

KNIGHT TRANSPORTATION INC  
Form 10-K  
February 29, 2008

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

FORM 10-K

(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, 2007

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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  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  No

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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

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.

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):

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 Act).

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 29, 2007, was approximately \$1,674 million (based upon \$19.38 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, directors, and no other persons, are affiliates.

The number of shares outstanding of the registrant's common stock as of February 10, 2008 was 86,042,844.

Materials from the registrant's Notice and Proxy Statement relating to the 2008 Annual Meeting of Shareholders to be held on May 22, 2008 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. 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. Such statements may be identified by their use of terms or phrases such as "believe," "may," "could," "expects," "estimates," "projects," "anticipates," "intends," and similar terms and phrases. 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. Readers should review and consider the factors discussed in "Item 1A. Risk Factors" of this Annual Report on Form 10-K, 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. The Company expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.

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

Our headquarters are located in Phoenix, Arizona. The transportation services we provide are primarily asset-based dry van truckload and temperature controlled truckload carrier services, along with non-asset-based brokerage services. Through our asset-based and non-asset-based capabilities we are able to transport, or can arrange for the transportation of, general commodities for customers throughout the United States. We generally focus our dry van and temperature controlled operations on regional short-to-medium lengths of haul. As of December 31, 2007, we operated 31 asset-based service centers (consisting of 27 dry van and four temperature controlled service centers) and 12 non-asset-based brokerage branches. Our brokerage branches enable us to expand our customer service offerings by providing non-asset-based capability to manage our customers' freight when the shipments do not fit our asset-based model. 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.

We have determined that we have two operating segments. Our operating segments consist of (i) our truckload transportation (asset-based) segment and (ii) our brokerage segment (non-asset-based). Our asset-based, truckload transportation segment includes our dry van and temperature controlled operations with service centers located throughout the United States. Each of the asset-based service centers have similar economic characteristics, as they all provide truckload carrier services of general commodities to a similar class of customers. As a result, we have determined that it is appropriate to aggregate these asset-based service centers into one reportable operating segment consistent with the guidance in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related

Information." Accordingly, we have not presented separate financial information for each of these service centers. Furthermore, we have not presented separate financial information for our brokerage segment, although it qualifies as an operating segment under SFAS No. 131, because its results of operations are not material to our consolidated financial statements as a whole. For the year ended December 31, 2007, our brokerage segment accounted for 4.0% of our consolidated revenue, 1.0% of our consolidated net income, and less than 1.0% of our consolidated total assets.

#### Operations

Our operating strategy for our asset-based activities 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 freight lanes in select geographic regions, and attempt to develop and expand our customer base around each of our regional service centers. This operating strategy allows us to take

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advantage of the large amount of freight transported in regional markets. Our decentralized 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, decrease maintenance expenses and downtime, and enhance our operating efficiencies. We employ technology in a cost-effective manner to assist us in controlling operating costs and enhancing revenue. Our operating strategy for our non-asset-based activities is to match quality capacity with the shipping needs of our customers. 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.

Our operating strategy includes the following important elements:

**Regional Operations.** At December 31, 2007, we operated 27 asset-based dry van service centers, four asset-based temperature controlled service centers, and 12 non-asset-based brokerage branches. We concentrate our asset-based freight operations within an approximate 1,000 mile radius of our service centers, with an average length of haul in 2007 of approximately 542 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 freight lanes to minimize non-revenue miles and offer our customers a high level of service and consistent capacity;
- enhancing safety and driver recruitment and retention by allowing our drivers to travel familiar routes and return home more frequently; and
- enhancing our ability to provide a high level of service to our customers.

**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 markets. This approach allows us to concentrate our marketing efforts to achieve higher penetration of our targeted service areas. We maintain a modern tractor and trailer fleet in order to obtain operating efficiencies and attract and retain drivers. A generally compatible fleet of tractors and trailers simplifies our maintenance procedures and reduces parts supplies. We also regulate vehicle speed in order to maximize fuel efficiency, reduce wear and tear, and enhance safety.

