

OLD DOMINION FREIGHT LINE INC/VA
Form 10-K
February 27, 2017

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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 (I.R.S. Employer
incorporation or organization) 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock (\$0.10 par value)	The NASDAQ Stock Market LLC (NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2016 was \$3,708,544,464, based on the closing sales price as reported on the NASDAQ Global Select Market.

As of February 24, 2017, the registrant had 82,466,236 outstanding shares of Common Stock (\$0.10 par value).

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Company's Proxy Statement for the 2017 Annual Meeting of Shareholders are incorporated by reference into Part III of this report.

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FORWARD-LOOKING INFORMATION

Forward-looking statements appear in this Annual Report, including but not limited to Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in other written and oral statements made by or on behalf of us. These forward-looking statements include, but are not limited to, statements relating to our goals, strategies, expectations, competitive environment, regulations, availability of resources, future events and future financial performance. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements typically can be identified by such words as “anticipate,” “estimate,” “forecast,” “project,” “intend,” “expect,” “believe,” “should,” “could,” “may,” or other or expressions. We caution readers that such forward-looking statements involve risks and uncertainties that could cause actual events or results to differ materially from those expressed or implied herein, including, but not limited to, the risk factors detailed in this Annual Report.

Our forward-looking statements are based on our beliefs and assumptions using information available at the time the statements are made. We caution the reader not to place undue reliance on our forward-looking statements as (i) these statements are neither a prediction nor a guarantee of future events or circumstances and (ii) the assumptions, beliefs, expectations and projections about future events may differ materially from actual results. We undertake no obligation to publicly update any forward-looking statement to reflect developments occurring after the statement is made, except to the extent required by law.

PART I

ITEM 1. BUSINESS

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, union-free motor carrier providing regional, inter-regional and national less-than-truckload (“LTL”) services through a single integrated organization. Our LTL services include ground and air expedited transportation for time-sensitive shipments, consumer household pickup and delivery and freight delivery services throughout North America. In addition to our core LTL services, we offer a range of other value-added services that include container drayage, truckload brokerage, supply chain consulting and warehousing. More than 97% of our revenue has historically been derived from transporting LTL shipments for our customers, whose demand for our services is generally tied to industrial production and the overall health of the U.S. domestic economy.

We have grown to the fourth largest LTL motor carrier in the United States, as measured by 2015 revenue, from the seventh largest LTL motor carrier in the United States, as measured by 2010 revenue, according to Transport Topics. We have increased our revenue and customer base over this five-year period primarily through organic market share growth. Our infrastructure allows us to provide next-day and second-day service through each of our regions covering the continental United States. We opened 10 and 44 new service centers over the past five and ten years, respectively, for a total of 226 service centers at December 31, 2016. We believe this expansion produced increased capacity within our service center network and provides us with opportunities for future growth.

We believe the growth in demand for our services can be attributed to our ability to consistently provide a superior level of customer service at a fair price, which allows our customers to meet their supply chain needs. Our integrated structure allows us to offer our customers consistent high-quality service from origin to destination, and we believe our operating structure and proprietary information systems enable us to efficiently manage our operating costs. Our

services are complemented by our technological capabilities, which we believe provide the tools to improve the efficiency of our operations while also empowering our customers to manage their individual shipping needs.

We were founded in 1934 and incorporated in Virginia in 1950. Our principal executive offices are located at 500 Old Dominion Way, Thomasville, North Carolina 27360. Please refer to the Balance Sheets and Statements of Operations included in Item 8, "Financial Statements and Supplementary Data" in this report for information regarding our total assets, revenue from operations and net income.

Our Industry

Trucking companies provide transportation services to virtually every industry operating in the United States and generally offer higher levels of reliability and faster transit times than other surface transportation options. The trucking industry is comprised principally of two types of motor carriers: LTL and truckload. LTL freight carriers typically pick up multiple shipments from multiple customers on a single truck. The LTL freight is then routed through a network of service centers where the freight may be transferred to other trucks with similar destinations. LTL motor carriers generally require a more expansive network of local pickup and delivery (“P&D”) service centers, as well as larger breakbulk, or hub, facilities. In contrast, truckload carriers generally dedicate an entire truck to one customer from origin to destination.

Significant capital is required to create and maintain a network of service centers and a fleet of tractors and trailers. The high fixed costs and capital spending requirements for LTL motor carriers make it difficult for new start-up or small operators to effectively compete with established carriers. In addition, successful LTL motor carriers generally employ, and regularly update, a high level of technology-based systems and processes that provide information to customers and help reduce operating costs.

According to the American Trucking Associations, the trucking industry accounted for 81.2% of the \$894.6 billion total U.S. transportation revenue in 2015. The LTL sector had revenue in 2015 of \$56.3 billion, which represented 6.3% of total U.S. transportation revenue. The LTL industry is highly competitive on the basis of service and price and has consolidated significantly since the industry was deregulated in 1980. Based on 2015 revenue as reported in Transport Topics, the largest 10 and 25 LTL motor carriers accounted for approximately 50% and 60%, respectively, of the total LTL market. We believe consolidation in our industry will continue due to customer demand for transportation providers offering both national and regional LTL as well as other complementary value-added services.

Competition

The transportation and logistics industry is intensely competitive and highly fragmented. We compete with regional, inter-regional and national LTL carriers and, to a lesser extent, with truckload carriers, small package carriers, airfreight carriers and railroads. We also compete with, and provide transportation services to, third-party logistics providers that determine both the mode of transportation and the carrier. Some of our competitors may have a broader global network and a wider range of services than we do. Competition in our industry is based primarily on service, price, available capacity and business relationships. We believe we are able to gain market share by expanding our capacity and providing high-quality service at a fair price.

Throughout our organization, we continuously seek to improve customer service by maximizing on-time performance and minimizing cargo claims. We believe our transit times are generally faster and more reliable than those of our principal national competitors, in part because of our more efficient service center network, use of team drivers and proprietary technology. In addition, we provide greater geographic coverage than most of our regional competitors. Our diversified mix and scope of regional, inter-regional and national LTL service, combined with our value-added service offerings, enables us to provide our customers with a single source to meet their shipping and logistics needs. We believe the combination of these factors provide us with a distinct advantage over most of our competitors.

We utilize flexible scheduling and train our employees to perform multiple tasks, which we believe allows us to achieve greater productivity and higher levels of customer service than our competitors. We believe our focus on employee communication, continued education, development and motivation strengthens the relationships and trust among our employees.

Service Center Operations

At December 31, 2016, we operated 226 service center locations, of which we owned 182 and leased 44. Our network includes ten major breakbulk facilities located in Rialto, California; Atlanta, Georgia; Columbus, Ohio; Indianapolis, Indiana; Greensboro, North Carolina; Harrisburg, Pennsylvania; Memphis and Morristown, Tennessee; Dallas, Texas; and Salt Lake City, Utah, while using various other service centers for additional limited breakbulk activity in order to serve our next-day markets. Our service centers are strategically located throughout the country so that we can provide the highest quality service and minimize freight rehandling costs.

Our service centers are responsible for the pickup and delivery of freight within their local service area. Each night, our service centers load outbound freight for transport to our other service centers for delivery. All inbound freight received by the service center in the evening or during the night is generally scheduled for local delivery the next business day, unless a

customer requests a different delivery schedule. Our management reviews the productivity and service performance of each service center on a daily basis to ensure quality service and efficient operations.

Although we have established primary responsibility for customer service at the local service center level, our customers may access information and initiate transactions through our centralized customer service department located at our corporate office or through other electronic gateways. Our systems allow us to offer our customers access to information such as freight tracking, shipping documents, rate quotes, rate databases and account activity. These centralized systems and our customer service department provide our customers with a single point of contact to access information across all areas of our operations and for each of our service offerings.

Linehaul Transportation

Linehaul dispatchers control the movement of freight between service centers through integrated freight movement systems. We also utilize load-planning software to optimize efficiencies in our linehaul operations. Our management team monitors freight movements, transit times, load factors and many other productivity measurements to help ensure that we maintain our high levels of service and efficiency.

We utilize scheduled routes, and additional linehaul dispatches as necessary to meet our published transit times. In addition, we gain efficiency through the use of twin 28-foot trailers in our linehaul operations. The use of twin 28-foot trailers permits us to transport freight directly from its point of origin to destination with minimal unloading and reloading, which also reduces cargo loss and damage expenses. We utilize long-combination vehicles, such as triple 28-foot trailers and combinations of 48-foot and 28-foot trailers, in states where permitted. Twin trailers and long-combination vehicles permit more freight to be transported behind a tractor than could otherwise be transported by one trailer.

Tractors, Trailers and Maintenance

At December 31, 2016, we owned 7,994 tractors. We generally use new tractors in linehaul operations for approximately three to five years and then transfer those tractors to P&D operations for the remainder of their useful lives. In many of our service centers, tractors perform P&D functions during the day and linehaul functions at night to maximize tractor utilization.

The table below reflects, as of December 31, 2016, the average age of our tractors and trailers:

Type of Equipment	Number of Units	Average Age (In years)
Tractors	7,994	4.5
Linehaul trailers	22,970	5.7
P&D trailers	9,555	9.0

We develop certain specifications for tractors and trailers and then negotiate the production and purchase of this equipment with several manufacturers. These purchases are planned well in advance of anticipated delivery dates in order to accommodate manufacturers' production schedules. We believe there is sufficient capacity among suppliers to ensure an uninterrupted supply of equipment to support our operations.

The table below sets forth our capital expenditures for tractors and trailers for the years ended December 31, 2016, 2015 and 2014. For more information concerning our capital expenditures, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" in this report.

(In thousands)	Year Ended December 31,		
	2016	2015	2014

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Tractors	\$114,166	\$128,911	\$91,750
Trailers	94,040	114,209	80,853
Total	\$208,206	\$243,120	\$172,603

At December 31, 2016, we operated 39 maintenance centers at strategic service center locations throughout our network. These maintenance centers are equipped to perform routine and preventive maintenance and repairs on our equipment.

We adhere to established maintenance policies and procedures to help ensure our fleet is properly maintained. Tractors are routed to appropriate maintenance facilities at designated mileage intervals or every 90 days, whichever occurs first. Trailers are also scheduled for preventative maintenance every 90 days.

