diluted earnings per share—adjusted				
weighted average common shares	25,658	25,555	25,625	25,525
Basic Earnings Per Share	\$0.55	\$0.47	\$1.51	\$1.75
Diluted Earnings Per Share	\$0.54	\$0.46	\$1.47	\$1.71

For the quarter and nine months ended September 30, 2016, options and restricted stock for 402,770 and 516,312 shares of common stock, respectively, were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive. For the quarter and nine months ended September 30, 2015, options and restricted stock for 125,536 and 111,320 shares of common stock, respectively, 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 and estimable losses and that the ultimate outcome of these actions will not have a material adverse effect on its financial condition but could have a material adverse effect on the results of operations in a given quarter or annual period.

The Company pays its pro rata share of the cost in connection with letters of credit outstanding for certain workers' compensation and casualty claims incurred prior to March 31, 2000 that another carrier must maintain for insurance programs. The pro rata share of these outstanding letters of credit was \$1.8 million at September 30, 2016.

(4) Fair Value of Financial Instruments

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of September 30, 2016 and December 31, 2015, 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 September 30, 2016 and December 31, 2015 was \$94.6 million and \$73.1 million, respectively, based upon levels one and two in the fair value hierarchy. The carrying value of the debt was \$94.2 million and \$69.0 million at September 30, 2016 and December 31, 2015, respectively.

(5) Debt and Financing Arrangements

At September 30, 2016 and December 31, 2015, debt consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Credit Agreement with Banks, described below	\$ 14,500	\$ 14,534
Senior Notes under a Master Shelf Agreement, described below	10,714	14,286
Capital Leases, described below	69,024	40,152
Total debt	94,238	68,972
Less: current portion of long-term debt	16,695	12,432
Long-term debt, less current portion	\$ 77,543	\$ 56,540

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 and 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 September 30, 2016, the Company had borrowings of \$14.5 million and outstanding letters of credit of \$39.7 million under the Restated Credit Agreement. At December 31, 2015, the Company had borrowings of \$14.5 million and outstanding letters of credit of \$44.8 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 an additional \$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 made in 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. The Senior Notes also provide 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 Senior Notes. At September 30, 2016 and December 31, 2015, the Company had \$10.7 million and \$14.3 million, respectively, in Senior Notes outstanding.

Capital Leases

The Company is obligated under capital leases with seven year terms covering revenue equipment totaling \$69.0 million at September 30, 2016 compared to \$40.2 million at December 31, 2015. Amortization of assets held under the capital leases is included in depreciation and amortization expense. The weighted average interest rate for the capital leases at September 30, 2016 and December 31, 2015 is 2.82% and 2.85%, respectively.

Principal Maturities of Long-Term Debt

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

	Amount
2016	\$6,415
2017	18,517
2018	11,374
2019	11,374
2020	25,874
Thereafter	27,406
Total	\$100,960
Less: Amounts Representing Interest on Capital Leases	6,722
Total	\$94,238

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 2015 audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. 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," "may," "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, the following:

- general economic conditions including downturns in the business cycle;
- effectiveness of Company-specific performance improvement initiatives, including management of the cost structure to match shifts in customer volume levels;
- the creditworthiness of our customers and their ability to pay for services;
- failure to achieve acquisition synergies;
- failure to operate and grow acquired businesses in a manner that supports the value allocated to these acquired businesses, including their goodwill;
- economic declines in the geographic regions or industries in which our customers operate;
- 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, Homeland Security, environmental regulations and the FDA;
- changes in interpretation of accounting principles;
- dependence on key employees;
- inclement weather;
- labor relations, including the adverse impact should a portion of the Company's workforce become unionized;
- terrorism risks;
- self-insurance claims and other expense volatility;

• cost and availability of insurance coverage;

• increased costs of healthcare benefits and administration, including as a result of healthcare legislation;

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• social media risk;
• cyber security risk; 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, 2015, 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. Pricing initiatives 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.

The Company's operating revenue decreased by 0.2 percent in the third quarter of 2016 compared to the same period in 2015. The decrease resulted primarily from decreased shipments, tonnage and fuel surcharges, partially offset by yield management.

