KNIGHT TRANSPORTATION INC
Form 10-Q
August 08, 2016

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 June 30, 2016

Or

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

For the transition period from to

Commission File Number: 001-32396

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.)

20002 North 19th Avenue
Phoenix, Arizona
85027
(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 (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x 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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	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).
o Yes x No

The number of shares outstanding of registrant's common stock, par value $0.01 per share, as of July 28, 2016, was 80,017,790 shares.

KNIGHT TRANSPORTATION, INC.

TABLE OF CONTENTS

		Page Number
PART I – FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Condensed Consolidated Unaudited Balance Sheets as of June 30, 2016 and December 31, 2015	1
	Condensed Consolidated Unaudited Statements of Income for the three and six months ended June 30, 2016 and 2015	3
	Condensed Consolidated Unaudited Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015	4
	Condensed Consolidated Unaudited Statements of Cash Flows for the six months ended June 30, 2016 and 2015	5
	Notes to Condensed Consolidated Unaudited Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	34
Item 4.	Controls and Procedures	34
Part II – OTHER INFORMATION		
Item 1.	Legal Proceedings	34
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3.	Defaults Upon Senior Securities	35
Item 4.	Mine Safety Disclosures	35
Item 5.	Other Information	35
Item 6.	Exhibits	36
Signatures		37

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Balance Sheets
(in thousands)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 9,564	$ 8,691
Trade receivables, net of allowance for doubtful accounts of $2,780 and $3,106, respectively	134,753	131,945
Notes receivable, net of allowance for doubtful notes receivable of $265 and $273, respectively	549	648
Prepaid expenses	11,894	17,320
Assets held for sale	21,091	29,327
Other current assets	9,171	14,215
Income tax receivable	17,923	41,967
Total current assets	204,945	244,113
Property and Equipment:		
Revenue equipment	883,910	866,252
Land and land improvements	53,131	52,951
Buildings and building improvements	142,256	139,102
Furniture and fixtures	19,955	18,363
Shop and service equipment	16,438	16,729
Leasehold improvements	4,475	3,061
Gross property and equipment	1,120,165	1,096,458
Less: accumulated depreciation and amortization	(316,032)	(292,815)
Property and equipment, net	804,133	803,643
Notes receivable, long-term	3,435	3,419
Goodwill	47,040	47,050
Intangible assets, net	2,825	3,075
Other long-term assets, restricted cash and investments	24,416	18,932
Total long-term assets	881,849	876,119
Total assets	$ 1,086,794	$ 1,120,232

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)
(in thousands, except par values)

	June 30, 2016	December 31, 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 28,491	$ 14,818
Accrued payroll and purchased transportation	21,567	23,776
Accrued liabilities	16,504	21,609
Claims accrual – current portion	20,315	19,471
Dividend payable – current portion	314	349
Total current liabilities	87,191	80,023
Long-term Liabilities:		
Claims accrual – long-term portion	12,192	11,508
Long-term dividend payable and other liabilities	1,888	2,164
Deferred tax liabilities	177,200	174,165
Long-term debt	60,000	112,000
Total long-term liabilities	251,280	299,837
Total liabilities	338,471	379,860
Commitments and Contingencies (Note 6)		
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; 79,991 and 80,967 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	800	810
Additional paid-in capital	216,022	205,648
Accumulated other comprehensive income	733	2,573
Retained earnings	529,017	529,367
Total Knight Transportation shareholders' equity	746,572	738,398
Noncontrolling interest	1,751	1,974
Total shareholders’ equity	748,323	740,372
Total liabilities and shareholders' equity	$ 1,086,794	$ 1,120,232

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 Income
(in thousands, except per share data)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
REVENUE:				
Revenue, before fuel surcharge	$ 253,859	$ 268,623	$ 507,442	$ 525,837
Fuel surcharge	22,459	33,199	40,964	66,266
Total revenue	276,318	301,822	548,406	592,103
OPERATING EXPENSES:				
Salaries, wages and benefits	84,440	84,381	168,043	164,407
Fuel	33,429	42,362	60,200	80,451
Operations and maintenance	19,094	21,547	37,104	41,675
Insurance and claims	8,257	7,995	17,080	16,928
Operating taxes and licenses	4,612	4,725	10,099	10,581
Communications	1,043	1,077	2,248	2,217
Depreciation and amortization	28,955	27,364	57,357	54,524
Purchased transportation	53,918	60,619	111,703	120,164
Miscellaneous operating expenses	4,489	10,133	7,764	13,234
Total operating expenses	238,237	260,203	471,598	504,181
Income from operations	38,081	41,619	76,808	87,922
Interest income	82	104	176	236
Interest expense	(258)	(211)	(559)	(493)
Other income	1,927	2,436	3,213	4,899
Income before income taxes	39,832	43,948	79,638	92,564
Income taxes	14,861	15,759	31,645	34,434
Net income	24,971	28,189	47,993	58,130
Net income attributable to noncontrolling interest	(296)	(551)	(748)	(930)
Net income attributable to Knight Transportation	$ 24,675	$ 27,638	$ 47,245	$ 57,200
Earnings per share:				
Basic	$ 0.31	$ 0.34	$ 0.59	$ 0.70
Diluted	$ 0.31	$ 0.33	$ 0.58	$ 0.69
Dividends declared per share	$ 0.06	$ 0.06	$ 0.12	$ 0.12
Weighted Average Shares Outstanding:				
Basic	80,105	81,894	80,407	81,959
Diluted	80,781	82,852	81,079	83,020

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

3

Table of Contents

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Statements of Comprehensive Income
(in thousands)

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income	$ 24,971	$ 28,189	$ 47,993	$ 58,130
Other comprehensive income, net of tax:				
Realized gains from available-for-sale securities reclassified to net income(1)	(907)	(1,344)	(1,888)	(2,782)
Unrealized (loss)/gain from changes in fair value of available-for-sale securities(2)	(75)	(3,010)	48	(3,271)
Comprehensive income	23,989	23,835	46,153	52,077
Comprehensive income attributable to noncontrolling interest	(296)	(551)	(748)	(930)
Comprehensive income attributable to Knight Transportation	$ 23,693	$ 23,284	$ 45,405	$ 51,147

(1) Net of current income tax expense of $567, $849, $1,181, and $1,757, respectively.
(2) Net of deferred income tax (benefit)/expense of $(50), $(1,903), $24, and $(2,145), respectively.