Customers

Revenue is generated primarily from customers throughout the United States and North America. In 2016, our largest customer accounted for approximately 3.0% of our revenue and our largest 5, 10 and 20 customers accounted for 10.4%, 15.4% and 21.9% of our revenue, respectively. For each of the previous three years, more than 95% of our revenue was derived from services performed in the United States and less than 5% of our revenue was generated from services performed internationally. We believe the diversity of our customer base helps protect our business from adverse developments in a single geographic region and from the reduction or loss of business from a single customer.

We utilize an integrated freight-costing system to determine the price level at which a particular shipment of freight will be profitable. We can modify elements of this freight-costing model to simulate the actual conditions under which the freight will be moved. Many of our customers engage our services through the terms and provisions of our tariffs and through negotiated service contracts. We also compete for business by participating in bid solicitations. Customers generally solicit bids for relatively large numbers of shipments for a period of one to two years and typically choose to enter into contractual arrangements with a limited number of motor carriers based upon price and service.

Seasonality

Our tonnage levels and revenue mix are subject to seasonal trends common in our industry, although other factors, such as macroeconomic changes, could cause variation in these trends. Our revenue and operating margins in the first and fourth quarters are typically lower than those during the second and third quarters due to reduced shipments during the winter months. Harsh winter weather or natural disasters, such as hurricanes, tornadoes and floods, can also adversely impact our performance by reducing demand and increasing operating expenses. We believe seasonal trends will continue to impact our business.

Technology

Our technology is critical to the success and delivery of the premium service provided by our operations. We continually seek to upgrade and enhance our technological capabilities. We also provide access to our systems through multiple gateways that offer our customers and employees maximum flexibility and immediate access to information. We employ vehicle safety systems, on-board and hand-held computer systems, freight handling systems and logistics technology to reduce costs and transit times. Our data systems are integrated at every level within our organization, which we believe is critical to our success. Our systems are protected through physical and software safeguards, as well as redundant systems, network security measures and backup systems. We continue to focus on the development and enhancement of the technology used in our operations in order to improve the efficiency and effectiveness of our services.

Insurance

We carry a significant amount of insurance with third-party insurance carriers, but we are exposed to the risk of loss on claims up to the limit for which we hold either a self-insured retention ("SIR") or deductible. At December 31, 2016, the amounts of our SIR and/or deductibles were as follows:

- \$2.75 million per occurrence for bodily injury and property damage (“BIPD”) claims, plus a one-time, \$2.5 million aggregate corridor deductible applicable to any claim that exceeds \$5.0 million and occurs after March 30, 2016;
- \$100,000 per occurrence for cargo loss and damage;
- \$1.0 million per occurrence for workers’ compensation claims; and
- \$800,000 per covered person paid during 2016 for group health claims.

We believe that our policy of maintaining an SIR or deductible for a portion of our risks, supported by our safety and loss prevention programs, is an effective means of managing insurance costs. We periodically review our risk exposure and insurance coverage applicable to those risks and we believe that we maintain sufficient insurance coverage.

Diesel Fuel Availability and Cost

We depend heavily upon the availability and quality of diesel fuel to provide our transportation services. We maintain fuel storage and pumping facilities at certain service center locations as the primary source for fueling our fleet, and we utilize over-the-road fueling options at retail locations as necessary. We could be susceptible to regional and/or national fuel shortages, which could cause us to incur additional expense in order to obtain an adequate supply within our own fueling network or cause us to rely more heavily on higher-priced retail fuel.

We believe our operations and financial condition are susceptible to the same diesel fuel price increases or shortages as those of our competitors. We implemented a fuel surcharge program in August 1999, which has remained in effect since that time and is one of many components that we use to determine the overall price for our transportation services. Our fuel surcharges are generally indexed to fuel prices published by the U.S. Department of Energy (the “DOE”) that reset each week.

Employees

As of December 31, 2016, we employed 17,543 individuals on a full-time basis, none of which were represented under a collective bargaining agreement. Our full-time employees work in the following roles:

Full-Time Employees	Number of Employees
Drivers	9,383
Platform	2,993
Fleet technicians	537
Sales, administrative and other	4,630
Total	17,543

As of December 31, 2016, we employed 4,910 linehaul drivers and 4,473 P&D drivers on a full-time basis. We select our drivers primarily based upon safe driving records and experience. Among other requirements, our drivers must pass a drug test, have a current U.S. Department of Transportation (“DOT”) physical and have a valid commercial driver’s license prior to employment. Once employed, drivers are required to obtain and maintain hazardous materials endorsements to their commercial driver’s licenses. Drivers, like all of our employees, are required to take pre-employment drug and alcohol tests and are randomly selected for periodic additional testing.

Since 1988, we have provided the opportunity for qualified employees to become drivers through the “Old Dominion Driver Training Program.” There are currently 2,725 active drivers who have successfully completed this training, which was approximately 29% of our driver workforce as of December 31, 2016. We believe our driver training and qualification programs have been important factors in improving our safety record and retaining qualified drivers. In addition, we have experienced an annual turnover rate for our driver graduates of approximately 6.1%, which is below our Company-wide turnover rate for all drivers of approximately 8.3%.

We reward our drivers who maintain safe driving records with annual bonuses of up to \$3,000 per driver. Our safety bonuses paid to drivers totaled \$3.7 million, \$3.4 million and \$3.1 million in 2016, 2015 and 2014, respectively.

Governmental Regulation

We are regulated by the DOT and by various state agencies. These regulatory authorities have broad powers, generally governing matters such as authority to engage in motor carrier operations, as well as motor carrier registration, driver hours of service, safety and fitness of transportation equipment and drivers, transportation of hazardous materials, certain mergers and acquisitions and periodic financial reporting. The trucking industry is also subject to regulatory

and legislative changes from a variety of other governmental authorities, which address matters such as: increasingly stringent environmental regulations, occupational safety and health regulations, limits on vehicle weight and size, ergonomics, port security, and hours of service.

In addition, we are subject to compliance with cargo-security and transportation regulations issued by the Transportation Security Administration ("TSA") and Customs and Border Protection ("CBP") within the U.S. Department of Homeland Security. Regulatory requirements, and changes in regulatory requirements, may affect our business or the economics of the industry by requiring changes in operating practices or by influencing the demand for and increasing the costs of providing transportation services.

Driver Hours of Service

In December 2011, the Federal Motor Carrier Safety Administration (the "FMCSA") issued revised rules governing hours of service for commercial truck drivers (the "2011 Rules"), and mandated compliance by July 1, 2013. The 2011 Rules reduced the maximum number of hours a truck driver could work each week to 70 hours from the former 82-hour limit. The 2011 Rules maintained the maximum 11-hour daily driving limit, but required that drivers take a 30-minute break prior to working beyond eight hours. The 2011 Rules also added restrictions to the "34-hour restart" provision to include two rest periods between 1 a.m. and 5 a.m., and limited the use of the restart to once every 168 hours. Compliance with the 2011 Rules on July 1, 2013 required us to make certain changes in our operating procedures. These changes increased our operating costs by limiting the productivity of our drivers.

In December 2014, the FMCSA temporarily suspended, through the 2015 Omnibus Appropriations Bill, enforcement of the provisions requiring two rest periods between 1 a.m. and 5 a.m. and the 168-hour minimum restart restriction. The suspension of these provisions of the 2011 Rules allowed us to improve our productivity and we continue to benefit from the suspension of these provisions.

In connection with the temporary suspension, Congress requested that the FMCSA conduct a study to determine whether two rest periods between 1 a.m. and 5 a.m., and the limited use of one restart every 168 hours, significantly improved safety benefits. In December 2016, Congress enacted legislation providing that if the FMCSA study demonstrates significant safety benefits attributable to these two rest periods and the 168-hour minimum restart restriction, then these two restrictions to the "34-hour restart" provision will be reinstated. If the FMCSA's study does not support the safety benefits, the suspension will remain in effect. The FMCSA has not yet released its study.

Electronic Logging Devices

In December 2015, the FMCSA issued final rules to mandate the use of electronic logging devices ("ELDs") to automatically record driving time for hours of service reporting. Generally, carriers must comply with these new requirements by December 2017. We currently utilize ELDs in all of our Company-owned vehicles and do not believe this new requirement will have a significant impact on our operations.

Commercial Driver's License Drug and Alcohol Clearinghouse

In December 2016, the FMCSA released a final rule establishing the Commercial Driver's License Drug and Alcohol Clearinghouse ("DAC"). The DAC is a database that will maintain records of drug and alcohol violations of commercial motor vehicle drivers. The DAC will require us to check prospective employees for drug and alcohol violations, and all current driver employees must be checked at least annually. The intent of the clearinghouse is to ensure that drivers cannot conceal drug and alcohol violations by changing jobs or locations. Compliance with this rule, which provides for a three-year implementation period, is required by January 6, 2020.

We are subject to future rulemaking by the FMCSA and other regulatory agencies, which could be more stringent, require additional changes to our operations, increase our operating costs or otherwise adversely impact our results of operations.

Environmental Regulation

We are subject to various federal, state and local environmental laws and regulations that focus on, among other things: the emission and discharge of hazardous materials into the environment or their presence at our properties or in our vehicles; fuel storage tanks; transportation of certain materials; and the discharge or retention of storm water. Under specific environmental laws, we could also be held responsible for any costs relating to contamination at our

past or present facilities and at third-party waste disposal sites, as well as costs associated with clean-up of accidents involving our vehicles. We do not believe that the cost of future compliance with current environmental laws or regulations will have a material adverse effect on our operations, financial condition, competitive position or capital expenditures for the remainder of 2017 or fiscal year 2018. However, future changes to laws or regulations may adversely affect our operations and could result in unforeseen costs to our business.

Available Information

Through our website, <http://www.odfl.com>, we make available, free of charge, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"), as soon as practicable after we

electronically file the material with or furnish it to the U.S. Securities and Exchange Commission (the “SEC”). The public may read or copy any document we file with the SEC at the SEC’s website, <http://www.sec.gov> (File No. 0-19582), or at the SEC’s Public Reference Room at 100 F Street, NE, Washington, D.C. 20549-2736. The SEC can be reached at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Information contained on our website is neither part of nor incorporated by reference into this Form 10-K or any other report we file with or furnish to the SEC.

ITEM 1A. RISK FACTORS

Various factors exist that could cause our actual results to differ materially from those projected in any forward-looking statement. In addition to the factors discussed elsewhere in this report, we believe the following are some of the important risks and uncertainties that could materially affect our business, financial condition or results of operations:

We operate in a highly competitive industry, and our business will suffer if we are unable to adequately address potential downward pricing pressures and other factors that may adversely affect our operations and profitability.