Consolidated operating income was \$22.6 million for the third quarter of 2016 compared to \$19.8 million for the third quarter of 2015. In the third quarter of 2016, LTL shipments and tonnage per workday were down 1.2 and 2.9 percent, respectively, versus the prior year quarter. Diluted earnings per share were \$0.54 in the third quarter of 2016, compared to diluted earnings per share of \$0.46 in the prior year quarter. The operating ratio (operating expenses divided by operating revenue) was 92.8 percent in the third quarter of 2016 compared to 93.7 percent in the third quarter of 2015.

The Company had \$117.7 million in cash provided by operating activities through the first nine months of 2016 compared with \$114.0 million in the same period last year. The increase is due to working capital fluctuations and an increase in non-cash items included in net income largely offset by a decrease in operating income for the nine months ended September 30, 2016. The Company had net cash used in investing activities of \$107.8 million during the first nine months of 2016 compared to \$90.4 million in the first nine months of 2015, primarily as a result of the purchase of revenue equipment and real estate this year. The Company's cash used in financing activities was \$9.2 million through the first nine months of 2016 compared to \$23.4 million in the same period last year. The Company had \$14.5 million in borrowings under its revolving credit agreement, outstanding letters of credit of \$41.5 million and cash and cash equivalents balance of \$0.8 million at September 30, 2016. The Company also had \$10.7 million outstanding in Senior Notes and \$69.0 million in obligations under capital leases at September 30, 2016. The Company was in compliance with the debt covenants under its debt agreements at September 30, 2016.

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 its wholly-owned subsidiaries (together, the Company or Saia).

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. The Company has one operating segment.

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.

Results of Operations

Saia, Inc. and Subsidiaries

Selected Results of Operations and Operating Statistics

For the quarters ended September 30, 2016 and 2015

(unaudited)

	2016	2015	Percent Variance '16 v. '15
	(in thousands, except ratios and revenue per hundredweight)		
Operating Revenue	\$ 316,442	\$ 317,199	(0.2) %
Operating Expenses:			
Salaries, wages and employees' benefits	178,687	177,623	0.6
Purchased transportation	15,657	19,314	(18.9)
Depreciation and amortization	19,927	16,765	18.9
Fuel and other operating expenses	79,527	83,652	(4.9)
Operating Income	22,644	19,845	14.1
Operating Ratio	92.8	% 93.7	% 0.9
Nonoperating Expense	1,079	1,079	-
Working Capital (as of September 30, 2016 and 2015) (1)	13,001	11,784	
Cash Flows provided by Operations (year to date)	117,659	114,038	
Net Acquisitions of Property and Equipment (year to date)	107,825	68,170	
Saia Motor Freight Operating Statistics:			
LTL Tonnage	913	940	(2.9)
LTL Shipments	1,638	1,658	(1.2)
LTL Revenue per hundredweight	\$ 16.08	\$ 15.51	3.7

(1) The prior year working capital amount has been adjusted for the reclassification of current deferred tax assets or liabilities to long-term as a result of the adoption of the Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2015-17.

Quarter and nine months ended September 30, 2016 compared to Quarter and nine months ended September 30, 2015

Revenue and volume

Consolidated revenue for the quarter ended September 30, 2016 decreased 0.2 percent to \$316.4 million primarily as a result of decreased tonnage, shipments and fuel surcharges which were partially offset by yield management. Saia's LTL revenue per hundredweight (a measure of yield) increased 3.7 percent to \$16.08 per hundredweight for the third quarter of 2016 as a result of increased rates offset by decreased fuel surcharges. Saia's LTL tonnage decreased 2.9 percent to 0.9 million tons. LTL shipments decreased 1.2 percent to 1.6 million shipments. Approximately 75 to 80

percent of Saia's operating revenue is subject to specific customer price negotiations that occur throughout the year. The remaining 20 to 25 percent of operating revenue is subject to an annual general rate increase. On December 7, 2015, Saia implemented a 4.9 percent general rate increase for customers comprising this 20 to 25 percent of operating revenue. Competitive factors, customer turnover and mix changes, impact the extent to which customer rate increases are retained over time.