**Customer Service.** We offer a high level of service to our customers, and we seek to establish ourselves as a preferred provider for many of our customers. For our asset-based services we allocate revenue equipment regionally for customers in high-density lanes where we can provide them with a consistent supply of capacity as well as match our equipment to their needs. Our services include multiple stop pick-ups and deliveries, dedicated equipment and personnel, on-time pickups and deliveries within narrow time frames, specialized driver training, and other services. Brokerage services are tailored to meet our customers' needs. We price our services commensurately with the level of service our customers require and the conditions in market demand. 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, to manage our fleets, 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 service centers. The majority of our trailers are equipped with GE VeriWise (formerly known as Terion) trailer-tracking technology that allows us to more effectively manage our trailers. 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 improve efficiency.

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Growth Strategy

Our growth strategy is focused on the following four key areas:

Opening service centers in new geographic regions and expanding existing service 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 service centers. We believe there are significant opportunities to further increase our business in the short-to-medium haul market by opening additional regional service centers, both asset-based and non-asset-based, while expanding our existing regional service centers.

Strengthening our customer relationships. We market our services to both existing and new customers in freight lanes that complement our existing operations. We seek customers who will diversify our freight base. We market our dry van truckload, temperature-controlled truckload, and brokerage services to existing customers who may have need for, but do not currently use, multiple services from us.

Opportunities to make selected acquisitions. We are continuously evaluating acquisition opportunities. Since 1999, we have acquired four short-to-medium haul truckload carriers or have acquired substantially all of the trucking assets of such carriers, including: Phoenix, Arizona-based Roads West Transportation, Inc. acquired in 2006; Idaho Falls, Idaho-based Edwards Bros., Inc., acquired in 2005; Gulfport, Mississippi-based John Fayard Fast Freight, Inc., acquired in 2000; and Corsicana, Texas-based Action Delivery Service, Inc., acquired in 1999. Although most of our growth has been internal, we continue to evaluate acquisition opportunities.

Diversifying our service offerings. We provide truckload transportation services, both dry van and temperature controlled, with our fleet of tractors and trailers. In 2005, we expanded our service offering to include brokerage services. In 2007, our brokerage services more than doubled in size from 2006, to approximately \$29.0 million in revenue, with very little capital investment. We will continue to leverage our nationwide footprint and expertise of providing synergies and adding value to our customers through our service offerings.

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 sales team emphasizes our high level of service and ability to accommodate a variety of customer needs. Our marketing efforts are designed to match the shipping needs of our current and potential customers with our capacity in markets throughout the country.

We try to maintain a diversified customer base. For the year ended December 31, 2007, our top 25 customers represented approximately 36% of revenue; our top 10 customers represented approximately 22% of revenue; and our top 5 customers represented approximately 14% of revenue. No single customer represented more than 5% of revenue in 2007. Most of our truckload carriage contracts are cancelable on 30 days notice.

We seek to offer the service, value, and flexibility of a local provider, while possessing the capacity, strength, and dependability of a large company. 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 try to obtain a competitive advantage by providing high quality services and consistent capacity to customers.

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. Our dedicated fleet services also may provide a significant part of a customer's transportation requirements. Under a dedicated carriage service agreement, we can provide drivers, equipment and maintenance, and, in some instances, transportation

management services that supplement the customer's in-house transportation department.

Each of our regional service centers is linked to our corporate computer system in our Phoenix headquarters. The capabilities of this system enhance our operating efficiency by providing cost effective access to detailed information concerning equipment, shipment status, and 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. We also provide electronic data interchange ("EDI") services to shippers desiring such service.

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Drivers, Other Employees, and Independent Contractors

As of December 31, 2007, we employed 4,404 persons, of which 3,758 were drivers. None of our employees are 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 safe and qualified drivers are essential to support our continued growth and to meet the service requirements of our customers. We hire drivers who meet our objective guidelines relating primarily to their safety history, road test evaluations, and other personal evaluations, including physical examinations and mandatory drug and alcohol testing. In order to attract and retain safe drivers who are committed to the highest level of customer service, we build our operations for drivers around a team environment. We provide attractive 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. 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. Drivers and other employees are invited to participate in our 401(k) program and in our company-sponsored health, life, and dental plans. Our drivers and other employees who meet eligibility criteria also participate in our stock option plan. We have a broad-based stock option program with more than 1,100 participants at December 31, 2007.

