KNIGHT TRANSPORTATION INC
Form 10-K
February 29, 2016

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

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
[ ] 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 (State or other jurisdiction of incorporation or organization)	86-0649974 (I.R.S. Employer Identification No.)
20002 North 19th Avenue, Phoenix, Arizona (Address of principal executive offices)	85027 (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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [X] Yes [ ] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

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 [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 [ ] No

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. [X]

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

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $1.9 billion (based upon $26.74 per share closing price on that date as reported by the New York Stock Exchange). In making this calculation, the registrant has assumed, without admitting for any purpose, that all executive officers and directors, and no other persons, are affiliates.

The number of shares outstanding of the registrant's common stock as of February 25, 2016 was 80,655,035.

DOCUMENTS INCORPORATED BY REFERENCE

Materials from the registrant's Notice and Proxy Statement relating to the 2016 Annual Meeting of Shareholders to be held on May 12, 2016 have been incorporated by reference into Part III of this Form 10-K.

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PART I

Item 1. Business

This Annual Report contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, 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 Annual Report, statements relating to the ability of our infrastructure to support future growth, 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, 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, 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, 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 below. Readers should review and consider the factors discussed in "Item 1A. Risk Factors," along with 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 Annual Report. 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.

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 a provider of multiple full truckload transportation and logistics services, which generally involve the movement of full trailer or container loads of freight from origin to destination for a single customer. We are one of North America's largest truckload transportation providers. We provide significant capacity and a broad range of truckload and logistics services through our nationwide network of service centers, one of the country's largest truckload tractor fleets, and our 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. Most recently, our growth has come through the creation of Kold Trans, LLC (“Kold Trans”), and the acquisition of Barr-Nunn Transportation, Inc. and certain of its affiliates (“Barr-Nunn”) in the second half of 2014, which has enhanced our business and service offerings with additional service centers and increased our driving associates, tractor fleet and capacity. Through our multiple service offerings, capabilities, and transportation modes, we are able to transport, or arrange for the transportation of, general commodities for our diversified customer base throughout the contiguous United States and parts of Canada and Mexico using state-of-the-art equipment, information technology, and qualified driving associates and non-driver employees. We are committed to providing our customers with a wide range of truckload and logistics services and continue to invest considerable resources toward developing a range of solutions for our customers across multiple service offerings and transportation modes. Our overall objective is to provide truckload and logistics services that, when combined, lead the industry for margin and growth while providing efficient and cost-effective solutions for our customers.

We have two reportable segments: (i) Trucking and (ii) Logistics. Financial information regarding these two segments is provided in the Notes to Consolidated Financial Statements under Item 8 of this Form 10-K.

Our Trucking segment is comprised of three operating units: (i) dry van truckload ("Dry Van"), (ii) temperature-controlled truckload ("Refrigerated"), and (iii) drayage services ("Drayage"). We were founded as a provider of dry van truckload services, and in 2004, we took the first step towards our strategy of providing customers with a diversified range of truckload solutions with the creation of Knight Refrigerated, LLC, which provides our refrigerated services. In 2008, we further enhanced our services by creating Knight Port Services, LLC, which provides drayage services between ocean ports, rail ramps, and shipping docks. In 2014, we grew our asset-based refrigerated offerings through Kold Trans, and we strengthened our dry van and expedited services through the acquisition of Barr-Nunn. We operate a large, modern tractor fleet and also use independent contractors to provide various asset-based solutions, including multiple stop pick-ups and deliveries, dedicated equipment and personnel, on-time expedited pick-ups and deliveries, specialized driver training, and other truckload services.

Our Logistics segment consists of two primary operating units: (i) freight brokerage services ("Brokerage") and (ii) rail intermodal ("Intermodal"). We also provide logistics, freight management and other non-trucking services to our customers through our Logistics business. In 2005, we established Knight Logistics LLC (formerly known as Knight Brokerage, LLC), which develops contractual relationships with thousands of third-party capacity providers who provide their equipment and services to transport customer freight. In 2010, we advanced our objective to grow our services with the addition of our Intermodal services. Our Logistics offerings meet our customers' transportation needs by providing a diverse range of shipping alternatives from our network of third-party capacity providers and our rail providers. As of December 31, 2015, our Logistics segment had transportation services contracts with approximately 23,137 carriers. We believe that the diversified customer offerings of our Trucking and Logistics segments strategically position us for growth with existing and new truckload and logistics customers.

