

KNIGHT TRANSPORTATION INC
Form 10-Q
November 09, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

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: 0-24946

KNIGHT TRANSPORTATION, INC.
(Exact name of registrant as specified in its charter)

Arizona
(State or other jurisdiction of
incorporation or organization)

86-0649974
(I.R.S. Employer
Identification No.)

5601 West Buckeye Road
Phoenix, Arizona
85043
(Address of Principal Executive Offices)
(Zip Code)

Registrant's telephone number, including area code: 602-269-2000

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.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of registrant's Common Stock, par value \$0.01 per share, as of October 31, 2009 was 83,263,855 shares.

KNIGHT TRANSPORTATION, INC.

TABLE OF CONTENTS

| PART I – FINANCIAL INFORMATION | | Page Number |
|--------------------------------|---|-------------|
| Item 1. | Financial Statements | |
| | Condensed Consolidated Unaudited Balance Sheets as of September 30, 2009 and December 31, 2008 | <u>1</u> |
| | Condensed Consolidated Unaudited Statements of Income for the three and nine months ended September 30, 2009 and 2008 | <u>3</u> |
| | Condensed Consolidated Unaudited Statements of Cash Flows for the nine months ended September 30, 2009 and 2008 | <u>4</u> |
| | Notes to Condensed Consolidated Unaudited Financial Statements | <u>6</u> |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>13</u> |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | <u>21</u> |
| Item 4. | Controls and Procedures | <u>22</u> |
| Part II – OTHER INFORMATION | | |
| Item 1. | Legal Proceedings | <u>23</u> |
| Item 1A. | Risk Factors | <u>23</u> |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | <u>23</u> |
| Item 3. | Defaults Upon Senior Securities | <u>23</u> |
| Item 4. | Submission of Matters to a Vote of Security Holders | <u>23</u> |
| Item 5. | Other Information | <u>23</u> |
| Item 6. | Exhibits | <u>24</u> |
| | Signatures | <u>25</u> |

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

Condensed Consolidated Unaudited Balance Sheets

As of September 30, 2009 and December 31, 2008

(In thousands)

| | September 30, 2009 | December 31, 2008 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$3,099 | \$22,027 |
| Short-term investments | 69,362 | 31,877 |
| Accounts receivable, net | 71,016 | 70,810 |
| Notes receivable, net | 2,898 | 159 |
| Prepaid expenses | 11,213 | 7,108 |
| Other current assets and assets held for sale | 17,819 | 13,258 |
| Income tax receivable | 2,140 | 774 |
| Current deferred tax asset | 5,232 | 6,480 |
| Total current assets | 182,779 | 152,493 |
| Property and Equipment: | | |
| Land and land improvements | 31,908 | 28,556 |
| Buildings and improvements | 67,908 | 58,365 |
| Furniture and fixtures | 7,087 | 7,472 |
| Shop and service equipment | 6,091 | 4,970 |
| Revenue equipment | 550,133 | 558,561 |
| Leasehold improvements | 1,851 | 1,185 |
| | 664,978 | 659,109 |
| Less: Accumulated depreciation and amortization | (197,319) | (186,881) |
| Property and equipment, net | 467,659 | 472,228 |
| Notes receivable – long-term | 2,274 | 674 |
| Goodwill | 10,338 | 10,353 |
| Intangible assets, net | 129 | 176 |
| Long-term deferred tax assets | - | 5,877 |
| Other long-term assets & restricted cash | 7,591 | 5,139 |
| Total assets | \$670,770 | \$646,940 |

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

Table of Contents

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Balance Sheets (continued)
As of September 30, 2009 and December 31, 2008
(In thousands, except par values)

| | September 30, 2009 | December 31, 2008 |
|--|--------------------------|-------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$6,516 | \$6,195 |
| Accrued payroll and purchased transportation | 9,293 | 7,432 |
| Accrued liabilities | 11,259 | 6,273 |
| Claims accrual – current portion | 13,235 | 15,239 |
| Total current liabilities | 40,303 | 35,139 |
| Long-term Liabilities: | | |
| Claims accrual – long-term portion | 13,044 | 15,236 |
| Deferred tax liabilities | 107,675 | 112,661 |
| Total long-term liabilities | 120,719 | 127,897 |
| Total liabilities | 161,022 | 163,036 |
| Commitments and Contingencies | | |
| Shareholders' Equity: | | |
| Preferred stock, \$0.01 par value; 50,000 shares authorized; none issued and outstanding | - | - |
| Common stock, \$0.01 par value; 300,000 shares authorized; 83,244 and 83,383 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively | 832 | 834 |
| Additional paid-in capital | 113,849 | 108,885 |
| Retained earnings | 395,067 | 374,185 |
| Total shareholders' equity | 509,748 | 483,904 |
| Total liabilities and shareholders' equity | \$670,770 | \$646,940 |

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

Table of Contents

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income (unaudited)
(In thousands, except per share data)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| REVENUE: | | | | |
| Revenue, before fuel surcharge | \$ 150,190 | \$ 155,851 | \$ 427,580 | \$ 451,987 |
| Fuel surcharge | 22,942 | 53,806 | 56,351 | 140,188 |
| Total revenue | 173,132 | 209,657 | 483,931 | 592,175 |
| OPERATING EXPENSES: | | | | |
| Salaries, wages and benefits | 52,042 | 54,554 | 150,344 | 158,461 |
| Fuel | 38,962 | 70,844 | 101,421 | 197,130 |
| Operations and maintenance | 11,219 | 11,495 | 31,944 | 31,443 |
| Insurance and claims | 5,424 | 6,170 | 16,132 | 20,948 |
| Operating taxes and licenses | 3,765 | 3,799 | 10,760 | 11,303 |
| Communications | 1,331 | 1,481 | 4,153 | 4,368 |
| Depreciation and amortization | 18,204 | 17,663 | 53,524 | 51,734 |
| Lease expense – revenue equipment | - | - | - | 90 |
| Purchased transportation | 18,147 | 13,297 | 44,120 | 40,788 |
| Miscellaneous operating expenses | 3,304 | 4,115 | 10,564 | 10,221 |
| Total operating expenses | 152,398 | 183,418 | 422,962 | 526,486 |
| Income from operations | 20,734 | 26,239 | 60,969 | 65,689 |
| Interest income | 424 | 332 | 1,079 | 776 |
| Other income (expense) | 386 | (19) | 365 | 206 |
| Income before income taxes | 21,544 | 26,552 | 62,413 | 66,671 |
| Income taxes | 8,436 | 10,539 | 24,994 | 26,549 |
| Net income | \$ 13,108 | \$ 16,013 | \$ 37,419 | \$ 40,122 |
| Earnings per common share: | | | | |
| Basic | \$ 0.16 | \$ 0.19 | \$ 0.45 | \$ 0.47 |
| Diluted | \$ 0.16 | \$ 0.19 | \$ 0.45 | \$ 0.46 |
| Weighted average number of common shares outstanding: | | | | |
| Basic | 83,197 | 85,633 | 83,216 | 85,759 |
| Diluted | 83,630 | 86,268 | 83,584 | 86,332 |