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, 2007, we had agreements covering 231 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 load, transport, and unload goods we haul. 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 a charge, for our independent contractors who desire such services. 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, 2007, we had outstanding loans of \$907,022 (net of allowance for doubtful accounts of \$78,872) to independent contractors.

Revenue Equipment

As of December 31, 2007, we operated 3,527 company-owned tractors with an average age of 1.6 years. We also had under contract 231 tractors owned and operated by independent contractors. Our trailer fleet consisted of 8,809, 53-foot long, high cube trailers, including 551 temperature controlled trailers, with an average age of 4.3 years.

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, environment, technology, warranty terms, manufacturer support, driver comfort, and resale value.

We have adopted an equipment configuration that meets a wide variety of customer needs and facilitates customer shipping flexibility. 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 several of our service centers. Our current policy is to replace most of our tractors within 36 to 42 months after purchase and to

replace our trailers over a six to ten year period. Changes in the current market for used tractors, regulatory changes, and difficult market conditions faced by tractor manufacturers, may result in price increases that may effect the period of time we operate our equipment.

In 2002, the Environmental Protection Agency ("EPA") implemented regulations limiting exhaust emissions. Regulations further limiting exhaust emissions became effective January 1, 2007, and become progressively more restrictive in 2010. 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 2010 requirements. If new equipment prices increase more than anticipated, we may be required to increase our 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, new engines generally produce lower fuel mileage compared with older models and compliance with the new standards

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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.

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 media and safety review sessions. We also regularly conduct safety training meetings 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 at every operating location who are responsible for administering 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 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 drivers to obtain commercial drivers' licenses and also requires that we maintain 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. We require any driver who transports hazardous materials to have the proper endorsement and to be regularly trained as prescribed by DOT regulations. We also monitor our driver's compliance with the Department of Homeland Security's new "Security Threat Assessment" regulation, which took effect in 2005, when applying for or renewing a hazardous material endorsement.

Our Chief Executive Officer, Chief Financial Officer, and Vice President of Safety and Risk Management are responsible for securing appropriate insurance coverage at competitive rates. 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 with a retention of \$1.5 million per occurrence. For the policy year beginning February 1, 2007, we assumed responsibility for an additional \$1.5 million in "aggregate" losses for claims that exceed the \$1.5 million SIR in return for a lower premium rate. For the policy year commencing February 1, 2008, the SIR decreased from \$1.5 million to \$1.0 million and our additional assumed responsibility of \$1.5 million in aggregate losses for claims that exceed the former \$1.5 million SIR was correspondingly reduced to \$1.0 million in aggregate losses for claims that exceed the \$1.0 million SIR. Our auto insurance policies for 2007 provided for excess liability coverage up to a total of \$55.0 million per occurrence.

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 retention level of \$225,000 per claimant.

Competition

The 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. 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.

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

#### Regulation

Our operations are regulated and licensed by various government agencies. Our company drivers and independent contractors also must comply with the safety and fitness regulations of the United States Department of Transportation ("DOT"), including those relating to drug and alcohol testing and hours-of-service. Such matters as

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weight and equipment dimensions are also subject to government regulations. We also may become subject to new or more restrictive regulations relating to emissions, drivers' hours-of-service, ergonomics, or other matters affecting safety or operating methods. Other agencies, such as the EPA and the Department of Homeland Security ("DHS"), also regulate our equipment, operations, and drivers.

The DOT, through the Federal Motor Carrier Safety Administration ("FMCSA"), imposes safety and fitness regulations on us and our drivers. New rules that limit driver hours-of-service were adopted effective January 4, 2004, and then modified effective October 1, 2005 (the "2005 Rules"). On July 24, 2007, a federal appeals court vacated portions of the 2005 Rules, including the expansion of the driving day from 10 hours to 11 hours, and the "34-hour restart," which allows drivers to restart calculations of the weekly on-duty time limits after the driver has at least 34 consecutive hours off duty. On September 28, 2007, the court directed that issuance of its ruling be withheld until December 27, 2007. On December 17, 2007, FMCSA submitted an interim final rule, which became effective December 27, 2007 (the "Interim Rule"). The Interim Rule retains the 11 hour driving day and the 34-hour restart. The Interim Rule remains in effect; though, advocacy groups may continue to challenge the Interim Rule. A court's decision to strike down the Interim Rule could have varying effects, as reducing driving time to 10 hours daily may reduce productivity, while eliminating the 34-hour restart could also reduce productivity. We are also unable to predict the effect of any new rules that might be proposed, but any such proposed rules could increase costs in our industry or decrease productivity.