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)

	Six Months Ended June 30, 2016	2015
Cash Flows From Operating Activities:		
Net income	$ 47,993	$ 58,130
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	57,357	54,524
Gain on sale of equipment	(5,845)	(9,912)
Gain from sale of available-for-sale securities	(3,069)	(4,539)
Gain from sale of Transportation Resource Partners I	-	(122)
Income from investment in Transportation Resource Partners III	(144)	(239)
Non-cash compensation expense for issuance of common stock to certain members of Board of Directors	398	354
Provision for doubtful accounts and notes receivable	317	803
Excess tax benefits related to stock-based compensation	(690)	(2,748)
Stock-based compensation expense, net	2,581	3,600
Deferred income taxes	4,193	(9,141)
Changes in operating assets and liabilities:		
Trade receivables	(3,115)	7,837
Other current assets	5,044	49
Prepaid expenses	5,425	1,379
Income tax receivable	24,043	12,699
Other long-term assets	185	(1,946)
Accounts payable	5,363	(4,857)
Accrued liabilities and claims accrual	(6,512)	1,596
Net cash provided by operating activities	133,524	107,467
Cash Flows From Investing Activities:		
Purchases of property and equipment	(75,446)	(86,930)
Proceeds from sale of equipment/assets held for sale	40,050	47,321
Proceeds from notes receivable	262	822
Change in restricted cash and investments	(19)	(8)
Proceeds from sale of available-for-sale securities	5,183	6,188
Cash payments to Transportation Resource Partners	(11,028)	-
Cash proceeds from Transportation Resource Partners	423	251
Net cash used in investing activities	(40,575)	(32,356)

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

5

Table of Contents

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

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Cash Flows From Financing Activities:				
Dividends paid	$	(9,938)	$	(10,135)
Payments to repurchase company stock		(36,566)		(30,345)
Payments on line of credit borrowings, net		(52,000)		(49,400)
Excess tax benefits related to stock-based compensation		690		2,748
Cash distribution to noncontrolling interest holder		(972)		(603)
Proceeds from exercise of stock options		6,710		6,488
Net cash used in financing activities		(92,076)		(81,247)
Net increase (decrease) in Cash and Cash Equivalents		873		(6,136)
Cash and Cash Equivalents, beginning of period		8,691		17,066
Cash and Cash Equivalents, end of period	$	9,564	$	10,930
Supplemental Disclosures:				
Non-cash investing and financing transactions:				
Equipment acquired included in accounts payable	$	12,528	$	13,821
Transfer from property and equipment to assets held for sale	$	18,776	$	19,944
Financing provided to independent contractors for equipment sold	$	157	$	424
Net dividend accrued for restricted stock units	$	77	$	86
Cash flow information:				
Income taxes paid	$	2,667	$	28,253
Interest expense paid	$	591	$	529

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

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 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, 2015.

Note 2. Stock-Based Compensation

In May 2015, our shareholders approved the Amended and Restated 2015 Omnibus Incentive Plan (the “2015 Plan”). This plan combines into a single plan the Company’s 2005 Executive Cash Bonus Plan (the “2005 Plan”) and the 2012 Equity Compensation Plan (the “2012 Plan”) and allows for future grants under the 2015 Plan. Grants outstanding under the 2005 Plan and 2012 Plan will continue in force and effect and continue to be governed solely by the terms and conditions of the instrument evidencing such grants, and will be interpreted under the terms of the 2005 Plan and the 2012 Plan, as applicable. Since approval of the 2015 Plan in May 2015, all grants of stock-based compensation are made under the 2015 Plan. Stock-based compensation expense for the three months and six months ended June 30, 2016, and 2015, are as follows (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Stock compensation expense for options, net of forfeitures	$ 513	$ 280	$ 884	$ 446
Stock compensation expense for restricted stock units and performance restricted stock units, net of forfeitures	1,288	1,167	1,697	3,154
Total stock compensation expense	$ 1,801	$ 1,447	$ 2,581	$ 3,600

Our policy is to recognize compensation expense on a straight-line basis over the requisite service period for the entire award.

As of June 30, 2016, we have approximately $4.3 million of unrecognized compensation expense related to unvested options. This cost is expected to be recognized over a weighted-average period of 1.9 years and a total period of 3.7 years. We have approximately $9.4 million of unrecognized compensation expense related to restricted stock unit awards, which is anticipated to be recognized over a weighted-average period of 3.5 years and a total period of 6.6

years. We also have approximately $8.2 million of unrecognized compensation cost related to unvested performance awards. That cost is expected to be recognized over a weighted-average period of 2.8 years and total period of 3.6 years.

A total of 569,480 and 590,141 stock options were granted during the first six months of 2016 and 2015, respectively. We received approximately $6.7 million in cash from the exercise of stock options during the six months ended June 30, 2016, compared to $6.5 million for the same period in 2015.