Operating revenue includes fuel surcharge revenue from the Company's fuel surcharge program. That program is designed to reduce the Company's exposure to fluctuations in fuel prices by adjusting total freight charges to account for changes in the price of fuel. The Company's fuel surcharge is based on the average national price for diesel fuel and is reset weekly. Fuel surcharges have remained in effect for several years, are widely accepted in the industry and are a significant component of revenue and pricing. They are an integral part of annual customer contract renewals but represent only one portion of overall competitive price negotiations as customers may negotiate increases in base rates instead of increases in fuel surcharges or vice versa. Saia revised its fuel surcharge program effective January 18, 2016. Fuel surcharge revenue decreased to 10.2% of operating revenue for the quarter ended September 30, 2016 compared to 11.4% for the quarter ended September 30, 2015, as a result of lower fuel prices.

For the nine months ended September 30, 2016, operating revenues were \$918.3 million, down 1.7 percent from \$933.7 million for the nine months ended September 30, 2015, primarily due to decreased tonnage, shipments and fuel surcharges, partially offset by yield management and an additional workday in the current year period. Fuel surcharge revenue decreased to 9.5% of operating revenue for the nine months ended September 30, 2016 compared to 12.1% for the nine months ended September 30, 2015, as a result of lower fuel prices.

Operating expenses and margin

Consolidated operating income was \$22.6 million in the third quarter of 2016 compared to \$19.8 million in the prior year quarter. Overall, the operations were favorably impacted in the third quarter of 2016 by higher yield, lower fuel and purchase transportation costs, and continued network optimization initiatives, which were partially offset by declining tonnage and shipments, salary and wage increases, and increased accident costs. The third quarter 2016 operating ratio (operating expenses divided by operating revenue) was 92.8 percent compared to 93.7 percent for the same period in 2015.

Salaries, wages and benefits increased \$1.1 million in the third quarter of 2016 compared to the prior year quarter largely due to a wage increase in July 2016 and increased internal driver utilization, largely offset by lower headcount and improved productivity. Fuel, operating expenses and supplies decreased \$5.8 million in the third quarter of 2016 compared to the prior year quarter largely due to lower fuel costs, improved fuel efficiency, lower maintenance costs from a newer fleet and increased internal maintenance asset utilization, and reduced costs of other operating expenses and supplies. During the third quarter of 2016, claims and insurance expense was \$0.8 million higher than the previous year quarter primarily due to increased insurance premiums. The Company can experience volatility in accident expense as a result of its self-insurance structure and \$2.0 million retention limits per occurrence. Purchased transportation decreased \$3.7 million compared to the third quarter of 2015 primarily due to a decline in fuel costs charged by carriers, favorable carrier rates and mix of transportation modes utilized, and increased utilization of internal assets.

For the nine months ended September 30, 2016 consolidated operating income was \$61.9 million, down 14.4 percent compared to \$72.4 million for the nine months ended September 30, 2015.

Salaries, wages and benefits increased \$19.1 million during the first nine months of 2016 compared to the same period last year largely due to increased wages associated with an additional workday in the first nine months of 2016 and wage increases in July 2015 and 2016, increased internal driver utilization and higher healthcare benefit costs. Fuel, operating expenses and supplies decreased \$29.0 million during the first nine months of 2016 compared to the same period last year largely due to lower fuel costs, improved fuel efficiency, lower maintenance costs from a newer fleet and increased internal maintenance asset utilization, and reduced costs of other operating expenses and supplies. During the first nine months of 2016, claims and insurance expense was \$8.6 million higher than the same period last year primarily due to increased accident frequency and severity in the current period, negative development on older claims and higher insurance premiums, partially offset by decreased cargo claims. Purchased transportation decreased \$14.8 million compared to the first nine months of 2015 primarily due to a decline in fuel costs charged by carriers, favorable carrier rates and mix of transportation modes utilized, and increased utilization of internal assets.

Other

Substantially all non-operating expenses represent interest expense. Interest expense in third quarter 2016 was higher than third quarter 2015 due to increased average borrowings resulting from the \$17.4 million increase in investing activities. The effective tax rate was 35.9 percent and 37.2 percent for the quarters ended September 30, 2016 and September 30, 2015, respectively. For the nine months ended September 30, 2016, the effective tax rate was 35.8 percent compared to 37.0 percent for the nine months ended September 30, 2015. The decreased tax rate is primarily a result of legislation enacted in December 2015 to extend alternative fuel tax credits for 2015 and 2016.

