

KNIGHT TRANSPORTATION INC
Form 10-Q
November 09, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

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

86-0649974

(State or other jurisdiction of
incorporation or organization)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of registrant's Common Stock, par value \$0.01 per share, as of October 31, 2007 was 86,580,510 shares.

KNIGHT TRANSPORTATION, INC.

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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, 2007 and December 31, 2006
(In thousands)

| | September 30, 2007 | December 31, 2006 |
|---|--------------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 29,026 | \$ 1,582 |
| Short term investment | 5,884 | - |
| Accounts receivable, net | 88,463 | 85,350 |
| Notes receivable, net | 199 | 341 |
| Other current assets | 6,812 | 16,613 |
| Prepaid expenses | 7,223 | 8,342 |
| Income tax receivable | 4,075 | - |
| Deferred tax asset | 9,651 | 8,759 |
| Total current assets | 151,333 | 120,987 |
| Property and Equipment: | | |
| Land and improvements | 26,861 | 21,778 |
| Buildings and improvements | 42,556 | 38,656 |
| Furniture and fixtures | 7,177 | 6,410 |
| Shop and service equipment | 3,914 | 3,738 |
| Revenue equipment | 527,510 | 496,117 |
| Leasehold improvements | 771 | 516 |
| | 608,789 | 567,215 |
| Less: Accumulated depreciation and amortization | (159,958) | (133,387) |
| Property and equipment, net | 448,831 | 433,828 |
| Notes receivable – long-term | 335 | 348 |
| Goodwill | 10,398 | 10,256 |
| Intangible assets, net | 253 | 300 |
| Other assets & restricted cash | 4,815 | 4,500 |
| Total assets | \$ 615,965 | \$ 570,219 |

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

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KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Balance Sheets (continued)
As of September 30, 2007 and December 31, 2006
(In thousands, except par values)

| | September 30, 2007 | December 31, 2006 |
|--|--------------------------|-------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | \$ 10,402 | \$ 13,077 |
| Accrued payroll | 8,865 | 7,411 |
| Accrued liabilities | 8,844 | 15,184 |
| Claims accrual | 25,586 | 25,926 |
| Total current liabilities | 53,697 | 61,598 |
| Deferred tax liabilities | 87,453 | 82,526 |
| Total liabilities | 141,150 | 144,124 |
| 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; 86,560 and 86,111 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively | 866 | 861 |
| Additional paid-in capital | 100,934 | 94,220 |
| Retained earnings | 373,015 | 331,014 |
| Total shareholders' equity | 474,815 | 426,095 |
| Total liabilities and shareholders' equity | \$ 615,965 | \$ 570,219 |

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2007 | 2006 | 2007 | 2006 |
| REVENUE: | | | | |
| Revenue, before fuel surcharge | \$ 151,661 | \$ 146,555 | \$ 449,498 | \$ 416,266 |
| Fuel surcharge | 28,664 | 28,117 | 77,547 | 73,225 |
| Total revenue | 180,325 | 174,672 | 527,045 | 489,491 |
| OPERATING EXPENSES: | | | | |
| Salaries, wages and benefits | 51,642 | 49,467 | 151,973 | 140,530 |
| Fuel | 48,601 | 45,528 | 134,756 | 124,775 |
| Operations and maintenance | 10,390 | 9,277 | 29,722 | 26,991 |
| Insurance and claims | 7,785 | 6,929 | 21,912 | 18,791 |
| Operating taxes and licenses | 3,748 | 3,423 | 11,022 | 10,015 |
| Communications | 1,416 | 1,397 | 3,986 | 4,134 |
| Depreciation and amortization | 16,596 | 15,449 | 48,814 | 45,041 |
| Lease expense – revenue equipment | 85 | 106 | 296 | 323 |
| Purchased transportation | 13,948 | 10,871 | 37,985 | 28,609 |
| Miscellaneous operating expenses | 2,591 | 1,616 | 6,484 | 3,646 |
| Total operating expenses | 156,802 | 144,063 | 446,950 | 402,855 |
| Income from operations | 23,523 | 30,609 | 80,095 | 86,636 |
| Interest income | 436 | 301 | 959 | 878 |
| Other income | - | - | 668 | - |
| Income before income taxes | 23,959 | 30,910 | 81,722 | 87,514 |
| Income taxes | (9,450) | (12,060) | (32,416) | (34,710) |
| Net income | \$ 14,509 | \$ 18,850 | \$ 49,306 | \$ 52,804 |
| Earnings per common share and common share equivalent: | | | | |
| Basic | \$ 0.17 | \$ 0.22 | \$ 0.57 | \$ 0.62 |
| Diluted | \$ 0.17 | \$ 0.22 | \$ 0.57 | \$ 0.61 |
| Weighted average number of common shares and common share equivalents outstanding: | | | | |
| Basic | 86,479 | 85,895 | 86,318 | 85,823 |
| Diluted | 87,300 | 86,922 | 87,249 | 87,077 |

