SAIA INC
Form 10-Q
October 31, 2018

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, 2018

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	48-1229851
(State of incorporation)	(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)

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 31, 2018
Common Stock, par value $.001 per share	25,693,651

SAIA, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Saia, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(unaudited)

Assets	September 30, 2018	December 31, 2017 As Adjusted (Note 1)
	(in thousands, except share and per share data)	
Current Assets:		
Cash and cash equivalents	$ 529	$ 4,720
Accounts receivable, net	197,973	170,278
Prepaid expenses and other	26,155	28,251
Total current assets	224,657	203,249
Property and Equipment, at cost	1,445,049	1,289,994
Less-accumulated depreciation	609,324	554,214
Net property and equipment	835,725	735,780
Goodwill and Identifiable Intangibles, net	23,005	24,027
Other Noncurrent Assets	4,705	4,259
Total assets	$ 1,088,092	$ 967,315
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 62,025	$ 57,438
Wages, vacation and employees' benefits	53,175	39,748
Claims and insurance accruals	39,846	35,850
Other current liabilities	37,083	19,807
Current portion of long-term debt	17,622	14,083
Total current liabilities	209,751	166,926
Other Liabilities:		
Long-term debt, less current portion	103,715	118,833
Deferred income taxes	65,895	59,423
Claims, insurance and other	39,440	39,639
Total other liabilities	209,050	217,895
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,		
25,693,651 and 25,551,617 shares issued and outstanding at		
September 30, 2018 and December 31, 2017, respectively	26	26
Additional paid-in-capital	253,366	246,454
Deferred compensation trust, 140,882 and 170,310 shares of common		
stock at cost at September 30, 2018 and December 31, 2017, respectively	(3,202)	(3,486)
Retained earnings	419,101	339,500
Total stockholders' equity	669,291	582,494
Total liabilities and stockholders' equity	$1,088,092	$967,315

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, 2018 and 2017

(unaudited)

	Third Quarter		Nine Months	
	2018	2017 As Adjusted (Note 1)	2018	2017 As Adjusted (Note 1)
	(in thousands, except per share data)			
Operating Revenue	$425,562	$357,010	$1,247,099	$1,044,505
Operating Expenses:				
Salaries, wages and employees' benefits	224,635	194,920	656,165	572,211
Purchased transportation	31,216	30,056	95,245	79,516
Fuel, operating expenses and supplies	81,643	66,679	245,182	196,761
Operating taxes and licenses	12,366	10,631	37,310	32,088
Claims and insurance	9,985	8,535	30,086	28,010
Depreciation and amortization	26,694	22,338	74,965	64,607
Loss (gain) from property disposals, net	326	(717)	305	(469)
Total operating expenses	386,865	332,442	1,139,258	972,724
Operating Income	38,697	24,568	107,841	71,781
Nonoperating Expenses (Income):				
Interest expense	1,410	1,313	4,090	3,762
Other, net	(139)	(131)	(384)	57
Nonoperating expenses, net	1,271	1,182	3,706	3,819
Income Before Income Taxes	37,426	23,386	104,135	67,962
Income Tax Provision	9,231	9,013	24,534	24,623
Net Income	$28,195	$14,373	$79,601	$43,339
Weighted average common shares outstanding – basic	25,792	25,527	25,752	25,494
Weighted average common shares outstanding – diluted	26,354	26,113	26,328	26,050
Basic Earnings Per Share	$1.09	$0.56	$3.09	$1.70
Diluted Earnings Per Share	$1.07	$0.55	$3.02	$1.67

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, 2018 and 2017

(unaudited)