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

Table of Contents

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Statements of Cash Flows
(In thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2009 | 2008 |
| Cash Flows From Operating Activities: | | |
| Net income | \$37,419 | \$40,122 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 53,524 | 51,734 |
| Gain on sales of equipment | (2,109) | (1,512) |
| Earn-out on sold investment | - | (225) |
| Gain from insurance claim settlement | (388) | - |
| Non-cash compensation expense for issuance of stock to certain members of board of directors | 112 | 135 |
| Provision for allowance for doubtful accounts | 2,458 | 1,002 |
| Excess tax benefits related to stock-based compensation | (370) | (502) |
| Stock option expense | 2,453 | 2,480 |
| Deferred income taxes | 2,140 | 10,053 |
| Changes in assets and liabilities: | | |
| Increase in short-term investments | (37,486) | (20,406) |
| Increase in trade receivables | (1,881) | (3,868) |
| Increase in other current assets | (278) | (184) |
| (Increase) decrease in prepaid expenses | (4,104) | 493 |
| (Increase) decrease in income tax receivable | (1,366) | 3,558 |
| Decrease (increase) in other assets | 68 | (67) |
| Increase in accounts payable | 349 | 4,111 |
| Increase in accrued liabilities and claims accrual | 3,065 | 5,714 |
| Net cash provided by operating activities | 53,606 | 92,638 |
| Cash Flow From Investing Activities: | | |
| Purchase of property and equipment | (83,498) | (79,418) |
| Proceeds from sales of equipment | 27,752 | 30,102 |
| Proceeds from insurance claim settlement | 699 | - |
| (Increase) decrease in notes receivable | (799) | 348 |
| (Increase) decrease in restricted cash | (2,242) | 25 |
| Proceeds/earn-out from sale of investment in Concentrek, Inc. | - | 225 |
| Investments in Transportation Resource Partners | (306) | - |
| Return of investment in Transportation Resource Partners | 43 | 10 |
| Net cash used in investing activities | (58,351) | (48,708) |

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

Table of Contents

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Statements of Cash Flows (continued)
(In thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------|
| | 2009 | 2008 |
| Cash Flow From Financing Activities: | | |
| Dividends paid | (11,641) | (9,429) |
| Payments to acquire treasury stock | (4,900) | (21,543) |
| Excess tax benefits related to stock-based compensation | 370 | 502 |
| Proceeds from exercise of stock options | 1,988 | 2,286 |
| Net cash used in financing activities | (14,183) | (28,184) |
| Net (decrease) increase in cash and cash equivalents | (18,928) | 15,746 |
| Cash and cash equivalents, beginning of period | 22,027 | 23,688 |
| Cash and cash equivalents, end of period | \$3,099 | \$39,434 |
| Supplemental Disclosures: | | |
| Non-cash investing and financing transactions: | | |
| Equipment acquired in accounts payable | \$14 | \$5,315 |
| Retirement of treasury stock | \$4,900 | \$21,543 |
| Transfer from property and equipment to assets held for sale | \$23,126 | \$9,167 |
| Financing provided to independent contractors for equipment sold | \$4,322 | \$679 |
| Cash Flow Information: | | |
| Income taxes paid | \$23,792 | \$12,077 |

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

Table of Contents

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

Note 1. Financial Information

References in this Report on Form 10-Q to "we," "us," "our," "Knight," or the "Company" or similar terms refer to Knight Transportation, Inc. and its consolidated subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated unaudited financial statements of Knight Transportation, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America and Regulation S-X, instructions to Form 10-Q, and other relevant rules and regulations of the Securities and Exchange Commission (the "SEC"), as applicable to the preparation and presentation of interim financial information. Certain information and footnote disclosures have been omitted or condensed pursuant to such rules and regulations. We believe all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations in interim periods are not necessarily indicative of results for a full year. These condensed consolidated unaudited financial statements and notes thereto should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Note 2. Stock-Based Compensation

We have one stock-based employee compensation plan known as the Knight Transportation, Inc. Amended and Restated 2003 Stock Option and Equity Compensation Plan, as amended and restated in May 2009 (the "2003 Plan"). Stock based compensation cost for the three months and nine months ended September 30, 2009 and 2008, respectively, are as follows:

| | Three Months Ended September 30, (in thousands) | | Nine Months Ended September 30, (in thousands) | |
|---|---|-----------|--|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Gross stock compensation expense, net of forfeitures | \$ 871 | \$ 926 | \$ 2,453 | \$ 2,480 |
| Income tax | \$ (341) | \$ (368) | \$ (982) | \$ (988) |
| Net stock compensation expense after tax | \$ 530 | \$ 558 | \$ 1,471 | \$ 1,492 |

We received approximately \$1.1 million and \$2.0 million in cash from the exercise of stock options during the three months and nine months ended September 30, 2009, respectively, compared to \$1.0 million and \$2.3 million for the same periods in 2008.

As of September 30, 2009, there was \$12.8 million of unrecognized compensation cost related to unvested share-based compensation awards granted under the 2003 Plan. This cost is expected to be recognized over a weighted-average period of 2.4 years and a total period of 6.5 years.

Table of Contents

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table (no grants were issued in the three months ended September 30, 2009):

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|------------|---|------------------------------------|------------|---|
| | 2009 | 2008 | | 2009 | 2008 | |
| Dividend yield (1) | N/A | .85 | % | 1.20 | .84 | % |
| Expected volatility (2) | N/A | 34.36 | % | 38.20 | 33.62 | % |
| Risk-free interest rate (3) | N/A | 3.60 | % | 2.01 | 3.10 | % |
| Expected terms (4) | N/A | 5.99 years | | 5.18 years | 6.18 years | |
| Weighted average fair value of options granted | N/A | \$ 6.88 | | \$ 4.37 | \$ 5.53 | |

- (1) The dividend yield is based on our historical experience and future expectation of dividend payouts. We increased our quarterly cash dividend paid to common stock shareholders from \$0.04 per share to \$0.05 per share in the second quarter 2009. The dividend yield for the three-month period ended September 30, 2009 would have increased accordingly had we granted options during the period.
- (2) We analyzed the volatility of our stock using historical data from January 1, 2003 through the end of the most recent period to estimate the expected volatility.
- (3) The risk-free interest rate assumption is based on U.S. Treasury securities at a constant maturity with a maturity period that most closely resembles the expected term of the stock option award.
- (4) The expected terms of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and has been determined based on an analysis of historical exercise behavior from January 1, 2003 through the end of the most recent period.

A summary of the award activity under the 2003 Plan as of September 30, 2009, and changes during the nine-month period is presented below:

| | Option Totals | Weighted Average Exercise Price Per Share (\$) |
|------------------------------|---------------|--|
| Outstanding 12/31/2008 | 4,993,691 | 14.69 |
| Granted | 12,500 | 13.31 |
| Exercised | (243,837) | 8.15 |
| Forfeited | (181,395) | 14.78 |
| Outstanding as of 09/30/2009 | 4,580,959 | 14.99 |

Note 3. Earnings Per Share (in thousands, except per share data)

A reconciliation of the basic and diluted earnings per share computations for the three and nine months ended

Edgar Filing: KNIGHT TRANSPORTATION INC - Form 10-Q

September 30, 2009 and 2008, respectively, is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Weighted average common shares outstanding – basic | 83,197 | 85,633 | 83,216 | 85,759 |
| Effect of stock options | 433 | 635 | 368 | 573 |
| Weighted average common shares outstanding – diluted | 83,630 | 86,268 | 83,584 | 86,332 |
| Net income | \$ 13,108 | \$ 16,013 | \$ 37,419 | \$ 40,122 |
| Earnings per common share | | | | |
| Basic | \$ 0.16 | \$ 0.19 | \$ 0.45 | \$ 0.47 |
| Diluted | \$ 0.16 | \$ 0.19 | \$ 0.45 | \$ 0.46 |