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

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

Nine Months Ended
September 30,
2007 2006

CASH FLOWS FROM OPERATING ACTIVITIES:

| | | |
|--|-----------|-----------|
| Net income | \$ 49,306 | \$ 52,804 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 48,814 | 45,041 |
| Gain on sales of equipment | (3,947) | (6,832) |
| Building loss from fire | 166 | - |
| Earn-out on sold investment | (188) | - |
| Non-cash compensation expense for issuance of stock to certain members of board of directors | 174 | 80 |
| Provision for allowance for doubtful accounts | 66 | 293 |
| Excess tax benefits related to stock-based compensation | (1,293) | (1,257) |
| Stock option expense | 2,147 | 2,623 |
| Deferred income taxes | 4,196 | 2,901 |
| Changes in assets and liabilities: | | |
| Increase in short-term investments | (5,884) | (4,185) |
| Increase in trade receivables | (3,178) | (4,448) |
| Increase in other current assets | (363) | (307) |
| Decrease (increase) in prepaid expenses | 1,118 | (526) |
| Increase in income tax receivable | (4,075) | - |
| Increase in other assets and restricted cash | (531) | (193) |
| Increase (decrease) in accounts payable | 4,154 | (1,778) |
| (Decrease) Increase in accrued liabilities, claims accrual and other | (4,489) | 2,151 |
| Net cash provided by operating activities | 86,193 | 86,367 |

CASH FLOW FROM INVESTING ACTIVITIES:

| | | |
|---|----------|-----------|
| Purchase of property and equipment | (89,641) | (125,607) |
| Proceeds from sales of equipment | 33,002 | 37,509 |
| Decrease (increase) in notes receivable | 156 | (93) |
| Acquisition-related contingent payment | (156) | (320) |
| Increase in restricted cash | - | (384) |
| Return of equity (contribution) in TRP | 216 | (1,836) |
| Proceeds from investment earn-out | 188 | - |
| Net cash used in investing activities | (56,235) | (90,731) |

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

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------------|
| | 2007 | 2006 |
| CASH FLOW FROM FINANCING ACTIVITIES: | | |
| Dividends paid | (6,911) | (6,866) |
| Excess tax benefits related to stock-based compensation | 1,293 | 1,257 |
| Proceeds from exercise of stock options | 3,104 | 1,832 |
| Net cash used in financing activities | (2,514) | (3,777) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 27,444 | (8,141) |
| CASH AND CASH EQUIVALENTS, beginning of period | 1,582 | 18,809 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 29,026 | \$ 10,668 |
| SUPPLEMENTAL DISCLOSURES: | | |
| Non-cash investing and financing transactions: | | |
| Equipment acquired in accounts payable | \$ 89 | \$ 8,604 |
| FIN48 adoption tax liability | \$ 394 | - |
| Cash Flow Information: | | |
| Income taxes paid | \$ 35,555 | \$ 30,371 |

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, 2006.

Note 2. Stock-Based Compensation

At September 30, 2007, we had one stock-based employee compensation plan known as the Knight Transportation, Inc. 2003 Stock Option Plan, dated June 1, 2003, as amended from time to time (the "2003 Plan"). On January 1, 2006 we adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases related to the 2003 Plan, based on estimated fair values. Total SFAS 123R compensation cost for the three and nine months ended September 30, 2007 and 2006, respectively, are as follows:

| | Three Months Ended September 30, (in thousands) | | Nine Months Ended September 30, (in thousands) | |
|--|---|----------|--|------------|
| | 2007 | 2006 | 2007 | 2006 |
| Gross stock compensation expense, net of forfeitures | \$ 676 | \$ 1,019 | \$ 2,147 | \$ 2,623 |
| Income tax | \$ (267) | \$ (398) | \$ (852) | \$ (1,040) |
| Net stock compensation expense after tax | \$ 409 | \$ 621 | \$ 1,295 | \$ 1,583 |

We received approximately \$1,419,000 and \$3,104,000 in cash from the exercise of stock options during the three months and nine months ended September 30, 2007, respectively, compared to \$676,000 and \$1,832,000 for the same periods in 2006.