Numerous competitive factors could impair our ability to maintain our current profitability. These factors include, but are not limited to, the following:

- we compete with other transportation service providers of varying sizes, some of which may have more equipment, a broader global network, a wider range of services, greater capital resources or other competitive advantages;
- some of our competitors may reduce their prices to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase prices or maintain revenue;
- we may be unable to continue to collect fuel surcharges or our fuel surcharge program may become ineffective in mitigating the impact of the fluctuating costs of fuel and other petroleum-based products;
- many customers reduce the number of carriers they use by selecting “core carriers” as approved transportation service providers and we may not be selected;
- many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress prices or result in the loss of some business to competitors;
- some shippers may choose to acquire their own trucking fleet or may choose to increase the volume of freight they transport if they have an existing trucking fleet;
- some customers may choose to consolidate certain LTL shipments through a different mode of transportation, such as truckload, intermodal or rail;
- our customers may manage their inventory levels more closely to a “just-in-time” basis, which may increase our costs and adversely affect our ability to meet our customers’ needs;
- consolidation in the ground transportation industry may create other large carriers with greater financial resources and other competitive advantages relating to their size;
- advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments; and
- competition from non-asset-based logistics and freight brokerage companies may adversely affect our customer relationships and ability to maintain sufficient pricing.

If we are unable to effectively compete with other LTL carriers, whether on the basis of price, service or otherwise, we may be unable to retain existing customers or attract new customers, either of which could have a material adverse effect on our business, financial condition and results of operations. Furthermore, continued merger and acquisition activity in transportation and logistics could result in stronger or new competitors, which could have a material adverse effect on our business, financial condition and results of operations. We may not be able to compete successfully in an increasingly consolidated LTL industry and cannot predict with certainty how industry

consolidation will affect our competitors or us.

If our employees were to unionize, our operating costs would increase and our ability to compete would be impaired.

None of our employees are currently represented under a collective bargaining agreement. However, from time to time there have been efforts to organize our employees at various service centers. Further, Congress or one or more states could approve legislation and/or the National Labor Relations Board could render decisions or implement rule changes that could significantly affect our business and our relationship with our employees, including actions that could substantially liberalize the procedures for union organization. In addition, we can offer no assurance that the Department of Labor will not adopt new

regulations or interpret existing regulations in a manner that would favor the agenda of unions, or that our employees will not unionize in the future, particularly if regulatory changes occur that facilitate unionization.

The unionization of our employees could have a material adverse effect on our business, financial condition and results of operations because:

- restrictive work rules could hamper our efforts to improve and sustain operating efficiency;
- restrictive work rules could impair our service reputation and limit our ability to provide next-day services;
- a strike or work stoppage could negatively impact our profitability and could damage customer and employee relationships;
- shippers may limit their use of unionized trucking companies because of the threat of strikes and other work stoppages; and
- an election and bargaining process could divert management's time and attention from our overall objectives and impose significant expenses.

If we are unable to successfully execute our growth strategy, our business and future results of operations may suffer.

Our growth strategy includes increasing the volume of freight moving through our existing service center network, selectively expanding our capacity and broadening the scope of our service offerings. In connection with our growth strategy, at various times, we have expanded and upgraded service centers, purchased additional equipment and increased our sales and marketing efforts, and we expect to continue to do so. Our growth strategy exposes us to a number of risks, including the following:

- shortages of suitable real estate may limit our growth and could cause congestion in our service center network, which could result in increased operating expenses;
- growth may strain our management, capital resources, information systems and customer service;
- hiring new employees may increase training costs and may result in temporary inefficiencies until those employees become proficient in their jobs; and
- expanding our service offerings may require us to enter into new markets and encounter new competitive challenges.

We cannot assure that we will overcome the risks associated with our growth strategy. If we fail to overcome those risks, we may not realize additional revenue or profits from our efforts, we may incur additional expenses and, as a result, our financial position and results of operations could be materially and adversely affected.

We may be unable to successfully consummate and integrate acquisitions as part of our growth strategy.

Growth through acquisitions historically has been a key component of our LTL growth strategy. In the future, we may seek to acquire other LTL carriers as well as other complementary businesses. Exploration of potential acquisitions requires significant attention from our management team. In addition, we expect to compete for acquisition opportunities with other companies, some of which may have greater financial and other resources than we do. We cannot ensure that we will have sufficient cash to consummate an acquisition or otherwise be able to obtain financing for an acquisition. If we are unable to access sufficient funding for potential acquisitions, we may not be able to complete transactions that we otherwise find advantageous.

Any subsequent acquisition will entail numerous risks, including:

- we may not achieve anticipated levels of revenue, efficiency, cash flows and profitability;
- we may experience difficulties managing businesses that are outside our historical core competency and markets;
- we may underestimate the resources required to support acquisitions, which could disrupt our ongoing business and distract our management;

- we may incur unanticipated costs to our infrastructure to support new business lines or separate legal entities;
- we may be required to temporarily match existing customer pricing in the acquiree's markets, which may be lower than the rates that we would typically charge for our services;

liabilities we assume could be greater than our original estimates or may not be disclosed to us at the time of acquisition;

- we may incur additional indebtedness or we may issue additional equity to finance future acquisitions, which could be dilutive to our shareholders;
- potential loss of key employees and customers of the acquired company; and
- an inability to recognize projected cost savings and economies of scale.

In addition, we may have difficulty integrating any acquired business and its operations, services and personnel into our existing operations, and such integration may require a significant amount of time and effort by our management team. To the extent we do not successfully avoid or overcome the risks or problems resulting from any acquisitions we undertake, there could be a material adverse effect on our business, financial condition and results of operations.

Our customers' and suppliers' businesses may be impacted by various economic factors such as recessions, downturns in the economy, global uncertainty and instability, changes in U.S. social, political, and regulatory conditions and/or a disruption of financial markets, which may decrease demand for our services.

Adverse economic conditions, both in the United States and internationally, can negatively affect our customers' business levels, the amount of transportation services they need, their ability to pay for our services and overall freight levels, any of which might impair our asset utilization. Additionally, uncertainty and instability in the global economy, such as the United Kingdom's decision to exit the European Union, may lead to fewer goods being transported. Customers encountering adverse economic conditions may be unable to obtain additional financing, or financing under acceptable terms, due to disruptions in the capital and credit markets. These customers represent a greater potential for bad debt losses, which may require us to increase our reserve for bad debt. Economic conditions resulting in bankruptcies of one or more of our large customers could have a significant impact on our financial position, results of operations or liquidity in a particular year or quarter. Further, when adverse economic times arise, customers may select competitors that offer lower rates in an attempt to lower their costs, and we might be forced to lower our rates or lose freight volumes.

Our suppliers' business levels also may be negatively affected by adverse economic conditions and changes in the political and regulatory environment, both in the United States and internationally, or financial constraints, which could lead to disruptions in the supply and availability of equipment, parts and services critical to our operations. A significant interruption in our normal supply chain could disrupt our operations, increase our costs and negatively impact our ability to serve our customers.

We are also subject to cost increases outside of our control that could materially reduce our profitability if we are unable to increase our rates sufficiently. Such cost increases include, but are not limited to, increases in fuel prices, interest rates, taxes, tolls, license and registration fees, insurance, revenue equipment and healthcare for our employees.

Difficulties attracting and retaining qualified drivers could result in increases in driver compensation and could adversely affect our profitability, our ability to maintain or grow our fleet and our ability to maintain our customer relationships.

From time to time we have experienced difficulty in attracting and retaining sufficient numbers of qualified drivers and such shortages may recur in the future. Due in part to the time commitment, physical requirements, our stringent hiring standards and current industry conditions, the available pool of qualified employee drivers has been declining. Because of the intense competition for drivers, we may face difficulty maintaining or increasing our number of drivers. The compensation we offer our drivers is subject to market conditions that may require increases in driver compensation. If we are unable to attract and retain a sufficient number of qualified drivers, we could be required to

adjust our compensation packages, amend our hiring standards, or operate with fewer trucks and face difficulty meeting customer demands, any of which could adversely affect our growth and profitability.

The FMCSA's CSA initiative could adversely impact our ability to hire qualified drivers, meet our growth projections and maintain our customer relationships, each of which could adversely impact our results of operations.

The FMCSA's Compliance, Safety, Accountability initiative ("CSA") is an enforcement and compliance program designed to monitor and improve commercial motor vehicle safety by measuring the safety record of both the motor carrier and

the driver. These measurements are scored and used by the FMCSA to identify potential safety risks and to direct enforcement action.

Our CSA scores are dependent upon our safety and compliance experience, which could change at any time. In addition, the safety standards prescribed in CSA could change and our ability to maintain an acceptable score could be adversely impacted. Public disclosure of certain CSA scores was restricted through the enactment of the Fixing America's Surface Transportation Act of 2015 (the "FAST Act") on December 4, 2015; however, the FAST Act does not restrict public disclosure of all data collected by the FMCSA. If we receive unacceptable CSA scores, and this data is made available to the public, our relationships with our customers could be damaged, which could result in a loss of business.

The requirements of the CSA could also shrink the industry's pool of drivers, as those with unfavorable scores could leave the industry. As a result, the costs to attract, train and retain qualified drivers could increase. In addition, a shortage of qualified drivers could increase driver turnover, decrease asset utilization, limit growth and adversely impact our results of operations.

Insurance and claims expenses could significantly reduce our profitability.

We are exposed to claims related to cargo loss and damage, property damage, personal injury, workers' compensation, group health and group dental. We have insurance coverage with third-party insurance carriers, but we assume a significant portion of the risk associated with these claims due to our SIRs and deductibles. Our operating results could be adversely affected if any of the following were to occur: (i) the number or the severity of claims increases; (ii) we are required to accrue or pay additional amounts because claims prove to be more severe than our original assessment; or (iii) claims exceed our coverage amounts. If claims exceed our SIR or deductible levels, insurance companies exit the transportation insurance marketplace, or insurance market conditions change, insurers could raise premiums for excess coverage to cover their expenses and anticipated future losses. In addition, insurance companies generally require us to collateralize our SIR or deductible levels. If these collateralization requirements increase, our borrowing capacity could be adversely affected.