Net income was \$13.8 million, or \$0.54 per diluted share, in the third quarter of 2016 compared to net income of \$11.8 million, or \$0.46 per diluted share, in the third quarter of 2015. Net income was \$37.7 million, or \$1.47 per diluted share, for the first nine months of 2016 compared to net income of \$43.6 million, or \$1.71 per diluted share, for the first nine months of 2015.

Working capital/capital expenditures

Working capital at September 30, 2016 was \$13.0 million, which increased from working capital at September 30, 2015 of \$11.8 million.

Current assets at September 30, 2016 increased by \$0.1 million as compared to September 30, 2015 and include an increase in accounts receivable of \$4.4 million largely offset by a decrease in cash and cash equivalents. Current liabilities decreased by \$1.1 million at September 30, 2016 compared to September 30, 2015 largely due to a decrease in accounts payable partially offset by increases in accrued wages, vacation and employee benefits and the current portion of long-term debt from capital leases used to finance certain revenue equipment. Cash flows provided by operating activities were \$117.7 million for the nine months ended September 30, 2016 versus \$114.0 million for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, cash used in investing activities was \$107.8 million versus \$90.4 million in the same period last year, a \$17.4 million increase. This increase resulted primarily from higher capital expenditures for revenue equipment, despite the acquisition of a logistics business in the first quarter of 2015. For the nine months ended September 30, 2016, net cash used in financing activities was \$9.2 million compared to \$23.4 million in the same period last year.

Outlook

Our business remains highly correlated to non-service sectors of the general economy and competitive pricing pressures, as well as the success of Company-specific improvement initiatives. There remains uncertainty as to the strength of economic conditions. We are continuing initiatives to increase yield, reduce costs and improve productivity. We focus on providing top quality service and improving safety performance. If significant competitors were to cease operations and their capacity leave the market, current industry conditions would likely improve. However, there can be no assurance that any industry consolidation will indeed happen or if such consolidation occurs that it will materially improve the excess industry capacity. The Company continues to pursue revenue and cost initiatives to improve profitability. On December 7, 2015 and October 3, 2016, Saia implemented 4.9 percent general rate increases for customers comprising approximately 20 to 25 percent of operating revenue. Saia revised its fuel surcharge program effective January 18, 2016. The extent of the success of these revenue initiatives is impacted by what proves to be the underlying economic trends, competitor initiatives and other factors discussed under “Forward-Looking Statements” and Part II, Item 1A. “Risk Factors.”

Effective July 1, 2016, the Company implemented a market competitive salary and wage increase for all of its employees. The cost of the compensation increase is expected to be approximately \$16 million annually, and the Company anticipates the impact will be partially offset by continued productivity and efficiency gains.

If the Company builds market share, there are numerous operating leverage cost benefits. Conversely, should the economy soften from present levels, the Company plans to match resources and capacity to shifting volume levels to lessen unfavorable operating leverage. The success of cost improvement initiatives is also impacted by the cost and availability of drivers and purchased transportation, fuel, insurance claims, regulatory changes, successful implementation of profit improvement initiatives and other factors discussed under “Forward-Looking Statements” and Part II, Item 1A. “Risk Factors.”

See “Forward-Looking Statements” and Part II, Item 1A. “Risk Factors” for a more complete discussion of potential risks and uncertainties that could materially affect our future performance.

New Accounting Pronouncements Not Yet Adopted

In May 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. In July 2015, the FASB updated ASU No. 2014-09 to defer the effective date by one year. The new standard is effective for the Company on January 1, 2018, at which point the Company plans to adopt this standard. 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.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), a leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing U.S. generally accepted accounting principles. The new standard is effective for the Company on January 1, 2019. Early adoption is permitted. The standard requires the use of a modified retrospective transition method. The Company is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. The Company has not completed its evaluation of the effect of the standard on its ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which requires entities to recognize the income tax effects of stock awards in the income statement when the awards vest or are settled. Further, the ASU allows entities to withhold up to the maximum individual statutory tax rate without classifying the stock awards as a liability and to account for forfeitures either upon occurrence or by estimating the number of forfeitures. The new standard is effective for the Company on January 1, 2017, at which point the Company plans to adopt this standard. The Company is evaluating the effect that ASU No. 2016-09 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.

