

SAIA INC
Form 4
May 02, 2008

FORM 4

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

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
TRUCKSESS HERBERT A III

(Last) (First) (Middle)
11465 JOHNS CREEK PARKWAY,
SUITE 400
(Street)

JOHNS CREEK, GA 30097

(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
SAIA INC [SAIA]

3. Date of Earliest Transaction
(Month/Day/Year)
04/30/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)
Chairman

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
				(A) or (D)	Price		
Common Stock	04/30/2008		A	V	1,870 \$ 13.81	D	
Common Stock					100,000 ⁽¹⁾	I	By Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price or Value of Underlying Securities (Instr. 3 and 4)
Stock Options (Right to buy)	\$ 4.587					02/23/2002 02/23/2010	Common Stock	47,972
Stock Options (Right to buy)	\$ 23					02/03/2008 02/02/2012	Common Stock	9,840
Stock Options (Right to buy)	\$ 27.38					01/28/2009 01/27/2013	Common Stock	16,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
TRUCKSESS HERBERT A III 11465 JOHNS CREEK PARKWAY, SUITE 400 JOHNS CREEK, GA 30097	X		Chairman	

Signatures

James A. Darby 05/02/2008

**Signature of Reporting Person

Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Includes 100,000 shares transferred by reporting person to revocable trust for benefit of reporting person and reporting person's wife and children.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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(1) Facility fee determined by CFC's senior unsecured credit ratings based on the pricing schedules put in place at the initiation of the related agreement.(2) Any amount outstanding under these agreements may be converted to a one-year term loan at the end of the revolving credit periods. If converted to a term loan, the fee on the outstanding principal amount of the term loan is 0.10 of 1% per annum.

Up-front fees of between 0.05 and 0.13 of 1% were paid to the banks based on their commitment level to the five-year agreements in place at February 28, 2007, totaling in aggregate \$3 million, which will be amortized on a straight-line basis over the life of the agreements. No upfront fees were paid to the banks for their commitment to the 364-day facility. Each agreement contains a provision under which if borrowings exceed 50% of total commitments, a utilization fee must be paid on the outstanding balance. The utilization fees are 0.05 of 1% for the five-year agreement terminating on March 22, 2011 and the 364-day agreement terminating on March 21, 2007 and 0.10 of 1% for the five-year agreement terminating on March 23, 2010 outstanding at February 28, 2007.

Effective February 28, 2007 and May 31, 2006, the Company was in compliance with all covenants and conditions under its revolving credit agreements in place at that time and there were no borrowings outstanding under such agreements.

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For the purpose of calculating the required financial covenants contained in its revolving credit agreements, the Company adjusts net income, senior debt and total equity to exclude the non-cash adjustments related to SFAS 133 and 52. The adjusted TIER, as defined by the agreements, represents the interest expense adjusted to include the derivative cash settlements, plus minority interest net income, plus net income prior to the cumulative effect of change in accounting principle and dividing that total by the interest expense adjusted to include the derivative cash settlements. In addition to the non-cash adjustments related to SFAS 133 and 52, senior debt also excludes RUS guaranteed loans, subordinated deferrable debt, members' subordinated certificates and minority interest. Total equity is adjusted to include subordinated deferrable debt, members' subordinated certificates and minority interest. Senior debt includes guarantees; however, it excludes:

- * guarantees for members where the long-term unsecured debt of the member is rated at least BBB+ by Standard & Poor's Corporation or Baa1 by Moody's Investors Service; and
- * the payment of principal and interest by the member on the guaranteed indebtedness if covered by insurance or reinsurance provided by an insurer having an insurance financial strength rating of AAA by Standard & Poor's Corporation or a financial strength rating of Aaa by Moody's Investors Service.