Healthcare legislation may increase our costs and reduce our future profitability.

To attract and retain employees, we maintain a competitive health insurance plan for our employees and their dependents. We cannot predict the impact that any state or federal healthcare legislation or regulation will have on our operations, but we expect costs associated with providing benefits under employee medical plans and healthcare-related costs associated with workers' compensation to continue to increase. Rising healthcare costs in the United States could result in significant long-term costs to us, which could have a material adverse effect on our operating results. In addition, rising healthcare costs could force us to make further changes to our benefits program, which could negatively impact our ability to attract and retain employees.

We have significant ongoing cash requirements that could limit our growth and affect our profitability if we are unable to obtain sufficient capital.

Our business is highly capital intensive. We generally finance our capital expenditures and planned growth with existing cash, cash flow from operations, issuance of debt and through available borrowings under our existing senior unsecured credit agreement. We may require additional capital to finance long-term real estate purchase opportunities and acquisitions, which we may fund through additional debt or through equity offerings. If we are unable to generate sufficient cash from our operations or raise capital by accessing the debt and equity markets, we may be forced to limit our growth and operate our equipment for longer periods of time, which could have a material adverse effect on our operating results.

Our business also has significant ongoing operating cash requirements. If our cash requirements are high or our cash flow from operations is low during particular periods, we may need to seek additional financing, which could be costly or difficult to obtain.

Limited supply and increased costs of new equipment may adversely affect our earnings and cash flow.

We may face difficulty in purchasing new equipment due to decreased supply and increased costs. Investment in new equipment is a significant part of our annual capital expenditures and we require an available supply of tractors and trailers from equipment manufacturers to operate and grow our business. We may also be subject to shortages in raw materials that are required for the production of critical operating equipment and supplies, such as shortages in rubber or steel.

The price of our equipment may also be adversely affected in the future by regulations on newly manufactured tractors and diesel engines. We are subject to regulations issued by the U.S. Environmental Protection Agency (the “EPA”) and various state agencies that have required progressive reductions in exhaust emissions from diesel engines. These regulations have resulted in higher prices for tractors and diesel engines and increased operating and maintenance costs, and there can be no assurance that continued increases in pricing or costs will not have an adverse effect on our business and results of operations.

We may be adversely impacted by fluctuations in the availability and price of diesel fuel.

Diesel fuel is a critical component of our operations and a significant operating expense for our business. Future fluctuations in prices and diesel fuel availability could have a material adverse effect on our operating results. Diesel fuel prices and fuel availability can be impacted by factors beyond our control, such as natural or man-made disasters, adverse weather conditions, political events, disruption or failure of technology or information systems, price and supply decisions by oil producing countries and cartels, terrorist activities, armed conflict and world supply and demand imbalances. We maintain fuel storage and pumping facilities at many of our service center locations; however, we may be susceptible to fuel shortages at certain locations that could cause us to incur additional expense to ensure adequate supply on a timely basis and to prevent a disruption to our service schedules. An interruption in the supply of diesel fuel could have a material adverse effect on our operating results.

We do not hedge against the risk of diesel fuel price increases. An increase in diesel fuel prices or diesel fuel taxes, or any change in federal or state regulations that results in such an increase, could have a material adverse effect on our operating results. We have fuel surcharge programs in place with a majority of our customers, which help offset the negative impact of the increased cost of diesel fuel and other petroleum-based products. However, we also incur fuel costs that cannot be recovered even with respect to customers with which we maintain fuel surcharge programs, such as those costs associated with empty miles or the time during which our engines are idling. Because our fuel surcharge recovery lags behind changes in fuel prices, our fuel surcharge recovery may not capture the increased costs we pay for fuel, especially when prices are rising, leading to fluctuations in our levels of reimbursement. We regularly monitor the components of our pricing, including fuel surcharges, and address individual account profitability issues with our customers when necessary; however, there can be no assurance that fuel surcharges can be maintained indefinitely or will be sufficiently effective in offsetting increases in diesel fuel prices.

We are subject to various governmental laws and regulations, and costs of compliance with, liabilities under, or violations of, existing or future governmental laws or regulations could adversely affect our business.

We are subject to various federal, state and local governmental laws and regulations that govern, among other things, the emission and discharge of hazardous materials into the environment, the presence of hazardous materials at our properties or in our vehicles, fuel storage tanks, the transportation of certain materials and the discharge or retention of storm water. Under certain environmental laws, we could also be held responsible for any costs relating to contamination at our past or present facilities and at third-party waste disposal sites, as well as costs associated with the clean-up of accidents involving our vehicles. Environmental laws have become and are expected to continue to be increasingly more stringent over time, and there can be no assurance that our costs of complying with current or future environmental laws or liabilities arising under such laws will not have a material adverse effect on our business, operations or financial condition.

In addition to the EPA regulations on exhaust emissions with which we must comply, there is an increased regulatory focus on climate change and greenhouse gas emissions. We are also subject to increasing sensitivity to sustainability issues. This increased focus on sustainability may result in new regulations and/or customer requirements that could adversely impact our business. Any future limitations on the emission of greenhouse gases, other environmental

legislation or customer sustainability requirements could increase our future capital expenditures and have an adverse impact on our financial condition, results of operations and liquidity.

We are subject to the risks of litigation and governmental proceedings or inquiries, which could adversely affect our business.

The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, property damage, cargo claims, safety and contract compliance, environmental liability and other matters. Accordingly, we are, and in the future may be, subject to legal proceedings and claims that have arisen in the ordinary course of our business, and may include class-action allegations. We are also subject to potential governmental proceedings, inquiries,

and claims. The parties in such actions may seek amounts from us that may not be covered in whole or in part by insurance. Defending ourselves against such actions could result in significant costs and could require a substantial amount of time and effort by our management team. We cannot predict the outcome of litigation or governmental proceedings or inquiries to which we are a party or whether we will be subject to future legal actions. As a result, the potential costs associated with legal actions against us could adversely affect our business, financial condition or results of operations.

We are subject to various risks arising from our international business operations and relationships, which could adversely affect our business.

We arrange for transportation and logistics services to and from various international locations and are subject to both the risks of conducting international business and the requirements of the Foreign Corrupt Practices Act of 1977 (the "FCPA"). Failure to comply with the FCPA may result in legal claims against us. In addition, we face other risks associated with international operations and relationships, which may include restrictive trade policies, imposition of duties, taxes or government royalties imposed by foreign governments.

We operate in a highly regulated industry, and increased costs of compliance with, or liability for violation of, existing or future regulations could have a material adverse effect on our business.

We are regulated by the DOT and by various state agencies. These regulatory authorities have broad powers, generally governing matters such as authority to engage in motor carrier operations, as well as motor carrier registration, driver hours of service, safety and fitness of transportation equipment and drivers, transportation of hazardous materials, certain mergers and acquisitions and periodic financial reporting. The trucking industry is also subject to regulatory and legislative changes from a variety of other governmental authorities, which address matters such as: increasingly stringent environmental, occupational safety and health regulations, limits on vehicle weight and size, ergonomics, port security, and hours of service. In addition, we are subject to compliance with cargo-security and transportation regulations issued by the TSA and CBP within the U.S. Department of Homeland Security. Regulatory requirements, and changes in regulatory requirements, may affect our business or the economics of the industry by requiring changes in operating practices or by influencing the demand for and increasing the costs of providing transportation services.

Our results of operations may be affected by seasonal factors, harsh weather conditions and disasters.

Our operations are subject to seasonal trends common in our industry. Our revenue and operating margins in the first and fourth quarters are typically lower than those during the second and third quarters due to reduced shipments during the winter months. Harsh winter weather or natural disasters, such as hurricanes, tornadoes and floods, can also adversely impact our performance by reducing demand and reducing our ability to transport freight, which could result in decreased revenue and increased operating expenses.

If we are unable to retain our key employees, or if we do not effectively execute our succession plan, our financial condition, results of operations and liquidity could be adversely affected.

Our success will continue to depend upon the experience and leadership of our key employees and executive officers. In that regard, the loss of the services of any of our key personnel could have a material adverse effect on our financial condition, results of operations and liquidity if we are unable to secure replacement personnel who have sufficient experience in our industry and in the management of our business. If we are unable to continue to develop and retain a core group of management personnel and execute succession planning strategies, or we encounter any unforeseen difficulties associated with the recent transition of members of our management team, our business could be negatively impacted in the future.

Our principal shareholders control a large portion of our outstanding common stock.

Earl E. Congdon, David S. Congdon, John R. Congdon, Jr. and members of their respective families beneficially own an aggregate of approximately 26% of the outstanding shares of our common stock. As long as the Congdon family controls a large portion of our voting stock, they may be able to significantly influence the election of the entire Board of Directors and the outcome of all matters involving a shareholder vote. The Congdon family's interests may differ from the interests of other shareholders and the status of their ownership could change at their discretion.

Our financial results may be adversely impacted by potential future changes in accounting practices.

Future changes in accounting standards or practices, and related legal and regulatory interpretations of those changes, may adversely impact public companies in general, the transportation industry or our operations specifically. New accounting standards or requirements could change the way we record revenues, expenses, assets and/or liabilities or could be costly to implement. These types of regulations could have a negative impact on our financial position, liquidity, results of operations and/or access to capital.

Our information technology systems are subject to cyber and other risks, some of which are beyond our control, which could have a material adverse effect on our business, results of operations and financial position.

We are reliant on the proper functioning and availability of our information systems for our operations as well as providing a value-added service to our customers. Our information systems, including our accounting, communications and data processing systems, are integral to the efficient operation of our business. It is critical that the data processed by these systems remain confidential, as it often includes competitive customer information, confidential customer credit card and transaction data, employee records and key financial and operational results and statistics. Cyber incidents that impact the security, availability, reliability, speed, accuracy or other proper functioning of these systems and measures, including outages, computer viruses, break-ins and similar disruptions, could have a significant impact on our operations. We utilize third-party service providers who have access to our systems and certain sensitive data, which exposes us to additional security risks. Although our information systems are protected through physical and software safeguards, as well as redundant systems, network security measures and backup systems, it is difficult to fully protect against the possibility of power loss, telecommunications failures, cyber attacks, and other cyber incidents in every potential circumstance that may arise. A significant cyber incident, including system failure, security breach, disruption by malware, or other damage, could interrupt or delay our operations, damage our reputation, cause a loss of customers, expose us to a risk of loss or litigation, and/or cause us to incur significant time and expense to remedy such an event, any of which could have a material adverse impact on our results of operations and financial position.