A summary of the option award activity under our equity compensation plan as of June 30, 2016, and changes during the six months ended June 30, 2016, is presented below:

	Option Totals	Weighted Average Exercise Price Per Share
Outstanding as of December 31, 2015	2,008,872	$ 21.41
Granted	569,480	24.23
Exercised	(371,805)	17.94
Forfeited	(61,830)	25.59
Outstanding as of June 30, 2016	2,144,717	$ 23.04

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model. Listed below are the weighted-average assumptions used for the fair value computation:

	Six Months Ended June 30,	
	2016	2015
Dividend yield (1)	0.99 %	0.80 %
Expected volatility (2)	27.91 %	25.88 %
Risk-free interest rate (3)	0.90 %	0.98 %
Expected term (4)	2.74 years	2.74 years
Weighted-average fair value of options granted	$ 4.28	$ 5.00

(1) Dividend yield – the dividend yield is based on our historical experience and future expectation of dividend payouts.
(2) Expected volatility – we analyzed the volatility of our stock using historical data.
(3) Risk-free interest rate – 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) Expected term – the expected term 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.

A total of 4,350 and 13,950 restricted stock unit awards were granted during the first six months of 2016 and 2015, respectively. A summary of the restricted stock unit award activity under our equity compensation plans as of June 30, 2016, and changes during the six months ended June 30, 2016, is presented below:

	Number of Restricted Stock Unit Awards	Weighted Average Grant Date

		Fair Value
Unvested as of December 31, 2015	879,173	$ 16.45
Granted	4,350	26.38
Vested	(154,667)	16.73
Forfeited	(5,240)	16.43
Unvested as of June 30, 2016	723,616	$ 16.45

The fair value of each restricted stock unit is based on the closing market price on the date of grant.

Beginning in 2014, we issued performance restricted stock units ("PRSUs") to selected key employees that may be earned based on revenue growth and return on assets, and may then be modified based on our total shareholder return, as defined in the instrument evidencing the grant, over a three-year period. The primary award adjustment may range from 0 percent to 150 percent of the initial grant, based upon performance achieved over the three-year period. The primary award modifier, which would multiply the adjusted primary award by 75 percent to 125 percent, is measured by determining the percentile rank of the total shareholder return, as defined in the instrument evidencing the grant, of Knight Transportation common stock in relation to the total shareholder return of a peer group for the three-year period. The final award will be based on performance achieved in accordance with the scale set forth in the plan agreement. PRSUs do not earn dividend equivalents.

A total of 177,741 and 165,720 PRSUs were granted in the first six months of 2016 and 2015, respectively. A summary of the performance restricted stock unit award activity for the six months ended June 30, 2016 is presented below:

	Number of Performance Restricted Stock Unit Awards	Weighted Average Grant Date Fair Value
Unvested as of December 31, 2015	341,782	$ 26.46
Granted	177,741	23.89
Shares earned above target	2,516	23.85
Vested	(5,391)	23.85
Cancelled	(1,238)	23.89
Unvested as of June 30, 2016	515,410	$ 25.59

The number of granted shares, cancelled shares, and unvested shares are included in the table above based on the performance target established at the initial grant date.

The performance measurement period for the awards granted in the six months ended June 30, 2016, is January 1, 2016 to December 31, 2018. These awards will vest January 31, 2020, or thirteen months following the expiration of the performance period. The fair value of each PRSU grant is estimated on the date of grant using the Monte Carlo Simulation valuation model. Listed below are the weighted-average assumptions used for the fair value computation:

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Dividend yield (1)	0.99 %	0.80 %
Expected volatility (2)	27.95 %	23.18 %
Average peer volatility (2)	34.37 %	30.70 %
Average peer correlation coefficient (3)	0.6022	0.49
Risk-free interest rate (4)	0.89 %	0.78 %
Expected term (5)	2.84	2.63
Weighted-average fair value of PRSUs granted	$ 23.89	$ 29.30

(1) The dividend yield, used to project stock price to the end of the performance period, is based on our historical experience and future expectation of dividend payouts. Total shareholder return is determined assuming that dividends are reinvested in the issuing

entity over the performance period, which is mathematically equivalent to utilizing a 0% dividend yield.

(2) We (or peer company) estimated volatility using our (or their) historical share price performance over the remaining performance period as of the grant date.

(3) The correlation coefficients are used to model the way in which each entity tends to move in relation to each other; the correlation assumptions were developed using the same stock price data as the volatility assumptions.

(4) 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 performance award.

(5) Since the Monte Carlo simulation valuation is an open form model that uses an expected life commensurate with the performance period, the expected life of the PRSUs was assumed to be the period from the grant date to the end of the performance period.

Note 3. Earnings Per Share

A reconciliation of the basic and diluted earnings per share computations for the three months and six months ended June 30, 2016 and 2015, respectively, is as follows (dollars in thousands except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Weighted-average common shares outstanding – basic	80,105	81,894	80,407	81,959
Dilutive effect of stock options and unvested restricted stock units	676	958	672	1,061
Weighted-average common shares outstanding – diluted	80,781	82,852	81,079	83,020
Net income attributable to Knight Transportation	$ 24,675	$ 27,638	$ 47,245	$ 57,200
Basic earnings per share	$ 0.31	$ 0.34	$ 0.59	$ 0.70
Diluted earnings per share	$ 0.31	$ 0.33	$ 0.58	$ 0.69

Certain shares of options, restricted stock units, and PRSUs (collectively, “equity awards”) were excluded from the computation of diluted earnings per share because the equity award’s exercise prices were greater than the average market price of the common shares and the sum total of assumed proceeds resulted in fewer shares repurchased than the weighted equity awards outstanding hypothetically exercised per the treasury method.