Financial Condition

The Company's liquidity needs arise primarily from capital investment in new equipment, land and structures, information technology and letters of credit required under insurance programs, as well as funding working capital requirements.

The Company is party to a revolving credit agreement (the Restated Credit Agreement) with a group of banks to fund capital investments, letters of credit and working capital needs. The Company is also a party to a long-term note agreement (the Restated Master Shelf Agreement). The Company has pledged certain land and structures, tractors and trailers, accounts receivable and other assets to secure indebtedness under both agreements.

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 September 30, 2016, the Company had borrowings of \$14.5 million and outstanding letters of credit of \$39.7 million under the Restated Credit Agreement. At December 31, 2015, the Company had borrowings of \$14.5 million and outstanding letters of credit of \$44.8 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 an additional \$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 made 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. The Senior Notes also provide 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 Senior Notes. At September 30, 2016 and December 31, 2015, the Company had \$10.7 million and \$14.3 million, respectively, in Senior Notes outstanding.

Capital Leases

The Company is obligated under capital leases with seven year terms covering revenue equipment totaling \$69.0 million as of September 30, 2016, compared to \$40.2 million at December 31, 2015. Amortization of assets held under the capital leases is included in depreciation and amortization expense. The weighted average interest rates for

the capital leases at September 30, 2016 and December 31, 2015 are 2.82% and 2.85%, respectively.

Other

Net capital expenditures pertain primarily to investments in tractors and trailers and other revenue equipment, information technology, land and structures. Projected net capital expenditures for 2016 are approximately \$145 million compared to \$113 million in 2015, inclusive of equipment acquired using capital leases. Approximately \$1.7 million of the 2016 remaining capital budget was committed as of September 30, 2016. Net capital expenditures were \$142.5 million in the first nine months of 2016, inclusive of equipment acquired using capital leases.

The Company has historically generated cash flows from operations that have funded its capital expenditure requirements. Cash flows from operating activities were \$142.7 million for the year ended December 31, 2015, while net cash used in investing activities was \$107.9 million. Cash flows provided by operating activities were \$117.7 million for the nine months ended September 30, 2016, \$3.7 million higher than the first nine months of the prior year. The increase is due to working capital fluctuations and an increase in non-cash items included in net income largely offset by a decrease in operating income. The timing of capital expenditures can largely be managed around the seasonal working capital requirements of the Company. The Company believes it has adequate sources of capital to meet short-term liquidity needs through its operating cash flows and availability under the Restated Credit Agreement, which was \$195.8 million at September 30, 2016, subject to the Company's satisfaction of existing debt covenants. Future operating cash flows are primarily dependent upon the Company's profitability and its ability to manage its working capital requirements, primarily accounts receivable, accounts payable and wage and benefit accruals. The Company was in compliance with its debt covenants at September 30, 2016.

In accordance with U.S. generally accepted accounting principles, our operating leases are not recorded in our condensed consolidated balance sheet; however, the future minimum lease payments are included in the "Contractual Obligations" table below. See the notes to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information. In addition to the principal amounts disclosed in the tables below, the Company has interest obligations of approximately \$1.1 million for the remainder of 2016 and decreasing for each year thereafter based on borrowings and commitments outstanding at September 30, 2016.

Contractual Obligations

The following tables set forth a summary of our contractual obligations and other commercial commitments as of September 30, 2016 (in millions):

	Payments due by year						Total
	2016	2017	2018	2019	2020	Thereafter	
Contractual cash obligations:							
Long-term debt obligations:							
Revolving line of credit	\$—	\$—	\$—	\$—	\$14.5	\$—	\$14.5
Long-term debt	3.6	7.1	—	—	—	—	10.7
Leases:							
Capital Leases (1)	2.8	11.3	11.4	11.4	11.4	27.4	75.7
Operating leases	3.9	15.2	12.5	9.8	6.7	19.0	67.1
Purchase obligations (2)	3.2	4.4	—	—	—	—	7.6
Total contractual obligations	\$13.5	\$38.0	\$23.9	\$21.2	\$32.6	\$46.4	\$175.6

(1)The contractual capital lease obligation payments included in this table include both the principal and interest components. See Note 5 to the accompanying condensed consolidated financial statements in this Form 10-Q.