Failure to keep pace with developments in technology, any disruption to our technology infrastructure, or failures of essential services upon which our technology platforms rely could cause us to incur costs or result in a loss of business, which may have a material adverse effect on our results of operations and financial condition.

We rely heavily on information technology systems. Our information technology systems are complex and require ongoing investments and enhancements to meet both internal requirements and the requirements of our customers. If we are unable to invest in and enhance our technology systems in a timely manner or at a reasonable cost, or if we are unable to train our employees to operate the new or enhanced systems, our results of operations and financial condition could be adversely affected. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or adversely affect our results of operations.

Our information technology systems also depend upon the Internet, third-party service providers, global communications providers, satellite-based communications systems, the electric utilities grid, electric utility providers and telecommunications providers. We have minimal control over the operation, quality, or maintenance of these services or whether vendors will improve their services or continue to provide services that are essential to our business. Disruptions due to transitional challenges in upgrading or enhancing our technology systems; failures in the services upon which our information technology platforms rely, including those that may arise from adverse weather conditions or natural calamities, such as floods, hurricanes, earthquakes or tornadoes; illegal acts, including terrorist attacks; human error or systems modernization initiatives; and/or other disruptions, may adversely affect our business, which could increase our costs or result in a loss of customers that could have a material adverse effect on our results

of operations and financial position.

Damage to our reputation through unfavorable publicity could adversely affect our financial condition.

In the current environment of instantaneous communication and social media outlets, the quick and broad dissemination of information through media sources could cause damaging information about us, whether accurate or not, to be broadly publicized. Unfavorable publicity about us or our employees could damage our reputation and may result in a reduction in demand for our services or the loss of customers that could have a negative impact on our financial condition, results of operations and liquidity. This unfavorable publicity could also require the need to allocate significant resources to the rebuilding of our reputation.

Anti-terrorism measures may disrupt our business.

Federal, state and municipal authorities have implemented and are continuing to implement various anti-terrorism measures, including checkpoints and travel restrictions on large trucks. If additional security measures disrupt or impede the timing of our deliveries, we may fail to meet the requirements of our customers or incur increased expenses to do so. There can be no assurance that new anti-terrorism measures will not be implemented and that such measures will not have a material adverse effect on our operations.

A decrease in the demand and value of used equipment may impact our results of operations.

As we purchase new tractors and trailers as part of our normal replacement cycle each year, we rely on the used equipment market to dispose of our older equipment. Oversupply in the transportation industry as well as adverse domestic and foreign economic conditions can negatively impact the demand for used equipment and, therefore, reduce the value we can obtain on our used equipment. If we are unable to sell our older equipment at or above our salvage value, the resulting losses could have a significant impact on our results of operations.

If we raise additional capital in the future, your ownership in us could be diluted.

Any issuance of equity we may undertake in the future to raise additional capital could cause the price of our common stock to decline, or require us to issue shares at a price that is lower than that paid by holders of our common stock in the past, which would result in those newly issued shares being dilutive. If we obtain funds through a credit facility or through the issuance of debt or preferred securities, these obligations and securities would likely have rights senior to your rights as a common shareholder, which could impair the value of our common stock.

There can be no assurance of our ability to declare and pay cash dividends in future periods.

On February 2, 2017, we announced that our Board of Directors had declared the first quarterly cash dividend on our common stock. The dividend of \$0.10 per share is payable on March 20, 2017, to shareholders of record at the close of business on March 6, 2017. We intend to pay a quarterly cash dividend to holders of our common stock for the foreseeable future; however, dividend payments are subject to approval by our Board of Directors, and are restricted by applicable state law limitations on distributions to shareholders as well as certain covenants under our revolving credit facility. As a result, future dividend payments are not guaranteed and will depend upon various factors such as our overall financial condition, available liquidity, anticipated cash needs, future prospects for earnings and cash flows, as well as other factors considered relevant by our Board of Directors. In addition, any reduction or suspension in our dividend payments could adversely affect the price of our common stock.

The market value of our common stock may fluctuate and could be substantially affected by various factors.

The price of our common stock on the NASDAQ Global Select Market changes constantly. We expect that the market price of our common stock will continue to fluctuate due to a variety of factors, many of which are beyond our control. These factors include, among others:

- actual or anticipated variations in earnings, financial or operating performance or liquidity;
- changes in analysts' recommendations or projections;
- failure to meet analysts' projections;
- general political, social, economic and capital market conditions;
- announcements of developments related to our business;
- operating and stock performance of other companies deemed to be peers;

actions by government regulators; and

news reports of trends, concerns and other issues related to us or our industry, including changes in regulations.

Our common stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to our performance. General market price declines or market volatility in the future could adversely affect the price of our common stock, and the current market price of our common stock may not be indicative of future market prices.

Our articles of incorporation, our bylaws and Virginia law contain provisions that could discourage, delay or prevent a change in our control or our management.

Provisions of our articles of incorporation, bylaws and the laws of Virginia, the state in which we are incorporated, may discourage, delay or prevent a change in control of us or a change in management that shareholders may consider favorable. These provisions:

- limit who may call a special meeting of shareholders;
- require shareholder action by written consent to be unanimous;
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted upon at shareholder meetings;
- may make it difficult to merge with or otherwise absorb a Virginia corporation acquired in a tender offer for the three years after the acquisition; and
- may make an unsolicited attempt to gain control of us more difficult by restricting the right of specified shareholders to vote newly acquired large blocks of stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our principal executive office located in Thomasville, North Carolina, consisting of a two-story office building of approximately 168,000 square feet on 31.8 acres of land. At December 31, 2016, we operated 226 service centers, of which 182 were owned and 44 were leased. Our owned service centers include most of our larger facilities and account for approximately 92% of the total door capacity in our network. We own each of our major breakbulk facilities listed below and have provided the number of doors as of December 31, 2016.

Service Center	Doors
Morristown, Tennessee	347
Indianapolis, Indiana	318
Dallas, Texas	304
Harrisburg, Pennsylvania	300
Memphis, Tennessee	267
Rialto, California	265
Atlanta, Georgia	227
Greensboro, North Carolina	212
Columbus, Ohio	211
Salt Lake City, Utah	188

Our 226 facilities are strategically dispersed over the states in which we operate. At December 31, 2016, the terms of our leased properties ranged from month-to-month to a lease that expires in 2039. We believe that as current leases expire, we will be able to renew them or find comparable facilities without causing any material negative impact on service to our customers or our operating results.

We also owned eight non-operating service center properties as of December 31, 2016. Three of these properties are leased to third parties with lease terms that range from month-to-month to a lease that expires in 2023.

We believe that all of our properties are in good repair and are capable of providing the level of service required by current business levels and customer demands. In addition, we believe we have sufficient capacity in our service center network to accommodate increased demand for our services.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various legal proceedings, governmental inquiries and claims that have arisen in the ordinary course of our business and have not been fully adjudicated, some of which are covered in whole or in part by insurance. Certain of these matters include class-action allegations. We do not believe that the resolution of any of these legal proceedings, governmental inquiries or claims will have a material adverse effect upon our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock and Dividend Information

Our common stock is traded on the NASDAQ Global Select Market ("Nasdaq") under the symbol ODFL. At February 22, 2017, there were 38,078 holders of our common stock, including 113 shareholders of record. We did not pay any dividends on our common stock during fiscal year 2016 or 2015. On February 2, 2017, we announced that our Board of Directors had declared a cash dividend of \$0.10 per share payable on March 20, 2017, to shareholders of record at the close of business on March 6, 2017. We currently intend to pay a quarterly cash dividend on our common stock for the foreseeable future.

Our senior unsecured credit agreement includes a provision limiting our ability to make restricted payments, including dividends and payments for share repurchases, unless, among other conditions, no defaults or events of default under the credit agreement are ongoing (or would be caused by such restricted payment).

The following table sets forth the high and low sales price of our common stock for the periods indicated, as reported by Nasdaq:

2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	\$70.52	\$72.45	\$71.75	\$91.69
Low	\$48.92	\$56.74	\$59.55	\$68.21

2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	\$80.96	\$76.98	\$74.86	\$65.78
Low	\$69.50	\$67.25	\$60.40	\$56.80

The following table provides information regarding our repurchases of our common stock during the fourth quarter of 2016:

ISSUER PURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs
October 1-31, 2016	134,784	\$ 69.75	134,784	\$201,865,076
November 1-30, 2016	25,519	\$ 74.16	25,519	\$199,972,557
December 1-31, 2016	—	\$ —	—	\$199,972,557
Total	160,303	\$ 70.45	160,303	

During the second quarter of 2016, we completed our \$200.0 million stock repurchase program, previously announced on November 10, 2014. On May 23, 2016, we announced that our Board of Directors had approved a new two-year stock repurchase program authorizing us to repurchase up to an aggregate of \$250.0 million of our outstanding common stock (the “2016 Repurchase Program”). Under the 2016 Repurchase Program, we may repurchase shares from time to time in open market purchases or through privately negotiated transactions. Shares of our common stock repurchased under our repurchase programs are canceled at the time of repurchase and are authorized but unissued shares of our common stock.

Performance Graph

The following graph compares the total shareholder cumulative returns, assuming the reinvestment of all dividends, of \$100 invested on December 31, 2011, in (i) our common stock, (ii) the S&P 500 Total Return Index, and (iii) the NASDAQ Industrial Transportation Index, for the five-year period ended December 31, 2016.

