

KNIGHT TRANSPORTATION INC
Form 10-K/A
March 31, 2005

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

FORM 10-K/A

Amendment No. 1

(Mark One)

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

For the fiscal year ended December 31, 2004

or

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

For the transition period from _____ to _____
Commission File Number: 0-24946

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

Arizona
**(State or other jurisdiction of
incorporation or organization)**

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

5601 West Buckeye Road, Phoenix, Arizona
(Address of principal executive offices)

85043
(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2004, was \$1,078,989,651 (based upon a value per share of \$19.14 being the closing sale price on that date as reported by the Nasdaq National Market, adjusted to give effect to the registrant's 3-for-2 stock split, effected in the form of a 50% stock dividend, on July 20, 2004). In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers and directors of the company, and no other persons, are affiliates.

The number of shares outstanding of the registrant's common stock as of March 11, 2005 was 56,786,191.

Materials from the registrant's Notice and Proxy Statement relating to the 2005 Annual Meeting of Shareholders to be held on May 26, 2005 have been incorporated by reference into Part III of this Form 10-K.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A (“Amendment No. 1”) to the Annual Report on Form 10-K of Knight Transportation, Inc. (the “Company”) for the fiscal year ended December 31, 2004, filed with the Securities and Exchange Commission on March 16, 2005 (the “Original Report”), is being filed solely to (i) correct a typographical error appearing under the caption “Tabular Disclosure of Contractual Obligations” in Item 7 of the Original Report, and (ii) correct an error that arose in the process of converting the Original Report to an electronic format suitable for filing on the Commission’s EDGAR system. In the Original Report, the reference in the Contractual Obligations table to “Payments (in thousands) due by period” on page 22 should have been to “Payments (in millions) due by period.” Additionally, in the EDGAR-filed version of the Original Report, the line reflecting the Company’s total assets at the bottom of the first page of Company’s Consolidated Balance Sheets (page F-3) was inadvertently omitted. This Amendment No. 1 revises pages 22 and F-3 of the Original Report to correct these items. In connection with the filing of this Amendment No. 1, the Company also is including as exhibits certain currently dated certifications of its Chief Executive Officer and Chief Financial Officer and updated independent registered public accounting firm consents. Item 15 and the Exhibit Index have been revised to reflect the addition of these exhibits.

For convenience and ease of reference, this Amendment No. 1 sets forth the annual report in its entirety with the applicable changes. This Amendment No. 1 only reflects the changes discussed above, and does not amend, update, or change any other items or disclosures contained in the Original Report.

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PART I

Item 1. Business

Except for certain historical information contained herein, this Annual Report contains forward-looking statements that involve risks, assumptions and uncertainties which 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 earnings, revenues, or other financial items, any statement of plans, strategies, and objectives of management for future operations; any statements concerning proposed 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 “Factors That May Affect Future Results,” set forth below. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this Annual Report.

References in this Annual Report to “we,” “us,” “our,” “Knight” or the “Company” or similar terms refer to Knight Transportation, Inc. and its consolidated subsidiaries.

General

We are primarily a dry van truckload carrier based in Phoenix, Arizona, although we also began operating a temperature controlled subsidiary in 2004. We transport general commodities for shippers throughout the United States, generally focusing our operations on short-to-medium lengths of haul. We provide regional truckload carrier services from our 17 regional dry van operations centers and one at our temperature controlled subsidiary. Our stock has been publicly traded since October 1994. Over the past five years we have achieved substantial growth from \$151.5 million in revenue, before fuel surcharge, and \$15.5 million in net income in 1999 to \$411.7 million in revenue, before fuel surcharge, and \$47.9 million in net income in 2004. The main factors that affect our results are the number of tractors we operate, our revenue per tractor (which includes primarily our revenue per total mile and our number of miles per tractor), and our ability to control our costs.