The number of anti-dilutive shares are:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Number of anti-dilutive shares	1,274,322	338,898	1,185,126	183,788

Note 4. Segment Information

We have two operating and reportable segments: (i) the Trucking segment comprised of three operating units (Dry Van, Refrigerated, and Drayage), and (ii) the Logistics segment comprised of two operating units (Brokerage and Intermodal). We also provide logistics, freight management and other non-trucking services through our Logistics businesses. Through our Trucking and Logistics segment capabilities, we are able to transport, or can arrange for the transportation of, general commodities for customers throughout the United States and parts of Canada and Mexico.

In determining our reportable segments, we focus on financial information such as operating revenues and expenses, operating income, operating ratios, and other key operating statistics common in the industry. The chief operating decision makers also use this information to evaluate segment performance and allocate resources to our operations.

Table of Contents

Our segments provide transportation and related services for one another. Such services are billed at cost, and no profit is earned. Such intersegment revenues and expenses are eliminated in our consolidated results.

The following table sets forth revenue and operating income between the Trucking and Logistics segments for the three months and six months ended June 30, 2016 and 2015 (dollars in thousands).

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Revenues:	$	%	$	%	$	%	$	%
Trucking Segment	$ 226,423	81.9	$ 245,627	81.4	$ 444,379	81.0	$ 480,917	81.2
Logistics Segment	51,703	18.7	60,718	20.1	110,312	20.1	118,566	20.0
Subtotal	278,126		306,345		554,691		599,483	
Intersegment Eliminations Trucking	(34)	0.0	(60)	0.0	(72)	0.0	(78)	0.0
Intersegment Eliminations Logistics	(1,774)	(0.6)	(4,463)	(1.5)	(6,213)	(1.1)	(7,302)	(1.2)
Total	$ 276,318	100 %	$ 301,822	100 %	$ 548,406	100 %	$ 592,103	100 %
Operating Income:								
Trucking Segment	$ 35,286	92.7	$ 37,944	91.2	$ 71,208	92.7	$ 80,091	91.1
Logistics Segment	2,795	7.3	3,675	8.8	5,600	7.3	7,831	8.9
Total	$ 38,081	100 %	$ 41,619	100 %	$ 76,808	100 %	$ 87,922	100 %

No segmental asset or liability information is provided as we do not prepare balance sheets by segment, and the chief operating decision makers do not review segment assets or liabilities to make operating decisions.

Note 5. Joint Ventures

In 2014, we formed an Arizona limited liability company, Kool Trans, LLC, for the purpose of expanding our refrigerated trucking business. In 2015, we changed the company name to Kold Trans, LLC. We are entitled to 80% of the profits of the entity and have effective control over the management of the entity. In accordance with ASC 810-10-15-8, Consolidation, we consolidate the financial activities of this entity into these condensed consolidated financial statements. The noncontrolling interest for this entity is presented as a separate component of the condensed consolidated financial statements.

In 2010, we partnered with a non-related investor to form an Arizona limited liability company for the purpose of sourcing commercial vehicle parts. We contributed $26,000 to acquire 52% ownership of this entity. In accordance with ASC 810-10-15-8, Consolidation, we consolidate the financial activities of this entity into the condensed consolidated financial statements. The noncontrolling interest for this entity is presented as a separate component of the condensed consolidated financial statements.

Note 6. Commitments and Contingencies

We are a party to certain claims and pending litigation arising in the normal course of business. These proceedings primarily involve claims for personal injury, property damage, physical damage, and cargo loss incurred in the transportation of freight or for personnel matters, as well as certain class action litigation in which plaintiffs allege failure to provide meal and rest breaks, unpaid wages, unauthorized deductions, and other items.

We are insured against auto liability (“AL”) claims under a primary self-insured retention ("SIR") policy with retention ranging from $1.0 million to $3.0 million per occurrence and in some years, depending on the applicable policy year, we have been responsible for aggregate losses up to $1.5 million within the primary AL layer. For the policy periods March 1, 2016 to March 1, 2017, and March 1, 2015 to March 1, 2016, the SIR is $2.5 million with no additional aggregate limits or deductibles within the primary AL policy. We have secured excess liability coverage up to $130.0 million per occurrence for the policy period March 1, 2016 to March 1, 2017. For policy period March 1, 2015 to March 1, 2016, our excess liability coverage limit was $105.0 million per occurrence. We also carry a $2.5 million aggregate deductible for any loss or losses within the excess coverage layer.

We are self-insured for workers' compensation coverage. On March 31, 2016, the self-retention level was increased from a maximum $500,000 per occurrence to a maximum $1,000,000 per occurrence. We also maintain primary and excess coverage for employee medical expenses and hospitalization, with self-insured retention of $240,000 per claimant in 2016, and $225,000 per claimant in 2015.

Based on our present knowledge of the facts, and in certain cases, advice of outside counsel, management believes the resolution of open claims and pending litigation, taking into account existing reserves, is not likely to have a materially adverse effect on our consolidated financial statements.

Note 7. Property and Equipment

To ensure that our facilities remain modern and efficient, we periodically have facility upgrades, or new construction, in process at our various service center or corporate headquarters locations. Until these projects are completed, we consider these to be assets not yet placed in service and they are not depreciated. Once they are placed into service, we depreciate them according to our depreciation policy. At June 30, 2016 and December 31, 2015, we had approximately $9.2 million and $17.5 million, respectively, of facility construction in process assets included under "Buildings and building improvements" on the accompanying condensed consolidated balance sheets.