Cumulative Total Return

	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Old Dominion Freight Line, Inc.	\$ 100	\$ 127	\$ 196	\$ 287	\$ 219	\$ 318
S&P 500 Total Return Index	\$ 100	\$ 116	\$ 154	\$ 175	\$ 177	\$ 198
NASDAQ Industrial Transportation Index	\$ 100	\$ 107	\$ 151	\$ 183	\$ 141	\$ 183

ITEM 6. SELECTED FINANCIAL DATA

(In thousands, except per share amounts)	Year Ended December 31,				
	2016	2015	2014	2013	2012
Operating Data:					
Revenue from operations	\$2,991,517	\$2,972,442	\$2,787,897	\$2,337,648	\$2,134,579
Depreciation and amortization expense	189,867	165,343	146,466	127,072	110,743
Total operating expenses	2,507,682	2,474,202	2,346,590	1,999,210	1,849,325
Operating income	483,835	498,240	441,307	338,438	285,254
Interest expense, net ⁽¹⁾	4,274	5,001	6,502	9,473	11,428
Provision for income taxes	181,822	185,327	165,000	122,573	103,646
Net income	295,765	304,690	267,514	206,113	169,452
Per Share Data:					
Basic earnings per share	\$3.56	\$3.57	\$3.10	\$2.39	\$1.97
Diluted earnings per share	\$3.56	\$3.57	\$3.10	\$2.39	\$1.97
Balance Sheet Data:					
Cash and cash equivalents	\$10,171	\$11,472	\$34,787	\$30,174	\$12,857
Current assets	382,622	381,730	403,772	309,730	254,974
Total assets	2,696,247	2,466,504	2,206,866	1,908,840	1,692,460
Current liabilities	288,636	285,402	255,638	232,122	225,139
Long-term debt (including current maturities)	104,975	133,805	155,714	191,429	240,407
Shareholders' equity	1,851,158	1,684,637	1,494,064	1,232,082	1,025,969

(1) For the purpose of this table, interest expense is presented net of interest income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading, less-than-truckload (“LTL”), union-free motor carrier providing regional, inter-regional and national LTL services, which include ground and air expedited transportation and consumer household pickup and delivery through a single integrated organization. In addition to our core LTL services, we offer a range of value-added services including container drayage, truckload brokerage, supply chain consulting and warehousing. More than 97% of our revenue has historically been derived from transporting LTL shipments for our customers, whose demand for our services is generally tied to industrial production and the overall health of the U.S. domestic economy.

In analyzing the components of our revenue, we monitor changes and trends in our LTL services using the following key metrics, which exclude certain transportation and logistics services where pricing is generally not determined by weight, commodity or distance:

LTL Revenue Per Hundredweight - This measurement reflects the application of our pricing policies to the services we provide, which are influenced by competitive market conditions and our growth objectives. 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. Fuel surcharges, accessorial charges, revenue adjustments and revenue for undelivered freight are included in this measurement. Revenue for undelivered freight is deferred for financial statement purposes in accordance with our revenue recognition policy; however, we believe including it in our revenue per hundredweight metrics results in a better indicator of changes in this metric by matching total billed revenue with the corresponding weight of those shipments.

Revenue per hundredweight is a commonly-used indicator of pricing trends, but this metric can be influenced by many other factors, such as changes in fuel surcharges, weight per shipment, length of haul and the class, or mix, of our freight. As a result, changes in revenue per hundredweight do not necessarily indicate actual changes in underlying base rates.

LTL Weight Per Shipment - Fluctuations in weight per shipment can indicate changes in the mix of freight we receive from our customers, as well as changes in the number of units included in a shipment. Generally, increases in weight per shipment indicate higher demand for our customers' products and overall increased economic activity. Changes in weight per shipment can also be influenced by shifts between LTL and other modes of transportation, such as truckload and intermodal, in response to capacity, service and pricing issues. Fluctuations in weight per shipment generally have an inverse effect on our revenue per hundredweight, as a decrease in weight per shipment will typically cause an increase in revenue per hundredweight.

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. This metric is used to analyze our tonnage and pricing trends for shipments with similar characteristics, and also allows for comparison with other transportation providers serving specific markets. By analyzing this metric, we can determine the success and growth potential of our service products in these markets. Changes in length of haul generally have a direct effect on our revenue per hundredweight, as an increase in length of haul will typically cause an increase in revenue per hundredweight.

Our primary revenue focus is to increase “density,” which is shipment and tonnage growth within our existing infrastructure. Increases in density allow us to maximize our asset utilization and labor productivity, which we

measure over many different functional areas of our operations, including linehaul load factor, pickup and delivery (“P&D”) stops per hour, P&D shipments per hour, platform pounds handled per hour and platform shipments per hour. In addition to our focus on density and operating efficiencies, it is critical for us to obtain an appropriate "yield", which is measured as revenue per hundredweight, on the shipments we handle. We manage our yields by focusing on individual account profitability. We believe yield management and improvements in efficiency are key components in our ability to produce profitable growth.

Our primary cost elements are direct wages and benefits associated with the movement of freight, operating supplies and expenses, which include diesel fuel, and depreciation of our equipment fleet and service center facilities. We gauge our overall success in managing costs by monitoring our operating ratio, a measure of profitability calculated by dividing total operating expenses by revenue, which also allows for industry-wide comparisons with our competition.

We continually upgrade our technological capabilities to improve our customer service and lower our operating costs. Our technology provides our customers with visibility of their shipments throughout our network, increases the productivity of our workforce and provides key metrics that we use to monitor and enhance our processes.

Results of Operations

The following table sets forth, for the years indicated, expenses and other items as a percentage of revenue from operations:

	2016	2015	2014
Revenue from operations	100.0%	100.0%	100.0%
Operating expenses:			
Salaries, wages and benefits	55.2	52.8	49.6
Operating supplies and expenses	10.8	11.9	15.5
General supplies and expenses	2.9	3.0	3.0
Operating taxes and licenses	3.1	3.1	3.0
Insurance and claims	1.3	1.3	1.3
Communication and utilities	0.9	0.9	0.9
Depreciation and amortization	6.3	5.6	5.3
Purchased transportation	2.5	3.9	4.6
Building and office equipment rents	0.3	0.3	0.4
Miscellaneous expenses, net	0.5	0.4	0.6
Total operating expenses	83.8	83.2	84.2
Operating income	16.2	16.8	15.8
Interest expense, net ⁽¹⁾	0.1	0.2	0.2
Other expense, net	0.1	0.1	0.1
Income before income taxes	16.0	16.5	15.5
Provision for income taxes	6.1	6.2	5.9
Net income	9.9	% 10.3	% 9.6 %

(1) For the purpose of this table, interest expense is presented net of interest income.

Although our revenue for 2016 increased slightly, we believe demand for our service during 2016 was impacted by general weakness in the domestic economy. We believe that some shippers placed more emphasis on the cost of service in 2016 rather than our high-quality total value proposition, which also resulted in some freight diversion to lower cost carriers. We nonetheless remained committed to our pricing philosophy and focused on providing superior customer service during 2016. On-time deliveries were above 99% and our cargo claims ratio was below 0.3%. We continue to believe that providing superior service at a fair price will drive additional growth in market share for us, particularly in a strong economy.

We also maintained our long-term commitment to the continuous investment in our business in 2016. We spent \$417.9 million on real estate, equipment and technology to increase the capacity of our network to accommodate future growth, while also meeting the increasing service demands of our customers. As a result of these investments and lower than expected revenue growth, certain operating costs as a percent of revenue increased during 2016. This led to a 60 basis-point increase in our operating ratio to 83.8% as compared to our Company record 83.2% in 2015. Net income decreased \$8.9 million, or 2.9%, and diluted earnings per share decreased 0.3% to \$3.56 in 2016 as compared to \$3.57 in 2015.

2016 Compared to 2015

Key financial and operating metrics for 2016 and 2015 are presented below:

	2016	2015	Change	% Change
Work days	254	254	—	—
Revenue (in thousands)	\$2,991,517	\$2,972,442	\$19,075	0.6
Operating ratio	83.8	% 83.2	%	
Net income (in thousands)	\$295,765	\$304,690	\$(8,925)	(2.9)
Diluted earnings per share	\$3.56	\$3.57	\$(0.01)	(0.3)
LTL tons (in thousands)	7,931	7,938	(7)	(0.1)
LTL shipments (in thousands)	10,148	10,129	19	0.2
LTL weight per shipment (lbs.)	1,563	1,567	(4)	(0.3)
LTL revenue per hundredweight	\$18.51	\$18.23	\$0.28	1.5
LTL revenue per shipment	\$289.36	\$285.67	\$3.69	1.3
LTL revenue per intercity mile	\$5.09	\$5.11	\$(0.02)	(0.4)
LTL intercity miles (in thousands)	576,953	566,210	10,743	1.9
Average length of haul (miles)	928	928	—	—

Revenue

Our revenue in 2016 increased \$19.1 million, or 0.6% as compared to 2015 due to a \$45.9 million increase in LTL revenue, partially offset by a \$26.8 million reduction in non-LTL revenue. LTL revenue was higher in 2016 as a result of an increase in LTL revenue per hundredweight that was negatively impacted by a slight decline in LTL tonnage. The reduction in non-LTL revenue was primarily due to strategic changes in our container drayage and international freight forwarding service offerings that we initiated in the second half of 2015.

LTL revenue per hundredweight increased 1.5% to \$18.51 in 2016 primarily due to our disciplined yield management process and a generally stable pricing environment. The increase in LTL revenue per hundredweight was negatively impacted by a decline in our fuel surcharges that reflected lower average diesel fuel prices. Excluding fuel surcharges, LTL revenue per hundredweight increased 2.6% in 2016 as compared to 2015.

Most of our tariffs and contracts provide for a fuel surcharge that is generally indexed to the DOE's published diesel fuel prices that reset each week. Our fuel surcharges are designed to offset fluctuations in the cost of petroleum-based products and are one of the many components included in the overall negotiated price we charge for our services. Fuel surcharge revenue decreased to 9.5% of revenue in 2016 from 10.4% in 2015, primarily due to a decrease in the average price per gallon for diesel fuel for those comparative periods. We regularly monitor the components of our pricing, including base freight rates and fuel surcharges, and our costs at the customer level. We address individual customer profitability issues to minimize the negative impact on our profitability that would likely result from a rapid and significant change in any of our operating expenses.

First Quarter 2017 Update

Total revenue per day for January 2017 increased 5.3% as compared to January 2016, which includes a 2.2% increase in LTL tons per day.

Operating Costs and Other Expenses

Salaries, wages and benefits increased \$82.3 million, or 5.2% in 2016 due to a \$47.1 million increase in salaries and wages and a \$35.2 million increase in benefit costs. The increase in salaries and wages, excluding benefits, was due primarily to the impact of the annual wage increases provided to employees in September 2015 and 2016 and an increase in our direct labor costs to support our strategic reduction in purchased transportation. We implemented certain operational initiatives in the second half of 2015 to decrease our reliance on purchased transportation providers, but these changes increased our utilization of Company employees and equipment. These increases were partially offset by lower performance-based compensation linked to operating results as well as improvements in productivity. Platform pounds and platform shipments per hour improved 4.0% and 3.8%, respectively, in 2016 as compared to 2015. Both P&D stops and P&D shipments per hour remained consistent between the periods compared, while our linehaul laden load average declined 1.7% as compared to 2015. Our aggregate productive labor costs increased to 28.9% of revenue in 2016 as compared to 27.9% in 2015, while our other indirect salaries and wages increased to 12.2% of revenue in 2016 as compared to 11.9% in 2015.