Operations

Our operating strategy is to achieve a high level of asset utilization within a highly disciplined operating system while maintaining strict controls over our cost structure. To achieve these goals, we operate primarily in high-density, predictable traffic lanes in select geographic regions, and attempt to develop and expand our customer base around each of our terminal facilities. This operating strategy allows us to take advantage of the large amount of freight traffic transported in regional markets, realize the operating efficiencies associated with regional hauls, and offer more flexible service to our customers than rail, intermodal, and smaller regional competitors. In addition, shorter hauls provide an attractive alternative to drivers in the truckload sector by reducing the amount of time spent away from home. We believe this improves driver retention, decreases recruitment and training costs, and reduces insurance claims and other costs. We operate a modern fleet to appeal to drivers and customers, decrease maintenance expenses and downtime, and enhance our operating efficiencies. We employ technology in a cost-effective manner where it assists us in controlling operating costs and enhancing revenue. Our goal is to increase our market presence significantly, both in existing operating regions and in other areas where we believe the freight environment meets our operating strategy, while seeking to achieve industry-leading operating margins and returns on investment.

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Our operating strategy includes the following important elements:

Regional Operations. We presently have 17 regional dry van operations centers, which are operated from our facilities located in Phoenix, Arizona; Tulare, California; Salt Lake City, Utah; Portland, Oregon; Denver, Colorado; Kansas City, Kansas; Katy, Texas; Indianapolis, Indiana; Charlotte, North Carolina; Gulfport, Mississippi; Memphis, Tennessee; Atlanta, Georgia; Las Vegas, Nevada; Carlisle, Pennsylvania; and Lakeland, Florida. During 2004, we established regional dry van operations centers in Las Vegas, Nevada, Carlisle, Pennsylvania, and Lakeland, Florida, and a subsidiary based in Phoenix, Arizona which provides temperature controlled services. In early 2005, we relocated an existing operations center from Phoenix to Tulare. We concentrate our freight operations in an approximately 750-mile radius around each of our terminals, with an average length of haul in 2004 of approximately 556 miles. We believe that regional operations offer several advantages, including:

- obtaining greater freight volumes, because approximately 80% of all truckload freight moves in short-to-medium lengths of haul;
- achieving higher revenue per mile by focusing on high-density traffic lanes to minimize non-revenue miles and offer our customers a high level of service and consistent capacity; and
- enhancing safety and driver recruitment and retention by allowing our drivers to travel familiar routes and return home more frequently.

Operating Efficiencies. Our company was founded on a philosophy of maintaining operating efficiencies and controlling costs. We maintain a simplified operation that focuses on operating in particular geographical and shipping markets. This approach allows us to concentrate our marketing efforts to achieve higher penetration of our targeted service areas and to achieve higher equipment utilization in dense traffic lanes. We maintain a modern tractor and trailer fleet in order to obtain fuel and other operating efficiencies and attract and retain drivers. A generally compatible fleet of tractors and trailers simplifies our maintenance procedures, reduces parts supplies, and facilitates our ability to serve a broad range of customer needs, thereby maximizing equipment utilization and available freight capacity. We also regulate vehicle speed in order to maximize fuel efficiency, reduce wear and tear, and minimize claims expenses.

Customer Service. We offer a high level of service to customers in lanes and regions that complement our other operations, and we seek to establish ourselves as a preferred provider or “core carrier” for many of our customers. By concentrating revenue equipment close to customers in high-density lanes and regions, we can provide shippers with a consistent supply of capacity and are better able to match our equipment to customer needs. Our services include multiple pick-ups and deliveries, dedicated equipment and personnel, on-time pickups and deliveries within narrow time frames, specialized driver training, and other services tailored to meet our customers’ needs. We price our services commensurately with the level of service our customers require. By providing customers a high level of service, we believe we avoid competing solely on the basis of price.

Using Technology that Enhances Our Business. We purchase and deploy technology when we believe that it will allow us to operate more efficiently and the investment is cost-justified. We use a satellite-based tracking and communication system to communicate with our drivers, to obtain load position updates, and to provide our customers with freight visibility. We have installed Qualcomm’s satellite based tracking technology in substantially all of our tractors, which allows us to rapidly respond to customer needs and allows our drivers efficient communications with our regional terminals. A significant number of our trailers are equipped with Terion trailer-tracking technology that allows us to manage our trailers more effectively, reduce the number of trailers per tractor in our fleet, enhance

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revenue through detention fees, and minimize cargo loss. We have automated many of our back-office functions, and we continue to invest in technology where it allows us to better serve our customers and reduce our costs.