(2)Includes commitments of \$6.1 million for capital expenditures.

Other commercial commitments:	Amount of commitment expiration by year						Total
	2016	2017	2018	2019	2020	Thereafter	

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Available line of credit (1)	\$—	\$—	\$—	\$ —	\$195.8	\$ —	\$195.8
Letters of credit	—	41.4	0.1	—	—	—	41.5
Surety bonds	0.1	32.6	—	—	—	—	32.7
Total commercial commitments	\$0.1	\$74.0	\$0.1	\$ —	\$195.8	\$ —	\$270.0

(1) Subject to the satisfaction of existing debt covenants.

The Company has accrued approximately \$1.0 million for uncertain tax positions and \$0.6 million for interest and penalties related to the uncertain tax positions as of September 30, 2016. The Company cannot reasonably estimate the timing of cash settlement with respective taxing authorities beyond one year and accordingly has not included the amounts within the above contractual cash obligation and other commercial commitment tables.

Critical Accounting Policies and Estimates

The Company makes estimates and assumptions in preparing the condensed consolidated financial statements that affect reported amounts and disclosures therein. In the opinion of management, the accounting policies that generally have the most significant impact on the financial position and results of operations of the Company include:

- **Claims and Insurance Accruals.** The Company has self-insured retention limits generally ranging from \$250,000 to \$2 million per claim for medical, workers' compensation, auto liability, casualty and cargo claims. The liabilities associated with the risk retained by the Company are estimated in part based on historical experience, third-party actuarial analysis with respect to workers' compensation claims, demographics, nature and severity, past experience and other assumptions. The liabilities for self-funded retention are included in claims and insurance reserves based on claims incurred with liabilities for unsettled claims and claims incurred but not yet reported being actuarially determined with respect to workers' compensation claims and with respect to all other liabilities, estimated based on management's evaluation of the nature and severity of individual claims and historical experience. However, these estimated accruals could be significantly affected if the actual costs of the Company differ from these assumptions. A significant number of these claims typically take several years to develop and even longer to ultimately settle. These estimates tend to be reasonably accurate over time; however, assumptions regarding severity of claims, medical cost inflation, as well as specific case facts can create short-term volatility in estimates.

Revenue Recognition and Related Allowances. Revenue is recognized on a percentage-of-completion basis for shipments in transit while expenses are recognized as incurred. In addition, estimates included in the recognition of revenue and accounts receivable include estimates of shipments in transit and estimates of future adjustments to revenue and accounts receivable for billing adjustments and collectability.

Revenue is recognized in a systematic process whereby estimates of shipments in transit are based upon actual shipments picked up, scheduled day of delivery and current trend in average rates charged to customers. Since the cycle for pickup and delivery of shipments is generally 1-3 days, typically less than 5 percent of a total month's revenue is in transit at the end of any month. Estimates for credit losses and billing adjustments are based upon historical experience of credit losses, adjustments processed and trends of collections. Billing adjustments are primarily made for discounts and billing corrections. These estimates are continuously evaluated and updated; however, changes in economic conditions, pricing arrangements and other factors can significantly impact these estimates.

Depreciation and Capitalization of Assets. Under the Company's accounting policy for property and equipment, management establishes appropriate depreciable lives and salvage values for the Company's revenue equipment (tractors and trailers) based on their estimated useful lives and estimated fair values to be received when the equipment is sold or traded in. These estimates are routinely evaluated and updated when circumstances warrant. However, actual depreciation and salvage values could differ from these assumptions based on market conditions and other factors.

Long-lived assets, such as property, plant and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, the Company compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying value. If the carrying value of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as deemed necessary.

Accounting for Income Taxes. Significant management judgment is required to determine (i) the provision for income taxes, (ii) whether deferred income taxes will be realized in full or in part and (iii) the liability for unrecognized tax benefits related to uncertain tax positions. Income tax expense is equal to the current year's liability for income taxes

and a provision for deferred income taxes. Deferred tax assets and liabilities are recorded for the future tax effects attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. When it is more likely that all or some portion of specific deferred income tax assets will not be realized, a valuation allowance must be established for the amount of deferred income tax assets that are determined not to be realizable. A valuation allowance for deferred income tax assets has not been deemed necessary due to our profitable operations. Accordingly, if facts or financial circumstances change and consequently impact the likelihood of realizing the deferred income tax assets, we would need to apply management's judgment to determine the amount of valuation allowance required in any given period.

