OLD DOMINION FREIGHT LINE INC/VA
Form 10-Q
May 10, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2006

or

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

For the transition period from ______ to ______.

Commission File Number: 0-19582

OLD DOMINION FREIGHT LINE, INC.

(Exact name of registrant as specified in its charter)

VIRGINIA	**56-0751714**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

500 Old Dominion Way

Thomasville, NC 27360

(Address of principal executive offices)

(Zip Code)

(336) 889-5000

(Registrant s telephone number, including area code)

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

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

As of May 9, 2006, there were 37,284,675 shares of the registrant s Common Stock ($0.10 par value) outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

OLD DOMINION FREIGHT LINE, INC.

CONDENSED BALANCE SHEETS

(In thousands, except share data)	March 31, 2006 (Unaudited)	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,069**	$ 986
Customer receivables, less allowances of $8,462 and $8,657, respectively	**134,204**	124,744
Other receivables	**2,209**	2,455
Prepaid expenses	**14,903**	11,347
Deferred income taxes	**11,817**	10,681
Total current assets	**164,202**	150,213
Property and equipment:		
Revenue equipment	**443,978**	400,910
Land and structures	**241,158**	228,909
Other fixed assets	**105,128**	97,733
Leasehold improvements	**1,656**	1,623
Total property and equipment	**791,920**	729,175
Less accumulated depreciation and amortization	**(274,278)**	(263,104)
Net property and equipment	**517,642**	466,071
Other assets	**27,876**	25,364
Total assets	**$ 709,720**	$ 641,648

Note: The Condensed Balance Sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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

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OLD DOMINION FREIGHT LINE, INC.

CONDENSED BALANCE SHEETS

(CONTINUED)

(In thousands, except share data)	**March 31, 2006 (Unaudited)**	**December 31, 2005**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	**$ 42,112**	$ 30,967
Compensation and benefits	**31,556**	27,344
Claims and insurance accruals	**29,541**	21,728
Other accrued liabilities	**9,209**	8,981
Income taxes payable	**8,603**	4,078
Current maturities of long-term debt	**17,116**	17,930
Total current liabilities	**138,137**	111,028
Long-term liabilities:		
Long-term debt	**135,882**	111,026
Other non-current liabilities	**34,301**	31,770
Deferred income taxes	**43,329**	42,773
Total long-term liabilities	**213,512**	185,569
Total liabilities	**351,649**	296,597
Shareholders equity:		
Common stock - $0.10 par value, 70,000,000 shares authorized, 37,284,675 shares outstanding at March 31, 2006 and December 31, 2005, respectively	**3,728**	3,728
Capital in excess of par value	**90,893**	90,893
Retained earnings	**263,450**	250,430
Total shareholders equity	**358,071**	345,051
Commitments and contingencies		
Total liabilities and shareholders equity	**$ 709,720**	$ 641,648

Note: The Condensed Balance Sheet at December 31, 2005 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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

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OLD DOMINION FREIGHT LINE, INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

(In thousands, except share and per share data)	Three Months Ended March 31, 2006	2005
Revenue from operations	**$ 291,631**	$ 236,770
Operating expenses:		
Salaries, wages and benefits	**160,058**	134,244
Operating supplies and expenses	**45,554**	33,092
General supplies and expenses	**9,310**	7,648
Operating taxes and licenses	**11,035**	9,007
Insurance and claims	**8,484**	7,855
Communications and utilities	**3,802**	3,214
Depreciation and amortization	**15,537**	12,335
Purchased transportation	**10,006**	8,803
Building and office equipment rents	**2,770**	2,097
Miscellaneous expenses, net	**1,493**	1,239
Total operating expenses	**268,049**	219,534
Operating income	**23,582**	17,236
Other deductions:		
Interest expense, net	**1,611**	1,433
Other expense, net	**271**	153
Total other deductions	**1,882**	1,586
Income before income taxes and cumulative effect of accounting change	**21,700**	15,650
Provision for income taxes	**8,680**	6,307
Income before cumulative effect of accounting change	**13,020**	9,343
Cumulative effect of accounting change (net of income tax effect of $272)		408
Net Income	**$ 13,020**	$ 8,935
Basic and diluted earnings per share	**$ 0.35**	$ 0.24
Weighted average shares outstanding:		
Basic	**37,284,675**	37,267,853
Diluted	**37,284,675**	37,282,559

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

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OLD DOMINION FREIGHT LINE, INC.

CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)	**Common Stock** Shares	Amount	**Capital in excess of par value**	**Retained earnings**	**Total**
Balance as of December 31, 2005	37,285	$ 3,728	$ 90,893	$ 250,430	$ 345,051
Net income (Unaudited)				**13,020**	**13,020**
Balance as of March 31, 2006 (Unaudited)	**37,285**	**$ 3,728**	**$ 90,893**	**$ 263,450**	**$ 358,071**

Note: The Condensed Statements of Changes in Shareholders Equity includes information derived from the audited financial statements as of December 31, 2005, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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

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OLD DOMINION FREIGHT LINE, INC.

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
(In thousands)	**2006**	**2005**
Cash flows from operating activities:		
Net cash provided by operating activities	**$ 47,807**	$ 40,341
Cash flows from investing activities:		
Purchase of property and equipment	**(65,095)**	(39,217)
Proceeds from sale of property and equipment	**701**	517
Acquisition of business assets	**(7,372)**	(22,465)
Net cash used for investing activities	**(71,766)**	(61,165)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt		50,000
Principal payments under long-term debt agreements	**(7,659)**	(10,046)
Net proceeds (payments) on revolving line of credit	**31,701**	(17,333)
Net cash provided by financing activities	**24,042**	22,621
Increase in cash and cash equivalents	**83**	1,797
Cash and cash equivalents at beginning of period	**986**	742
Cash and cash equivalents at end of period	**$ 1,069**	$ 2,539

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

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

Note 1. Significant Accounting Policies

Basis of Presentation

The condensed financial statements were consolidated for all periods prior to June 30, 2005 and include the accounts of Old Dominion Freight Line, Inc. and its then-wholly owned and sole subsidiary. All significant intercompany balances and transactions were eliminated in consolidation. The subsidiary was dissolved on a voluntary basis by its Board of Directors without an income statement impact and its assets were transferred to the Company effective June 30, 2005.

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

The preparation of condensed financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the condensed financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The results of operations for the interim period ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The condensed financial statements should be read in conjunction with the financial statements and related footnotes, which appear in our Annual Report on Form 10-K for the year ended December 31, 2005. For comparability, certain reclassifications were made to conform prior-period condensed financial statements to the current presentation.

There have been no significant changes in the accounting principles and policies, long-term contracts, or estimates inherent in the preparation of the condensed financial statements of Old Dominion Freight Line, Inc. or significant changes in our commitments and contingencies as previously described in our Annual Report on Form 10-K for the year ended December 31, 2005, other than the changes described in this quarterly report.

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

Tires on Equipment

Prior to 2005, the cost of original and replacement tires mounted on equipment was reported as a current asset in tires on equipment, and amortized based on usage determined by periodic samplings of tread depth. In the fourth quarter of 2005, the Company changed its policy for accounting for tires and began capitalizing the cost of tires mounted on purchased revenue equipment as a part of the total equipment cost of such equipment. Under the new policy, subsequent replacement tires are expensed at the time those tires are placed in service similar to other repairs and maintenance costs. We believe that this new method provides a more precise and less subjective method to account for tires on equipment due to our growth and geographic expansion and is consistent with industry practice. The cumulative effect of the change as of January 1, 2005 was a $408,000 decrease to net income (net of tax benefit of $272,000) or $0.01 and $0.02 per diluted share for the three months ended March 31, 2005 and year ended December 31, 2005, respectively.

Common Stock Split

On October 31, 2005, the Board of Directors approved a three-for-two common stock split for shareholders of record as of the close of business on November 16, 2005. On November 30, 2005, those shareholders received one additional share of common stock for every two shares owned. All references in this report to shares outstanding, weighted average shares outstanding and earnings per share amounts have been restated retroactively for this stock split.

Earnings Per Share

Net income per common share is computed using the weighted average number of common shares outstanding during each period. There were no remaining exercisable employee stock options at March 31, 2006 and the dilutive effect of the options was immaterial to the calculation of diluted earnings per share for the quarterly period ended March 31, 2005.