The following represents the Company's required and actual financial ratios under the revolving credit agreements at or for the nine months ended February 28, 2007 and at or for the year ended May 31, 2006:

	Requirement	February 28, 2007	May 31, 2006
Minimum average adjusted TIER over the six most recent fiscal quarters	1.025	1.11	1.11
Minimum adjusted TIER at fiscal year end (1)	1.05	1.11	1.11
Maximum ratio of senior debt to total equity	10.00	6.74	6.26

(1) The Company must meet this requirement in order to retire patronage capital.

The revolving credit agreements do not contain a material adverse change clause or rating triggers that limit the banks' obligations to fund under the terms of the agreements, but CFC must be in compliance with their other requirements, including financial ratios, in order to draw down on the facilities.

Subsequent to the end of the quarter, the 364-day revolving credit agreement in place at February 28, 2007 totaling \$1,025 million was replaced on March 16, 2007 with a new 364-day agreement totaling \$1,125 million expiring on March 14, 2008. Any amount outstanding under the 364-day agreement may be converted to a one-year term loan at the end of the revolving credit period with a 0.10 of 1% per annum fee on the outstanding principal amount of the term loan. The facility fee for the 364-day facility is 0.05 of 1% per annum based on the pricing schedule in place at March 16, 2007. The five-year revolving credit agreement in place at February 28, 2007 totaling \$1,975 million was replaced on March 16, 2007 with a new five-year agreement totaling \$1,125 million expiring on March 16, 2012. The facility fee for the five-year facility is 0.06 of 1% per annum based on the pricing schedule in place at March 16, 2007. No upfront fees were paid to the banks for their commitment to the 364-day facility. Upfront fees of 0.03 of 1% were paid to the banks based on their commitment level to the five-year agreement totaling in aggregate \$0.3 million. Each agreement contains a provision under which if borrowings exceed 50% of total commitments, a utilization fee of 0.05 of 1% must be paid on the outstanding balance. CFC's five-year agreement totaling \$1,025 million is still in effect and expires on March 22, 2011. The total committed credit available under the three current agreements was \$3,275 million at March 16, 2007.

Member Investments

At February 28, 2007 and May 31, 2006, members funded 20.2% and 19.2%, respectively, of total assets as follows:

(Dollar amounts in millions)	February 28, 2007		May 31, 2006		Increase/ Decrease
	Amount	% of Total (1)	Amount	% of Total (1)	
Commercial paper (2)	\$ 1,530	51%	\$ 1,451	45%	\$ 79
Medium-term notes	323	6%	255	4%	68
Members' subordinated certificates	1,424	100%	1,428	100%	(4)

Explanation of Responses:

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Members' equity (3)	542	100%	545	100%	(3)
Total	\$ 3,819		\$ 3,679		\$ 140
Percentage of total assets	20.2%		19.2	%	
Percentage of total assets less derivative assets (3)	20.6%		19.8	%	

(1) Represents the percentage of each line item outstanding to CFC members.

(2) Includes \$219 million and \$267 million related to the daily liquidity fund at February 28, 2007 and May 31, 2006, respectively.

(3) See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments made to total capitalization and a breakout of members' equity.

Uses of Liquidity

Loan Advances

Loan advances arise from new loans approved to members and from the unadvanced portion of loans that were approved prior to February 28, 2007. At February 28, 2007, the Company had unadvanced loan commitments totaling \$13,103 million. The Company does not expect to advance the full amount of the unadvanced commitments at February 28, 2007. Unadvanced commitments generally expire within five years of the first advance on a loan and the majority of short-term unadvanced commitments are used as backup liquidity for member operations. Approximately 54% of the outstanding commitments at February 28, 2007 were for short-term or line of credit loans. The Company anticipates that over the next twelve months, loan advances will be approximately equal to the scheduled loan repayments.

Interest Expense on Debt

For the nine months ended February 28, 2007, interest expense on debt was \$714 million, representing 5.24% of the average loan volume for which the debt was used as funding. The interest expense on debt represented 5.06% of the average loan volume for which the debt was used as funding for the nine months ended February 28, 2006. At February 28, 2007, a total of 82% of outstanding debt had a fixed interest rate and 18% of outstanding debt had a variable interest rate.