Note 8. Goodwill and Intangibles, net

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 amounts of goodwill were as follows (dollars in thousands):

	Six Months Ended June 30, 2016
Goodwill at beginning of period	$ 47,050
Amortization relating to deferred tax assets	(10)
Goodwill at end of period	$ 47,040

In conjunction with our acquisitions, identifiable intangible assets subject to amortization have been recorded at fair value and are being amortized over a weighted-average amortization period of 7.6 years.

Intangible asset balances were as follows (dollars in thousands):

	June 30, 2016	December 31, 2015
Gross carrying amount	$ 3,700	$ 3,700
Accumulated amortization	(875)	(625)
Intangible assets, net	$ 2,825	$ 3,075

12

Amortization expense associated with these intangible assets was $0.1 million and $0.3 million for the three and six months ended June 30, 2016, and 2015, respectively, and is included in “Depreciation and amortization” on the accompanying condensed consolidated statements of income. Future amortization expense for intangible assets is estimated at $0.2 million for the remainder of 2016, $0.5 million for each of the years 2017 through 2019, and $0.4 million in 2020 and 2021.

Note 9. Investments and Related Commitments

In 2003, we signed a partnership agreement with Transportation Resource Partners ("TRP"), a company that makes privately negotiated equity investments. Per the original partnership agreement, we committed to invest $5.0 million in TRP. In 2006, we increased the commitment amount to $5.5 million. No gain or loss was recognized from TRP investment activity in the second quarter of 2016, and we recognized a net gain of $122,000 in the second quarter of 2015. The carrying value of our investment in TRP was $300,000 at June 30, 2016 and December 31, 2015. Our investment in TRP is accounted for using the cost method, and the balance is included within "Other long-term assets, restricted cash and investments" on our accompanying condensed consolidated balance sheets.

In 2008, we formed Knight Capital Growth, LLC and committed $15.0 million to invest in another partnership managed and operated by the managers and principals of TRP. This partnership, Transportation Resource Partners III, LP ("TRP III"), is focused on investment opportunities similar to TRP. In 2015, TRP III released us from $2.1 million of our outstanding commitment. As of June 30, 2016, we have contributed approximately $11.0 million to TRP III, leaving an outstanding commitment of $1.9 million. Our investment in TRP III is accounted for using the equity method. For the three months ended June 30, 2016, we recorded income of approximately $453,000, for our investment in TRP III, and $121,000 for the three months ended June 30, 2015. The carrying value of our investment in TRP III was $5.5 million and $5.8 million as of June 30, 2016 and December 31, 2015, respectively, and is included within "Other long-term assets, restricted cash and investments" on our accompanying condensed consolidated balance sheets.

In 2015, we committed to invest in another TRP partnership, TRP Capital Partners, LP (“TRP IV”). TRP IV is managed and operated by the managers and principals of TRP and TRP III, and is focused on similar investment opportunities. We committed to contribute a total of $4.9 million to TRP IV, and have contributed approximately $1.0 million, leaving an outstanding commitment of approximately $3.9 million as of June 30, 2016. Our investment in TRP IV is accounted for using the cost method, and the balance is included within "Other long-term assets, restricted cash, and investments" on our accompanying condensed consolidated balance sheets.

In the first quarter of 2016, we committed to invest in another TRP partnership, TRP CoInvest Partners, (NTI) I, LP (“TRP Coinvestment”). The new partnership is managed and operated by the managers and principals of the other TRP partnerships, and is focused on similar investment opportunities. We committed to contribute, and have paid a total of, $10.0 million to the new partnership, leaving no outstanding commitment as of June 30, 2016. Our investment in TRP Coinvestment is accounted for using the equity method, and the carrying value at June 30, 2016 was $10.0 million and is included within "Other long-term assets, restricted cash, and investments" on our accompanying condensed consolidated balance sheets.

Note 10. Marketable Equity Securities

We have certain marketable equity securities classified as available-for-sale securities, which are recorded at fair value with unrealized gains and losses, net of tax, as a component of "Accumulated other comprehensive income" in shareholders' equity on the accompanying condensed consolidated balance sheets. Realized gains and losses on available-for-sale securities are included in the determination of net income. We use specific identification to determine the cost of securities sold, or amounts reclassified out of accumulated other comprehensive income into earnings and included in “Other income” on the accompanying condensed consolidated statements of income.

The following table shows the Company's realized gains during the three and six month periods ended June 30, 2016 and 2015, on certain securities that were held as available-for-sale (dollars in thousands).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Realized gains				
Sales proceeds	$ 2,330	$ 3,042	$ 5,183	$ 6,188
Cost of securities sold	856	849	2,114	1,649
Realized gain	$ 1,474	$ 2,193	$ 3,069	$ 4,539
Realized gains, net of taxes	$ 907	$ 1,344	$ 1,888	$ 2,782

As of June 30, 2016, our available-for-sale equity investments included in "Other long-term assets and restricted cash and investments" on the accompanying condensed consolidated balance sheets, was approximately $2.0 million, including gross unrealized gains of approximately $1.2 million, or $0.7 million (net of tax). As of December 31, 2015, our available-for-sale investment balance was approximately $7.1 million, including gross unrealized gains of approximately $4.2 million, or $2.6 million (net of tax).

Note 11. Assets Held for Sale

Revenue equipment that is not utilized in continuing operations and is held for sale is classified as "Assets held for sale" on the accompanying condensed consolidated balance sheets. Assets held for sale at June 30, 2016 and December 31, 2015, totaled $21.1 million and $29.3 million, respectively. Assets held for sale are no longer subject to depreciation, and are recorded at the lower of depreciated carrying value or fair market value less selling costs. We expect to sell these assets and replace them with new assets within twelve months of being classified as "Assets held for sale."