Our headquarters and service center support is located in Phoenix, Arizona.

Operations

Our Trucking operating strategy is to gain truckload market share by leveraging our service offerings provided through our service center network, developing and enhancing customer relationships, and improving asset productivity through enhanced technology and market knowledge, while maintaining an extreme focus on cost. To achieve these goals, we operate primarily in high-density, predictable freight lanes in select geographic regions and attempt to develop and expand our customer base around each of our service centers by providing multiple truckload services for our customers. This operating strategy allows us to service the large amount of truckload freight transported in regional markets. Our service centers enable us to better serve our customers and work more closely with our driving associates. We operate a modern fleet to appeal to drivers and customers, reduce maintenance expenses and downtime, and enhance our operating efficiencies. We employ technology in both our Trucking and Logistics segments in a cost-effective manner to assist us in controlling operating costs and enhancing revenue. Our Logistics operating strategy is to match quality capacity with the shipping needs of our customers through the capacity provided by our network of third-party carriers and our rail providers. Our goal is to increase our market presence, 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 overall operating strategy includes the following important elements:

Regional Service Centers. We believe that regional operations offer several advantages, including:

- Obtaining greater freight volumes;
- Achieving higher revenue per mile by focusing on high-density freight lanes to minimize non-revenue miles;
- Enhancing our ability to recruit and train high quality driving associates;
- Enhancing safety and driver development and retention;
- Enhancing our ability to provide a high level of service and consistent capacity to our customers;
- Enhancing accountability for performance and growth; and
- Furthering our Trucking and Logistics capabilities to provide various shipment solutions to our customers and to contract with more third-party capacity providers.

We operate primarily in the United States with minor operations in Canada and Mexico. Substantially all of our revenue is generated from within the United States. All of our tractors are domiciled in the United States, and for the past three years, we estimate that less than one percent of our revenue has been generated in Canada and Mexico. We do not separately track domestic and foreign revenue from customers, and providing such information would not be meaningful. All of our long-lived assets are, and have been for the last three fiscal years, located within the United States.

Operating Efficiencies. We were founded on a philosophy of maintaining operating efficiencies and controlling costs. We operate modern tractors and trailers in order to obtain operating efficiencies and attract and retain driving associates. A generally compatible fleet of tractors and trailers simplifies our maintenance procedures and reduces parts, supplies, and maintenance costs. We regulate vehicle speed in order to maximize fuel efficiency, reduce wear and tear, and enhance safety. We continue to update our fleet with more fuel-efficient post-2014 U.S. Environmental Protection Agency ("EPA") emission compliant engines, install aerodynamic devices on our tractors, and equip our trailers with trailer blades, which lead to meaningful improvements in fuel efficiency. Our Logistics segment focuses on effectively optimizing and meeting the transportation and logistics requirements of our customers and providing customers with various sources and modes of transportation capacity across our nationwide service network. We invest in technology that enhances our ability to optimize our freight opportunities while maintaining a low cost per transaction.

Customer Service. We strive to provide superior, on-time service at a meaningful value to our customers and seek to establish ourselves as a preferred truckload and logistics provider for our customers. We provide truckload capacity for customers in high-density lanes where we can provide them with a high level of service, as well as flexible and customized logistics services on a nationwide basis. Our Trucking services include Dry Van, Refrigerated, and Drayage, which also include dedicated truckload services customized according to customer needs. Our Logistics services include Brokerage, Intermodal, and certain logistics, freight management, and non-trucking services, which provide various shipping alternatives and transportation modes for customers by utilizing our expansive network of third-party capacity providers and rail partners. We price our Trucking and Logistics services commensurately with the level of service our customers require and market conditions. 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 that we believe will allow us to operate more safely, securely, and efficiently. All of our company-owned tractors are equipped with in-cab communication devices that enable us to communicate with our drivers, obtain load position updates, manage our fleets, and provide our customers with freight visibility, as well as with electronic logging devices that automatically record our drivers' hours-of-service. The majority of our trailers are equipped with trailer-tracking technology that allows us to more effectively manage our trailers. We have purchased and developed software for our Logistics businesses that provides greater visibility of the capacity of our third-party providers and enhances our ability to provide our customers with solutions with a superior level of service. We have automated many of our back-office functions, and we continue to invest in technology that allows us to better serve our customers and improve overall efficiency.