The Transportation Security Administration ("TSA") has adopted regulations that require determination by the TSA that each driver who applies for or renews his or her license for carrying hazardous materials is not a security threat. This could reduce the pool of qualified drivers, which could require us to increase driver compensation, limit our fleet growth, or let trucks sit idle. These regulations also could complicate the matching of available equipment with hazardous material shipments, thereby increasing our response time on customer orders and our non-revenue miles. As a result, it is possible we may fail to meet the needs of our customers or may incur increased expenses to do so.

Some states and municipalities have begun to restrict the locations and amount of time where diesel-powered tractors, such as ours, may idle, in order to reduce exhaust emissions. These restrictions could force us to alter our operations.

We are subject to various environmental laws and regulations dealing with the hauling and handling of hazardous materials, fuel storage tanks, emissions from our vehicles and facilities, engine idling, discharge and retention of storm water, and other environmental matters that import inherent environmental risks. We maintain bulk fuel storage and fuel islands at several of our service centers. 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 we can achieve environmental compliance and avoid environmental risk. Our service centers and processes are designed to contain and properly dispose of hazardous substances and petroleum products which could be used or generated 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 are found to be in violation of applicable laws or regulations, we could be subject to liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business and operating results.

Regulations further limiting exhaust emissions became effective both in 2002 and in 2007 and become progressively more restrictive in 2010. Newer engines generally cost more, reduce fuel mileage, and require additional maintenance compared with older models. We expect additional cost increases in newer engines. 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.

Seasonality

Results of operations in the transportation industry frequently show a seasonal pattern. Continued expansion of our operations throughout the United States could expose us to greater operating variances due to periodic seasonal weather in various regions, which variance could have a materially adverse effect on our operations.

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Acquisitions, Investments, and Dispositions

We periodically examine investment opportunities in areas related to the transportation industry. Our investment strategy is to invest in industry related 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.

On October 23, 2006, we purchased most of the trucking assets of Roads West Transportation, Inc. ("Roads West"), an Arizona-based temperature controlled carrier. Under the asset purchase agreement, we purchased 133 tractors, 280 trailers, and certain miscellaneous other assets. We did not purchase cash or accounts receivable and did not assume any debts or liabilities of Roads West. The purchase price for the assets, including the full amount of the earn-out, was approximately \$15.8 million. During 2007, we paid \$135,000 for an earn-out, which represents the final earn-out under the purchase agreement. The total purchase price has been allocated to tangible and intangible assets acquired based on their fair market values as of the acquisition date. The acquisition has been accounted for in our results of operations since the acquisition date. The pro forma effect of the acquisition on our results of operations is immaterial.

On August 12, 2005, we acquired 100% of the stock of Edwards Bros., Inc., an Idaho based temperature controlled truckload carrier. In addition to the purchase price, the purchase agreement set forth certain conditions upon which we would be required to pay certain earn-out adjustments. During 2006, we paid \$320,000 as an earn-out, which represented the final earn-out under the purchase agreement.

In 2003, we signed a partnership agreement with Transportation Resource Partners ("TRP"), a company that makes privately negotiated equity investments. Per the original partnership agreement, we committed to pledge \$5.0 million out of approximately \$260.0 million, for a 1.9% ownership interest. In early 2006, we increased the commitment amount to \$5.5 million. We contributed \$488,000 in working capital to TRP in 2007. We also received \$449,000 of proceeds from TRP as a result of a recapitalization in one of the equity investments. This proceed is treated as a return of investments. Our investment in TRP is accounted for using the cost method. At December 31, 2007, our ownership interest was approximately 2.1% and we had an outstanding commitment to TRP of approximately \$1.0 million.

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 at [www.knighttrans.com](http://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.

Additionally, you may read all of the materials that we file with the SEC by visiting the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. If you would like information about the operation of the Public Reference Room, you may call the SEC at 1-800-SEC-0330. You may also visit the SEC's website at [www.sec.gov](http://www.sec.gov). This site contains reports, proxy and information statements, and other information regarding our company and other companies that file electronically with the SEC.