Note 12. 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 statement and tax bases 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.

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. We file federal and state income tax returns with varying statutes of limitations. The 2011 through 2015 tax years remain subject to examination by federal and state tax authorities. As of June 30, 2016, cumulative gross unrecognized tax benefits were $0.7 million. We had no unrecognized tax benefits as of December 31, 2015. All unrecognized tax benefits, if recognized, would affect the effective tax rate.

With the exception of the unrecognized tax benefits discussed above, we believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. Our policy is to recognize interest and penalties related to unrecognized tax benefits as income tax expense. No interest or penalties related to unrecognized tax benefits has been recognized as of June 30, 2016 or December 31, 2015, because the Company has not yet received the refunds related to the uncertain tax benefits. None of the unrecognized tax benefits are expected to reverse in the next 12 months.

Note 13. Company Share Repurchase Programs

In 2011, our Board of Directors unanimously authorized the repurchase of 10.0 million shares of our common stock. The repurchase authorization is intended to afford 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. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

Under the share repurchase program, we repurchased 0.4 million shares for $9.5 million in the three months ended June 30, 2016, and 1.5 million shares for $36.6 million in the six months ended June 30, 2016. We repurchased 1.0 million shares for $30.3 million in the three and six months ended June 30, 2015. As of June 30, 2016, there were 4.4 million shares remaining for future purchases under our repurchase program. The repurchase authorization will remain in effect until the share limit is reached or the program is terminated.

Note 14. Fair Value Measurements

Our assets and liabilities measured at fair value are based on principles set forth in ASC 820-10, Fair Value Measurements and Disclosure, for recurring and non-recurring fair value measurements of financial and non-financial assets and liabilities. This standard defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles in the United States, 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 us 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 we have 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 are 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 our 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 our financial assets and liabilities that are required to be measured at fair value as of June 30, 2016 and December 31, 2015 (dollars in thousands).

	Total	Total	Level One		Level Two		Level Three	
	Balance at June 30, 2016	Balance at December 31, 2015	Balance at June 30, 2016	Balance at December 31, 2015	Balance at June 30, 2016	Balance at December 31, 2015	Balance at June 30, 2016	Balance at December 31, 2015
Assets:								
Available-for-sale securities:								
Equity securities - common shares	$1,990	$7,101	$1,990	$7,101	-	-	-	-
Restricted cash and investments:								
Money market funds	$1,045	$1,003	$1,045	$1,003	-	-	-	-
Trading securities:								
Debt securities - municipal securities	$2,256	$2,279	-	-	$2,256	$2,279	-	-

Note 15. Notes Receivable

We provide financing to independent contractors and third parties on equipment sold or leased under our equipment sale program. Most of the notes are collateralized and are due in weekly installments, comprised of principal and interest payments. Interest rates are set forth in the contracts and generally range from 2% to 20%.

The notes receivable balances are classified separately between current and long-term on the accompanying condensed consolidated balance sheets. The current and long-term balance of our notes receivable at June 30, 2016 and December 31, 2015, are as follows (dollars in thousands):

	June 30, 2016	December 31, 2015
Notes receivable from independent contractors	$ 974	$ 794
Notes receivable from third parties	3,275	3,546
Gross notes receivable	4,249	4,340
Allowance for doubtful notes receivable	(265)	(273)
Total notes receivable, net of allowance	3,984	4,067
Current portion, net of allowance	549	648
Long-term portion	$ 3,435	$ 3,419

Note 16. Line of Credit

We maintain a revolving line of credit which permits revolving borrowings and letters of credit. The line of credit is maintained at $300.0 million and matures December 1, 2017. Effective August 8, 2016, we entered into a modification to our line of credit agreement that extends the maturity date to August 1, 2019, and amends our minimum tangible net worth covenant to $500.0 million from $400.0 million. We incur interest on borrowings under the line of credit at the prime rate or LIBOR plus 0.625%, determined by us at the time of borrowing. We had $60.0 million outstanding under the line of credit as of June 30, 2016, compared to $112.0 million as of December 31, 2015. The weighted average variable annual percentage rate ("APR") for amounts borrowed during the six months ended June 30, 2016 was 1.05%. Borrowings under the line of credit are recorded in the "Long-term debt" line of the accompanying condensed consolidated balance sheets. As of June 30, 2016, we also utilized $27.4 million of the line of credit for letters of credit issued to various regulatory authorities in connection with our self-insurance programs. With the outstanding letters of credit and debt borrowed, we have $212.6 million available for future borrowings as of June 30, 2016. After consideration of fees incurred for the unused portion of our line of credit, our weighted average variable APR for the six months ended June 30, 2016 was 1.21%. We are obligated to comply with certain financial and other covenants under the line of credit agreement and were in compliance with such covenants at and for the three and six months ended June 30, 2016 and for the year ended December 31, 2015.

Note 17. Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting. The objective of this update is to simplify several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the new guidance to determine the impact it may have on our condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This update clarifies the implementation guidance on principal versus agent considerations. The guidance includes indicators to assist an entity in determining whether it controls a specified good or service before it is transferred to the customers. The amendments in this update affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which is not yet effective. The effective date for the amendments in this update is the same as the effective date of ASU 2014-09 which will be effective for reporting periods beginning after December 15, 2017. We are currently evaluating the effect that this guidance will have on our condensed consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This update seeks to increase the transparency and comparability among entities by requiring public entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. To satisfy the standard’s objective, a lessee will recognize a right-of-use asset representing its right to use the underlying asset for the lease term and a lease liability for the obligation to make lease payments. Both the right-of-use asset and lease liability will initially be measured at the present value of the lease payments, with subsequent measurement dependent on the classification of the lease as either a finance or an operating lease. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. Accounting by lessors will remain mostly unchanged from current U.S. GAAP.