	Nine Months	
	2018	2017 As Adjusted (Note 1)
	(in thousands)	
Operating Activities:		
Net income	$79,601	$43,339
Noncash items included in net income:		
Depreciation and amortization	74,965	64,607
Other, net	14,826	18,812
Changes in operating assets and liabilities, net	17,718	979
Net cash provided by operating activities	187,110	127,737
Investing Activities:		
Acquisition of property and equipment	(155,217)	(155,676)
Proceeds from disposal of property and equipment	778	3,090
Net cash used in investing activities	(154,439)	(152,586)
Financing Activities:		
Repayment of revolving credit agreement	(170,733)	(159,102)
Borrowing of revolving credit agreement	142,733	193,601
Proceeds from stock option exercises	4,165	2,531
Shares withheld for taxes	(1,396)	(1,249)
Repayment of senior notes	—	(3,571)
Repayment of capital leases	(11,631)	(8,819)
Net cash provided by (used in) financing activities	(36,862)	23,391
Net Decrease in Cash and Cash Equivalents	(4,191)	(1,458)
Cash and cash equivalents, beginning of period	4,720	1,539
Cash and cash equivalents, end of period	$529	$81
Non Cash Investing Activities		
Equipment financed with capital leases	$28,052	$31,320

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, 2017. Operating results for the quarter and nine months ended September 30, 2018 are not necessarily indicative of the results of operations that may be expected for the year ended December 31, 2018.

Business

The Company provides regional and interregional less-than-truckload (LTL) services across 40 states through a single integrated organization. For the quarter and nine months ended September 30, 2018, 97.6% of revenue was derived from transporting LTL shipments. For the quarter and nine months ended September 30, 2017, 97.2% and 97.3% of revenue, respectively, was derived from transporting LTL shipments. The Company also offers customers a wide range of other value-added services, including non-asset truckload, expedited and logistics services throughout North America. The Company's customer base is diversified across numerous industries.

Revenue Recognition

The Company's revenues are derived primarily from the transportation of freight as it satisfies performance obligations that arise from contracts with its customers, when collectability is considered probable. The Company's performance obligations arise when it receives a bill of lading ("BOL") to transport a customer's commodities at negotiated prices contained in either a transportation services agreement or a publicly disclosed tariff rate. Once a BOL is received, a legally-enforceable contract is formed whereby the parties are committed to perform and the rights of the parties, shipping terms and conditions, and payment terms have been identified. A customer may submit many BOLs for transportation services at various times throughout a service agreement term but each shipment represents a distinct service that is a separately identified performance obligation.

The average transit time to complete a shipment is between 1 to 5 days. Payments for transportation services are normally billed after completion of the service and are generally due within 30 days after the invoice date. The Company recognizes revenue related to the Company's LTL, non-asset truckload and expedited services over the transit time of the shipment as it moves from origin to destination. Revenue for services started but not completed at the reporting date is allocated based on the relative transit time in each reporting period, with the portion allocated for services subsequent to the reporting date considered remaining performance obligations.

Key estimates included in the recognition and measurement of revenue and related accounts receivable are as follows:

- Revenue associated with shipments in transit is recognized ratably over transit time and is based on average cycle times to move shipments from their origin to their final destination or interchange; and
- Adjustments to revenue for billing adjustments and collectability.

Revenue related to interline transportation services that involve the services of another party, such as another LTL service provider, is reported on a net basis. The portion of the gross amount billed to customers that is remitted by the Company to another party is not reflected as revenue. Revenue from logistics services is recognized as the services are provided.

Remaining performance obligations represent the transaction price allocated to future reporting periods for freight services started but not completed at the reporting date. This includes the unearned portion of billed and unbilled amounts for cancellable freight shipments in transit that the Company expects to recognize as revenue in the period subsequent to the reporting date, which is on average less than one week. The Company has elected to apply the optional exemption in accordance with the Financial Accounting

Standards Board (FASB) Accounting Standards Codification (ASC) 606 as it pertains to additional quantitative disclosures pertaining to remaining performance obligations.

Claims and Insurance Accruals

Claims and insurance accruals, both current and long-term, reflect the estimated cost of claims for workers' compensation (discounted to present value), cargo loss and damage, and bodily injury and property damage not covered by insurance. These costs are included in claims and insurance expense, except for workers' compensation, which is included in employees' benefits expense. The liabilities are included in claims and insurance reserves based on estimates of claims incurred. Liabilities for unsettled claims and claims incurred but not yet reported are 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 past experience.