As of September 30, 2007, there was \$18.8 million of unrecognized compensation cost related to unvested share-based compensation awards granted under the 2003 Plan. That cost is expected to be recognized over a weighted-average period of 2.9 years, and a total period of seven years.

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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:

| | Three Months Ended September 30, | |
|--|-------------------------------------|------------|
| | 2007 | 2006 |
| Dividend yield (1) | .70% | .45% |
| Expected volatility (2) | 32.24% | 33.19% |
| Risk-free interest rate (3) | 4.33% | 4.68% |
| Expected terms (4) | 7.17 years | 7.35 years |
| Weighted average fair value of options granted | \$ 7.41 | \$ 7.10 |

- (1) The dividend yield is based on our historical experience and future expectation of dividend payouts. The increase in the dividend yield in the 2007 period resulted from the Company increasing the dividend payment during the 2007 period from two cents per share to three cents per share.
- (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, 2007, and changes during the nine-month period is presented below:

| | Option Totals | Weighted Average Exercise Price Per Share (\$) |
|-----------------------------|------------------|--|
| Outstanding 12/31/2006 | 4,490,341 | 12.57 |
| Granted | 678,315 | 18.23 |
| Exercised | (439,477) | 6.77 |
| Forfeited | (93,200) | 14.07 |
| Outstanding as of 9/30/2007 | 4,635,979 | 13.91 |

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 September 30, 2007 and 2006, respectively, is as follows:

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| Weighted average common shares outstanding – basic | 86,479 | 85,895 | 86,318 | 85,823 |
| Effect of stock options | 821 | 1,027 | 931 | 1,254 |
| Weighted average common share and common share equivalents outstanding – diluted | 87,300 | 86,922 | 87,249 | 87,077 |
| Net income | \$ 14,509 | \$ 18,850 | \$ 49,306 | \$ 52,804 |
| Earnings per common share and common share equivalent | | | | |
| Basic | \$ 0.17 | \$ 0.22 | \$ 0.57 | \$ 0.62 |
| Diluted | \$ 0.17 | \$ 0.22 | \$ 0.57 | \$ 0.61 |

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Certain 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 | | Nine Months Ended | |
|--------------------------------|--------------------|---------|-------------------|--------|
| | September 30, | | September 30, | |
| | 2007 | 2006 | 2007 | 2006 |
| Number of anti-dilutive shares | 738,350 | 847,855 | 512,000 | 30,250 |

Note 4. Segment Information

We have determined that we have two operating segments. Our operating segments consist of (i) our truckload transportation (asset-based) segment and (ii) our brokerage segment (non-asset-based). Our asset-based, truckload transportation segment includes our dry van and temperature controlled operations with service centers located throughout the United States. Each of the asset-based service centers have similar economic 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 service centers into one reportable operating segment consistent with the guidance in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Accordingly, we have not presented separate financial information for each of these service centers. Furthermore, we have not presented separate financial information for our brokerage segment, although it qualifies as an operating segment under SFAS No. 131, because its results of operations are not material to our consolidated financial statements as a whole. For the three and nine months ended September 30, 2007, our brokerage segment accounted for 4.5% and 3.8% of our consolidated revenue, respectively, and less than 1.0% of our consolidated net income and assets for those same periods.

Note 5. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value and establishes a framework for measuring fair value under GAAP. The pronouncement describes fair value as being based on a hypothetical transaction to sell an asset or transfer a liability at a specific measurement date, as considered from the perspective of a market participant who holds the asset or owes the liability. In addition, fair value should be viewed as a market-based measurement, not an entity-specific measurement. Therefore, fair value should be determined based on the assumptions that market participants would use in pricing an asset or liability, including all risks associated with that asset or liability. SFAS 157 will be effective for the Company January 1, 2008. The adoption of SFAS 157 is not expected to have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB also issued Interpretation FIN No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." This statement sets forth criteria to recognize, derecognize, and measure benefits related to income taxes and establishes disclosure requirements pertaining to uncertainty in income tax assets and liabilities. FIN No. 48 became effective for the Company beginning January 1, 2007. Our consolidated financial statements for the three and nine months ended September 30, 2007, reflect the adoption of FIN No. 48. Please see Note 11 for additional disclosure regarding the adoption of FIN No. 48.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities." This statement permits an entity to measure certain financial assets and financial liabilities at fair value. The statement's objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 becomes effective, if elected by the Company, beginning January 1, 2008. Currently, we do not expect to elect the fair value option under SFAS No. 159.

Table of Contents**Note 6. 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 current pending or threatened legal proceedings will not have a material adverse effect upon our financial position or results of operations.