Item 1A. Risk Factors

Our future results may be affected by a number of factors over which we have little or no control. The following issues, uncertainties, and risks, among others, should be considered in evaluating our business and growth outlook.

Our business is subject to general economic and business factors that are largely out of our control.

Our business is dependent on a number of factors that may have a materially adverse effect on our results of operations, many of which are beyond our control. The most significant of these factors are recessionary economic cycles, changes in customers' inventory levels, excess tractor or trailer capacity in comparison with shipping demand, and downturns in customers' business cycles. Economic conditions, particularly in market segments and industries where we have a significant concentration of customers and in regions of the country where we have a significant amount of business, that decrease shipping demand or increase the supply of tractors and trailers can exert downward pressure on rates or equipment utilization, thereby decreasing asset productivity. Adverse economic conditions also may harm our customers and their ability to pay for our services. Customers encountering adverse

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economic conditions represent a greater potential for loss, and we may be required to increase our allowance for doubtful accounts.

We are also subject to increases in costs that are outside of our control that could materially reduce our profitability if we are unable to increase our rates sufficiently. Such cost increases include, but are not limited to, declines in the resale value of used equipment, increases in interest rates, fuel prices, taxes, tolls, license and registration fees, insurance, revenue equipment, and healthcare for our employees. We could be affected by strikes or other work stoppages at our service centers or at customer, port, border, or other shipping locations.

In addition, we cannot predict the effects on the economy or consumer confidence of actual or threatened armed conflicts or terrorist attacks, efforts to combat terrorism, military action against a foreign state or group located in a foreign state, or heightened security requirements. Enhanced security measures could impair our operating efficiency and productivity and result in higher operating costs.

Our growth may not continue at historical rates.

We have experienced significant and rapid growth in revenue and profits since the inception of our business in 1990. There can be no assurance that our business will continue to grow in a similar fashion in the future or that we can effectively adapt our management, administrative, and operational systems to respond to any future growth. Further, there can be no assurance that our operating margins will not be adversely affected by future changes in and expansion of our business or by changes in economic conditions.

If the growth in our regional operations slows or stagnates, if we are unable to commit sufficient resources to our regional operations, or if we were to expand into a market with insufficient economic activity or human resources, our results of operations could be adversely affected.

In addition to our regional service centers in Phoenix, Arizona, we have established regional service centers throughout the United States in order to serve markets in these regions. These regional operations require the commitment of additional personnel and/or revenue equipment, as well as management resources, for future development. Should the growth in our regional operations slow or stagnate, the results of our operations could be adversely affected. As we continue to expand, it may become more difficult to identify large cities that can support a service center and we may expand into smaller cities where there is less economic activity and room for growth and fewer driver and non-driver personnel to support the service center. We may encounter operating conditions in these new markets that differ substantially from those previously experienced. We may not be able to duplicate our regional operating strategy successfully throughout the United States, or perhaps outside the United States, and it might take longer than expected or require a more substantial financial commitment than anticipated. In addition, the recent commencement of operations of our temperature controlled and brokerage services are subject to the risks inherent in entering new lines of business, including, but not limited to: unfamiliarity with pricing, service, operational, and liability issues; the risk that customer relationships may be difficult to obtain or that we may have to reduce rates to gain customer relationships; the risk that the specialized temperature controlled equipment may not be adequately utilized; and the risk that cargo claims may exceed our past experience.

Ongoing insurance and claims expenses could significantly reduce our earnings.

Our future insurance and claims expense might exceed historical levels, which could reduce our earnings. We self-insure for a portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as employees' health insurance. We also are responsible for our legal expenses relating to such claims. We reserve for anticipated losses and expenses. We periodically evaluate and adjust our claims reserves to reflect our experience. However, ultimate results may differ from our estimates, which could

result in losses over our reserved amounts.

We maintain insurance above the amounts for which we self-insure with licensed insurance carriers. Although we believe the aggregate insurance limits should be sufficient to cover reasonably expected claims, it is possible that one or more claims could exceed our aggregate coverage limits. Insurance carriers have raised premiums for many businesses, including trucking companies. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention when our policies are renewed. If these expenses increase, if we experience a claim in excess of our coverage limits, or if we experience a claim for which coverage is not provided, our results of operations and financial condition could be materially and adversely affected.