Employee benefit costs increased \$35.2 million, or 9.1% in 2016 compared to 2015, primarily due to higher costs for our group health and dental plans and an increase in certain retirement benefit plan costs that are directly linked to the market price of our common stock. Our group health and dental costs were higher in 2016 primarily due to a 5.8% increase in the average cost per covered employee as compared to 2015. As a result, our employee benefit costs increased to 34.2% of salaries and wages in 2016 as compared to 32.6% in 2015.

Operating supplies and expenses decreased \$30.9 million in 2016 as compared to 2015. These costs as a percent of revenue improved to 10.8% of revenue in 2016 from 11.9% of revenue in 2015 primarily due to a reduction in fuel costs. The cost of diesel fuel, excluding fuel taxes, represents the largest component of operating supplies and expenses, and can vary based on both average price per gallon and consumption. The decrease in our diesel fuel costs, excluding fuel taxes, during 2016 was due primarily to a 13.4% decline in our average cost per gallon, while our fuel consumption remained relatively consistent between the periods compared despite the increase in miles driven. Our fuel consumption benefited from an overall improvement in miles per gallon, which continues to improve as we add newer, more fuel-efficient equipment to our operations. We do not use diesel fuel hedging instruments and are therefore subject to market price fluctuations. Other operating supplies and expenses, excluding diesel fuel, remained relatively consistent as a percent of revenue between the periods compared.

Depreciation and amortization increased \$24.5 million due primarily to the assets acquired as part of our 2015 and 2016 capital expenditure programs. As a percent of revenue, our depreciation and amortization expense increased to 6.3% in 2016 compared to 5.6% in 2015. We believe depreciation will continue to increase based on our 2017 capital expenditure plan. While our investments in real estate, equipment and technology can increase our costs in the short-term, we believe these investments are necessary to support our continued growth and strategic initiatives.

Purchased transportation decreased \$42.2 million, or 36.3% in 2016 as compared to 2015. The decrease was due primarily to the strategic elimination of certain services in the second quarter of 2015 that reduced our use of third-party providers for the remainder of 2015 and throughout 2016. We continue to utilize purchased transportation services, when beneficial, to support our LTL services and other non-LTL services, including our container drayage and truckload brokerage services.

Our effective tax rate in 2016 was 38.1% as compared to 37.8% in 2015. Our effective tax rates in 2016 and 2015 were favorably impacted by various tax credits. Our effective tax rate generally exceeds the federal statutory rate of 35% due to the impact of state taxes, and to a lesser extent, certain other non-deductible items.

2015 Compared to 2014

Key financial and operating metrics for 2015 and 2014 are presented below:

	2015	2014	Change	% Change
Work days	254	254	—	—
Revenue (in thousands)	\$2,972,442	\$2,787,897	\$184,545	6.6
Operating ratio	83.2	% 84.2		
Net income (in thousands)	\$304,690	\$267,514	\$37,176	13.9
Diluted earnings per share	\$3.57	\$3.10	\$0.47	15.2
LTL tons (in thousands)	7,938	7,391	547	7.4
LTL shipments (in thousands)	10,129	9,073	1,056	11.6
LTL weight per shipment (lbs.)	1,567	1,629	(62)	(3.8)
LTL revenue per hundredweight	\$18.23	\$18.33	\$(0.10)	(0.5)
LTL revenue per shipment	\$285.67	\$298.65	\$(12.98)	(4.3)
LTL revenue per intercity mile	\$5.11	\$5.38	\$(0.27)	(5.0)
LTL intercity miles (in thousands)	566,210	503,923	62,287	12.4
Average length of haul (miles)	928	928	—	—

Revenue

Our revenue in 2015 increased \$184.5 million, or 6.6% as compared to 2014. LTL tonnage increased 7.4% primarily due to an 11.6% increase in LTL shipments, although our tonnage growth was affected by a 3.8% decrease in weight per shipment. We attribute the decline in weight per shipment in 2015 to softening economic conditions and changes in the mix of our freight as compared to 2014.

LTL revenue per hundredweight decreased 0.5% to \$18.23 in 2015, primarily due to declines in our fuel surcharges. LTL revenue per hundredweight, excluding fuel surcharges, increased 5.7% in 2015 as compared to 2014, which included the positive effect on this metric from a decrease in weight per shipment. We believe the increase in revenue per hundredweight, excluding fuel surcharges, reflected our continued commitment to a disciplined yield management process and a relatively stable pricing environment.

Most of our tariffs and contracts provide for a fuel surcharge that is generally indexed to the DOE's published diesel fuel prices that reset each week. Our fuel surcharges are designed to offset fluctuations in the cost of petroleum-based products and are one of the many components included in the overall negotiated price we charge for our services. Fuel surcharge revenue decreased to 10.4% of revenue in 2015 from 15.5% in 2014, primarily due to a decrease in the average price per gallon for diesel fuel for those comparative periods.

Operating Costs and Other Expenses

Salaries, wages and benefits increased \$188.5 million, or 13.6% in 2015 due to a \$143.6 million increase in salaries and wages and a \$44.9 million increase in benefit costs. The increase in salaries and wages, excluding benefits, was primarily due to an increase in the average number of full-time employees of 2,063, or 13.5%, over 2014, as well as annual wage increases provided to our employees in September of 2014 and 2015. The increase in full-time employees was necessary to provide capacity for the increase in shipments during the year. We also implemented certain operational initiatives that decreased our reliance on purchased transportation providers and increased our utilization of Company employees and equipment. The additional freight density contributed to a slight improvement in our P&D and platform shipments per hour, which improved 1.1% and 1.8%, respectively, from 2014. Our aggregate productive labor costs increased to 27.9% of revenue in 2015 as compared to 25.8% in 2014, while our other salaries and wages increased to 11.9% of revenue in 2015 as compared to 11.5% in 2014.

Employee benefit costs increased \$44.9 million, or 13.2%, primarily due to an increase in the number of full-time employees eligible for benefits, certain enhancements to paid-time-off benefits and an increase in our workers compensation expense. These increases were partially offset by a reduction in expense for certain retirement benefit plans directly linked to the share price of our common stock. Our group health costs increased in the fourth quarter of 2015 and continued to increase into 2016. Employee benefit costs in 2015 were 32.6% of salaries and wages as compared to 32.8% in 2014.

Operating supplies and expenses decreased \$78.8 million in 2015 as compared to 2014. The cost of diesel fuel, excluding fuel taxes, represents the largest component of operating supplies and expenses, and can vary based on both average price per gallon and consumption. Our diesel fuel costs decreased primarily due to a 33.7% decrease in our average cost per gallon during 2015 as compared to the prior year. This decrease was partially offset by an increase in fuel consumption of 9.1%, primarily due to an 11.6% increase in linehaul and P&D miles driven. Our fuel consumption benefited from an overall improvement in miles per gallon, which continues to improve as we add newer, more fuel-efficient equipment to our operations. The additional fuel consumption resulted in an increase in fuel taxes, which increased our operating taxes and licenses.

Depreciation and amortization expenses increased \$18.9 million primarily due to the assets acquired through our 2015 and 2014 capital expenditures. As a percent of revenue, our depreciation and amortization expense increased to 5.6% in 2015 compared to 5.3% in 2014.

Purchased transportation expense decreased \$13.0 million, or 10.1%, in 2015 as compared to 2014. We primarily utilized purchased transportation services from third-party providers to support our container drayage, international freight-forwarding and truckload brokerage services. We also utilized purchased transportation to perform limited services in our LTL operations. The decrease in purchased transportation was primarily due to operational improvement initiatives to reduce our use of third-party providers for the movement of our customers' shipments.

Our effective tax rate in 2015 was 37.8% as compared to 38.1% in 2014. Our effective tax rates in 2015 and 2014 were favorably impacted by various tax credits, including credits for the use of alternative fuel in our operations. Our effective tax rate generally exceeds the federal statutory rate of 35% due to the impact of state taxes, and to a lesser extent, certain other non-deductible items.

Liquidity and Capital Resources

A summary of our cash flows is presented below:

(In thousands)	2016	2015	2014
Cash and cash equivalents at beginning of year	\$11,472	\$34,787	\$30,174
Cash flows provided by (used in):			
Operating activities	565,583	553,880	391,674
Investing activities	(407,400)	(437,617)	(345,814)
Financing activities	(159,484)	(139,578)	(41,247)
(Decrease) increase in cash and cash equivalents	(1,301)	(23,315)	4,613
Cash and cash equivalents at end of year	\$10,171	\$11,472	\$34,787

The change in our cash flows provided by operating activities during 2016 was impacted by an increase in depreciation and amortization of \$24.5 million as compared to 2015. This increase was partially offset by an \$8.9 million decrease in net income as well as other fluctuations in certain working capital accounts.

The change in our cash flows provided by operating activities in 2015 as compared to 2014 was due primarily to fluctuations within our working capital accounts, which included changes in income taxes, customer receivables and certain accrued liabilities. In addition, an increase in our net income and higher depreciation and amortization expenses in 2015 as compared to 2014, as described above in "Results of Operations," also resulted in increased cash flows provided by operating activities.

The changes in our cash flows used in investing activities for all periods were due primarily to fluctuations in our capital expenditure programs and proceeds from asset disposals each year. Changes in our capital expenditures are more fully described below in "Capital Expenditures."

The changes in our cash flows used in financing activities for all periods were due primarily to increases in repurchases of our common stock, fluctuations in our senior unsecured revolving line of credit and scheduled principal payments under our long-term debt agreements. Our repurchases of common stock and financing arrangements are more fully described below in "Stock Repurchase Program" and "Financing Agreements," respectively.

We have three primary sources of available liquidity: cash and cash equivalents, cash flows from operations and available borrowings under our senior unsecured revolving credit agreement, which is described below. We believe we also have sufficient access to debt and equity markets to provide other sources of liquidity, if needed.