Table of Contents

Certain potentially-dilutive shares of common stock were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares, and therefore, the effect would be anti-dilutive. A summary of those options follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|-------------------------------------|---------|------------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Number of anti-dilutive shares | 1,511,535 | 422,600 | 1,599,835 | 1,215,210 |

Note 4. Segment Information

Our reportable segments consist of our asset-based segment and our non-asset-based segment. Our asset-based segment includes our dry van, temperature controlled, and drayage operations, which are geographically diversified but have similar economic and other relevant characteristics, as they all provide truckload carrier services of general commodities to a similar class of customers. As a result, we have determined that it is appropriate to aggregate these operating segments into one reportable segment consistent with the guidance in Accounting Standards Codification ("ASC") Sub-Topic 280-10, Segmental Reporting. Our non-asset-based segment consists of our brokerage operations, which we have determined qualifies as a reportable segment under ASC-280-10 Segment Reporting. The accompanying interim financial statements are reflective of the operating results of our combined reportable segments. The results of operations of our non-asset-based reportable segment are not material to our consolidated financial statements as a whole. Therefore, we have not presented separate financial information for our reportable segments. For the three months ended September 30, 2009, our brokerage segment, including intercompany transactions and fuel surcharge, accounted for 6.4% of our consolidated revenue, 2.7% of our consolidated net income, and 1.2% of our consolidated assets. For the nine months ended September 30, 2009, our brokerage segment, including intercompany transactions and fuel surcharge, accounted for 5.8% of our consolidated revenue and 2.4% of our consolidated net income.

Brokerage revenue, including intercompany transactions and fuel surcharge, for the three-month and nine-month periods ended September 30, 2009 was \$11.1 million and \$27.9 million, respectively, compared to \$11.5 million and \$32.8 million, respectively, for the same periods a year ago. Net income for our brokerage operations was approximately \$0.4 million and \$0.9 million, respectively, for the three-month and nine-month periods ended September 30, 2009, compared to \$0.3 million and \$0.9 million, respectively, for the same periods a year ago. Brokerage assets at September 30, 2009 were \$8.2 million, compared to \$6.4 million as of December 31, 2008.

Note 5. Commitments and Contingencies

We are involved in certain legal proceedings arising in the normal course of business. In the opinion of management, our potential exposure under any currently pending or threatened legal proceedings will not have a material adverse effect upon our financial position or results of operations.

Note 6. Dividends

On August 14, 2009, we declared a cash dividend of \$0.05 per share of our common stock. The dividend was payable to shareholders of record on September 4, 2009, and was paid on September 25, 2009. We currently expect to continue to pay quarterly cash dividends in the future. Future payment of cash dividends, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

Table of Contents

Note 7. Goodwill & Intangible Assets

Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the net assets acquired. The tax benefit from the recognition on the tax return of the amortization of the excess tax goodwill over book goodwill is treated as a reduction in the book basis of goodwill. The changes in the carrying amount of goodwill and intangible assets for the nine months ended September 30, 2009 follow:

| | In Thousands |
|--|-----------------|
| Goodwill: | |
| Balance at December 31, 2008 | \$ 10,353 |
| Amortization relating to deferred tax assets | (15) |
| Balance at September 30, 2009 | \$ 10,338 |

| | In Thousands |
|-------------------------------|-----------------|
| Intangible Assets: | |
| Balance at December 31, 2008 | \$ 176 |
| Amortization | (47) |
| Balance at September 30, 2009 | \$ 129 |

Intangible assets are being amortized on a straight-line method over a five year period. Annual amortization expense is expected to be \$62,000 for each of the fiscal years 2009 to 2010 and \$52,000 for fiscal year 2011.

Note 8. Investment Commitments

In 2003, we signed a partnership agreement with Transportation Resource Partners, LP ("TRP"), who makes privately negotiated equity investments. Per the original partnership agreement, we were committed to invest \$5.0 million out of approximately \$260.0 million total. In early 2006, we increased the commitment amount to \$5.5 million. Our investment in TRP is accounted for using the cost method as our level of influence over the operations of TRP is minor. At September 30, 2009, the carrying book balance of our investment in TRP was \$3.7 million, and our ownership interest was approximately 2.3%.

In the fourth quarter of 2008, we formed Knight Capital Growth, LLC and committed to invest \$15.0 million in a new partnership managed and operated by the managers and principals of TRP. The new partnership, Transportation Resource Partners III, LP ("TRP III"), is focused on the same investment opportunities as TRP. As of September 30, 2009, we had contributed \$426,000 to TRP III and our outstanding commitment to TRP III was approximately \$14.6 million.

Note 9. Assets Held for Sale

Included in "Other current assets and assets held for sale" on the Balance Sheet at September 30, 2009 and December 31, 2008 is \$14.3 million and \$10.0 million, respectively, of revenue equipment that will not be utilized in continuing operations and is being held for sale. Assets held for sale are no longer subject to depreciation, and are recorded at the lower of depreciated value or fair market value less selling costs. We periodically review the carrying value of these

assets for possible impairment. We expect to sell these assets and replace them with new assets within twelve months.

Note 10. Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. For interim reporting purposes, our income tax provisions are recorded based on the estimated annual effective tax rate. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Table of Contents

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial operations. A valuation allowance for deferred tax assets has not been deemed necessary due to our profitable operations.

We recognize a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

During 2007, we resolved certain tax positions, leaving unrecognized tax benefits of approximately \$195,000 as of December 31, 2007. The balance has not changed since then and remained at \$195,000 at September 30, 2009.

The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods was approximately \$126,000 as of September 30, 2009.

Estimated interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense. Accrued interest was \$74,000 at September 30, 2009, and \$62,000 at December 31, 2008. Accrued penalties was \$49,000 at September 30, 2009 and at December 31, 2008.

We file U.S. and state income tax returns with varying statutes of limitations. The 2005 through 2008 tax years generally remain subject to examination by federal authority, and the 2004 through 2008 tax years generally remain subject to examination by state tax authorities. We do not believe the unrecognized tax benefits will change significantly over the next 12 months.

Note 11. Company Share Repurchase Programs

On November 8, 2007, our Board of Directors unanimously authorized the repurchase of up to 3.0 million shares of the Company's Common Stock. The repurchase authorization was to remain in effect until the share limit was reached or the program was terminated. This authorization has expired as the full 3.0 million shares were purchased in 2008. Under the Company's share repurchase program, repurchased shares are constructively retired and returned to unissued status.

On November 13, 2008, our Board of Directors unanimously authorized an additional repurchase of up to 3.0 million shares of the Company's Common Stock. The repurchase authorization will remain in effect until the share limit is reached or the program is terminated. The repurchase authorization is intended to afford the Company the flexibility to acquire shares opportunistically in future periods and does not indicate an intention to repurchase any particular number of shares within a definite timeframe. Any repurchases would be effected based upon share price and market conditions.

In 2008, we repurchased a total of 3,590,044 shares under both authorizations for approximately \$53.6 million. In the first quarter of 2009, we purchased 389,000 shares of our common stock in the open market for approximately \$4.9 million. We did not purchase any shares during the quarters ended September 30, 2009 and June 30, 2009. The shares acquired have been retired and are available for future issuance. The purchases were made in accordance with Security and Exchange Commission Rule 10b-18, which limits the amount and timing of repurchases. As of September 30, 2009, there were 2,020,956 shares remaining for future purchases under our repurchase program.