Growth Strategy

Our growth strategy is focused on the following key areas:

Expanding existing service centers. Historically, a substantial portion of our revenue growth has been generated by our expansion into new geographic regions through the opening of additional service centers. Although we continue to seek opportunities to further increase our business in this manner, our primary focus is on developing and expanding our existing service centers by strengthening our customer relationships, recruiting quality driving associates and non-driver employees, adding new customers, and expanding the range of transportation and logistics solutions offered from these service centers.

Acquiring and growing opportunistically. We regularly evaluate acquisition and other development and growth opportunities. Since 1999, we have acquired five short-to-medium haul truckload carriers, including the acquisition of Barr-Nunn during 2014. These acquisitions have involved a complete buy-out, or the purchase of substantially all of the trucking assets, of such carriers. We are actively looking for acquisition and other opportunities that could favorably contribute to Trucking and Logistics development and growth.

Improving asset productivity. We are focused on improving the revenue generated from our tractors and trailers without compromising safety. We anticipate that we can accomplish this objective through increased miles driven and an increased rate per mile.

Strengthening our customer relationships. We market our services to both existing and new customers who value our broad geographic coverage, various transportation and logistics services, and truckload capacity and freight lanes that complement our existing operations. We seek customers who will diversify our freight base. We market our Dry Van, Refrigerated, Drayage, Brokerage, and Intermodal services, including dedicated services within those offerings, to existing customers who may be in need of multiple services but do not currently take advantage of our array of truckload solutions.

Diversifying our service offerings. We are committed to providing our customers a broad and growing range of truckload and logistics services and continue to invest considerable resources toward developing a range of solutions for our customers. We believe that these offerings contribute meaningfully to our results and reflect our strategy to bring complementary services to our customers to assist them with their supply chain objectives. We plan to continue to leverage our nationwide footprint and expertise to add value to our customers through our diversified service offerings.

We believe we have the service center network, systems capability, and management capacity to support substantial growth. We have established a geographically diverse network that can support a substantial increase in freight volumes, organic or acquired. Our network and business lines afford us the ability to provide multiple Trucking and Logistics solutions for our customers, and we maintain the flexibility within our network to adapt to freight market conditions. We believe our unique mix of regional management, together with our consistent efforts to centralize certain business functions to leverage the collective economies of scale, allow us to develop future company leaders with relevant operating and industry experience, minimize the potential diseconomies of scale that can come with growth in size, take advantage of regional knowledge concerning capacity and customer shipping needs, and manage our overall business with a high level of performance accountability.

We strive to provide superior, on-time service and meaningful value to our customers, and we seek to establish ourselves as a preferred truckload and logistics solutions provider for our customers. We provide truckload capacity for customers in high-density lanes where we can provide them with a high level of service, as well as flexible and customized logistics services on a nationwide basis.

Marketing and Customers

Our marketing mission is to be a strategic, efficient transportation capacity partner for our customers by providing truckload and logistics solutions customizable to the unique needs of our customers. We deliver these capacity solutions through our network of owned assets, contracted independent contractors, third-party capacity providers, and our rail providers. The diverse and premium services we offer provide a comprehensive approach to providing ample supply chain solutions to our customers.

Our Trucking and Logistics sales and marketing leaders are members of our senior management team, who are assisted by other sales professionals in each segment. Our sales team emphasizes our industry-leading service, superior safety record, environmental leadership, capability to accommodate a variety of customer needs, ability to provide consistent capacity, and financial strength and stability.

We strive to maintain a diversified customer base. For the year ended December 31, 2015, our top 25 customers among our Trucking and Logistics segments represented approximately 42.9% of revenue; our top 10 customers represented approximately 28.0% of revenue; and our top 5 customers represented approximately 17.8% of revenue. No single customer represented more than 4.5% of revenue in 2015.