In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that companies may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases, leveraged leases, and amounts previously recognized in accordance with the business combinations guidance for leases. The new standard is effective for public companies for annual periods beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. We are currently evaluating the effect that adopting this standard will have on our condensed consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments–Overall (Subtopic 825-10). This update was issued to enhance the reporting model for financial instruments regarding certain aspects of recognition, measurement, presentation, and disclosure. The update (i) requires equity investments (except those accounted for under the equity method or that are consolidated) to be measured at fair value with changes in fair value recognized in net income; (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for an entity to disclose the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost; (iv) requires an entity to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and (v) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements. These provisions are effective for annual reporting periods beginning after December 15, 2017, and interim periods within those annual periods. The standard is to be applied using a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. We are currently evaluating the effect that adopting this standard will have on our condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The main objective of this update is to require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. The guidance in this update supersedes virtually all present U.S. GAAP guidance on revenue recognition. The amendments to the standard require the use of more estimates and judgments than the present standards and require additional disclosures. In July 2015, the FASB deferred the effective date for the revenue recognition standard. The accounting standard will now be effective for reporting periods beginning after December 15, 2017. We are currently evaluating this standard and our existing revenue recognition policies to determine which of our customer arrangements in the scope of the guidance will be affected by the new requirements and what impact they would have on our condensed consolidated financial statements upon adoption of this standard.

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly 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 and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of earnings, revenues, cash flows, dividends, 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. In this Item 2, statements relating to the ability of our infrastructure to support future growth, the flexibility of our model to adapt to market conditions, our ability to recruit and retain qualified drivers, our ability to react to market conditions, our ability to gain market share, future tractor prices, potential acquisitions, our equipment purchasing plans and equipment turnover, the expected freight environment and economic trends, whether we grow organically, our ability to obtain favorable pricing terms from vendors and suppliers, expected liquidity and methods for achieving sufficient liquidity, future fuel prices, future third-party service provider relationships and availability, future compensation arrangements with independent contractors and drivers, our expected need or desire to incur indebtedness, expected sources of liquidity for capital expenditures and allocation of capital, expected tractor trade-ins, expected sources of working capital and funds for acquiring revenue equipment, expected capital expenditures, future asset utilization, future capital requirements, future trucking capacity, future consumer spending, expected freight demand and volumes, future rates, future depreciation and amortization, expected tractor and trailer fleet age, regulatory changes and the impact thereof, and future purchased transportation expense, among others, are forward-looking statements. Such statements may be identified by their use of terms or phrases such as "believe," "may," "could," "expects," "estimates," "projects," "anticipates," "plans," "intends," "hope," and similar terms and phrases. Forward-looking statements are based on currently available operating, financial, and competitive information. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual 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, 2015, along with any supplements in Part II below, and various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission.

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. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.

Introduction

Business Overview

We offer a broad range of full truckload transportation and logistics services with one of North America's largest tractor fleets, operated through a nationwide network of service centers, and contractual access to thousands of third-party capacity providers. We have grown substantially by increasing the geographic reach of our service center network and by expanding the breadth of our services for customers. Our Trucking segment provides truckload transportation, including dedicated services, of various products, goods, and materials for our diverse customer base through our Dry Van, Refrigerated, and Drayage operating units. The Brokerage and Intermodal operating units of our Logistics segment provide a multitude of shipment solutions, including additional sources of truckload capacity and alternative transportation modes, by utilizing our vast network of third-party capacity providers and rail providers, as well as certain logistics, freight management, and other non-trucking services. Our objective is to operate our Trucking and Logistics business with industry-leading margins and growth while providing safe, high-quality, cost-effective solutions for our customers.

Factors that affect our results of operations are industry-wide economic factors, such as freight demand, truckload and rail intermodal capacity, fuel prices, inventory levels, industrial production, government regulation, and unemployment rates, as well as our capital allocation, sales and marketing, operating, and spending decisions. We measure our results through key metrics, such as 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), freight volumes brokered to third-party capacity providers (including our rail partners), driver and independent contractor recruitment and retention, and our ability to control costs on a company-wide basis, as measured by cost per mile in our Trucking segment and non-GAAP operating ratio in both segments. Our success depends on our ability to efficiently and effectively manage our resources in providing transportation and logistics solutions to our customers in light of such factors. We evaluate the growth opportunities for each of our Trucking and Logistics businesses based on customer demand and supply chain trends, availability of drivers and third-party capacity providers, expected returns on invested capital, expected net cash flows, and our company-specific capabilities.

Recent Consolidated Results of Operations and Quarter-End Financial Condition

Our consolidated results of operations for the three months ended June 30, 2016, compared to the three months ended June 30, 2015, were as follows:

Total revenue decreased 8.5%, to $276.3 million from $301.8 million;

Revenue, before fuel surcharge, decreased 5.5%, to $253.9 million from $268.6 million;

Net income attributable to Knight Transportation decreased 10.7%, to $24.7 million from $27.6 million; and

Net earnings attributable to Knight Transportation per diluted share decreased to $0.31 per share from $0.33 per share.