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

Stock-Based Compensation

Effective January 1, 2006, Old Dominion adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment.* This Statement, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation,* supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative.

On May 16, 2005, our Board of Directors approved and the Company adopted the Old Dominion Freight Line, Inc. Phantom Stock Plan (the Phantom Stock Plan). The maximum number of shares of phantom stock available for awards to eligible employees under the Phantom Stock Plan is 375,000, subject to any change in the outstanding shares of our common stock. Our Board of Directors approved the initial grant under this plan at its January 2006 meeting that resulted in aggregate awards of 26,845 phantom shares. Additional grants under this plan may be awarded annually hereafter, subject to the Company meeting certain operating measures to be determined by our Board of Directors. Shares awarded under the Phantom Stock Plan are accounted for as a liability under SFAS No. 123(R), which totaled $191,000 at March 31, 2006. The disclosure requirements of SFAS No. 123(R) are not material and, therefore, are not presented.

Note 2. Long-term Debt

Long-term debt consisted of the following:

(In thousands)	**March 31, 2006**	**December 31, 2005**
Senior notes	**$ 105,857**	$ 112,107
Revolving credit facility	**43,174**	11,473
Equipment and other obligations	**2,052**	3,189
Capitalized lease obligations	**1,915**	2,187
	152,998	128,956
Less current maturities	**17,116**	17,930
	$ 135,882	$ 111,026

We entered into a senior unsecured revolving credit agreement dated September 22, 2005 with lenders consisting of Wachovia Bank, National Association; Bank of America, N.A.; and Branch Banking and Trust Company, with Wachovia as agent for the lenders. This five-year facility consists of $110,000,000 in line of credit commitments from the lenders, all of which are available for revolving loans. In addition, of the $110,000,000 line of credit commitments, $65,000,000 may be used for letters of credit and $10,000,000 may be used for borrowings under Wachovia s sweep program. The sweep program is a daily cash management tool that automatically initiates borrowings to cover overnight cash requirements up to an aggregate of $10,000,000 or initiates overnight investments for excess cash balances. In addition, we have the right to request an increase in the line of credit commitments up to a total of $160,000,000 in minimum increments of $25,000,000. At our option, revolving loans under the facility bear interest at either: (a) the higher of Wachovia Bank s prime rate or the federal funds rate plus 0.5% per annum (the Base Rate); (b) LIBOR (one, two, three or six months) plus an applicable margin (the Adjusted LIBOR Rate); or (c) one-month LIBOR plus an applicable margin (the LIBOR Index Rate). The applicable margin varies depending upon our ratio of debt to total capitalization. In the case of the Adjusted LIBOR Rate and LIBOR Index Rate, the applicable margin ranges from 0.625% to 1.25%. The applicable margin under this facility was 0.75% for the first quarter of 2006. Revolving loans under the sweep program bear interest at the LIBOR Index Rate.

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited) (Continued)

Commitment fees ranging from 0.125% to 0.25% are charged quarterly in arrears on the aggregate unutilized portion of the facility determined by our ratio of debt to total capitalization. Letter of credit fees equal to the applicable margin for Adjusted LIBOR Rate loans are charged quarterly in arrears on the daily average aggregate stated amount of all letters of credit outstanding during such quarter. The commitment fees and letter of credit fees were 0.15% and 0.75%, respectively, for the first quarter of 2006. In addition, a facing fee at an annual rate of 0.125% is charged quarterly in arrears on the daily average aggregate stated amount of all letters of credit outstanding during such quarter.

The September 2005 credit facility contains customary covenants, including financial covenants that require us to observe a maximum ratio of debt to total capital and a minimum fixed charge coverage ratio. Any future wholly owned subsidiaries of the Company would be required to guarantee payment of all of our obligations under the facility. At March 31, 2006, there was $43,174,000 outstanding on the line of credit facility and there was $40,509,000 of outstanding letters of credit.