These accounting policies and others are described in further detail in the notes to our audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the consolidated financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the consolidated financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to a variety of market risks including the effects of interest rates and fuel prices. The detail of the Company's debt structure is more fully described in the notes to the consolidated financial statements set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. To help mitigate our risk to rising fuel prices, the Company has implemented a fuel surcharge program. This program is well established within the industry and customer acceptance of fuel surcharges remains high. Since the amount of fuel surcharge is based on average national fuel prices and is reset weekly, exposure of the Company to fuel price volatility is significantly reduced. However, the fuel surcharge may not fully offset fuel price fluctuations during periods of rapid increases or decreases in the price of fuel and is also subject to overall competitive pricing negotiations.

The following table provides information about the Company's third-party financial instruments as of September 30, 2016. The table presents principal cash flows (in millions) and related weighted average interest rates by contractual maturity dates. The fair value of the variable and fixed rate debt (in millions) was estimated based upon levels one and two in the fair value hierarchy, respectively. The fair value of the Senior Notes is based on undiscounted cash flows at market interest rates for similar issuances of private debt. The fair value of capital leases is based on current market interest rates for similar types of financial instruments.

	Expected maturity date						2016	Fair Value
	2016	2017	2018	2019	2020	Thereafter	Total	
Fixed rate debt	\$6.0	\$16.7	\$9.9	\$10.2	\$10.5	\$ 26.4	\$79.7	\$ 80.1
Average interest rate	3.3 %	3.3 %	2.8 %	2.8 %	2.8 %	2.8 %		
Variable rate debt	\$—	\$—	\$—	\$—	\$14.5	\$ —	\$14.5	\$ 14.5
Average interest rate	—	—	—	—	1.6 %	—		

Item 4. Controls and Procedures

Quarterly Controls Evaluation and Related CEO and CFO Certifications

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company conducted an evaluation of the effectiveness of the design and operation of its "disclosure controls and procedures" (Disclosure Controls). The Disclosure Controls evaluation was performed under the supervision and with the participation of management,

including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

Based upon the controls evaluation, the Company's CEO and CFO have concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, the Company's Disclosure Controls are effective to ensure that information the Company is required to disclose in reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

During the period covered by this Quarterly Report on Form 10-Q, there were no changes in internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, the Company's internal control over financial reporting.

Attached as Exhibits 31.1 and 31.2 to this Quarterly Report on Form 10-Q are certifications of the CEO and the CFO, which are required in accordance with Rule 13a-14 of the Exchange Act. This Controls and Procedures section includes the information concerning the controls evaluation referred to in the certifications and it should be read in conjunction with the certifications.

Definition of Disclosure Controls

Disclosure Controls are controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is recorded, processed, summarized and reported timely. Disclosure Controls are also designed to ensure that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. The Company's Disclosure Controls include components of its internal control over financial reporting which consists of control processes designed to provide reasonable assurance regarding the reliability

of the Company's financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Limitations on the Effectiveness of Controls

The Company's management, including the CEO and CFO, does not expect that its Disclosure Controls or its internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings — For a description of all material pending legal proceedings, see Note 3 “Commitments and Contingencies” of the accompanying unaudited condensed consolidated financial statements.

Item 1A. Risk Factors — Risk Factors are described in Item 1A. “Risk Factors” of the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and there have been no material changes.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds —

Issuer Purchases of Equity Securities

Period	(a) Total		(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that may Yet be Purchased under the Plans or Programs
	Number of Shares (or Units) Purchased (1)	Number of Shares (or Units) Purchased (2)			
July 1, 2016 through July 31, 2016	—	(2)	\$ —	(2)	—
August 1, 2016 through August 31, 2016	—	(3)	\$ —	(3)	—
September 1, 2016 through September 30, 2016	—	(4)	\$ —	(4)	—
Total	—	—	—	—	—