The freight environment in the second quarter of 2016 was more challenging than the same period of the prior year. We attribute the change to excess trucking capacity in the markets we serve, and fewer non-contract opportunities from a weak spot market that pressured our revenue per loaded mile. Although we experienced modest improvements toward the end of the quarter in some regional markets, non-contract pricing opportunities were weak in comparison to the second quarter of 2015. We continue to experience an environment of trucking capacity surplus. However, we believe significantly declining new truck orders, declining used equipment prices, increased bankruptcies, reduction in the driver workforce, and additional regulatory burdens expected to phase in over the coming quarters has, and we anticipate will continue to, reduce available capacity and begin to lead to improvements in the supply and demand relationship in the coming quarters.

During the second quarter of 2016, our Trucking segment produced a non-GAAP operating ratio of 82.7% compared to 82.1% in the same quarter of 2015, while trucking revenue, excluding trucking fuel surcharge, decreased 4.0% in the quarter year over year. Please see the reconciliation table below for a reconciliation of GAAP operating ratio to non-GAAP operating ratio. Productivity, as measured by average revenue per tractor, before fuel surcharge, decreased 1.5% in the second quarter of 2016 compared to the same quarter of 2015, attributable to a 2.4% decrease in average revenue per loaded mile, and an increase in non-paid empty mile percentage of 70 basis points, partially offset by a 1.7% increase in average miles per tractor.

Our Logistics segment produced an operating ratio of 94.4% in the second quarter of 2016 compared to 93.5% for the same quarter in 2015, with revenue declining 11.2%. The decrease in revenue is attributable primarily to a decline in non-trucking service revenue in the second quarter of 2016 from the same quarter of 2015, as we exited our agricultural sourcing business in the first quarter of 2016, as well as a decrease in revenue per load in our Brokerage business, the largest component of our Logistics segment. Although revenue per load decreased, our Brokerage business increased load volume by 28.4%, increased revenue 2.1%, and expanded gross margins 110 basis points, which resulted in a 6.2% increase in Brokerage operating income compared to the second quarter of 2015.

In the second quarter of 2016, we returned $14.3 million to our shareholders in the form of quarterly cash dividends and stock buy-backs and ended the quarter with $746.6 million of shareholders' equity. In the second quarter of 2016, we generated $65.5 million in cash flow from operations and used $23.7 million for capital expenditures net of equipment sales.

Our liquidity is not materially affected by off-balance sheet transactions. See the discussion under "Off-Balance Sheet Transactions" and "Liquidity and Capital Resources" for a description of our off-balance sheet transactions.

Consolidated Revenue and Expenses

We primarily generate revenue by transporting freight for our customers in our Trucking segment or arranging for the transportation of customer freight in our Logistics segment. Our total revenue is reported under "Results of Operations" and categorized as (i) Trucking revenue, before fuel surcharge, (ii) Trucking fuel surcharge revenue, and (iii) Logistics revenue. Trucking revenue, before fuel surcharge, and Trucking fuel surcharge revenue is largely generated by the trucking services provided by our three Trucking operating units (Dry Van, Refrigerated, and Drayage) whereas Logistics revenue is mostly generated by the logistics services provided by our two Logistics operating units (Brokerage and Intermodal). We also provide logistics, freight management, sourcing, and other non-trucking services, such as used equipment sales and leasing to independent contractors and third-parties, through our Logistics business.

Table of Contents

The total revenue and operating expenses of our Trucking and Logistics segments are similarly affected by certain factors that generally relate to, among other things, overall economic and weather conditions in the United States, customer inventory levels, specific customer demand, the levels of truckload and rail intermodal capacity, and availability of qualified drivers, independent contractors, and third-party capacity providers. See the section entitled "Item 1A. Risk Factors," set forth in our Form 10-K for the year ended December 31, 2015, along with various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission.

To reduce our risk to fuel price fluctuations in our Trucking segment, we have a fuel surcharge program under which we obtain additional fuel surcharges from our customers that generally recover a majority, but not all, of the increased fuel costs; however, we cannot ensure that current recovery levels will continue in the future. In discussing our overall and segment-based results of operations, because changes in fuel costs typically cause fuel surcharge revenue to fluctuate, we identify Trucking fuel surcharge revenue separately and omit fuel surcharge revenue from our statistical calculations. We believe that omitting this potentially volatile source of revenue provides a more meaningful comparison of our operating results from period to period.

A primary measure we use to evaluate the profitability of our overall and segment based operations is operating ratio, measured both on a GAAP basis (operating expenses expressed as a percentage of revenue) and on a non-GAAP basis (“non-GAAP operating ratio”) that many in our industry use (operating expenses, net of Trucking fuel surcharge revenue, expressed as a percentage of Trucking revenue, excluding Trucking fuel surcharge revenue). We believe the second method allows us to more effectively compare periods while excluding the potentially volatile effect of changes in fuel prices. Non-GAAP operating ratio is not a substitute for or superior to, and should be considered in addition to, GAAP operating ratio. Pursuant to the requirements of Regulation G, the tables below compare our operating ratio using both methods on a consolidated basis.

The following table reconciles consolidated GAAP operating ratio to consolidated non-GAAP operating ratio (dollars in thousands):

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
GAAP Presentation:	$	%	$	%	$	%	$	%
Total revenue	$ 276,318		$ 301,822		$ 548,406		$ 592,103	
Total operating expenses	238,237	86.2	260,203	86.2	471,598	86.0	504,181	85.2
Income from operations	38,081		41,619		76,808		87,922	

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015		Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Non-GAAP Presentation(1):	$	%	$	%	$	%	$	%
Total revenue	$ 276,318		$ 301,822		$ 548,406		$ 592,103	