Risk retention amounts per occurrence are as follows:

Workers' compensation	$1,000,000
Bodily injury and property damage (auto liability)	2,000,000
Employee medical and hospitalization	400,000
Cargo loss and damage	250,000

Effective March 1, 2018, the Company entered into a new auto liability policy with a three-year term. The risk retention amount per occurrence remains at $2.0 million under the new policy. The policy includes a limit for a single loss of $8.0 million, an aggregate loss limit of $24.0 million for each policy year, and a $48.0 million aggregate loss limit for the 36 month term ended March 1, 2021. The policy includes a returnable premium of up to $5.2 million, to be adjusted by the insurer for changes in claims, and a provision to extend the term of the policy for one additional 12 month period, if management and the insurer mutually agree to commute the policy for the first 12 months of the policy term. A decision with respect to commutation of the first 12 months of the policy cannot be made before March 1, 2019. The policy also includes a returnable premium of up to $15.6 million, to be adjusted by the insurer for changes in claims, if management and the insurer mutually agree to commute the policy for the entire 36 months. A decision with respect to commutation of the entire policy cannot be made before August 30, 2021, unless both the Company and the insurance carrier agree to a commutation prior to the end of the policy term. Additionally, the Company may be required to pay an additional premium of up to $11.0 million if paid losses are greater than $15.6 million over the three year policy period. No such additional premium was accrued at September 30, 2018. Management cannot predict whether or not future claims or the development of existing claims will justify a commutation, and accordingly, no related amounts were recorded at September 30, 2018.

Accounting Pronouncements Adopted in 2018

In May 2014, the 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 replaced most existing revenue recognition guidance in U.S. generally accepted accounting principles when it became effective for the Company on January 1, 2018. In-depth reviews of contracts were completed and changes to processes and internal controls to meet the standard's reporting and disclosure requirements were implemented. The Company adopted the standard using the full retrospective transition method.

As a result of the adoption of this standard, the Company changed the presentation of its non-asset truckload business from net revenue to gross revenue and changed the method of recognizing that revenue from upon commencement of the services to over the transit time of the freight as it moves from origin to destination.

The Company has consistently applied the accounting policies to all periods presented in these condensed consolidated financial statements. The below tables reflect the effect of the adoption of this standard on the previously reported financial data.

Condensed Consolidated Balance Sheet impact:

	As of December 31, 2017		
	As adjusted	As originally reported	Effect of change
	(in thousands)		
Accounts receivable	$170,278	$170,610	$ (332)
Total current assets	203,249	203,581	(332)
Total assets	967,315	967,647	(332)
Accounts payable	57,438	57,717	(279)
Total current liabilities	166,926	167,205	(279)
Retained earnings	339,500	339,553	(53)
Total stockholders' equity	582,494	582,547	(53)
Total liabilities and stockholders' equity	967,315	967,647	(332)

Condensed Consolidated Statement of Operations impact:

	For the quarter ended September 30, 2017			For the nine months ended September 30, 2017		
	As adjusted	As originally reported	Effect of change	As adjusted	As originally reported	Effect of change
	(in thousands, except per share data)					
Operating revenue	$357,010	$350,062	$6,948	$1,044,505	$1,025,259	$19,246
Purchased transportation	30,056	23,074	6,982	79,516	60,212	19,304
Total operating expenses	332,442	325,460	6,982	972,724	953,420	19,304
Operating income	24,568	24,602	(34)	71,781	71,839	(58)
Net income	14,373	14,407	(34)	43,339	43,397	(58)
Basic Earnings Per Share	0.56	0.56	—	1.70	1.70	—
Diluted Earnings Per Share	0.55	0.55	—	1.67	1.67	—

Condensed Consolidated Statement of Cash Flows impact:

	For the nine months ended September 30, 2017		
	As adjusted	As originally reported	Effect of change
	(in thousands)		
Net income	$43,339	$43,397	$ (58)
Changes in operating assets and liabilities, net	979	921	58
Net cash provided by operating activities	127,737	127,737	—
Net decrease in cash and cash equivalents	(1,458)	(1,458)	—

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for the Company on January 1, 2019, with early adoption permitted. The Company expects to adopt the new standard on its effective date. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. If an entity chooses the second option, the transition requirements for existing leases also apply to leases entered into between the date of initial application and the effective date. The entity must also recast its comparative period financial statements and provide the disclosures required by the new standard for the comparative periods. The Company expects to adopt the new standard on January 1, 2019 and use the effective date as its date

of initial application. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. The Company expects to elect the ‘package of practical expedients’, which permits it not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company does not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements; the latter not being applicable to it.