Table of Contents

Note 12. Cash & Cash Equivalents and Short-Term Investments

Our cash and cash equivalents are comprised of short-term, highly liquid instruments with insignificant interest rate risk.

Our short-term investments are held for trading and comprised of marketable debt securities (which includes municipal securities) and variable rate demand notes with effective maturities of greater than three months and represent an investment of cash that is available for current operations. These debt securities are recorded at fair value with realized and unrealized gains and losses included in interest income on our consolidated statements of income. At September 30, 2009, our short term investments consisted of municipal securities only. Our short-term investments did not experience any significant unrealized gain or loss for the three-month and nine-month period ended September 30, 2009.

Note 13. Fair Value Measurements

Effective January 1, 2009, we adopted ASC 820-10 Fair Value Measurements for non-recurring fair value measurements of our non-financial assets and liabilities. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those which are obtained from market participants external to the company while unobservable inputs are generally developed internally, utilizing management's estimates, assumptions, and specific knowledge of the nature of the assets or liabilities and related markets. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market is defined as a market in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that derived principally from or corroborated by observable market data correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs, only used to the extent that observable inputs are not available, reflect the Company's assumptions about the pricing of an asset or liability.

Table of Contents

In accordance with the fair value hierarchy described above, the following table shows the fair value of the Company's financial assets and liabilities that are required to be measured at fair value as of September 30, 2009.

| | Balance at September 30, 2009 | Level 1 | Level 2 | Level 3 |
|--------------------------------------|--|----------------|-----------|---------|
| | | (In thousands) | | |
| Assets: | | | | |
| Money market funds | \$ 3,099 | \$ 3,099 | - | - |
| Short-term investments | \$ 69,362 | - | \$ 69,362 | - |
| Restricted cash – money market funds | \$ 726 | \$ 726 | - | - |
| Restricted long-term investments | \$ 2,086 | - | \$ 2,086 | - |

Note 14. Recent Accounting Pronouncements

In August 2009, the FASB issued Accounting Standards Update (ASU) 2009-05 to provide guidance on measuring the fair value of liabilities under ASC Subtopic 820-10, Fair Value Measurement and Disclosure. This guidance is effective for fiscal years and interim periods beginning after issuance. We do not expect the adoption of ASU 2009-05 to have a material impact on our consolidated financial statements.

In June 2009, the FASB issued ASC Subtopic 105-10, Generally Accepted Accounting Principles (ASC 105-10). This Statement establishes FASB Accounting Standards Codification as the source of authoritative accounting principles to be applied by all non-governmental entities. ASC 105-10 is effective for interim and annual periods ending after September 15, 2009. The adoption of this statement did not have a material impact on our financial statements and only resulted in modifications in accounting references in our footnotes and disclosures.

In May 2009, the FASB issued ASC Subtopic 810-10, Consolidation (ASC 810-10). This Statement amends prior guidance and revises accounting and reporting requirements for entities' involvement with variable interest entities. The provisions of ASC 810-10 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. We are currently evaluating what impact, if any, the adoption of the Statement will have on our consolidated financial statements.

In May 2009, the FASB issued ASC Subtopic 860-10, Transfers and Servicing (ASC 860-10). This Statement amends prior guidance and revises accounting and reporting requirements for the transfers of financial assets, the transferor's continuing involvement (if any) in the transferred financial assets and how such transfers affect the transferor's financial position, financial performance and cash flows. The provisions of ASC 860-10 are effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. We do not believe the adoption of ASC 860-10 will have a material impact on our consolidated financial statements.

In May 2009, the FASB issued ASC Subtopic 855-10, Subsequent Events (ASC 855-10), to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new disclosure requirement is effective for interim reporting periods ending after June 15, 2009. The adoption of this staff position resulted in additional quarterly disclosures only.

Table of Contents

In April 2009, the FASB issued ASC Subtopic 825-10-50, Financial Instruments (ASC 825-10-50) to require disclosures about the fair value of financial instruments during interim reporting periods. The new disclosure requirements are effective for interim reporting periods ending after June 15, 2009. The adoption of this staff position resulted in additional quarterly disclosures only.

In April 2009, the FASB issued ASC Subtopic 820-10, Fair Value Measurement and Disclosures (ASC 820-10), which provides further clarification for prior guidance regarding measurement of fair values of assets and liabilities when the market activity has significantly decreased and in identifying transactions that are not orderly. ASC 820-10 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this staff position did not have a material impact on our financial results.

In December 2007, the FASB issued ASC Subtopic 810-10, Consolidation (ASC 810-10). This statement amends prior guidance and revises accounting and reporting requirements for noncontrolling interests (formerly minority interests) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, noncontrolling interests will be classified as equity, and income attributed to the noncontrolling interest will be included in the Company's income. The provisions of this standard are applied retrospectively upon adoption. We adopted this pronouncement on January 1, 2009, and it did not have a material impact on our consolidated results.

In December 2007, the FASB issued ASC Subtopic 805-10, Business Combinations (ASC 805-10). ASC 805-10 clarifies and amends the accounting guidance for how an acquirer in a business combination recognizes and measures the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree. The provisions of ASC 805-10 are effective for us for any business combinations occurring on or after January 1, 2009, and the adoption did not have a material impact on our financial statements.

Note 15. Subsequent Events

On October 30, 2009, we granted 1,349,500 shares in the aggregate of restricted stock to our employees. These restricted shares are valued at \$16.04 per share, based on the closing price of our stock on the grant date. These shares will vest gradually over a 13 year period, beginning January 31, 2011.

We evaluated all events or transactions that occurred after September 30, 2009 and through November 9, 2009, the date we issued these consolidated financial statements by filing this Quarterly Report on Form 10-Q.

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

Cautionary Note Regarding Forward-Looking Statements

Except for certain historical information contained herein, this report contains certain statements that may be considered "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act of 1933, as amended, and such statements are subject to the safe harbor created by those sections. All statements, other than statements of historical fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of revenues, earnings, cash flows, capital expenditures, or other financial items; any statement of plans, strategies, and objectives of management for future operations; any statements concerning proposed acquisition plans, new services, or developments; any statements regarding future economic conditions or performance; and any statements of belief and any statement of assumptions underlying any of the foregoing. Words such as "believe," "may," "could," "expects," "hopes," "estimates," "projects," "intends," "anticipates," and "likely," and variations of these words, or similar expressions, terms, or phrases, are intended to identify such forward-looking statements. Forward-looking statements are inherently subject to risks, assumptions, and uncertainties, some of which cannot be predicted or

quantified, which could cause future events and actual

13

Table of Contents

results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Item 1A. Risk Factors," set forth in our form 10-K for the year ended December 31, 2008, as supplemented in Part II below.

All such forward-looking statements speak only as of the date of this Form 10-Q. You are cautioned not to place undue reliance on such forward-looking statements. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.

Introduction

Business Overview

We are a truckload carrier headquartered in Phoenix, Arizona. The transportation services we provide are asset-based dry van truckload carrier services, temperature controlled truckload carrier services, and drayage activities at the ports, along with non-asset-based brokerage services, both on highway and rail. Through our asset-based and non-asset-based capabilities we are able to transport, or arrange for the transportation of, general commodities for customers throughout the United States.