Principal Repayments on Long-term Debt

The principal amount of medium-term notes, collateral trust bonds, long-term notes payable, subordinated deferrable debt and membership subordinated certificates maturing in each of the five fiscal years following February 28, 2007 and thereafter is as follows:

(Dollar amounts in millions)	Amount Maturing (1)
2007	\$ 1,284
2008	2,915
2009	1,081
2010	1,486
2011	539
Thereafter	7,036
Total	\$ 14,341

- (1) Excludes loan subordinated certificates totaling \$305 million that amortize annually based on the outstanding balance of the related loan. There are many items that impact the amortization of a loan, such as loan conversions, loan repricing at the end of an interest rate term, prepayments, etc, thus an amortization schedule cannot be maintained for these certificates. Over the past three years, annual amortization on these certificates has averaged \$27 million. In fiscal year 2006, amortization represented 8% of amortizing loan subordinated certificates outstanding.

Patronage Capital Retirements

The Company has made retirements of its allocated patronage capital in 26 of the last 27 years. In July 2006, the CFC board of directors approved the allocation of a total of \$102 million from fiscal year 2006 net earnings and the members' capital reserve to the CFC members. In August and September 2006, CFC retired \$84 million of patronage capital to its members as retirement of 70% of the amount allocated for fiscal year 2006 and 1/9th of the amount allocated for fiscal years 1991, 1992 and 1993.

Market Risk

The Company's primary market risks are interest rate risk and liquidity risk. The Company is also exposed to counterparty risk as a result of entering into interest rate, cross currency and cross currency interest rate exchange agreements.

Interest Rate Risk

The Company's primary interest rate risk exposure is related to the funding of the fixed rate loan portfolio. The Company does not match fund the majority of its fixed rate loans with a specific debt issuance at the time the loan is advanced. The Company aggregates fixed rate loans until the volume reaches a level that will allow an economically efficient issuance of debt. The Company uses fixed rate collateral trust bonds, medium-term notes, subordinated deferrable debt, members' subordinated certificates, members' equity and variable rate debt to fund fixed rate loans. The Company allows borrowers flexibility in the selection of the period for which a fixed interest rate will be in effect. Long-term loans typically have 15 to 35 year maturities. Borrowers may select fixed interest rates for periods of one year through the life of the loan. The

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Company mitigates interest rate risk through the use of derivatives and a funding policy that matches fixed rate assets repricing or maturing by year to fixed rate liabilities and members' equity maturing by year. The interest rate risk is deemed minimal on variable rate loans, since the loans may be repriced either monthly or semi-monthly to reflect the cost of the debt used to fund the loans. At February 28, 2007 and May 31, 2006, 18% and 20%, respectively, of loans carried variable interest rates.

Matched Funding Policy

To monitor interest rate risk in the funding of fixed rate loans, the Company performs a monthly gap analysis (see chart below). It is the Company's funding objective to manage the matched funding of asset and liability repricing terms within a range of 3% of total assets excluding derivative assets. At February 28, 2007, the Company had \$14,409 million of fixed rate assets amortizing or repricing, funded by \$12,608 million of fixed rate liabilities maturing during the next 30 years and \$1,973 million of members' equity and members' subordinated certificates, a portion of which does not have a scheduled maturity. The difference of \$172 million, or 0.91% of total assets and 0.93% of total assets excluding derivative assets, represents the fixed rate debt and equity in excess of the fixed rate assets maturing during the next 30 years. Fixed rate loans are funded with fixed rate collateral trust bonds, medium-term notes, long-term notes payable, subordinated deferrable debt, members' subordinated certificates and members' equity. With the exception of members' subordinated certificates, which are generally issued at rates below the Company's long-term cost of funding and with extended maturities, and commercial paper, the Company's liabilities have average maturities that closely match the repricing terms (but not the maturities) of its fixed interest rate loans. The Company also uses commercial paper supported by interest rate exchange agreements to fund its portfolio of fixed rate loans. Variable rate assets which reprice monthly are funded with short-term liabilities, primarily commercial paper, collateral trust bonds, long-term notes payable and medium-term notes issued with a fixed rate and swapped to a variable rate, medium-term notes issued at a variable rate, subordinated certificates, members' equity and bank bid notes. The interest rate associated with the assets and debt maturing or members' equity and members' certificates is used to calculate an adjusted TIER for each year and for the portfolio as a whole. The schedule allows the Company to analyze the impact on the overall adjusted TIER of issuing a certain amount of debt at a fixed rate for various maturities, prior to issuance of the debt. See "Non-GAAP Financial Measures" for further explanation and a reconciliation of the adjustments to TIER.