Note 3. Commitments and Contingencies

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

Note 4. Subsequent Events

On April 25, 2006, we issued $100,000,000 of privately-placed Series A Senior Notes, Tranche A and on June 15, 2006 will issue an additional $75,000,000 of privately-placed Series A Senior Notes, Tranche B (collectively, the Series A Notes) pursuant to the terms of a Note Purchase Agreement. The Series A Notes bear an annual interest rate of 5.85% from the date of issuance and a maturity date of April 25, 2016. The Series A Notes call for semi-annual interest payments beginning on October 25, 2006 and seven equal annual principal prepayments commencing on April 25, 2010. The proceeds from this agreement were used to refinance existing indebtedness under our revolving credit agreement and the Company expects to use the remaining proceeds for planned capital expenditures and for general corporate purposes. The Note Purchase Agreement may also serve as the platform for potential future private note issuances by the Company. The aggregate principal amount of all notes issued pursuant to the note Purchase Agreement, including the Series A Notes, shall not exceed $500,000,000. The applicable interest rate and payment schedules for any new notes will be determined and mutually agreed upon at the time of issuance.

As part of this financing, we entered into a First Amendment, dated as of April 21, 2006, to our senior unsecured revolving credit agreement, which amended the covenants contained in the credit agreement concerning debt limitations to permit the incurrence of debt under the Series A Notes.

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

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

Overview

We are a leading non-union less-than-truckload (LTL) multi-regional motor carrier providing timely one-to-five day service among five regions in the United States and next-day and second-day service within these regions. Through our four branded product groups, OD-Domestic, OD-Expedited, OD-Global and OD-Technology, we offer an expanding array of innovative products and services. At March 31, 2006, we provided full-state coverage to 37 of the 46 states that we served directly within the Southeast, South Central, Northeast, Midwest and West regions of the country. Through marketing and carrier relationships, we also provide service to and from the remaining states as well as international services around the globe.

As opportunities arise, we plan to expand geographically to complete our national footprint and add additional service centers in existing states so that we can offer expanded full-state coverage and ensure that our service center network has sufficient capacity. From March 31, 2006 through May 9, 2006, we have opened service centers in San Jose, California; Fort Myers, Florida; Pendergrass, Georgia; Fargo, North Dakota, which initiated coverage in our 47th state; and Tacoma, Washington. We are scheduled to open five additional service centers later in calendar year 2006 and, depending on real estate availability, may open another five to seven service centers during calendar year 2006.

Historically, over 90% of our revenue is derived from transporting LTL shipments for our customers, whose demand for our services is generally tied to the overall health of the U.S. domestic economy. We compete with regional, inter-regional and national LTL carriers and, to a lesser extent, other transportation companies. We believe that we provide greater geographic coverage than most of our regional competitors and our transit times are generally faster than those of our principal national competitors. We believe that our diversified mix and scope of regional and inter-regional services offered through one company enable us to provide our customers with a single source to meet their LTL shipping needs and provides us with a distinct advantage over our regional, multi-regional and national competition.

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

LTL Revenue Per LTL Hundredweight This measurement reflects our pricing policies, which are influenced by competitive market conditions and our growth strategies. Generally, freight is rated by a class system, which is established by the National Motor Freight Traffic Association, Inc. Light, bulky freight typically has a higher class and is priced at higher revenue per hundredweight than dense, heavy freight. Changes in the class, packaging of the freight and length of haul of the shipment can also affect this average. Fuel surcharges, accessorial charges and revenue adjustments are included in this measurement for all periods presented in this report.

LTL Weight Per LTL Shipment Fluctuations in weight per shipment can indicate changes in the class, or mix, of freight we receive from our customers as well as changes in the number of units included in a shipment. Generally, increases in LTL weight per LTL shipment indicate higher demand for our customers products and overall increased economic activity.

Average Length of Haul We consider lengths of haul less than 500 miles to be regional traffic, lengths of haul between 500 miles and 1,000 miles to be inter-regional traffic, and lengths of haul in excess of 1,000 miles to be national traffic. By segmenting our revenue into lengths of haul, we can determine our market share and the growth potential of our service products in those markets.

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

Our primary revenue focus is to increase shipment and tonnage growth within our existing infrastructure, generally referred to as increasing density, thereby maximizing asset utilization and labor productivity. We measure density over many different functional areas of our operations including revenue per service center, linehaul load factor, pickup and delivery (P&D) stops