To be responsive to the needs of our customers and driving associates, we offer dedicated truckload services under our Trucking segment, in which we assign particular drivers and revenue equipment to prescribed routes. This provides specific individual customers with a guaranteed source of capacity. Our dedicated tractor fleet services may provide a significant part of a customer's transportation requirements. Under our dedicated transportation services, we provide drivers, equipment, maintenance, and, in some instances, transportation management services that supplement the customer's in-house transportation department.

Each of our service centers is linked to our corporate information technology system in our Phoenix headquarters. The capabilities of this system and its software enhance our operating efficiency by providing cost-effective access to detailed information concerning equipment location and availability, shipment tracking and on-time delivery status, and other specific customer requirements. The system also enables us to respond promptly and accurately to customer requests and assists us in matching available equipment with customer loads geographically. Additionally, our customers can track shipments and obtain copies of shipping documents via our website. We also provide electronic data interchange services to customers desiring these services.

Drivers, Other Employees, and Independent Contractors

As of December 31, 2015, we had 6,196 total employees, of which 4,894 were company drivers. None of our employees is subject to a union contract or other collective bargaining unit.

Our operating model creates an environment where our employees are able to learn the many aspects of truckload transportation and logistics and demonstrate their talents, entrepreneurial spirit, and commitment. We believe that the depth of our employee talent within our service center network is one of our competitive advantages. Our front-line employees bring a high level of commitment to our customers and driving associates, while leveraging the substantial resource of our national network.

We recognize that the recruitment, training, and retention of a professional driver workforce, which is one of our most valuable assets, are essential to our continued growth and meeting the service requirements of our customers. We hire qualified drivers who hold a valid commercial driver's license, satisfy applicable federal and state safety performance and measurement requirements, and meet our objective guidelines relating primarily to their safety history, road test evaluations, and other personal evaluations, including mandatory drug and alcohol testing. In order to attract and retain safe drivers who are committed to the highest levels of customer service and safety, we focus our operations for drivers around a collaborative and supportive team environment. We provide late model and comfortable equipment, direct communication with senior management, competitive wages and benefits, and other incentives designed to encourage driver safety, retention, and long-term employment. We also recognize our drivers for providing superior service and developing good safety records. Our drivers are compensated on a per mile basis, based on the length of haul and a predetermined number of miles. Drivers are also compensated for additional flexible services provided to our customers. Our drivers and other employees are invited to participate in our 401(k) program, and company-sponsored health, life, and dental plans. We believe these factors help us in attracting, recruiting, and retaining professional drivers in a competitive driver market.

Through Squire Transportation, LLC ("Squire"), our trucking training company, we focus on developing skilled, productive, and safe qualified drivers. Squire's mission is to provide our drivers with the skills necessary to have a safe driving career with us. We believe Squire will continue to be very beneficial for recruiting and retaining qualified drivers.

We also maintain an independent contractor program. Because independent contractors provide their own tractors and drivers and are responsible for their own operating expenses, the independent contractor program provides us with an alternate method of obtaining additional truckload capacity. We intend to continue our use of independent contractors, but competition for independent contractors is intense. As of December 31, 2015, we had 407 contracts with independent contractors. Independent contractors contract with us to provide the tractor and driver to service the load offered to them. We pay independent contractors a fixed rate and a fuel protection based on a predetermined number of loaded and empty miles, fuel prices, and other factors. We offer tractor maintenance services to our independent contractors, although they are financially responsible for the costs and pay for their own fuel. We provide trailers for each independent contractor. In certain instances, we provide financing to independent contractors to assist them in acquiring revenue equipment. As of December 31, 2015, outstanding loans to independent contractors totaled in the aggregate approximately $0.8 million.

Revenue Equipment

In 2015, we operated an average of 4,363 company-owned tractors with an average age of 1.7 years. We also had under contract 407 tractors owned and operated by independent contractors as of December 31, 2015. We also operated an average of 11,789 trailers in 2015. Growth of our tractor and trailer fleet 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, economic environment, technology, warranty terms, manufacturer support, driver comfort, and resale value. We maintain strong relationships with our equipment vendors and the financial flexibility to react as market conditions dictate.