Note 7. Dividends

On August 17, 2007, we declared a cash dividend of \$0.03 per share of our common stock. The dividend was payable to shareholders of record on September 7, 2007, and was paid on September 28, 2007. This is a \$0.01 increase per share from the prior year's third quarter. 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 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.

Note 8. Goodwill & Intangible Assets

Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the 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, 2007 follow:

| | In Thousands |
|---|-----------------|
| Goodwill: | |
| Balance at December 31, 2006 | \$ 10,256 |
| Roads West earn-out adjustment | 156 |
| Goodwill tax benefit amortization | (14) |
| Balance at September 30, 2007 | \$ 10,398 |

| | In Thousands |
|-------------------------------------|-----------------|
| Intangible Assets: | |
| Balance at December 31, 2006 | \$ 300 |
| Amortization | (47) |
| Balance at September 30, 2007 | \$ 253 |

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 fiscal years 2007 to 2010 and \$52,000 for fiscal year 2011.

Note 9. Other Assets

In 2003, we signed a partnership agreement with Transportation Resource Partners ("TRP"), who makes privately negotiated equity investments. Per the original partnership agreement, we were committed to pledge \$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. At September 30, 2007, our ownership interest was approximately 2.1% and we had an outstanding commitment to TRP of approximately \$1.5 million.

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Note 10. Assets Held for Sale

Included in "Other current assets" on the Balance Sheet is \$2.5 million 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. No impairments were recorded in the nine months and three months ended September 30, 2007. We expect to sell these assets and replace them with new assets within twelve months.

Note 11. Income Taxes

We adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), effective January 1, 2007. This interpretation was issued to clarify accounting for income taxes recognized in financial statements by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. As a result of FIN 48 implementation, at January 1, 2007, we recorded a \$394,000 net decrease in retained earnings. As of the date of adoption, and after accounting for the cumulative effect of the adjustment noted above, our unrecognized tax benefits as of January 1, 2007, totaled approximately \$405,000. During the third quarter of 2007, we settled certain tax positions relating to the 2006 tax year, leaving unrecognized tax benefits of approximately \$195,000 as of September 30, 2007. The total amount of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate in future periods was approximately \$263,000 as of September 30, 2007. We do not expect these potential liabilities to change significantly within the next 12 months. Potential interest and penalties accrual related to unrecognized tax benefits are recognized as a component of income tax expense. Accrued interest and penalties as of September 30, 2007, was approximately \$122,000.

As of January 1, 2007, we are subject to U.S. Federal income tax examinations for the tax years 2003 through 2006. We file in numerous state jurisdictions with varying statutes of limitations.

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 "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, that involve risks, assumptions, and uncertainties that are difficult to predict. 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," "anticipates," and "likely," and variations of these words, or similar expressions, are intended to identify such forward-looking statements. Actual events or results could differ materially from those discussed in 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, 2006, as supplemented in Part II below.

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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

Our headquarters are located in Phoenix, Arizona. The transportation services we provide are asset-based dry van truckload and temperature controlled truckload carrier services, along with non-asset-based brokerage services. 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. We generally focus our dry van and temperature controlled operations on regional short-to-medium lengths of haul. The results of our brokerage activities were relatively immaterial for the third quarter of 2007 and therefore a detailed discussion of the financial results of these operations will not be separately presented. As of September 30, 2007, we operated 31 asset-based service centers (consisting of 27 dry van and four 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, and our ability to control our costs.

Operating and Growth Strategy

The primary source of our revenue growth has been our ability to open and develop new regional service centers in selected geographic areas and operate them at or near our targeted margins within a relatively short period of time. In the third quarter of 2007, we added a dry van service center in Dallas, Texas, and five brokerage branches. Our new brokerage branches are located in Indianapolis, Indiana; Carlisle, Pennsylvania; Atlanta, Georgia; Reno, Nevada; and Los Angeles, California. As part of our growth strategy, we also periodically evaluate acquisition opportunities that meet our financial and operating criteria.

Our base expectation for the near term is to grow our fleet in a modest single digit range annually and to continue to grow our brokerage business. We will evaluate this base goal and may adjust it up or down periodically based on factors such as freight demand, driver availability, and acquisitions. In the current environment, we believe meaningful fleet growth through internal expansion will be difficult, excluding the effect of any acquisitions. In the longer term, we believe declining orders for new tractors and trailers, an eventual increase in freight demand, a chronic shortage of drivers, the exit of underperforming carriers from the market, and fleet downsizing by the larger truckload carriers may result in a more favorable balance of supply and demand in the marketplace sometime in 2008.

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, among other things, to 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.