Growth Strategy

We believe that industry trends, our strong operating results and financial position, and the proven operating model replicated in our regional operations centers create significant opportunities for us to grow. We intend to take advantage of these growth opportunities by focusing on three key areas:

Opening new regions and expanding existing regional operations centers. Over the past several years, a substantial portion of our revenue growth has been generated by our expansion into new geographic regions through the opening of additional operations centers. We believe there are significant opportunities to further increase our business in the short-to-medium haul market by opening new regional operations centers, while expanding our existing regional operations centers. To take advantage of these opportunities, we are developing relationships with existing and new customers in regions that we believe will permit us to develop transportation lanes that allow us to achieve high equipment utilization and resulting operating efficiency.

Strengthening our customer and core carrier relationships. We market our services to both existing and new customers in traffic lanes that complement our existing operations and will support high equipment utilization. We seek customers who will diversify our freight base; and our marketing targets include financially-stable high volume shippers for whom we are not currently providing services. We also offer a high level of service to customers who use us as a core carrier.

Opportunities to make selected acquisitions. We are continuously evaluating acquisition opportunities. Since 1998, we have acquired two short-to-medium haul truckload carriers: Gulfport, Mississippi-based John Fayard Fast Freight, Inc., acquired in 2000, and Corsicana, Texas-based Action Delivery Service, Inc., acquired in 1999. We believe economic trends will lead to further consolidation in our industry, and we will consider additional acquisitions that meet our financial and operating criteria.

Marketing and Customers

Our sales and marketing functions are led by members of our senior management team, who are assisted by other sales professionals. Our marketing team emphasizes our high level of service and ability to accommodate a variety of customer needs. Our marketing efforts are designed to take advantage of the trend among shippers to outsource transportation requirements, use primary carriers, and seek arrangements for dedicated equipment and drivers.

We have a diversified customer base. For the year ended December 31, 2004, our top 25 customers represented 46% of revenue; our top 10 customers represented 28% of revenue; and our top 5 customers represented 18% of revenue. No single customer represented more than 10% of revenue in 2004. We believe that a substantial majority of our top 25 customers regard us as a core carrier. Most of our truckload carriage contracts are cancelable on 30 days notice.

We seek to provide consistent, timely, flexible and cost efficient service to shippers. Our objective is to develop and service specified traffic lanes for customers who ship on a consistent basis, thereby providing a sustained, predictable traffic flow and ensuring high equipment utilization. The short-to-medium haul segment of the truckload carrier market demands timely pickup and delivery and, in some cases, response on short notice. We seek to obtain a competitive advantage by providing high quality and consistent capacity to customers at competitive prices. To be responsive to customers' and drivers' needs, we often assign particular drivers and equipment to prescribed routes, providing better service to customers, while obtaining higher equipment utilization.

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Our dedicated fleet services also may provide a significant part of a customer's transportation requirements. Under a dedicated carriage service agreement, we provide drivers, equipment and maintenance, and, in some instances, transportation management services that supplement the customer's in-house transportation department. We furnish these services through Company-provided revenue equipment and employees, and independent contractors.

Each of our regional operations centers is linked to our Phoenix headquarters by an IBM AS/400 computer system. The capabilities of this system enhance our operating efficiency by providing cost effective access to detailed information concerning equipment and shipment status and specific customer requirements, and also permit us to respond promptly and accurately to customer requests. The system also assists us in matching available equipment with loads. We also provide electronic data interchange ("EDI") and internet ("E") services to shippers desiring such service.