We have adopted an equipment configuration that meets a wide variety of customer needs and facilitates customer requirements. We adhere to a comprehensive maintenance program that minimizes downtime and enhances the resale value of our equipment. We perform routine servicing and maintenance of our equipment at most of our service centers, and we routinely inspect our equipment and that of our independent contractors to determine and monitor compliance with the United States Department of Transportation (“DOT”) requirements. Our current policy is to replace most of our tractors approximately 48 months after purchase and to replace our trailers over a five to ten year period. Changes in the current market for used tractors and trailers, regulatory changes, and difficult market conditions faced by tractor and trailer manufacturers, may result in price increases that may affect the period of time for which we operate our equipment.

Safety and Risk Management

We are committed to safe and secure operations. We conduct a mandatory intensive driver qualification process, including defensive driving training for all driving associates, which includes our company drivers, independent contractors, and trainees. We regularly communicate with driving associates to promote safety and instill safe work habits through effective use of various media and safety review sessions. We also regularly conduct safety training for our drivers, independent contractors, and non-driving personnel. We dedicate personnel and resources to ensure safe operation and regulatory compliance. We employ safety personnel whose primary responsibility is the administration of our safety programs. We employ technology to assist us in managing risks associated with our business. In addition, we have an innovative recognition program for driver safety performance and emphasize safety through our equipment specifications and maintenance programs. Our Corporate Directors of Safety review all accidents and report weekly to the Senior Director of Safety and Risk Management.

We require prospective drivers to meet higher qualification standards than those required by the DOT. The DOT requires drivers to obtain commercial drivers' licenses and also requires that we perform drug and alcohol testing that meets DOT regulations. Our program includes pre-employment, random, and post-accident drug testing and all other testing required by the DOT as well as additional Company required testing. We are authorized by the DOT to haul hazardous materials. We require any driver who transports hazardous materials to have the proper endorsement and to be regularly trained as prescribed by DOT regulations.

The primary claims arising in our business consist of auto liability, including personal injury, property damage, physical damage, and cargo loss. We are insured against auto liability claims under a self-insured retention ("SIR") policy. For the policy periods from February 1, 2014 to March 1, 2015, and from March 1, 2015 to March 1, 2016, our SIR is $2.5 million with no additional responsibility for "aggregate" losses. We regularly review insurance limits and retentions. We have secured excess liability coverage up to $105.0 million per occurrence. We also carry a $2.5 million aggregate deductible for any loss or losses that rise to the excess coverage layer.

We are self-insured for workers' compensation claims up to a maximum limit of $500,000 per occurrence. We also maintain primary and excess coverage for employee medical expenses and hospitalization, with self-insured retention of $225,000 per claimant for 2015 and 2014, and $240,000 per claimant for 2016.

Competition

The freight transportation industry is highly competitive and fragmented. We compete primarily with other truckload carriers and logistics companies, as well as railroads and airfreight providers. Our Trucking segment competes with other motor carriers for the services of drivers, independent contractors, and management employees. Our Logistics segment competes with other logistics companies for the services of third-party capacity providers and management employees. A number of our competitors have greater financial resources, own more revenue equipment, and carry a larger volume of freight than we do. We believe that the principal differentiating factors in our business, relative to competition, are service, efficiency, pricing, the availability and configuration of equipment that satisfies customers' needs, and our ability to provide multiple transportation solutions to our customers.

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In comparison to 2014, the rate of economic growth slowed and freight demand softened as 2015 progressed. Supply increased as more capacity entered the market, attracted by the improved rates experienced in 2014, and significantly lower fuel prices. We expect demand for our services to grow and supply to stabilize over the course of 2016 although we anticipate that soft freight demand will continue for at least the first half of 2016. We believe we are well positioned in this market due to our internal initiatives to improve yield, increase productivity, and manage our cost per mile.

Regulation

Our operations are regulated and licensed by various government agencies, including the DOT, EPA, and the U.S. Department of Homeland Security ("DHS"). These and other federal and state agencies also regulate our equipment, operations, drivers, and third-party capacity providers. We currently have, and have always maintained, a satisfactory DOT safety rating, which is the highest available rating, and we take continuous efforts to maintain our satisfactory rating.