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Increased prices and reduced efficiency relating to new revenue equipment may adversely affect our earnings and cash flows.

We have experienced higher prices for new tractors over the past few years, partially as a result of government regulations applicable to newly manufactured tractors and diesel engines and partially due to higher commodity prices and better pricing power among equipment manufacturers. In addition, the engines used in our newer tractors are subject to emissions control regulations issued by the Environmental Protection Agency ("EPA"). The regulations require progressive reductions in exhaust emissions from diesel engines for 2007 through 2010. Compliance with such regulations has increased the cost of our new tractors and could impair equipment productivity, lower fuel mileage, and increase our operating expenses. These adverse effects, combined with the uncertainty as to the reliability of the vehicles equipped with the newly designed diesel engines and the residual values realized from the disposition of these vehicles, could increase our costs or otherwise adversely affect our business or operations as the regulations become effective. Some manufacturers have significantly increased new equipment prices, in part to meet new engine design requirements.

We have trade-in and/or repurchase commitments that specify, among other things, what our primary equipment vendors will pay us for disposal of a substantial portion of our revenue equipment. The prices we expect to receive under these arrangements may be higher than the prices we would receive in the open market. We may suffer a financial loss upon disposition of our equipment if these vendors refuse or are unable to meet their financial obligations under these agreements, if we fail to enter into definitive agreements that reflect the terms we expect, if we fail to enter into similar arrangements in the future, or if we do not purchase the required number of replacement units from the vendors.

If fuel prices increase significantly, our results of operations could be adversely affected.

We are subject to risk with respect to purchases of fuel. Prices and availability of petroleum products are subject to political, economic, and market factors that are generally outside our control. Political events in the Middle East, Venezuela, and elsewhere, as well as hurricanes and other weather-related events, also may cause the price of fuel to increase. Because our operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect our results of operations and financial condition if we are unable to pass increased costs on to customers through rate increases or fuel surcharges. Historically, we have sought to recover a portion of short-term increases in fuel prices from customers through fuel surcharges. Fuel surcharges that can be collected do not always fully offset the increase in the cost of diesel fuel. To the extent we are not successful in these negotiations, our results of operations may be adversely affected.

Difficulty in driver and independent contractor recruitment and retention may have a materially adverse effect on our business.

Difficulty in attracting or retaining qualified drivers, including independent contractors, could have a materially adverse effect on our growth and profitability. Our independent contractors are responsible for paying for their own equipment, fuel, and other operating costs, and significant increases in these costs could cause them to seek higher compensation from us or seek other opportunities within or outside the trucking industry. In addition, competition for drivers, which is always intense, continues to increase. If a shortage of drivers should continue, or if we were unable to continue to attract and contract with independent contractors, we could be forced to limit our growth, experience an increase in the number of our tractors without drivers, which would lower our profitability, or be required to further adjust our driver compensation package, which could adversely affect our profitability if not offset by a corresponding increase in rates.

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

Our operations are regulated and licensed by various government agencies, including the Department of Transportation ("DOT"). The DOT, through the Federal Motor Carrier Safety Administration ("FMCSA"), imposes safety and fitness regulations on us and our drivers. New rules that limit driver hours-of-service were adopted effective January 4, 2004, and then modified effective October 1, 2005 (the "2005 Rules"). On July 24, 2007, a federal appeals court vacated portions of the 2005 Rules. Two of the key portions that were vacated include the expansion of the driving day from 10 hours to 11 hours, and the "34-hour restart," which allows drivers to restart calculations of the weekly on-duty time limits after the driver has at least 34 consecutive hours off duty. The court indicated that, in addition to other reasons, it vacated these two portions of the 2005 Rules because FMCSA failed to provide adequate data supporting its decision to increase the driving day and provide for the 34-hour restart. Following a request by FMCSA for a 12-month extension of the vacated rules, the court, in an order filed on September 28, 2007, granted a 90-day stay of the mandate and directed that issuance of its ruling be withheld until