Drivers, Other Employees, and Independent Contractors

As of December 31, 2004, we employed 3,465 persons. None of our employees is subject to a union contract. It is our policy to comply with applicable equal employment opportunity laws and we periodically review our policies and practices for equal employment opportunity compliance. The recruitment, training and retention of qualified drivers are essential to support our continued growth and to meet the service requirements of our customers. Drivers are selected in accordance with specific, objective guidelines relating primarily to safety history, driving experience, road test evaluations, and other personal evaluations, including physical examinations and mandatory drug and alcohol testing.

We seek to maintain a qualified driver force by providing attractive and comfortable equipment, direct communication with senior management, competitive wages and benefits, and other incentives designed to encourage driver retention and long-term employment. Many drivers are assigned to dedicated or semi-dedicated fleet operations, enhancing job predictability. Drivers are recognized for providing superior service and developing good safety records.

Our drivers generally are compensated on the basis of miles driven and length of haul. Drivers also are compensated for additional flexible services provided to our customers. During 2004, we increased our driver compensation rates approximately three cents per mile. Drivers and other employees are invited to participate in our 401(k) program and in Company-sponsored health, life and dental plans. Our drivers and other employees who meet eligibility criteria also participate in our stock option plan. As of December 31, 2004, a total of 728 of our current drivers and other employees had participated in and received option grants under our current and former stock option plans.

We also maintain an independent contractor program. Because independent contractors provide their own tractors, the independent contractor program provides us an alternate method of obtaining additional revenue equipment. We intend to continue our use of independent contractors. As of December 31, 2004, we had agreements covering 244 tractors operated by independent contractors. Each independent contractor enters into a contract with us pursuant to which the independent contractor is required to furnish a tractor and a driver to transport, load and unload goods we haul. During 2004, we increased our contracted rates approximately four cents per mile for these independent contractors. Competition for independent contractors among transportation companies is strong. We pay our independent contractors a fixed level of compensation based on the total of trip-loaded and empty miles. Independent contractors are obligated to maintain their own tractors and pay for their own fuel. We provide trailers for each independent contractor. We also provide maintenance services for our independent contractors who desire such services for a charge. In certain instances, we provide financing to independent contractors to assist them in acquiring revenue equipment. Our loans to independent contractors are secured by a lien on the independent contractor's revenue equipment. As of December 31, 2004, we had outstanding loans of approximately \$248,000 to independent contractors.

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Revenue Equipment

As of December 31, 2004, we operated 2,574 Company tractors with an average age of 1.9 years. We also had under contract 244 tractors owned and operated by independent contractors. Our trailer fleet consisted of 7,126, 53-foot long, high cube trailers, including 103 refrigerated trailers, with an average age of 4.2 years.

Growth of our tractor and trailer fleets is determined by market conditions, and our experience and expectations regarding equipment utilization. In acquiring revenue equipment, we consider a number of factors, including economy, price, rate environment, technology, warranty terms, manufacturer support, driver comfort, and resale value.

We use light weight tractors and high cube trailers to handle both high weight and high volume shipments. Our fleet configuration also allows us to move freight on a “drop-and-hook” basis, increasing asset utilization and providing better service to customers. We attempt to maintain a trailer to tractor ratio of approximately 2.5 to 1, which we believe promotes efficiency and allows us to serve a large variety of customers’ needs without significantly changing or modifying equipment.

We have adopted an equipment configuration that meets a wide variety of customer needs and facilitates customer shipping flexibility. Standardization of our fleet allows us to operate with a smaller spare parts inventory and simplifies driver training and equipment maintenance. We adhere to a comprehensive maintenance program that minimizes downtime and optimizes the resale value of our equipment. We perform routine servicing and maintenance of our equipment at most of our regional terminal facilities, thus avoiding costly on-road repairs and out-of-route trips. Our current policy is to replace most of our tractors within 38 to 44 months after purchase and to replace our trailers over a six to ten year period. We believe this replacement policy enhances our ability to attract drivers, stabilizes maintenance expense, and maximizes equipment utilization. Changes in the current market for used tractors, and difficult market conditions faced by tractor manufacturers, may result in price increases that would cause us to retain our equipment for a longer period, which may result in increased operating expenses.