The DOT, through the Federal Motor Carrier Safety Administration (the "FMCSA"), imposes safety and fitness regulations on us and our drivers, including rules that restrict driver hours-of-service. In December 2011, the FMCSA published its 2011 Hours-of-Service Final Rule (the "2011 Rule"). The 2011 Rule requires drivers to take 30-minute breaks after eight hours of consecutive driving and reduces the total number of hours a driver is permitted to work during each week from 82 hours to 70 hours. The 2011 Rule provides that the 34-hour restart may only be used once per week and must include two rest periods between one a.m. and five a.m. (together, the "2011 Restart Restrictions"). These rule changes became effective in July 2013.

In December 2014, the 2015 Omnibus Appropriations bill was signed into law. Among other things, the legislation provided temporary relief from the 2011 Restart Restrictions, and essentially reverted to the more straightforward 34-hour restart rule that was in effect before the 2011 Rule became effective. In 2016, Congress is expected to consider a study conducted by the FMCSA related to the 2011 Restart Restrictions. Congressional action based on the findings of the study could result in a reinstatement, continued suspension, or complete withdrawal of the 2011 Restart Restrictions.

There are two methods of evaluating the safety and fitness of carriers. The first method is the application of a safety rating that is based on an onsite investigation and affects a carrier's ability to operate in interstate commerce. We currently have a satisfactory DOT safety rating under this method, which is the highest available rating under the current safety rating scale. If we were to receive a conditional or unsatisfactory DOT safety rating, it could adversely affect our business, as some of our existing customer contracts require a satisfactory DOT safety rating. In January 2016, the FMCSA published a Notice of Proposed Rulemaking outlining a revised safety rating measurement system, which would replace the current methodology. Under the proposed rules, the current three safety ratings of "satisfactory," "conditional," and "unsatisfactory" would be replaced with a single safety rating of "unfit," and a carrier would be deemed fit when no rating was assigned. Moreover, the proposed rules would use roadside inspection data in addition to investigations and onsite reviews to determine a carrier's safety fitness on a monthly basis. Under the current rules, a safety rating can only be given upon completion of a comprehensive onsite audit or review. Under the proposed rules, a carrier would be evaluated each month and could be given an "unfit" rating if the data collected from roadside inspections, investigations, and onsite reviews did not meet certain standards. The proposed rules will undergo a 90-day public comment period, after which, a final rule could either be published or become subject to further legislative reviews and delays. Therefore, it's uncertain if or when these proposed rules could take effect. However, if such rules were enacted, and we received a rating of "unfit," it would adversely affect our operations.

In addition to the safety rating system, the FMCSA has adopted the Compliance Safety Accountability program ("CSA") as an additional safety enforcement and compliance model that evaluates and ranks fleets on certain safety-related standards. The CSA program analyzes data from roadside inspections, moving violations, crash reports from the last two years, and investigation results. The data is organized into seven categories. Carriers are grouped by category with other carriers that have a similar number of safety events (e.g., crashes, inspections, or violations) and carriers are ranked and assigned a rating percentile to prioritize them for interventions if they are above a certain threshold. Currently, these scores do not have a direct impact on a carrier's safety rating. However, the occurrence of unfavorable scores in one or more categories may (i) affect driver recruiting and retention by causing high-quality drivers to seek employment with other carriers, (ii) cause our customers to direct their business away from the us and to carriers with higher fleet safety rankings, (iii) subject us to an increase in compliance reviews and roadside inspections, or (iv) cause us to incur greater than expected expenses in our attempts to improve unfavorable scores, any of which could adversely affect the our results of operations and profitability.

Under CSA, these scores were initially made available to the public in five of the seven categories. However, pursuant to the FAST Act, which was signed into law in December 2015, the FMCSA is required to remove from public view the previously available CSA scores while it reviews the reliability of the scoring system. During this period of review by the FMCSA, we will continue to have access to our own scores and will still be subject to intervention by the FMCSA when such scores are above the intervention thresholds.