Certain of the Company's collateral trust bonds, subordinated deferrable debt and medium-term notes were issued with early redemption provisions. To the extent borrowers are allowed to convert their fixed rate loans to a variable interest rate and to the extent it is beneficial, the Company takes advantage of these early redemption provisions. However, because conversions and prepayments can take place at different intervals from early redemptions, the Company charges conversion fees designed to compensate for any additional interest rate risk it assumes.

The following chart shows the scheduled amortization and repricing of fixed rate assets and liabilities outstanding at February 28, 2007.

INTEREST RATE GAP ANALYSIS
(Fixed Rate Assets/Liabilities)
As of February 28, 2007

(Dollar amounts in millions)	1 year or less	Over 1 year but 3 years or less	Over 3 years but 5 years or less	Over 5 years but 10 years or less	Over 10 years but 20 years or less	Over 20 years	Total
Assets:							
Amortization and repricing	\$ 256	\$3,383	\$2,618	\$ 4,156	\$2,809	\$1,187	\$14,409
Total assets	\$ 256	\$3,383	\$2,618	\$ 4,156	\$2,809	\$1,187	\$14,409
Liabilities and members' equity:							
Long-term debt	\$ 96	\$2,964	\$2,683	\$ 5,202	\$1,218	\$ 445	\$12,608
Subordinated certificates	8	78	58	106	748	296	1,294
Members' equity (1)	-	28	25	113	67	446	679
Total liabilities and members' equity	\$ 104	\$3,070	\$2,766	\$ 5,421	\$2,033	\$1,187	\$14,581
Gap (2)	\$ 152	\$ 313	\$ (148)	\$ (1,265)	\$ 776	\$ -	\$ (172)
Cumulative gap	\$ 152	\$ 465	\$ 317	\$ (948)	\$ (172)	\$ (172)	
Cumulative gap as a % of total assets	0.80%	2.45%	1.67%	(5.01)%	(0.91)%	(0.91)%	
Cumulative gap as a % of adjusted total assets (3)	0.82%	2.51%	1.71%	(5.12)%	(0.93)%	(0.93)%	

- (1) Includes the portion of the loan loss allowance and subordinated deferrable debt allocated to fund fixed rate assets. See "Non-GAAP Financial Measures" for further explanation of why CFC uses members' equity in its analysis of the funding of its loan portfolio.
- (2) Assets less liabilities and members' equity.
- (3) Adjusted total assets represents total assets in the consolidated balance sheets less derivative assets.

Use of Derivatives

At February 28, 2007 and May 31, 2006, the Company was a party to interest rate exchange agreements with a total notional amount of \$12,352 million and \$12,536 million, respectively. The Company uses interest rate exchange agreements as part of its overall interest rate matching strategy. Interest rate exchange agreements are used when they provide a lower cost of funding or minimize interest rate risk. The Company will enter into interest rate exchange agreements only with highly rated financial institutions. CFC was using interest rate exchange agreements to synthetically change the interest rate from a variable rate to a fixed rate on \$7,165 million as of February 28, 2007 and \$7,350 million as of May 31, 2006 of debt used to fund long-term fixed rate loans. Interest rate exchange agreements were used to synthetically change the interest rates from fixed to variable on \$5,186 million of long-term debt as of February 28, 2007 and May 31, 2006. The Company has not invested in derivative financial instruments for trading purposes in the past and does not anticipate doing so in the future.