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December 27, 2007, to allow FMCSA time to prepare its response. On December 17, 2007, FMCSA submitted an interim final rule, which became effective December 27, 2007 (the "Interim Rule"). The Interim Rule retains the 11 hour driving day and the 34-hour restart, but provides greater statistical support and analysis regarding the increased driving time and the 34-hour restart. On January 23, 2008, a federal court denied an advocacy group's request that it prevent FMCSA from implementing the Interim Rule. Accordingly, the Interim Rule remains in effect; though, challenges to the Interim Rule are still possible. FMCSA expects to publish a final rule later in 2008. As advocacy groups may continue to challenge the Interim Rule, a court's decision to strike down the Interim Rule could have varying effects, as reducing driving time to 10 hours daily may reduce productivity in some lanes, while eliminating the 34-hour restart could either enhance or reduce productivity in certain instances. As a result, such a ruling could decrease productivity and result in some loss of efficiency, as drivers and shippers may need to be retrained, computer programming may require modifications, additional drivers may need to be employed or engaged, additional equipment may need to be acquired, and some shipping lanes may need to be reconfigured. We are also unable to predict the effect of any new rules that might be proposed, but any such proposed rules could increase costs in our industry or decrease productivity.

We operate in a highly regulated industry, and increased costs of compliance with, or liability for violation of, existing or future regulations could have a materially adverse effect on our business.

In general, the increasing burden of regulation raises our costs and lowers our efficiency. Future laws and regulations may be more stringent and require changes in our operating practices, influence the demand for transportation services, or require us to incur significant additional costs. Higher costs incurred by us or by our suppliers who pass the costs onto us through higher prices could adversely affect our results of operations.

Federal, state, and municipal authorities have implemented and continue to implement various security measures, including checkpoints and travel restrictions on large trucks. These regulations also could complicate the matching of available equipment with hazardous material shipments, thereby increasing our response time on customer orders and our non-revenue miles. As a result, it is possible we may fail to meet the needs of our customers or may incur increased expenses to do so. These security measures could negatively impact our operating results.

Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.

In addition to direct regulation by the DOT and other agencies, we are subject to various environmental laws and regulations dealing with the handling of hazardous materials, underground fuel storage tanks, and discharge and retention of storm-water. We operate in industrial areas where truck terminals and other industrial facilities are located and where groundwater or other forms of environmental contamination have occurred. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. Two of our service centers are located adjacent to environmental "superfund" sites. Although we have not been named as a potentially responsible party in either case, we are potentially exposed to claims that we may have contributed to environmental contamination in the areas in which we operate. We also maintain bulk fuel storage and fuel islands at several of our service centers.

Our Phoenix service center is located on land identified as potentially having groundwater contamination resulting from the release of hazardous substances by persons who have operated in the general vicinity. The area has been classified as a state superfund site. We have been located at our Phoenix facility since 1990 and, during such time, have not been identified as a potentially responsible party with regard to the groundwater contamination, and we do not believe that our operations have been a source of groundwater contamination.

Our Indianapolis service center is located approximately one-tenth of a mile east of Reilly Tar and Chemical Corporation, a federal superfund site listed on the National Priorities List for clean-up. The Reilly site has known soil and groundwater contamination. There also are other sites in the general vicinity of our Indianapolis property that have known contamination. Environmental reports obtained by us have disclosed no evidence that activities on our Indianapolis property have caused or contributed to the area's contamination but it is possible that we could be responsible for clean up costs regardless.

If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable laws or regulations, it could have a materially adverse effect on our business and operating results. If we should fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.



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We may not make acquisitions in the future, or if we do, we may not be successful in integrating the acquired company, either of which could have a materially adverse effect on our business.

Historically, acquisitions have been a part of our growth. There is no assurance that we will be successful in identifying, negotiating, or consummating any future acquisitions. If we fail to make any future acquisitions, our growth rate could be materially and adversely affected. Any acquisitions we undertake could involve the dilutive issuance of equity securities and/or incurring indebtedness. In addition, acquisitions involve numerous risks, including difficulties in assimilating the acquired company's operations, the diversion of our management's attention from other business concerns, risks of entering into markets in which we have had no or only limited direct experience, and the potential loss of customers, key employees, and drivers of the acquired company, all of which could have a materially adverse effect on our business and operating results. If we make acquisitions in the future, we cannot guarantee that we will be able to successfully integrate the acquired companies or assets into our business.

As we continue to expand into new regions, we may experience greater operating variances due to the seasonal pattern of the transportation industry, which may have a materially adverse effect on our operations.