In 2011, the FMCSA issued new rules that would require nearly all carriers, including us, to install and use electronic on-board recording devices (“EOBRs,” now referred to as electronic logging devices, or “ELDs”) in their tractors to electronically monitor truck miles and enforce hours-of-service. These rules, however, were vacated by the Seventh Circuit Court of Appeals in August 2011. The final rule related to mandatory use of ELDs was published in December 2015, and requires the use of ELDs by nearly all carriers by December 10, 2017. We have proactively installed ELDs on 100% of our tractor fleet.

In the aftermath of the September 11, 2001 terrorist attacks, the DHS and other federal, state, and municipal authorities implemented and continue to implement various security measures, including checkpoints and travel restrictions on large trucks. The U.S. Transportation Security Administration ("TSA") adopted regulations that require determination by the TSA that each driver who applies for or renews his license for carrying hazardous materials is not a security threat. This requirement could reduce the pool of qualified drivers who are permitted to transport hazardous materials. These regulations also could complicate the matching of available equipment with hazardous material shipments, thereby increasing our response time and our empty miles on customer shipments. As a result, we could possibly fail to meet certain customer needs or incur increased expenses to do so.

In November 2015, the FMCSA published its final rule related to driver coercion, which took effect on January 29, 2016. Under this rule, carriers, shippers, receivers, or transportation intermediaries that are found to have coerced drivers to violate certain FMCSA regulations (including hours-of-service rules) may be fined up to $16,000 for each offense. The FMCSA and certain legislators have proposed other rules that may be published as early as 2016, including (i) the use of speed-limiting devices on heavy duty trucks to restrict maximum speeds, (ii) the creation of a national clearinghouse so employers and prospective employers could query to determine if current or prospective drivers have had any drug/alcohol positives or refusals, and (iii) an increase in the allowable length of twin trailers from 28 feet to 33 feet. If these rules take effect, they could result in a decrease in fleet production, driver availability, and freight tonnage available to full truckload carriers, all of which could adversely affect our business or operations.

Tax and other regulatory authorities have in the past sought to assert that independent contractor drivers in the trucking industry are employees rather than independent contractors. Federal legislators continue to introduce legislation concerning the classification of independent contractors as employees, including legislation that proposes to increase and heighten the tax and labor penalties against employers who intentionally or unintentionally misclassify their employees and are found to have violated employees' overtime or wage requirements. Additionally, federal legislators have sought to (i) abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice, (ii) extend the Fair Labor Standards Act to independent contractors, and (iii) impose notice requirements based upon employment or independent contractor status and fines for failure to comply. Some states have put initiatives in place to increase their revenues from items such as unemployment, workers' compensation, and income taxes, and we believe a reclassification of independent contractor drivers as employees would help states with this initiative. Federal and state taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status. If our independent contractors were determined to be our employees, we would incur additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment, and tort laws, which could potentially include prior periods, as well as potential liability for employee benefits and tax withholdings. We currently observe and monitor our compliance with current related and applicable laws and regulations, but we cannot predict whether laws and regulations adopted in the future regarding the classification of our independent contractor drivers will adversely affect our business or operations.

The EPA adopted a series of emissions control regulations that require progressive reductions in exhaust emissions from new diesel engines manufactured on or after October 2002, January 2007, and January 2010. Compliance with these regulations increased our new tractor costs and operating expenses and for engines manufactured on or after January 2010, also reduced our fuel economy. In May 2010, an executive memorandum was executed directing the

National Highway Traffic Safety Administration ("NHTSA") and EPA to develop new, stricter fuel efficiency standards for heavy tractors. In August 2011, the NHTSA and EPA adopted a new rule that established the first-ever fuel economy and greenhouse gas standards for medium and heavy-duty vehicles, which include tractor-trailers. These standards apply to model years 2014 to 2018, which are required to achieve an approximate 20 percent reduction in fuel consumption by calendar year 2017, which equates to approximately four gallons of fuel for every 100 miles travelled. In addition, in February 2014 President Barack Obama announced that his administration would begin developing the next phase of tighter fuel efficiency standards for medium and heavy-duty vehicles, including tractor-trailers, and directed the EPA and NHTSA to develop new fuel-efficiency and greenhouse gas standards by March 31, 2016. In response, in June 2015, the EPA and NHTSA jointly proposed new stricter standards that would apply to trailers beginning with model year 2018 and tractors beginning with model year 2021. After an extended comment period ending in October 2015, a final rule has not been published. If this rule or a similar rule was enacted, we believe that these requirements could result in increased new tractor prices and additional parts and maintenance costs incurred to upfit our tractors with technology to achieve compliance with such standards, which could adversely affect our operating results and profitability, particularly if such costs are not offset by potential fuel savings, but we cannot predict the extent to which our operations and productivity will be impacted.