Historically, the primary source of our revenue growth has been our ability to open and develop new regional service centers and brokerage branches in selected geographic areas. Much of this growth prior to 2007 occurred in our core dry van business. Knight Refrigerated and Knight Brokerage, established in 2004 and 2005, respectively, reflect our strategy to bring complementary services to our customers that also bring operational and economic benefits to Knight. In 2008, we further enhanced our services with our drayage activities through Knight Intermodal at the Southern California ports, where we believe our familiarity with the markets, ability to offer intermodal shippers multiple services, and superior technology afford us a competitive advantage over many drayage operations. As part of our growth strategy, we also evaluate acquisition opportunities that meet our financial and operating criteria.

As of September 30, 2009, we operated 35 asset-based service centers (consisting of 29 dry van and six temperature controlled service centers) and 12 non-asset-based brokerage branches. The main factors that affect our results of operation are the number of tractors we operate, our revenue per tractor (which includes primarily our revenue per total mile and our number of miles per tractor), and our ability to control our costs. The results of our brokerage activities were relatively insignificant for the third quarter of 2009, and therefore, a detailed discussion of the financial results of these operations will not be separately presented.

Outlook

Our industry continues to face significant challenges due to weak demand and pricing pressure. Our ability to respond to these challenges is rooted in the following three key attributes: (1) an intense focus on cost control; (2) a strong balance sheet, and (3) diversified service offerings.

During 2008 and continuing into and throughout 2009, numerous industry competitors have closed down, and many that remained in business have downsized their fleets in response to economic weakness, rising costs, and tight credit conditions. Intense competition has also led to rate reductions in the first half of 2009. In the third quarter, we experienced sequential improvement in freight demand, but it is not at a level to significantly influence higher rates. It appears to us that sometime between June and July, freight volumes bottomed out and then made gradual improvement as compared to a year ago. However, we are not expecting robust demand in the near-term.

Table of Contents

Our plan during this environment is to refine our operating model to create additional efficiencies, to provide high levels of localized service through our network of service centers and branches, to ratchet up our already intense focus on controlling costs, and to evaluate strategic opportunities that can create value for our shareholders without undue risk. We believe this plan will prepare us to capitalize on growth opportunities that will enhance the returns for our shareholders over time.

While we are cautiously optimistic about modest seasonal recovery in business activity, it is not within our means to foresee when industry supply and demand fundamentals will come back into balance. However, we are confident in our competitive position and our ability to execute our model. We believe we are in a strong financial position and that our strategy for growth is sound. We believe that our level of profitability, fleet renewal strategy, and use of owner-operators should enable us to internally finance attractive levels of fleet growth when demand conditions are right. Based on our growing network, a history of low cost operation and solid execution, and access to substantial capital resources, we are very optimistic about our competitive position and our ability to perpetuate our model based on leading growth and profitability.

Revenue and Expenses

We primarily generate revenue by transporting freight for our customers. Generally, we are paid a predetermined rate per mile or per load for our services. We enhance our revenue by charging for tractor and trailer detention, loading and unloading activities, brokerage operations, and other specialized services, as well as through the collection of fuel surcharges to mitigate the impact of increases in the cost of fuel. The main factors that affect our revenue are the revenue per mile we receive from our customers, the percentage of miles for which we are compensated, and the number of miles we generate with our equipment. These factors relate to, among other things, the general level of economic activity in the United States, inventory levels, specific customer demand, the level of capacity in the trucking industry, and driver availability.

The main factors that impact our profitability in terms of expenses are the variable costs of transporting freight for our customers. These costs include fuel expense, driver-related expenses, such as wages, benefits, training and recruitment, and independent contractor and third party carrier costs, which are recorded on the "Purchased Transportation" line of our consolidated statements of income. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency, and other factors. Our main fixed costs are the acquisition and financing of long-term assets, such as revenue equipment and service centers and the compensation of non-driver personnel. Effectively controlling our expenses and managing our net cost of revenue equipment acquisition and disposition, including any related gains or losses, are important elements of assuring our profitability. The primary measure we use to evaluate our profitability is operating ratio, excluding the impact of fuel surcharge revenue (operating expenses, net of fuel surcharge, expressed as a percentage of revenue, before fuel surcharge).

Recent Results of Operations and Quarter-End Financial Condition

For the quarter ended September 30, 2009, our results of operations changed as follows versus the same period in 2008:

- o Revenue, before fuel surcharge, decreased 3.6%, to \$150.2 million from \$155.9 million;
- o Net income decreased 18.1% to \$13.1 million, compared to \$16.0 million; and
- o Net income per diluted share decreased 15.6%, to \$0.16, from \$0.19.

Table of Contents

Despite significant challenges due to weak demand for transportation and pricing competition, our year-over-year consolidated load count increased by 10.2% in the third quarter. Refrigerated load count increased 43% after posting more than 30% growth in the first and second quarters of this year. Brokerage, which experienced a decline in shipments in the first quarter, turned positive again in the second and third quarters of this year.

In the third quarter, equipment productivity, as measured by average revenue, before fuel surcharge, per tractor, decreased 4.5% to \$37,248, compared to \$38,990 in the same quarter a year ago. The 4.5% decrease in equipment productivity in the third quarter compared favorably to an 8.1% year-over-year decrease in the second quarter 2009. Revenue per total mile, before fuel surcharge, decreased 3.1% from the same period a year ago when revenue per total mile, before fuel surcharge, peaked for our company. Miles per tractor decreased 1.4% when compared to the same period a year ago, an improvement compared with the 4.5% decrease in the second quarter of 2009. Our non-paid empty mile percentage decreased to 11.8% from 11.9% in the year ago period. Our average length of haul decreased 10.7% to 465 miles from 521 miles in the same period last year. The drayage activities in our intermodal business had a modestly negative effect on our average length of haul.

Our tractor count decreased to 3,752 tractors as of September 30, 2009, compared to 3,800 tractors a year ago. The net decrease of 48 units is comprised of a 220 unit decrease in company owned tractors, off-set by a 172 unit increase in owner operator tractors. While our tractor count has decreased slightly year-over-year, our fleet size has remained relatively constant from the second to third quarter this year. With freight demand seemingly have bottomed, we decided to maintain our fleet size and prepare for the opportunity for growth rather than reduce the fleet size, which might have improved our operating ratio in the third quarter. Our consolidated operating ratio, net of fuel surcharge (operating expenses, net of fuel surcharge, expressed as a percentage of revenue, before fuel surcharge), was 86.2% for the quarter ended September 30, 2009, compared to 83.2% for the same period a year ago.

For the quarter, we spent \$27.9 million in net capital expenditures. At September 30, 2009, our balance sheet remained debt free, our cash and cash equivalents and short term investments totaled \$72.5 million, and our shareholders' equity was \$509.7 million.

Results of Operations

The following table sets forth the percentage relationships of our expense items to total revenue, including fuel surcharge (Columns A and C), and revenue, before fuel surcharge (Columns B and D), for the three-month and nine-month periods ended September 30, 2009 and 2008, respectively. Fuel expense as a percentage of revenue, before fuel surcharge, is calculated using fuel expense, net of fuel surcharge. Management believes that eliminating the impact of this sometimes volatile source of revenue affords a more consistent basis for comparing our results of operations from period to period.