In December 2006, the Company terminated two \$500 million pay variable and receive fixed interest rate exchange agreements prior to the scheduled maturity dates. The Company terminated these interest rate exchange agreements in an effort to reduce the total number of swap positions and total notional size of the swap portfolio, reduce the number of swaps using the 30-day composite commercial paper index floating leg, reduce exposure to certain counterparties and reduce the number of offsetting positions in the swap portfolio. Prior to terminating these swaps, CFC had recorded an asset of \$31 million representing the fair value of the \$1 billion of interest rate exchange agreements that were terminated. As a result of the termination of these agreements, CFC received a payment from the counterparties representing their fair value on the date of termination. As a result of the termination, CFC also reversed the previously recorded derivative asset. The cash payment was recorded as an increase to cash settlements and the reversal of the derivative asset was a reduction to the derivative forward value resulting in no significant impact on net income for the period.

As of February 28, 2007 and May 31, 2006, the Company was a party to cross currency and cross currency interest rate exchange agreements with a total notional amount of \$434 million and \$716 million, respectively, related to medium-term notes denominated in foreign currencies. Cross currency and cross currency interest rate exchange agreements with a total notional amount of \$434 million at February 28, 2007 and May 31, 2006 in which the Company receives Euros and pays U.S. dollars, and \$282 million at May 31, 2006 in which the Company receives Australian dollars and pays U.S. dollars, are used to synthetically change the foreign denominated debt to U.S. dollar denominated debt. In addition, all cross currency interest rate exchange agreements outstanding at February 28, 2007 and May 31, 2006 synthetically change the interest rate from the fixed rate on the foreign denominated debt to variable rate U.S. denominated debt or from a variable rate on the foreign denominated debt to a U.S. denominated variable rate. In March 2007, the cross currency interest rate exchange agreements outstanding at February 28, 2007 matured.

The Company enters into an exchange agreement to sell the amount of foreign currency received from the investor for U.S. dollars on the issuance date and to buy the amount of foreign currency required to repay the investor principal and interest due through or on the maturity date. By locking in the exchange rates at the time of issuance, the Company has eliminated the possibility of any currency gain or loss (except in the case of the Company or a counterparty default or unwind of the transaction) which might otherwise have been produced by the foreign currency borrowing.

Counterparty Risk

The Company is exposed to counterparty risk related to the performance of the parties with which it has entered into interest rate, cross currency and cross currency interest rate exchange agreements. To mitigate this risk, the Company only enters into these agreements with financial institutions with investment grade ratings. To date, the Company has not experienced a failure of a counterparty to perform as required under any of these agreements. At the time counterparties are selected to participate in the exchange agreements, the counterparty must be a participant in one of the Company's revolving credit agreements. At February 28, 2007, the Company's interest rate, cross currency and cross currency interest rate exchange agreement counterparties had credit ratings ranging from A- to AAA as assigned by Standard & Poor's Corporation. See "Use of Derivatives" for the total notional amount of exchange agreements outstanding at February 28, 2007.

Foreign Currency Risk

The Company may issue commercial paper, medium-term notes or bonds denominated in foreign currencies. At February 28, 2007 and May 31, 2006, the Company had a total of \$434 million of medium-term notes denominated in Euros. At May 31, 2006, CFC had \$282 million of medium-term notes denominated in Australian dollars. The Company's foreign currency valuation account, which represents the change in the foreign exchange rate from the date of issuance to the reporting date, increased the debt balance by \$227 million and \$245 million at February 28, 2007 and May 31, 2006, respectively. The change in the value of the foreign denominated debt is reported in the consolidated statements of operations as foreign currency adjustments. See "Use of Derivatives" for actions the Company takes to mitigate foreign currency risk.