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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, 2007, our results of operations changed as follows versus the same period in 2006:

Revenue, before fuel surcharge, increased 3.5%, to \$151.7 million from \$146.6 million;

Net income decreased to \$14.5 million, compared to \$18.9 million; and

Net income per diluted share decreased to \$0.17, compared to \$0.22 for the same period of 2006.

The third quarter of 2007 presented the most difficult operating environment in several years for the execution of our business model based on leading growth and profitability. During the quarter, the industry wide supply of truckload equipment outpaced freight demand, which pressured pricing and resulted in lower equipment utilization. Our average freight revenue per tractor declined 7.7% versus the third quarter of 2006, resulting from a combination of lower freight rates and fewer average miles per tractor. Additionally, the pricing environment during the quarter just ended was less favorable than in the third quarter of 2006. During the third quarter of 2006, our revenue per loaded mile increased 7.6% over the same period the previous year, whereas in the third quarter of 2007 our revenue per loaded mile decreased 3.7% compared to the 2006 period.

Average revenue per tractor per week, before fuel surcharge, decreased to \$2,910 in the third quarter of 2007, compared to \$3,154 in the same quarter a year ago. Our operating ratio, net of fuel surcharge (operating expenses, net of fuel surcharge, expressed as a percentage of revenue, before fuel surcharge), was 84.5% for the quarter ended September 30, 2007, as compared to 79.1% for the same period a year ago. Our non-revenue miles factor increased by 40 basis points to 12.9%, and the average length of haul decreased to 544 miles, compared to 551 miles for the same period a year ago.

During the quarter, average number of tractors operated increased 10.1% compared to the same period of 2006, an increase of 350 tractors. We expanded our fleet by 27 tractors compared to the second quarter of 2007. For the quarter, we invested \$31.3 million in net capital expenditures. At September 30, 2007, our balance sheet remained debt free, our cash and cash equivalents and short term investments grew from \$1.6 million at year end to \$34.9 million, and our shareholders' equity was \$474.8 million.

Our industry is currently challenged with lower demand and higher equipment availability as a result of many of our competitors pre-buying before the more restrictive engine regulations took effect in 2007. We believe declining orders for new tractors and trailers, an eventual increase in freight demand, a chronic shortage of drivers, the exit of underperforming carriers from the market, and fleet downsizing by the larger truckload carriers may result in a more favorable balance of supply and demand in the marketplace sometime in 2008. While the timing and magnitude of improvements in the freight environment are difficult to predict, we believe that continuing to develop our service center network will position us favorably when the truckload freight market strengthens again.

Table of Contents**Results of Operations**

The following table sets forth the percentage relationships of our expense items to 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, 2007 and 2006. 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.

| | (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, | |
|---------------------------------------|---|--------|---|--------|--|--------|--|--------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Revenue | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Operating expenses: | | | | | | | | |
| * | | | | | | | | |
| Salaries, wages and benefits | 28.6 | 28.3 | 34.1 | 33.8 | 28.8 | 28.7 | 33.8 | 33.8 |
| Fuel | 27.0 | 26.1 | 13.1 | 11.9 | 25.6 | 25.5 | 12.7 | 12.4 |
| Operations and maintenance | 5.8 | 5.3 | 6.9 | 6.3 | 5.6 | 5.5 | 6.6 | 6.5 |
| Insurance and claims | 4.3 | 4.0 | 5.1 | 4.7 | 4.2 | 3.8 | 4.9 | 4.5 |
| Operating taxes and licenses | 2.1 | 2.0 | 2.5 | 2.3 | 2.1 | 2.1 | 2.5 | 2.4 |
| Communications | 0.8 | 0.8 | 0.9 | 1.0 | 0.8 | 0.8 | 0.9 | 1.0 |
| Depreciation and amortization | 9.2 | 8.8 | 10.9 | 10.5 | 9.3 | 9.2 | 10.9 | 10.8 |
| Lease expense—revenue equipment | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Purchased transportation | 7.7 | 6.2 | 9.2 | 7.4 | 7.2 | 5.8 | 8.5 | 6.8 |
| Miscellaneous operating expenses | 1.4 | 0.9 | 1.7 | 1.1 | 1.1 | 0.8 | 1.3 | 0.9 |
| Total operating expenses | 87.0 | 82.5 | 84.5 | 79.1 | 84.8 | 82.3 | 82.2 | 79.2 |
| Income from operations | 13.0 | 17.5 | 15.5 | 20.9 | 15.2 | 17.7 | 17.8 | 20.8 |
| Net interest income | 0.2 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.2 |
| Other Income | - | - | - | - | 0.1 | - | 0.1 | - |

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| | | | | | | | | |
|-------------------------------|------|-------|------|-------|------|-------|-------|-------|
| Income before income taxes | 13.2 | 17.7 | 15.8 | 21.1 | 15.5 | 17.9 | 18.2 | 21.0 |
| Income taxes | 5.2 | 6.9 | 6.2 | 8.2 | 6.1 | 7.1 | 7.2 | 8.3 |
| Net income | 8.0% | 10.8% | 9.6% | 12.9% | 9.4% | 10.8% | 11.0% | 12.7% |

* There are minor rounding differences in the table.