Capital Expenditures

The table below sets forth our net capital expenditures for property and equipment, including those obtained through capital leases, for the years ended December 31, 2016, 2015 and 2014:

(In thousands)	Year Ended December 31,		
	2016	2015	2014
Land and structures	\$161,646	\$153,460	\$117,487
Tractors	114,166	128,911	91,750
Trailers	94,040	114,209	80,853
Technology	18,428	32,044	38,264
Other equipment and assets	29,661	36,987	39,326
Less: Proceeds from sales	(10,541)	(24,442)	(21,866)
Total	\$407,400	\$441,169	\$345,814

Our capital expenditures varied based upon the projected increase in the number and size of our service center facilities to support our plan for long-term growth, our planned tractor and trailer replacement cycle and forecasted tonnage and shipment growth. Expenditures for land and structures can be dependent upon the availability of land in the geographic areas where we are looking to expand. We expect to continue to maintain a high level of capital expenditures in order to support our long-term plan for market share growth.

We currently estimate capital expenditures will be approximately \$385 million for the year ending December 31, 2017. Approximately \$185 million is allocated for the purchase of service center facilities, construction of new service center facilities or expansion of existing service center facilities, subject to the availability of suitable real estate and the timing of construction projects; approximately \$155 million is allocated for the purchase of tractors and trailers; and approximately \$45 million is allocated for investments in technology and other assets. We expect to fund these capital expenditures primarily through cash flows from operations, our existing cash and cash equivalents and the use of our senior unsecured revolving credit facility. We believe our current sources of liquidity will be sufficient to satisfy our expected capital expenditures.

Stock Repurchase Program

During the second quarter of 2016, we completed our \$200.0 million stock repurchase program, previously announced on November 10, 2014. On May 23, 2016, we announced that our Board of Directors had approved the 2016 Repurchase Program, under which we may repurchase up to \$250.0 million of shares of our common stock from time to time in open market purchases or through privately negotiated transactions. Shares of our common stock repurchased under our repurchase programs are canceled at the time of repurchase and are authorized but unissued shares of our common stock.

During the years ended December 31, 2016, 2015 and 2014, we repurchased 2,062,841, 1,682,419 and 70,620 shares of our common stock under our repurchase programs for an aggregate of \$130.3 million, \$114.1 million and \$5.5 million, respectively. As of December 31, 2016, we had \$200.0 million remaining authorized under the 2016 Repurchase Program.

Dividends to Shareholders

On February 2, 2017, we announced that our Board of Directors had declared a quarterly cash dividend of \$0.10 per share payable on March 20, 2017, to shareholders of record at the close of business on March 6, 2017. We anticipate that the quarterly cash dividend will be funded through cash flow from operations and, if needed, borrowings under our revolving credit facility. Although we intend to pay a quarterly cash dividend on our common stock for the foreseeable future, the declaration of any future dividend is subject to approval by our Board of Directors, and is restricted by applicable state law limitations on distributions to shareholders, as well as certain covenants under our revolving credit facility. We did not declare or pay a dividend on our common stock in 2016 or 2015.

Financing Agreements

We have one unsecured senior note agreement with an amount outstanding of \$95.0 million at December 31, 2016. At December 31, 2015, we had two unsecured senior note agreements with an aggregate amount outstanding of \$120.0 million. The remaining unsecured senior note agreement calls for two scheduled principal payments of \$50.0 million and \$45.0 million on January 3, 2018 and January 3, 2021, respectively. Interest rates on the January 3, 2018 and January 3, 2021 scheduled principal payments are 4.00% and 4.79%, respectively. The effective average interest rates on our outstanding senior note agreements were 4.37% and 4.68% at December 31, 2016 and 2015, respectively.

On December 15, 2015, we entered into an amended and restated credit agreement with Wells Fargo Bank, National Association ("Wells Fargo") serving as administrative agent for the lenders (the "Credit Agreement"). The Credit Agreement originally provided for a five-year, \$250.0 million senior unsecured revolving line of credit and a \$100.0 million accordion feature, which, if exercised and approved, would expand the total borrowing capacity up to an aggregate of \$350.0 million.

On September 9, 2016, we exercised a portion of the accordion feature and entered into an amendment to the Credit Agreement to increase the aggregate commitments from existing lenders by \$50.0 million to an aggregate of \$300.0 million. Of the \$300.0 million line of credit commitments under the Credit Agreement, as amended, up to \$100.0 million may be used for letters of credit and \$30.0 million may be used for borrowings under the Wells Fargo Sweep Plus Loan Program (the "Sweep Program"). We utilize the Sweep Program to manage our daily cash needs, as it automatically initiates borrowings to cover overnight cash requirements primarily for working capital needs. The Credit Agreement matures on December 15, 2020.

At our option, borrowings under the Credit Agreement bear interest at either: (i) LIBOR plus an applicable margin (based on our ratio of net debt-to-total capitalization) that ranges from 1.0% to 1.50%; or (ii) a Base Rate plus an applicable margin (based on our ratio of net debt-to-total capitalization) that ranges from 0.0% to 0.5%. Loans under the Sweep Program bear interest at the LIBOR plus applicable margin rate. Letter of credit fees equal to the applicable margin for LIBOR loans are charged quarterly in arrears on the daily average aggregate stated amount of all letters of credit outstanding during the quarter. Commitment fees ranging from 0.125% to 0.2% (based upon the ratio of net debt-to-total capitalization) are charged quarterly in arrears on the aggregate unutilized portion of the Credit Agreement. Wells Fargo, as administrative agent, also receives an annual fee for providing administrative services.

For the year ended December 31, 2016, the applicable margin on LIBOR loans was 1.0% and commitment fees were 0.125%. For the year ended December 31, 2015, the applicable margin on LIBOR loans was 1.0% and commitment fees ranged from 0.125% to 0.175%. There were \$74.6 million and \$67.7 million of outstanding letters of credit at December 31, 2016 and 2015, respectively. Letter of credit fees remained at 1.0% during the years ended December 31, 2016 and 2015.

The amounts outstanding and remaining borrowing capacity under our revolving credit facilities are presented below:

	December 31,	
(In thousands)	2016	2015
Facility limit	\$300,000	\$250,000
Line of credit borrowings	(9,975)	(12,317)
Outstanding letters of credit	(74,611)	(67,719)
Available borrowing capacity	\$215,414	\$169,964

With the exception of borrowings pursuant to the Credit Agreement, interest rates are fixed on all of our debt instruments. Therefore, short-term exposure to fluctuations in interest rates is limited to our line of credit facility. We

do not currently use interest rate derivative instruments to manage exposure to interest rate changes.

Our senior note agreement and Credit Agreement contain 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 material domestic subsidiaries of the Company would be required to guarantee payment of all of our obligations under these agreements. The Credit Agreement also includes a provision limiting our ability to make restricted payments, including dividends and payments for share repurchases, unless, among other conditions, no defaults or events of default are ongoing (or would be caused by such restricted payment). We were in compliance with all covenants in our outstanding debt instruments for the period ended December 31, 2016.

A significant decrease in demand for our services could limit our ability to generate cash flow and could also affect our profitability. Most of our debt agreements have covenants that require stated levels of financial performance, which if not achieved could cause acceleration of the payment schedules. As of December 31, 2016, we were in compliance with these covenants. We do not anticipate a significant decline in business levels or financial performance that would cause us to violate any such covenants in the future, and we believe the combination of our existing Credit Agreement along with our additional borrowing capacity will be sufficient to meet foreseeable seasonal and long-term capital needs.

Contractual Obligations

The following table summarizes our significant contractual obligations as of December 31, 2016:

Contractual Obligations ⁽¹⁾	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
(In thousands)					
Senior Notes	\$107,700	\$4,156	\$55,311	\$48,233	\$—
Revolving credit facility	9,975	—	—	9,975	—
Operating lease obligations	61,647	12,340	14,208	7,129	27,970
Purchase obligations	6,158	2,854	3,304	—	—
Total	\$185,480	\$19,350	\$72,823	\$65,337	\$27,970

Contractual obligations include principal and interest on our senior notes; borrowings under our Credit Agreement; operating leases consisting primarily of real estate leases; and non-cancellable purchase obligations related to (1) information technology agreements. Please refer to the information regarding interest rates and the balance on our revolving credit facility in this section above and also in Note 2 of the Notes to the Financial Statements included in Item 8 of this report.

Critical Accounting Policies

In preparing our financial statements, we apply the following critical accounting policies that we believe affect our judgments and estimates of amounts recorded in certain assets, liabilities, revenue and expenses. These critical accounting policies are further described in Note 1 of the Notes to the Financial Statements included in Item 8 of this report.

Revenue Recognition

We recognize revenue based upon when our transportation services have been completed in accordance with the bill of lading contract, our general tariff provisions or contractual agreements with our customers. Generally, this occurs when we complete the delivery of a shipment. For transportation services not completed at the end of a reporting period, we use a percentage of completion method to allocate the appropriate revenue to each separate reporting period. Under this method, we develop a factor for each uncompleted shipment by dividing the actual number of days in transit at the end of a reporting period by that shipment's standard delivery time schedule. This factor is applied to the total revenue for that shipment and revenue is allocated between reporting periods accordingly.

Allowances for Uncollectible Accounts and Revenue Adjustments

We maintain an allowance for uncollectible accounts for estimated losses resulting from the failure of our customers to make required payments. We estimate this allowance by analyzing the aging of our customer receivables, our

historical loss experience and other trends and factors affecting the credit risk of our customers. We determine customer receivables to be past due when payment has not been received by the invoice due date. Write-offs occur when we determine an account to be uncollectible and could differ from our allowance estimate as a result of factors such as changes in the overall economic environment or risks surrounding our customers. Additional allowances may be required if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments. We periodically review the underlying assumptions in our estimate of the allowance for uncollectible accounts to ensure that the allowance reflects the most recent trends and factors.

We also maintain an allowance for estimated revenue adjustments resulting from future billing corrections, customer allowances, money-back service guarantees and other miscellaneous revenue adjustments. These revenue adjustments are recorded in our revenue from operations. We use historical experience, trends and current information to update and evaluate these estimates.

Claims and Insurance Accruals

Claims and insurance accruals reflect the estimated cost of claims not covered by insurance for cargo loss and damage, BIPD, workers' compensation, group health and dental. The related costs are charged to insurance and claims expense except for workers' compensation, group health and dental, which are charged to employee benefits expense.

Insurers providing excess coverage above a company's self-insured retention ("SIR") or deduc