Rating Triggers

The Company has certain interest rate, cross currency, and cross currency interest rate exchange agreements that contain a condition that will allow one counterparty to terminate the agreement if the credit rating of the other counterparty drops to a certain level. This condition is commonly called a rating trigger. Under the rating trigger, if the credit rating for either counterparty falls to the level specified in the agreement, the other counterparty may, but is not obligated to, terminate the agreement. If either counterparty terminates the agreement, a net payment may be due from one counterparty to the other based on the fair value of the underlying derivative instrument. Rating triggers are not separate financial instruments and are not separate derivatives under SFAS 133. The Company's rating triggers are based on its senior unsecured credit rating from Standard & Poor's Corporation and Moody's Investors Service. At February 28, 2007, there are rating triggers associated with \$8,906 million notional amount of interest rate, cross currency and cross currency interest rate exchange agreements. If the Company's rating from Moody's Investors Service falls to Baa1 or the Company's rating from Standard & Poor's Corporation falls to BBB+, the counterparties may terminate agreements with a total notional amount of \$1,361 million. If the Company's rating from Moody's Investors Service falls below Baa1 or the Company's rating from Standard & Poor's Corporation falls below BBB+, the counterparties may terminate the agreements on the remaining total notional amount of \$7,545 million.

At February 28, 2007, the Company's exchange agreements subject to rating triggers had a derivative fair value of \$31 million, comprised of \$35 million that would be due to the Company and \$4 million that the Company would have to pay if all interest rate, cross currency and cross currency interest rate exchange agreements with a rating trigger at the level of BBB+ or Baa1 and above were to be terminated, and a derivative fair value of \$185 million, comprised of \$231 million that would be due to the Company and \$46 million that the Company would have to pay if all interest rate, cross currency and cross currency interest rate exchange agreements with a rating trigger below the level of BBB+ or Baa1 were to be terminated. See chart on page 51 for CFC's senior unsecured credit ratings as of February 28, 2007.

Liquidity Risk

The Company faces liquidity risk in the funding of its loan portfolio. The Company offers long-term loans with maturities of up to 35 years and line of credit loans that are generally required to be paid down annually. On long-term loans, the Company offers a variety of interest rate options including the ability to fix the interest rate for terms of one year through maturity. At February 28, 2007, the Company has a total of \$2,549 million of long-term debt maturing during the next twelve months. The Company funds the loan portfolio with a variety of debt instruments and its members' equity. The Company typically does not match fund each of its loans with a debt instrument of similar final maturity. Debt instruments such as subordinated certificates have maturities that vary from the term of the associated loan or guarantee to 100 years and subordinated deferrable debt has been issued with maturities of up to 49 years. The Company may issue collateral trust bonds and medium-term notes for periods of up to 30 years, but typically issues such debt instruments with maturities of 2, 3, 5, 7 and 10 years. Debt instruments such as commercial paper and bank bid notes typically have maturities of 90 days or less. Therefore, the Company is at risk if it is not able to issue new debt instruments to replace debt that matures prior to the maturity of the loans for which they are used as funding. Factors that mitigate liquidity risk include the Company maintenance of back-up liquidity through revolving credit agreements with domestic and foreign banks and a large volume of scheduled principal repayments received on an annual basis. At February 28, 2007 and May 31, 2006, the Company had a total of \$4,025 million in revolving credit agreements and bank lines of credit. Subsequent to the end of the quarter, on March 16, 2007, the Company decreased the total of its revolving credit agreements to \$3,275 million. In addition, the Company limits the amount of dealer commercial paper and bank bid notes used in the funding of loans. The Company's objective is to maintain the amount of dealer commercial paper and bank bid notes used to 15% or less of total debt outstanding. At February 28, 2007 and May 31, 2006, there was a total of \$1,420 million and \$1,758 million, respectively, of dealer commercial paper and bank bid notes outstanding, representing 8% and 10%, respectively, of the Company's total debt outstanding.

For additional information of risks related to the Company's business, see Item 1A "Risk Factors".

