

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.

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**KNIGHT TRANSPORTATION, INC.**

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**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
<b>ASSETS</b>		
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
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
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
<b>Commitments and Contingencies</b>		
<b>Shareholders' Equity:</b>		
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
<b>REVENUE:</b>				
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
<b>OPERATING EXPENSES:</b>				
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
<b>Earnings per common share and common share equivalent:</b>				
Basic	\$ 0.17	\$ 0.22	\$ 0.57	\$ 0.62
Diluted	\$ 0.17	\$ 0.22	\$ 0.57	\$ 0.61
<b>Weighted average number of common shares and common share equivalents outstanding:</b>				
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
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>		
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
<b>Net cash used in financing activities</b>	<b>(2,514)</b>	<b>(3,777)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>27,444</b>	<b>(8,141)</b>
CASH AND CASH EQUIVALENTS, beginning of period	1,582	18,809
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 29,026</b>	<b>\$ 10,668</b>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
<b>Non-cash investing and financing transactions:</b>		
Equipment acquired in accounts payable	\$ 89	\$ 8,604
FIN48 adoption tax liability	\$ 394	-
<b>Cash Flow Information:</b>		
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%