The California Air Resources Board ("CARB") also adopted emission control regulations that will be applicable to all heavy-duty tractors that pull 53-foot or longer box-type trailers within the State of California. The tractors and trailers subject to these CARB regulations must be either EPA SmartWay certified or equipped with low-rolling resistance tires and retrofitted with SmartWay-approved aerodynamic technologies. Enforcement of these CARB regulations for 2011 model year equipment began in January 2010 and will be phased in over several years for older equipment. In order to comply with the CARB regulations, we submitted a large fleet compliance plan to CARB in June 2010. We will continue monitoring our compliance with the CARB regulations. Beginning January 1, 2014, CARB regulations require certain drayage trucks with 2006 or older model year engines to upgrade to 2007 or newer model year engines. We believe some industry participants may have difficulty complying with this new requirement, which may tighten drayage freight capacity and decrease drayage competition in California. Federal and state lawmakers also have proposed potential limits on carbon emissions under a variety of climate-change proposals. Compliance with such regulations has increased the cost of our new tractors, may increase the cost of any new trailers that will operate in California, may require us to retrofit certain of our pre-2011 model year trailers that operate in California, and could impair equipment productivity and increase our operating expenses. These adverse effects, combined with the uncertainty as to the reliability of the newly designed diesel engines and the residual values of these vehicles, could materially increase our costs or otherwise adversely affect our business or operations.

In order to reduce exhaust emissions, some states and municipalities have begun to restrict the locations and amount of time where diesel-powered tractors may idle. These restrictions could force us to purchase on-board power units that do not require the engine to idle or to alter its drivers' behavior, which could result in a decrease in productivity.

In addition to the foregoing laws and regulations, our operations are subject to other federal, state, and local environmental laws and regulations, many of which are implemented by the EPA and similar state agencies. Such laws and regulations generally govern the management and handling of hazardous materials, discharge of pollutants into the air, surface water and groundwater preservation, and disposal of certain various substances. We do not believe that our compliance with these statutory and regulatory measures have had a material adverse effect on our operating results, capital expenditures, or business and operations. For further discussion regarding such laws and regulations, refer to the "Risk Factors" section under Item 1A of Part I of this Annual Report.

Seasonality

In the transportation industry, results of operations generally follow a seasonal pattern. Freight volumes are typically lower from January through the first part of March because some customers reduce their shipments. At the same time, operating expenses generally increase, and the tractor productivity of our fleet, independent contractors, and third-party carriers decreases during the winter months because of decreased fuel efficiency, increased cold weather-related equipment maintenance and repairs, and increased insurance claims and costs attributed to higher accident frequency from harsh weather. During this period, the profitability of our Trucking operations is generally lower than during other parts of the year.

Acquisitions, Investments, and Dispositions

We regularly examine investment opportunities in areas related to our businesses. Our investment strategy is to invest in businesses that will strengthen our overall position in the transportation industry, minimize our exposure to start-up risk, and provide us with an opportunity to realize a substantial return on our investment. Since 1999, we have acquired five short-to-medium haul truckload carriers or have acquired substantially all of the trucking assets of such carriers, including: (i) Granger, Iowa-based Barr-Nunn, acquired in 2014; (ii) Phoenix, Arizona-based Roads West Transportation, Inc., acquired in 2006; (iii) Idaho Falls, Idaho-based Edwards Bros., Inc., acquired in 2005; (iv) Gulfport, Mississippi-based John Fayard Fast Freight, Inc., acquired in 2000; and (v) Corsicana, Texas-based Action Delivery Service, Inc., acquired in 1999. We have not conducted any acquisitions through our Logistics segment. Although most of our growth is internal, we continue to evaluate acquisition and other opportunities that contribute to Trucking and Logistics development and growth.