Non-GAAP Financial Measures

The Company makes certain adjustments to financial measures in assessing its financial performance that are not in accordance with GAAP. These non-GAAP adjustments fall primarily into two categories: (1) adjustments related to the calculation of the TIER ratio, and (2) adjustments related to the calculation of leverage and debt to equity ratios. These adjustments reflect management's perspective on the Company's operations, and in several cases adjustments used to measure covenant compliance under its revolving credit agreements, and thus the Company believes these are useful financial measures for investors. The Company refers to its non-GAAP financial measures as "adjusted" throughout this document.

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Adjustments to Net Income and the Calculation of the TIER Ratio

The following chart provides a reconciliation between interest expense, net interest income, income prior to income taxes and minority interest, and net income and these financial measures adjusted to exclude the impact of derivatives and foreign currency adjustments and to include minority interest in net income. Refer to Non-GAAP Financial Measures in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K for the year ended May 31, 2006 for an explanation of why these adjustments to net income and the calculation of the TIER ratio reflect management's perspective on the Company's operations and why the Company believes these are useful financial measures for investors.

(in thousands)	Three months ended		Nine months ended	
	February 28,		February 28,	
	2007	2006	2007	2006
Interest expense	\$ (243,969)	\$ (240,198)	\$ (741,685)	\$ (711,568)
Adjusted to include: Derivative cash settlements	40,970	14,906	65,839	51,922
Adjusted interest expense	\$ (202,999)	\$ (225,292)	\$ (675,846)	\$ (659,646)
Net interest income	\$ 20,904	\$ 13,461	\$ 48,121	\$ 35,294
Adjusted to include: Derivative cash settlements	40,970	14,906	65,839	51,922
Adjusted net interest income	\$ 61,874	\$ 28,367	\$ 113,960	\$ 87,216
Income (loss) prior to income taxes and minority interest	\$ 52,302	\$ (20,736)	\$ (41,734)	\$ 43,618
Adjusted to exclude: Derivative forward value		583	14,344	64,949
Foreign currency adjustments		(1,886)	8,122	(26,357)
Adjusted income prior to income taxes and minority interest	\$ 50,999	\$ 1,730	\$ 83,796	\$ 82,210
Net income (loss)	\$ 52,241	\$ (21,919)	\$ (39,917)	\$ 36,493
Adjusted to include: Minority interest net income	(566)	864	(1,244)	5,077
Adjusted to exclude: Derivative forward value	583	14,344	110,117	64,949
Foreign currency adjustments	(1,886)	8,122	15,413	(26,357)
Adjusted net income	\$ 50,372	\$ 1,411	\$ 84,369	\$ 80,162

TIER using GAAP financial measures is calculated as follows:

$$\text{TIER} = \frac{\text{Interest expense} + \text{net income prior to cumulative effect of change in accounting principle}}{\text{Interest expense}}$$

Adjusted TIER is calculated as follows:

$$\text{Adjusted TIER} = \frac{\text{Adjusted interest expense} + \text{adjusted net income}}{\text{Adjusted interest expense}}$$

The following chart provides the calculations for TIER and adjusted TIER.

	Three months ended	Nine months ended
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	February 28,		February 28,	
	2007	2006	2007	2006
TIER (1)	1.21	-	-	1.05
Adjusted TIER	1.25	1.01	1.12	1.12

(1) For the three months ended February 28, 2006 and the nine months ended February 28, 2007, the Company reported a net loss of \$22 million and \$40 million, respectively, thus the TIER calculation for those periods results in a value below 1.00.

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Adjustments to the Calculation of Leverage and Debt to Equity Ratios

The following chart provides a reconciliation between the liabilities and equity used to calculate the leverage and debt to equity ratios and these financial measures adjusted to exclude the non-cash impacts of derivatives and foreign currency adjustments, to subtract debt used to fund loans that are guaranteed by RUS from total liabilities, to subtract from total liabilities, and add to total equity, debt with equity characteristics and to include minority interest as equity. Refer to Non-GAAP Financial Measures in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K for the year ended May 31, 2006 for an explanation of why these adjustments to the calculation of leverage and debt to equity ratios reflect management's perspective on the Company's operations and why the Company believes these are useful financial measures for investors.