A discussion of our results of operations for the nine and three months ended September 30, 2007 and September 30, 2006 is set forth below.

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Comparison of Nine Months and Three Months Ended September 30, 2007 to Nine Months and Three Months Ended September 30, 2006

Total revenue for the nine months ended September 30, 2007 increased 7.7% to \$527.0 million, from \$489.5 million for the same period in 2006. Total revenue included \$77.5 million of fuel surcharge revenue in the 2007 period, compared to \$73.2 million in the 2006 period. Total revenue for the quarter ended September 30, 2007 increased 3.2% to \$180.3 million, from \$174.7 million for the same period in 2006. Total revenue for the quarter included \$28.7 million of fuel surcharge revenue in the 2007 period, compared to \$28.1 million in the 2006 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.

Revenue, before fuel surcharge, increased 8.0% to \$449.5 million for nine months ended September 30, 2007, from \$416.3 million for the same period in 2006. Revenue, before fuel surcharge, increased 3.5% to \$151.7 million for the quarter ended September 30, 2007, from \$146.6 million for the same period in 2006. The increase in revenue is primarily due to fleet expansion, our purchase of Roads West Transportation in the fourth quarter of 2006, and the continued expansion of our brokerage operations. For the quarter ended September 30, 2007, our average tractor fleet increased 350 tractors, or 10.1%, to 3,813 tractors from 3,463 tractors in the same period of 2006.

Salaries, wages and benefits expense as a percentage of revenue, before fuel surcharge, remained constant at 33.8% for the nine months ended September 30, 2007 and 2006. Salaries, wages and benefits expense as a percentage of revenue, before fuel surcharge, increased to 34.1% for the quarter ended September 30, 2007, from 33.8% for the same period in 2006. This increase is primarily due to a decrease in revenue per mile. For our employees, we record accruals for workers' compensation benefits as a component of our claims accrual, 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, increased to 12.7% for the nine months ended September 30, 2007, from 12.4% for the same period in 2006. For the quarter ended September 30, 2007, fuel expense, net of fuel surcharge, as a percentage of revenue before fuel surcharge, increased to 13.1% from 11.9% for the same period in 2006. The increase in fuel expense is due to the combination of fuel mileage degradation caused by the use of ultra-low sulfur diesel fuel, rising fuel prices toward the end of the quarter, higher empty miles as a percentage of total miles, insufficient fuel surcharge recovery, as well as a decrease in revenue per mile. We maintain a fuel surcharge program to assist us in recovering a portion of our fuel expense. Fuel surcharge revenue was \$77.5 million for the nine months ended September 30, 2007, compared to \$73.2 million for the same period in 2006. For the quarter ended September 30, 2007, fuel surcharge revenue was \$28.7 million compared to \$28.1 million for the same quarter in 2006.

Operations and maintenance expense, as a percentage of revenue, before fuel surcharge, increased slightly to 6.6% for the nine months ended September 30, 2007, compared to 6.5% for the same period in 2006. For the quarter ended September 30, 2007, operations and maintenance expense, as a percentage of revenue, before fuel surcharge, increased to 6.9% compared to 6.3% for the same quarter in 2006. Revenue before fuel surcharge increased 3.5% during the quarter ended September 30, 2007, while our tractor fleet size increased 10.1%. The increase in operations and maintenance expense in the third quarter of 2007 is due to a combination of our fleet growth outpacing revenue growth and declining revenue per mile. Independent contractors pay for the maintenance of their own vehicles.

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Insurance and claims expense as a percentage of revenue, before fuel surcharge, increased to 4.9% for the nine months ended September 30, 2007, compared to 4.5% for the same period in 2006. For the quarter ended September 30, 2007, insurance and claims expense as a percentage of revenue, before fuel surcharge, increased to 5.1% compared to 4.7% for the same quarter in 2006. The increase is attributed to higher claims cost in the third quarter of 2007 and lower revenue per mile.