The Environmental Protection Agency (the “EPA”) implemented new tractor engine design requirements effective October 1, 2002 in an effort to reduce emissions, and more restrictive EPA engine design requirements will take effect in 2007. In part to offset the costs of compliance with these requirements, some manufacturers have significantly increased new equipment prices and further increases may result in connection with the implementation of the 2007 requirements. If new equipment prices increase more than anticipated, we may be required to increase our depreciation and financing costs and/or retain some of our equipment longer, with a resulting increase in maintenance expenses. To the extent we are unable to offset any such increases in expenses with rate increases or cost savings, our results of operations would be adversely affected. In addition to increases in equipment costs, the EPA-compliant engines are generally less fuel efficient than those in tractors manufactured before October 2002, and compliance with the 2007 EPA standards could result in further declines in fuel economy. If we are unable to offset resulting increases in fuel expenses with higher rates or surcharge revenue, our results of operations would be adversely affected.

We have Qualcomm’s satellite-based mobile communication and position-tracking system in substantially all of our tractors and we have Terion’s trailer-tracking system in a significant number of our trailers. We believe that this technology has helped to generate operating efficiencies and allowed us to improve fleet control while maintaining a high level of customer service.

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Safety and Risk Management

We are committed to ensuring the safety of our operations. We regularly communicate with drivers to promote safety and instill safe work habits through Company media and safety review sessions. We conduct weekly safety training meetings for our drivers and independent contractors. In addition, we have an innovative recognition program for driver safety performance, and emphasize safety through our equipment specifications and maintenance programs. Our Vice President of Safety is involved in the review of all accidents.

We require prospective drivers to meet higher qualification standards than those required by the United States Department of Transportation (“DOT”). The DOT requires our drivers to obtain national commercial drivers’ licenses pursuant to regulations promulgated by the DOT. The DOT also requires that we implement a drug and alcohol testing program in accordance with DOT regulations. Our program includes pre-employment, random, and post-accident drug testing. We are authorized by the DOT to haul hazardous materials. As a result, we require our drivers to have a “hazardous materials endorsement” (“HME”) on their commercial drivers license. We have implemented procedures to monitor our driver’s compliance with the Department of Homeland Security’s new “Security Threat Assessment” regulation effective for 2005 when applying for or renewing an HME.

Within our Company, our President, Chief Financial Officer, and Vice President of Safety are responsible for securing appropriate insurance coverages at competitive rates. The primary claims arising in our business consist of cargo loss and physical damage and auto liability (personal injury and property damage). For 2004 we were self-insured for these claims with a maximum limit of \$2.0 million per occurrence and we were self-insured for workers’ compensation up to a maximum limit of \$500,000 per occurrence. Subsequent to December 31, 2004, we have decreased our maximum self-insured retention for auto liability from \$2.0 million to \$1.5 million.

Our insurance policies for 2004 provided for excess liability coverage up to a total of \$40.0 million per occurrence. Subsequent to December 31, 2004, the \$40.0 million in excess coverage has been increased to \$50.0 million. We also maintain primary and excess coverage for employee medical expenses and hospitalization, and damage to physical properties. We carefully monitor claims and participate actively in claims estimates and adjustments. The estimated costs of our self-insured claims, which include estimates for incurred but unreported claims, are accrued as liabilities on our balance sheet.

Competition

The entire trucking industry is highly competitive and fragmented. We compete primarily with other regional short-to-medium haul truckload carriers, logistics providers and national carriers. Railroads and air freight also provide competition, but to a lesser degree. Competition for the freight transported by us is based on freight rates, service, efficiency, size and technology. We also compete with other motor carriers for the services of drivers, independent contractors and management employees. A number of our competitors have greater financial resources, own more equipment, and carry a larger volume of freight than we do. We believe that the principal competitive factors in our business are service, pricing (rates), and the availability and configuration of equipment that meets a variety of customers’ needs. In addressing our markets, we believe that our principal competitive strength is our ability to provide timely, flexible and cost-efficient service to shippers.