Table of Contents

| | (A) (Fuel surcharge included in revenue) Three-Month Period Ended September 30, | | (B) (Fuel surcharge excluded from revenue and netted to fuel expense) Three-Month Period Ended September 30, | | (C) (Fuel surcharge included in revenue) Nine-Month Period Ended September 30, | | (D) (Fuel surcharge excluded from revenue and netted to fuel expense) Nine-Month Period Ended September 30, | |
|-----------------------------------|--|---------|---|---------|---|---------|--|---------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenue | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Operating expenses: | | | | | | | | |
| * | | | | | | | | |
| Salaries, wages and benefits | 30.1 | 26.0 | 34.7 | 35.0 | 31.1 | 26.8 | 35.2 | 35.1 |
| Fuel | 22.5 | 33.8 | 10.7 | 10.9 | 21.0 | 33.3 | 10.5 | 12.6 |
| Operations and maintenance | 6.5 | 5.5 | 7.5 | 7.4 | 6.6 | 5.3 | 7.5 | 7.0 |
| Insurance and claims | 3.1 | 2.9 | 3.6 | 4.0 | 3.3 | 3.5 | 3.8 | 4.6 |
| Operating taxes and licenses | 2.2 | 1.8 | 2.5 | 2.4 | 2.2 | 1.9 | 2.5 | 2.5 |
| Communications | 0.8 | 0.7 | 0.9 | 1.0 | 0.9 | 0.7 | 1.0 | 1.0 |
| Depreciation and amortization | 10.5 | 8.4 | 12.1 | 11.3 | 11.1 | 8.7 | 12.5 | 11.4 |
| Lease expense – revenue equipment | 0.0 | - | 0.0 | - | 0.0 | - | 0.0 | - |
| Purchased transportation | 10.5 | 6.3 | 12.1 | 8.5 | 9.1 | 6.9 | 10.3 | 9.0 |
| Miscellaneous operating expenses | 1.8 | 2.1 | 2.1 | 2.7 | 2.1 | 1.8 | 2.4 | 2.3 |
| Total operating expenses | 88.0 | 87.5 | 86.2 | 83.2 | 87.4 | 88.9 | 85.7 | 85.5 |
| Income from operations | 12.0 | 12.5 | 13.8 | 16.8 | 12.6 | 11.1 | 14.3 | 14.5 |
| Net interest income | 0.2 | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 |
| Other income | 0.2 | - | 0.2 | - | 0.1 | - | 0.1 | - |
| Income before income taxes | 12.4 | 12.6 | 14.3 | 17.0 | 12.9 | 11.3 | 14.6 | 14.8 |
| Income taxes | 4.8 | 5.0 | 5.6 | 6.7 | 5.2 | 4.5 | 5.8 | 5.9 |
| Net income | 7.6 % | 7.6 % | 8.7 % | 10.3 % | 7.7 % | 6.8 % | 8.8 % | 8.9 % |

* There are minor rounding differences in the table.

A discussion of our results of operations for the nine and three months ended September 30, 2009 and September 30, 2008 is set forth below.

Comparison of Nine Months and Three Months Ended September 30, 2009 to Nine Months and Three Months Ended September 30, 2008.

Total revenue for the nine months ended September 30, 2009 decreased 18.3% to \$483.9 million from \$592.2 million for the same period in 2008. Total revenue included \$56.4 million of fuel surcharge revenue in the 2009 period compared to \$140.2 million in the 2008 period. Total revenue for the quarter ended September 30, 2009 decreased 17.4% to \$173.1 million, from \$209.7 million for the same period in 2008. Total revenue for the quarter included \$22.9 million of fuel surcharge revenue in the 2009 period, compared to \$53.8 million in the 2008 period. In discussing our results of operations, we use revenue, before fuel surcharge, and fuel expense, net of fuel surcharge, because management believes that eliminating the impact of this sometimes volatile source of revenue affords a more consistent basis for comparing our results of operations from period to period. We also discuss the changes in our expenses as a percentage of revenue, before fuel surcharge, rather than absolute dollar changes. We do this because we believe the high variable cost nature of our business makes a comparison of changes in expenses as a percentage of revenue, before fuel surcharge, more meaningful than absolute dollar changes.

Table of Contents

Revenue, before fuel surcharge, decreased 5.4% to \$427.6 million for the nine months ended September 30, 2009 from \$452.0 million for the same period in 2008. Revenue, before fuel surcharge, decreased 3.6% to \$150.2 million for the quarter ended September 30, 2009, from \$155.9 million for the same period in 2008. The industry wide supply of truckload equipment continued to outpace demand in the third quarter, resulting in a 4.5% decrease in equipment utilization. This is an improvement from second quarter, when equipment utilization was down 8.1% compared to a year ago. At the end of September we operated 48 fewer trucks compared to year ago, although year-to-date we have increased truck count by 53 units. Our non-paid empty mile percentage remained relatively constant at 11.8% for the quarter ended September 30, 2009, compared to 11.9% in the year ago period. For the nine months ended September 30, 2009, our average length of haul decreased to 473 miles from 524 miles in the same period last year. The drayage activities in our intermodal business had a modestly negative effect on our average length of haul during the 2009 period.

Salaries, wages and benefits expense as a percentage of revenue, before fuel surcharge, remained relatively constant at 35.2% for the nine months ended September 30, 2009, compared to 35.1% for the same period in 2008. Salaries, wages and benefits expense as a percentage of revenue, before fuel surcharge, decreased to 34.7% for the quarter ended September 30, 2009, compared to 35.0% for the same period in 2008. The third quarter decrease is primarily due to a decrease in the percentage of our company fleet being operated by company drivers, as opposed to independent contractors. At September 30, 2009, 91.6% of our fleet was operated by company drivers, compared to 96.2% at September 30, 2008. For our employees, we record accruals for workers' compensation benefits as a component of our claims reserve, and the related expense is reflected in salaries, wages and benefits in our consolidated statements of income.

Fuel expense, net of fuel surcharge, as a percentage of revenue before fuel surcharge, decreased to 10.5% for the nine months ended September 30, 2009, from 12.6% for the same period in 2008. For the quarter ended September 30, 2009, fuel expense, net of fuel surcharge, as a percentage of revenue before fuel surcharge, decreased to 10.7% from 10.9% for the same period in 2008. The decrease in fuel expense is mainly due to lower diesel fuel prices, along with internal initiatives to improve fuel efficiency and an increase of independent contractors in the fleet. Independent contractors purchase their own fuel. We maintain a fuel surcharge program to assist us in recovering a portion of our fuel expense. Fuel surcharge revenue was \$56.4 million for the nine months ended September 30, 2009, compared to \$140.2 million for the same period in 2008. For the quarter ended September 30, 2009, fuel surcharge revenue was \$22.9 million compared to \$53.8 million for the same quarter in 2008. Declining fuel prices have led to significant decreases in fuel expense and fuel surcharge revenue this year.

Operations and maintenance expense as a percentage of revenue, before fuel surcharge, increased to 7.5% for the nine months ended September 30, 2009, compared to 7.0% for the same period in 2008. For the quarter ended September 30, 2009, operations and maintenance expense as a percentage of revenue, before fuel surcharge, increased slightly to 7.5% compared to 7.4% for the same quarter in 2008. Operations and maintenance expense as a percentage of revenue increased primarily because of a modest increase in fleet age and a decrease in revenue per tractor that less efficiently covered the fixed portion of these costs. These items more than offset an increase in the percentage of our fleet provided by independent contractors, who pay for the maintenance of their own vehicles.