Operating taxes and licenses expense as a percentage of revenue, before fuel surcharge, increased slightly to 2.5% for the nine months ended September 30, 2007, compared to 2.4% for the same period in 2006. For the quarter ended September 30, 2007, operating taxes and license expense, as a percentage of revenue, before fuel surcharge, increased to 2.5% compared to 2.3% for the same quarter in 2006. The increase is mainly due to lower revenue per mile and lower utilization.

Communications expense as a percentage of revenue, before fuel surcharge, decreased to 0.9% for the nine months and three months ended September 30, 2007, from 1.0% for the same periods in 2006. The reduction in communication expense is due to contractual rate changes.

Depreciation and amortization expense as a percentage of revenue, before fuel surcharge, increased slightly to 10.9% for the nine-month period ended September 30, 2007, compared to 10.8% for the same period in 2006. For the quarter ended September 30, 2007, depreciation and amortization expense as a percentage of revenue, before fuel surcharge, increased to 10.9% compared to 10.5% for the same quarter in 2006. The increase in this fixed cost per tractor is attributed to fleet expansion and declining revenue per mile.

Lease expense for revenue equipment for the nine-month and three-month periods ended September 30, 2007, and 2006, as a percentage of revenue, before fuel surcharge, remained constant at 0.1%. As of September 30, 2007 we had 13 tractors under operating leases.

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. Purchased transportation expense as a percentage of revenue, before fuel surcharge, increased to 8.5% for the nine months ended September 30, 2007, from 6.8% for the same period in 2006. For the quarter ended September 30, 2007, purchased transportation expense as a percentage of revenue, before fuel surcharge, increased to 9.2% compared to 7.4% for the same quarter in 2006. The increase in this category is primarily due to payments to outside carriers for transportation services arranged by our brokerage division, which has experienced considerable growth over the last year. Excluding purchased transportation activities from our brokerage division, this expense as a percentage of revenue, before fuel surcharge, would have decreased to 4.8% in the nine months ended September 30, 2007, compared to 5.3% for the same periods in 2006. This decrease is attributable to a change in the ratio of our company fleet to owner operated fleet. As of September 30, 2007, 6.0% of our fleet was comprised of independent contractors, compared to 6.5% a year ago.

Miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, increased to 1.3% for the nine-month period ended September 30, 2007, compared to 0.9% for the same period in 2006. For the quarter ended September 30, 2007, miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, increased to 1.7% compared to 1.1% for the same quarter in 2006. Gains from sale of used equipment are included in miscellaneous operating expenses. The large pre-buy of tractors in 2006 by many of our competitors resulted in lower demand in 2007. In addition, we removed fewer pieces of equipment from service during the third quarter of 2007 compared to the same period of 2006, which reduced the quantity of equipment available for sale. As a result of these factors, gains from sale of equipment decreased to \$3.9 million and \$1.2 million for the nine months and three months ended September 30, 2007, respectively, compared to \$6.8 million and \$2.1 million for the same nine months and three months of 2006. Excluding gains from sale of used equipment, miscellaneous operating expenses decreased to

2.3% for the nine months ended September 30, 2007, compared to 2.5% for the same periods in 2006. For the three months ended September 30, 2007, miscellaneous operating expense excluding gain remained constant at 2.5% compared to the same period in 2006.

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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 82.2% for the nine months ended September 30, 2007, from 79.2% for the same period in 2006. For the quarter ended September 30, 2007, our operating ratio increased to 84.5% from 79.1% for the same quarter in 2006.

Net interest income, investment, and other income as a percentage of revenue, before fuel surcharge, increased to 0.3% for the nine months and three months ended September 30, 2007, from 0.2% for the same periods in 2006. We had no outstanding debt at September 30, 2007 or 2006.

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. For the nine months ended September 30, 2007 our effective tax rate remained constant at 39.7% of our income before taxes, compared to the same period in 2006. Our effective tax rate increased to 39.4% for the quarter ended September 30, 2007, compared to 39.0% for the same quarter a year ago. The lower tax rate in third quarter of 2006 was attributed to a favorable adjustment as a result of finalizing the 2005 income tax return. As a percentage of revenue, before fuel surcharge, income tax expense decreased to 7.2% for the nine months ended September 30, 2007, from 8.3% for the same period in 2006. For the quarter ended September 30, 2007, income tax expense, as a percentage of revenue, before fuel surcharge, decreased to 6.2% from 8.2% for the same quarter in 2006.

As a result of the preceding changes, our net income, as a percentage of revenue before fuel surcharge, decreased to 11.0% for the nine months ended September 30, 2007, compared to 12.7% for the same period in 2006. For the quarter ended September 30, 2007, our net income, as a percentage of revenue before fuel surcharge, decreased to 9.6%, compared to 12.9% in the same quarter in 2006.