The Company expects that this standard will have a material effect on its financial statements. While the Company continues to assess all of the effects of adoption, it currently believes the most significant effects relate to (1) the recognition of new ROU assets and lease liabilities on its balance sheet for its real estate operating leases and (2) providing significant new disclosures about its leasing activities. The Company does not expect a significant change in its leasing activities between now and adoption.

The new standard also provides practical expedients for an entity’s ongoing accounting. The Company currently expects to elect the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize ROU assets or lease liabilities, and this includes not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company also currently expects to elect the practical expedient to not separate lease and non-lease components for all of its leases other than leases of real estate.

(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	
	2018	2017 As Adjusted (Note 1)	2018	2017 As Adjusted (Note 1)
Numerator:				
Net income	$28,195	$ 14,373	$79,601	$ 43,339
Denominator:				
Denominator for basic earnings per share–weighted average common shares	25,792	25,527	25,752	25,494
Effect of dilutive stock options	167	152	168	124
Effect of other common stock equivalents	395	434	408	432
Denominator for diluted earnings per share–adjusted weighted average common shares	26,354	26,113	26,328	26,050

Basic Earnings Per Share	$ 1.09	$ 0.56	$ 3.09	$ 1.70
Diluted Earnings Per Share	$ 1.07	$ 0.55	$ 3.02	$ 1.67

For the quarter and nine months ended September 30, 2018, options and restricted stock for 45,150 shares of common stock 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, 2017, options and restricted stock for 63,104 shares of common stock were excluded from the calculation of diluted earnings per share because their effect was anti-dilutive.

(3) Commitments and Contingencies

The Company pays its pro rata share of the cost of letters of credit outstanding for certain workers' compensation claims incurred prior to March 1, 2000 that Saia's former parent maintains for insurance programs. The Company's pro rata share of these outstanding letters of credit was $1.8 million at September 30, 2018.

The Company is subject to legal proceedings that arise in the ordinary course of its business. Management 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.

(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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017 was $120.3 million and $132.3 million, respectively, based upon levels one and two in the fair value hierarchy. The carrying value of the debt was $121.3 million and $132.9 million at September 30, 2018 and December 31, 2017, respectively.

(5) Debt and Financing Arrangements

At September 30, 2018 and December 31, 2017, debt consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Credit Agreement with Banks, described below	$ 15,000	$ 43,000
Capital Leases, described below	106,337	89,916
Total debt	121,337	132,916
Less: current portion of long-term debt	17,622	14,083
Long-term debt, less current portion	$ 103,715	$ 118,833

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 with a group of banks to fund capital investments, letters of credit and working capital needs.

Restated Credit Agreement

The Fifth Amended and Restated Credit Agreement dated March 6, 2015 (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, to secure indebtedness under the Restated Credit Agreement.

At September 30, 2018, the Company had borrowings of $15.0 million and outstanding letters of credit of $27.7 million under the Restated Credit Agreement. At December 31, 2017, the Company had borrowings of $43.0 million and outstanding letters of credit of $33.9 million under the Restated Credit Agreement. The available portion of the Restated Credit Agreement may be used for general corporate purposes, including capital expenditures, working capital and letter of credit requirements as needed.

Restated Master Shelf Agreement

In 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. Upon maturity in December 2017, the Company paid off the outstanding balance of the Senior Notes.

Capital Leases

The Company is obligated under capital leases with seven year terms covering revenue equipment totaling $106.3 million and $89.9 million as of September 30, 2018 and December 31, 2017, respectively. 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, 2018 and December 31, 2017 were 3.4 percent and 3.1 percent, respectively.