(in thousands)	February 28, 2007	May 31, 2006
Liabilities	\$ 18,260,174	\$ 18,369,751
Less:		
Derivative liabilities	(80,978)	(85,198)
Foreign currency valuation account	(226,815)	(244,955)
Debt used to fund loans guaranteed by RUS	(256,818)	(261,330)
Subordinated deferrable debt	(486,440)	(636,440)
Subordinated certificates	(1,424,419)	(1,427,960)
Adjusted liabilities	\$ 15,784,704	\$ 15,713,868
Total equity	\$ 662,469	\$ 787,976
Less:		
Prior years cumulative derivative forward value and foreign currency adjustments	(229,417)	(229,049)
Current period derivative forward value (1)	105,992	(22,962)
Current period foreign currency adjustments	15,413	22,594
Accumulated other comprehensive income	(12,455)	(13,208)
Subtotal members' equity	542,002	545,351
Plus:		
Subordinated certificates	1,424,419	1,427,960
Subordinated deferrable debt	486,440	636,440
Minority interest	18,401	21,894
Adjusted equity	\$ 2,471,262	\$ 2,631,645
Guarantees	\$ 1,182,954	\$ 1,078,980

(1) Represents the derivative forward value loss (gain) recorded by CFC for the period.

The leverage and debt to equity ratios using GAAP financial measures are calculated as follows:

$$\text{Leverage ratio} = \frac{\text{Liabilities} + \text{guarantees outstanding}}{\text{Total equity}}$$

$$\text{Debt to equity ratio} = \frac{\text{Liabilities}}{\text{Total equity}}$$

The adjusted leverage and adjusted debt to equity ratios are calculated as follows:

$$\text{Adjusted leverage ratio} = \frac{\text{Adjusted liabilities} + \text{guarantees outstanding}}{\text{Adjusted equity}}$$

$$\text{Adjusted debt to equity ratio} = \frac{\text{Adjusted liabilities}}{\text{Adjusted equity}}$$

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The following chart provides the calculated ratios for leverage and debt to equity, as well as the adjusted ratio calculations. The adjusted leverage ratio and the adjusted debt to equity ratio are the same calculation except for the addition of guarantees to adjusted liabilities in the adjusted leverage ratio.

	February 28, 2007	May 31, 2006
Leverage ratio	29.35	24.68
Adjusted leverage ratio	6.87	6.38
Debt to equity ratio	27.56	23.31
Adjusted debt to equity ratio	6.39	5.97

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See Market Risk discussion beginning on page 54.

Item 4. Evaluation of Disclosure Controls and Procedures

Senior management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 ("the Exchange Act"). At the end of the period covered by this report, based on this evaluation process, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective. There were no changes in the Company's internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

Refer to Part I, Item 1A. Risk Factors in the Company's Form 10-K for the year ended May 31, 2006 for information regarding factors that could affect the Company's results of operations, financial condition and liquidity. There have been no changes to the Company's risk factors during the quarter ended February 28, 2007.

Item 6. Exhibits

- 4.4 - Revolving Credit Agreement dated as of March 16, 2007 for \$1,125 million maturing on March 16, 2012.
- 4.5 - Revolving Credit Agreement dated as of March 16, 2007 for \$1,125 million maturing on March 14, 2008.
- 31.1 - Certification of the Chief Executive Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 - Certification of the Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 - Certification of the Chief Executive Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 - Certification of the Chief Financial Officer required by Section 906 of the Sarbanes-Oxley Act of 2002.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL RURAL UTILITIES COOPERATIVE
FINANCE CORPORATION

/s/ Steven L. Lilly
Steven L. Lilly
Chief Financial Officer

/s/ Steven L. Slepian
Steven L. Slepian
Controller
(Principal Accounting Officer)

April 12, 2007