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 remained relatively constant, at \$86.1 million for the nine months ended September 30, 2007, compared to \$86.4 million for the same period in 2006.

Net cash used in investing activities was \$56.2 million for the nine months ended September 30, 2007, compared to \$90.7 million for the 2006 period. The decrease is mainly due to a reduction in capital expenditures for revenue equipment in the current period. Capital expenditures for the purchase of revenue equipment, office equipment, land and leasehold improvements, net of equipment sales, totaled \$56.6 million for the nine months ended September 30, 2007, compared to \$88.1 million for the 2006 period. We currently anticipate total capital expenditures, net of equipment sales, of approximately \$80.0 to \$85.0 million for the year. This has been and will be used primarily to acquire new revenue equipment.

Net cash used in financing activities was approximately \$2.5 million for the nine months ended September 30, 2007, compared to approximately \$3.8 million for the same period in 2006. The decrease in cash used in financing activities is primarily due to an increase in proceeds from stock options exercised in the current period.

At September 30, 2007, we did not have any outstanding debt. We currently maintain a line of credit that permits revolving borrowings and letters of credit totaling \$50.0 million. At September 30, 2007, the line of credit consisted solely of issued but unused letters of credit totaling \$31.4 million. 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, 2007.

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As of September 30, 2007, we held \$34.9 million in cash and cash equivalents and short term investments. Management believes 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. 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. At September 30, 2007, we had 13 tractors held under operating leases. 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, 2007, compared to those disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation," included in our 2006 Annual Report on Form 10-K.

New Accounting Pronouncements

See Note 5 for a discussion of recently-issued accounting pronouncements.

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.

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 confined almost entirely to the United States, we are not subject to

foreign currency risk.

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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. 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, 2007, 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 the risk of high fuel prices, although we do not recover the full amount of fuel price increases. As of September 30, 2007, 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, 2007, 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 of our control issues and instances of fraud, if any, have been detected.

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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, 2006, 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, we believe that the following additional issues, uncertainties, and risks, should be considered in evaluating our business and growth outlook:

We operate in a highly regulated industry and changes in regulations could have a materially adverse effect on our business.

Our operations are regulated and licensed by various government agencies, including the Department of Transportation ("DOT"). The DOT, through the Federal Motor Carrier Safety Administration, or FMCSA, imposes safety and fitness regulations on us and our drivers. New rules that limit driver hours-of-service were adopted effective January 4, 2004, and then modified effective October 1, 2005 (the "2005 Rules"). On July 24, 2007, a federal appeals court vacated portions of the 2005 Rules. Two of the key portions that were vacated include the expansion of the driving day from 10 hours to 11 hours, and the "34 hour restart" requirement that drivers must have a break of at least 34 consecutive hours during each week. On September 28, 2007, the court, in response to a request by the FMCSA for a 12-month extension of the vacated rules, ruled that the vacated rules may remain in effect for 90 days. At the end of the 90 day period, the 11 hour driving limit and the 34 hour restart provisions of the 2005 Rules will be eliminated. We understand that the FMCSA is currently evaluating its options in light of the court's ruling and it is unclear whether the FMCSA will issue any interim regulations at this time.

The court's decision may have varying effects, in that reducing driving time to 10 hours daily may reduce productivity in certain instances, while eliminating the 34-hour restart may enhance productivity in certain instances. On the whole, however, we would expect the court's decision to reduce productivity and cause some loss of efficiency as our drivers are retrained and some shipping lanes may need to be reconfigured. Additionally, we are unable to predict the effect of any new rules that might be proposed, but any such proposed rules could increase costs in our industry or decrease productivity.

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

Not Applicable

Item 3. Defaults Upon Senior Securities

Not Applicable

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

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K

| <u>Exhibit No.</u> | <u>Description</u> |
|------------------------|---|
| 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) Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-3 No. 333-72130.) |
| | (3.2.1) First Amendment to Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3.2.1 to the Company's Report on Form 10-K for the period ended December 31, 2002.) |
| | (3.2.2) Second Amendment to Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3.2.1 to the Company's Report on Form 8-K dated March 2, 2005 and filed on March 4, 2005.) |
| | (3.2.3) Fifth Amendment to Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 8-K dated March 28, 2007 and filed on March 30, 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 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 Plan. (Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed December 1, 2005.) |

Exhibit Section 302 Certifications
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(31.1)* 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.

(31.2)* 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.

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Exhibit
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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.

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SIGNATURES

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

KNIGHT TRANSPORTATION, INC.

Date: November 9, 2007

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, 2007

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