Principal Maturities of Long-Term Debt

The principal maturities of long-term debt, including interest on capital leases, for the next five years (in thousands) are as follows:

	Amount
2018	$5,240
2019	20,959
2020	35,959
2021	21,537
2022	20,101
Thereafter	28,968
Total	132,764
Less: Amounts Representing Interest on Capital Leases	11,427
Total	$121,337

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 2017 audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. 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-looki 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, uncertainties and assumptions 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, technology and other assets;
- the effect of governmental regulations, including but not limited to Hours of Service, engine emissions, the Compliance, Safety, Accountability (CSA) initiative, the Food and Drug Administration, compliance with legislation requiring companies to evaluate their internal control over financial reporting, Homeland Security, environmental regulations and tax law changes;
- potential changes to the North American Free Trade Agreement and to certain international tariffs;
- 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, including the possibility the Company may be required to pay additional premiums under its auto liability policy;
- increased costs of healthcare and prescription drugs, including as a result of healthcare legislation;
- social media risks;
- disruption in or failure of the Company's technology including services essential to operations of the Company and/or cyber security risk;
- failure to successfully execute the strategy to expand the Company's service geography into the Northeastern United States; 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, 2017, 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 and to expand our service geography into the Northeastern United States. The Company's business is both labor and capital intensive. The Company maintains competitive compensation, benefits and training programs to minimize turnover while supporting its value proposition. The Company's business requires continual investment in safe, reliable and efficient equipment and the acquisition of terminal assets. These investments along with on-going investments in technology and analytics are designed to optimize the network while meeting and exceeding customers' standards of service. These investments coupled with targeted sales and marketing efforts provide the Company with a framework to improve profitability through pricing initiatives, effective cost management and volume growth.

The Company's operating revenue increased by 19.2 percent in the third quarter of 2018 compared to the same period in 2017. The increase resulted primarily from increased shipments, tonnage, fuel surcharges, and pricing actions. Expansion into the Northeastern United States and the new Canadian marketing arrangement which began in the second quarter of 2017 were contributing factors in the increased shipments and tonnage in the third quarter of 2018.

Consolidated operating income was $38.7 million for the third quarter of 2018 compared to $24.6 million for the third quarter of 2017. In the third quarter of 2018, LTL shipments and tonnage per workday were up 5.4 percent and 7.3 percent, respectively, versus the prior year quarter. Diluted earnings per share were $1.07 in the third quarter of 2018, compared to diluted earnings per share of $0.55 in the prior year quarter, which was partially driven by the fact that the Tax Cuts and Jobs Act, as discussed further in the Outlook section below, was not enacted until December 2017. The operating ratio (operating expenses divided by operating revenue) was 90.9 percent in the third quarter of 2018 compared to 93.1 percent in the third quarter of 2017.

The Company had $187.1 million in net cash provided by operating activities in the first nine months of 2018 compared with $127.7 million in the same period last year. The increase is primarily due to an increase in operating income, decreased income tax expense and working capital fluctuations. The Company had net cash used in investing activities of $154.4 million during the first nine months of 2018 compared to $152.6 million in the first nine months of

2017, primarily as a result of the timing of capital expenditures for revenue equipment and real estate in the first nine months of 2018. The Company's net cash used in financing activities was $36.9 million in the first nine months of 2018 compared to $23.4 million net cash provided by financing activities during the same period last year, primarily due to reduced borrowing (net of repayments) to fund capital expenditures. The Company had $15.0 million in outstanding borrowings under its revolving credit agreement, outstanding letters of credit of $29.5 million and a cash and cash equivalents balance of $0.5 million at September 30, 2018. The Company also had $106.3 million in obligations under capital leases at September 30, 2018. The Company was in compliance with the debt covenants under its credit agreement at September 30, 2018.

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).

Saia is a transportation company headquartered in Johns Creek, Georgia that provides regional and interregional less-than-truckload (LTL) services across 40 states through a single integrated organization. While approximately 97 percent of its revenue is derived from transporting LTL shipments, the Company also offers customers a wide range of other value-added services, including non-asset truckload, expedited and logistics services throughout North America.

Our business is highly correlated to non-service sectors of the general economy. Our business 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, 2018 and 2017

(unaudited)

	2018	2017 As Adjusted (1)	Percent Variance '18 v. '17	
	(in thousands, except ratios and revenue per hundredweight)			
Operating Revenue	$ 425,562	$ 357,010	19.2	%
Operating Expenses:				
Salaries, wages and employees' benefits	224,635	194,920	15.2	
Purchased transportation	31,216	30,056	3.9	
Depreciation and amortization	26,694	22,338	19.5	
Fuel and other operating expenses	104,320	85,128		