Insurance and claims expense as a percentage of revenue, before fuel surcharge, decreased to 3.8% for the nine months ended September 30, 2009, compared to 4.6% for the same period in 2008. For the quarter ended September 30, 2009, insurance and claims expense, expressed as a percentage of revenue before fuel surcharge, decreased to 3.6% compared to 4.0% for the same quarter in 2008. During the quarter, we continued to benefit from improvements in insurance and claims expense. We have implemented the Smith System training throughout our service center network. We believe this training program and other management efforts have been instrumental in reducing the severity and frequency of accidents. As of September 30, 2009, our claims reserve decreased approximately \$4.2 million from year-end December 31, 2008. This decrease is primarily due to the settlement of two previously-accrued

catastrophic claims in the aggregate of \$3.5 million from a prior year, combined with a reduction in insurance accruals resulting from a decrease in the frequency and severity of claims.

18

Table of Contents

Operating taxes and licenses expense as a percentage of revenue, before fuel surcharge, remained constant at 2.5% for the nine-month periods ended September 30, 2009 and 2008. For the quarter ended September 30, 2009, operating taxes and licenses expense remained relatively constant at 2.5%, compared to 2.4% for the same period in 2008.

Communications expense as a percentage of revenue, before fuel surcharge, remained constant at 1.0% for the nine-month periods ended September 30, 2009 and 2008. For the quarter ended September 30, 2009, communication expense remained relatively constant at 0.9%, compared to 1.0% for the same period in 2008.

Depreciation and amortization expense as a percentage of revenue, before fuel surcharge, increased to 12.5% for the nine-month period ended September 30, 2009, compared to 11.4% for the same period in 2008. This increase is primarily due to a decrease in revenue and lower equipment utilization in the current year. For the quarter ended September 30, 2009, depreciation and amortization expense as a percentage of revenue, before fuel surcharge, increased to 12.1% compared to 11.3% for the same quarter in 2008. In the third quarter of 2009, the percentage of our tractor fleet operated by independent contractors increased to 8.4% from 3.8% in the third quarter of 2008, which offset a small portion of the increase in depreciation and amortization expense for the current quarter.

Purchased transportation represents the amount that independent contractors, as well as contracted carriers for our brokerage division, are paid to haul freight for us on a mutually agreed upon per-mile or per-shipment basis. Demand for brokerage freight started out rather weak in the beginning of the year but picked up in the second and third quarter. Purchased transportation expense as a percentage of revenue, before fuel surcharge, increased to 10.3% for the nine months ended September 30, 2009, from 9.0% for the same period in 2008. For the quarter ended September 30, 2009, purchased transportation expense as a percentage of revenue, before fuel surcharge, increased to 12.1% compared to 8.5% for the same quarter in 2008. The increase in this category is mainly due to an increase in the number of independent contractors we are using in our truckload operations. The number of independent contractors at September 30, 2009 increased to 317, compared to 145 a year ago. As of September 30, 2009, 8.4% of our fleet was comprised of independent contractors, compared to 3.8% a year ago.

Miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, remained relatively constant at 2.4% for the nine-month period ended September 30, 2009, compared to 2.3% for the same period in 2008. For the quarter ended September 30, 2009, miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, decreased to 2.1% compared to 2.7% for the same quarter in 2008. The decrease in the current quarter is due to the combination of internal initiatives to control costs and an increase in our gains from sale of equipment, which is included in the miscellaneous operating expense line. Gains from sale of equipment increased to \$833,000 in the third quarter of 2009, compared to \$367,000 for the same period a year ago.

As a result of the above factors, our operating ratio, net of fuel surcharge (operating expenses, net of fuel surcharge, expressed as a percentage of revenue, before fuel surcharge), increased to 85.7% for the nine months ended September 30, 2009, from 85.5% for the same period in 2008. For the quarter ended September 30, 2009, our operating ratio increased to 86.2% from 83.2% for the same quarter in 2008.

Net interest income and other income as a percentage of revenue, before fuel surcharge, remained constant at 0.3% for the nine months ended September 30, 2009 and 2008. For the quarter ended September 30, 2009, net interest income and other income as a percentage of revenue, before fuel surcharge, increased to 0.5%, from 0.2% for the same period in 2008. Other income in the current quarter is comprised of an insurance settlement for damage from a fire to one of our buildings. We had no outstanding debt at September 30, 2009 or 2008.

Table of Contents

Income taxes have been provided for at the statutory federal and state rates, adjusted for certain permanent differences between financial statement income and income for tax reporting. Our effective income tax rates increased slightly to 40.0% for the nine-month period ended September 30, 2009, compared to 39.8% for the same period a year ago. For quarter ended September 30, 2009, our effective income tax rates decreased to 39.2%, from 39.7% for the same period in 2008.

As a result of the preceding changes, our net income, as a percentage of revenue before fuel surcharge, remained essentially constant at 8.8% for the nine-month period ended September 30, 2009, compared to 8.9% for the same period a year ago. For the quarter ended September 30, 2009, our net income, as a percentage of revenue before fuel surcharge, decreased to 8.7%, from 10.3% for the same period in 2008.

Liquidity and Capital Resources

The growth of our business has required, and will continue to require, a significant investment in new revenue equipment. Our primary source of liquidity has been funds provided by operations.

Net cash provided by operating activities was \$53.6 million for the nine months ended September 30, 2009, compared to \$92.6 million for the same period in 2008. Excluding the increase in our short-term investments due to investing more cash, our net cash provided by operating activities would have been \$91.1 million for the nine months ended September 30, 2009, compared to \$113.0 million for the same period a year ago. Our cash, cash equivalents, and short-term investments grew by \$18.6 million since December 31, 2008, after spending \$16.5 million during the nine months ended September 30, 2009 for dividends and stock re-purchases.

Net cash used in investing activities was \$58.4 million for the nine months ended September 30, 2009, compared to \$48.7 million for the 2008 period. Capital expenditures for the purchase of revenue equipment, office equipment, land and leasehold improvements, net of equipment sales, increased \$6.4 million, to \$55.7 million for the nine months ended September 30, 2009, compared to \$49.3 million for the 2008 period. In the current year, we also set aside \$2.2 million in restricted cash to meet statutory requirements relating to our self-insurance program. We currently anticipate total capital expenditures, net of equipment sales, of approximately \$75.0 million for the year. This will be used primarily to acquire new revenue equipment.

Net cash used in financing activities was approximately \$14.2 million for the nine months ended September 30, 2009, compared to \$28.2 million for the same period in 2008. The decrease in cash used in financing activities is primarily due to a reduction in cash payments to acquire treasury stock. For the nine-month period ended September 30, 2009, we spent \$4.9 million to repurchase 389,000 shares of our common stock, compared to \$21.5 million to repurchase 1,423,500 shares of our common stock in the same period a year ago. Cash dividends paid in the current year also increased approximately \$2.2 million, due to an increase in dividends paid to common stock shareholders. We increased our quarterly cash dividend from \$0.04 per share to \$0.05 per share in the second quarter of 2009. We currently expect to continue to pay quarterly cash dividends in the future. Future payment of cash dividends, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

We currently maintain a line of credit that permits revolving borrowings and letters of credit totaling \$50.0 million. At September 30, 2009, the utilized portion of the line of credit consisted solely of issued but unused letters of credit totaling \$35.3 million. These letters of credit are issued to various regulatory authorities in connection with our self-insured retention. We are obligated to comply with certain financial covenants under our line of credit agreement, and we were in compliance with these covenants at September 30, 2009.