Regulation

The DOT and various state and local agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety, and insurance requirements. In 2003, the DOT adopted revised hours-of-service regulations for drivers that became effective on January 4, 2004. These revised regulations represent the most significant changes to the

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hours-of-service regulations in over 60 years. As a result of this change, issues that cause driver delays such as multiple stop shipments, unloading/loading delays, and equipment maintenance could have resulted in a reduction in driver miles. We believe that we have minimized the economic impact of the new hours-of-service rules on our business. We believe that historically we have been one of the more successful carriers in identifying, assessing, and collecting charges for additional services that our drivers perform for our customers. In addition, we conducted intensive training programs for our driver and non-driver personnel regarding the new hours-of-service requirements in anticipation of their effectiveness. Prior to the effectiveness of the new rules, we also initiated discussions with many of our customers regarding steps that they can take to assist us in managing our drivers' non-driving activities, such as loading, unloading, or waiting, and we plan to continue to actively communicate with our customers regarding these matters in the future. In situations where shippers are unable or unwilling to take these steps, we assess detention and other charges to offset losses in productivity resulting from the new hours-of-service regulations. Based on our experience to date, we do not believe these rules have significantly disrupted our operations or materially affected our financial results.

After nine months of operation under the revised hours-of-service regulations, citizens' advocacy groups successfully challenged the regulations in court, alleging that they were developed without properly considering issues of driver health. Pending further action by the courts or the effectiveness of new rules addressing the issues raised by the appellate court, Congress has enacted a law that extends the effectiveness of the revised hours-of-service rules until September 30, 2005. We expect that any new rule making resulting from the litigation will be no more favorable than existing rules. If driving hours are further restricted by new revisions to the hours-of-service rules, we could experience a reduction in driver miles that may adversely affect our business and results of operations.

Our motor carrier operations also are subject to environmental laws and regulations, including laws and regulations dealing with underground fuel storage tanks, the transportation of hazardous materials and other environmental matters, and our operations involve certain inherent environmental risks. We maintain bulk fuel storage and fuel islands at several of our facilities. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. We have instituted programs to monitor and control environmental risks and assure compliance with applicable environmental laws. As part of our safety and risk management program, we periodically perform internal environmental reviews so that we can achieve environmental compliance and avoid environmental risk. Our facilities were designed, after consultation with environmental advisors, to contain and properly dispose of hazardous substances and petroleum products used in connection with our business. We transport a small amount of environmentally hazardous materials and, to date, have experienced no significant claims for hazardous materials shipments. If we should fail to comply with applicable regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

Other Information

We were incorporated in 1989 and our headquarters are located at 5601 West Buckeye Road, Phoenix, Arizona 85043. This Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and all other reports filed with the Securities and Exchange Commission ("SEC") pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") can be obtained free of charge by visiting our website. Our website address is www.knighttrans.com. Information contained on our website is not incorporated into this Annual Report on Form 10-K, and you should not consider information contained on our website to be part of this report.

We periodically examine investment opportunities in areas related to the transportation industry. Our investment strategy is to add to shareholder value by investing in industry related businesses that will assist us in strengthening our overall position in the transportation industry, minimize our exposure to

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start-up risk and provide us with an opportunity to realize a substantial return on our investment. We own a 17% interest in Concentrek, Inc., a logistics business.

Item 2. Properties

Our headquarters and principal place of business is located at 5601 West Buckeye Road, Phoenix, Arizona on approximately 65 acres. We own approximately 57 acres and approximately 8 acres are leased from Mr. Randy Knight, a director of the Company and one of our principal shareholders. The following table provides information regarding the Company's facilities and/or offices:

| Company Location | Office | Shop | Fuel | Owned or Leased | Acres |
|-------------------------|---------------|-------------|-------------|------------------------|--------------|
| Phoenix, Arizona | Yes | Yes | Yes | Owned/Leased | 57/8 |
| Tulare, California | Yes | Yes | No | Owned | 23 |
| Salt Lake City, Utah | Yes | Yes | No | Owned | 15 |
| Portland, Oregon | Yes | Yes | Yes | Leased | 5 |