Table of Contents

As of September 30, 2009, our balance sheet continued to be debt-free while our cash and short-term investment balance grew to \$72.5 million. During encouraging freight markets, we have historically self-funded our growth by purchasing equipment with the cash generated from our operations. Recently, during the less-encouraging freight market, we continued to generate a significant amount of cash which allowed us to repurchase shares, return capital to shareholders as a dividend, and be in a position to fund possible strategic acquisitions.

We believe that we will be able to finance our near term needs for working capital over the next twelve months, as well as acquisitions of revenue equipment during such period, with cash balances, cash flows from operations, and borrowings, if any, available under our existing line of credit or other credit facilities we believe would be available to us. We will continue to have significant capital requirements over the long-term, which may require us to incur debt or seek additional equity capital. The availability of additional capital will depend upon prevailing market conditions, the market price of our common stock, and several other factors over which we have limited control, as well as our financial condition and results of operations. Nevertheless, based on our recent operating results, current cash position, anticipated future cash flows, and sources of financing that we expect will be available to us, we do not expect that we will experience any significant liquidity constraints in the foreseeable future.

Off-Balance Sheet Transactions

Our liquidity is not materially affected by off-balance sheet transactions. Like many other trucking companies, we have periodically utilized operating leases to finance our revenue equipment purchases. We did not have any tractors held under operating leases as of September 30, 2009. A year ago we had a few tractors remaining under operating leases during the year. Those operating leases expired in 2008, and we have not had any leased tractors in 2009. Vehicles held under operating leases were not carried on our balance sheet, and lease payments in respect of such vehicles are reflected in our income statements in the line item "Lease expense – revenue equipment".

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, revenue, and expenses in our consolidated financial statements and accompanying notes. Management bases its estimates on historical experience and various other assumptions believed to be reasonable. Although these estimates are based on management's best knowledge of current events and actions that may impact us in the future, actual results may differ from these estimates and assumptions. Our critical accounting policies are those that affect, or could affect our financial statements materially and involve a significant level of judgment by management. The accounting policies we deem most critical to us include, revenue recognition, depreciation, claims accrual, accounting for income taxes and share based payments. There have been no significant changes to our critical accounting policies and estimates during the nine months ended September 30, 2009, compared to those disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation," included in our 2008 Annual Report on Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk changes in interest rate on debt and from changes in commodity prices.

Under Financial Accounting Reporting Release Number 48 and SEC rules and regulations, we are required to disclose information concerning market risk with respect to foreign exchange rates, interest rates, and commodity prices. We have elected to make such disclosures, to the extent applicable, using a sensitivity analysis approach, based on hypothetical changes in interest rates and commodity prices.

Table of Contents

We currently do not use derivative financial instruments for risk management purposes and do not use them for either speculation or trading. Because our operations are mostly confined to the United States, we are not subject to a material amount of foreign currency risk.

Interest Rate Risk

We are subject to interest rate risk to the extent we borrow against our line of credit or incur debt in the acquisition of revenue equipment or otherwise. We attempt to manage our interest rate risk by managing the amount of debt we carry. We did not have any debt outstanding at September 30, 2009, and therefore had no market risk related to debt.

Commodity Price Risk

We also are subject to commodity price risk with respect to purchases of fuel. The price and availability of diesel fuel can fluctuate due to market factors that are beyond our control. We believe fuel surcharges are effective at mitigating most, but not all, of the risk of high fuel prices because we do not recover the full amount of fuel price increases. As of September 30, 2009, we did not have any derivative financial instruments to reduce our exposure to fuel price fluctuations.

Item 4. Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors. Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

We have confidence in our disclosure controls and procedures and internal control over financial reporting. Nevertheless, our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures and internal control over financial reporting will prevent all errors, misstatements, or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

Table of Contents

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are a party to ordinary, routine litigation and administrative proceedings incidental to our business. These proceedings primarily involve claims for personal injury or property damage incurred in the transportation of freight and for personnel matters.

Item 1A. Risk Factors

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business, some level of risk and uncertainty will always be present. Our Annual Report on Form 10-K for the year ended December 31, 2008, in the section entitled "Item 1A. Risk Factors," describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. In addition to the risk factors set forth on our Form 10-K for the year ended December 31, 2008, we believe that the following additional issues, uncertainties, and risks, should be considered in evaluating our business and growth outlook:

Our business is subject to certain credit factors that affect the global economy, that are largely out of our control, and that could have a material adverse effect on our operating results.

There continues to be some concern over the instability of the credit markets and the economy. If the economy and credit markets weaken further, our business, financial results, and results of operations could be materially and adversely affected, especially if consumer confidence declines and domestic spending decreases. Although we think it is unlikely given our current cash position, we may need to incur indebtedness or issue debt or equity securities in the future to fund working capital requirements, make investments, or for general corporate purposes. If the credit and equity markets erode further, our ability to do so may be constrained. Although some stability has returned to the equity markets, there still exists enough economic uncertainty that could cause the market price of our securities to be volatile.

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

On November 13, 2008, our Board of Directors unanimously authorized the repurchase of up to 3.0 million shares of our Common Stock. The repurchase authorization will remain in effect until the share limit is reached or the program is terminated. No shares were repurchased in the third quarter of 2009. See Note 11 for additional information with respect to our share repurchase programs.

Item 3. Defaults Upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Table of Contents

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K

| Exhibit No. | Description |
|------------------|--|
| Exhibit 3 | Articles of Incorporation and Bylaws |
| (3.1) | Second Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed April 20, 2007.) |
| (3.2) | Sixth Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 8-K dated December 18, 2007 and filed on December 19, 2007.) |
| Exhibit 4 | Instruments defining the rights of security holders, including indentures |
| (4.1) | Articles 4, 10, and 11 of the Second Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 to this Report on Form 10-Q.) |
| (4.2) | Sections 2 and 5 of the Sixth Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3.2 to this Report on Form 10-Q.) |
| (4.3) | Knight Transportation, Inc. Amended and Restated 2003 Stock Option and Equity Compensation Plan. (Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed April 10, 2009.) |
| (4.4) | Knight Transportation, Inc. Employee Stock Purchase Plan. (Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed April 10, 2009.) |
| Exhibit 31 | Section 302 Certifications |
| (<u>31.1</u>)* | Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Kevin P. Knight, the Company's Chief Executive Officer. |
| (<u>31.2</u>)* | Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by David A. Jackson, the Company's Chief Financial Officer. |

| Exhibit 32 | Section 906 Certifications |
|---------------|---|
| (32.1)* | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Kevin P. Knight, the Company's Chief Executive Officer. |
| (32.2)* | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by David A. Jackson, the Company's Chief Financial Officer. |

*Filed herewith.

Table of Contents

SIGNATURES

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

KNIGHT TRANSPORTATION,
INC.

Date: November 9, 2009

By: /s/ Kevin P. Knight
Kevin P. Knight
Chief Executive Officer, in his
capacity as such and on behalf of
the registrant

Date: November 9, 2009

By: /s/ David A. Jackson
David A. Jackson
Chief Financial Officer, in his
capacity as such and on behalf of
the registrant