Results of operations in the transportation industry frequently show a seasonal pattern, with lower revenue and higher operating expenses being common in the winter months. As we continue to expand our operations throughout the United States, we could experience greater operating variances due to periodic seasonal weather in other regions than we have previously experienced, which variance could have a materially adverse effect on our operations.

If we are unable to retain our key employees or find, develop, and retain service center managers, our business, financial condition, and results of operations could be adversely affected.

We are highly dependent upon the services of certain key employees, including, but not limited to: Kevin P. Knight, our Chairman of the Board and Chief Executive Officer; Gary J. Knight, our Vice Chairman of the Board; Keith T. Knight, our Chief Operating Officer; Casey Comen, our Executive Vice President of Sales; Michael K. Liu, our President of Knight Transportation Dry Van; Erick Kutter, our President of Knight Refrigerated, LLC; Greg Ritter, our President of Knight Brokerage, LLC; and David Jackson, our Chief Financial Officer and Secretary. We currently do not have employment agreements with any of these key employees, and the loss of any of their services could negatively impact our operations and future profitability. Additionally, we must, because of our regional operating strategy, continue to find, develop, and retain service center managers if we are to realize our goal of expanding our operations and continuing our growth. Failing to find, develop, and retain a core group of service center managers could have a materially adverse effect on our business.

We are highly dependent on a few major customers, the loss of one or more of which could have a materially adverse effect on our business.

A significant portion of our revenue is generated from a limited number of major customers, the loss of one or more of which could have a materially adverse effect on our business. For the year ended December 31, 2007, our top 25 customers, based on revenue, accounted for approximately 36% of our revenue; our top 10 customers, approximately 22% of our revenue; and our top 5 customers, approximately 14% of our revenue. Generally, we do not have long term contractual relationships with our customers, and we cannot assure you that our customer relationships will continue as presently in effect. A reduction in or termination of our services by one or more of our major customers could have a materially adverse effect on our business and operating results.

If our investment in Transportation Resource Partners ("TRP") is not successful, we may be forced to write off part or all of our investment, which could have a materially adverse effect on our operating results.

We have invested in TRP, a company that makes privately negotiated equity investments. Due to portfolio losses in the past, we have recorded impairment charges in prior periods to reflect the other-than-temporary decrease in fair value of the portfolio. If TRP's financial position declines, we could be forced to write down all or part of our investment which could have a materially adverse effect on our operating results.

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We are dependent on computer and communications systems, and a systems failure could cause a significant disruption to our business.

Our business depends on the efficient and uninterrupted operation of our computer and communications hardware systems and infrastructure. We currently maintain our computer system at our Phoenix, Arizona headquarters, along with computer equipment at each of our service centers. Our operations and those of our technology and communications service providers are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist attacks, internet failures, computer viruses, and other events beyond our control. In an attempt to reduce the risk of disruption to our business operations should a disaster occur, we have redundant computer systems and networks and deploy the backup systems from an alternative location. However, this alternative location may be subject to the same interruptions as may affect our Phoenix headquarters. In the event of a significant system failure, our business could experience significant disruption.

## Item 1B. Unresolved Staff Comments

Not Applicable.

## Item 2. Properties

Our headquarters and principal place of business is located at 5601 West Buckeye Road, Phoenix, Arizona on approximately 75 acres. The following table provides information regarding the location of our service centers and/or offices as at December 31, 2007:

Company Location	Office	Shop	Fuel	Owned or Leased	Acres
Atlanta, GA	Yes	Yes	No	Leased	7
Boise, ID	Yes	No	No	Leased	2
Carlisle, PA	Yes	Yes	Yes	Owned	5
Charlotte, NC	Yes	Yes	Yes	Owned	13
Chicago, IL	Yes	No	No	Leased	2
Dallas, TX	Yes	No	No	Leased	1.3
Denver, CO	Yes	No	No	Leased	3
El Paso, TX	Yes	No	No	Leased	8
Green Bay, WI	Yes	No	No	Leased	2
Gulfport, MS	Yes	Yes	Yes	Owned	8
Idaho Falls, ID	Yes	Yes	Yes	Owned	6
Indianapolis, IN	Yes	Yes	Yes	Owned	9
Katy, TX	Yes	Yes	Yes	Owned	12
Kansas City, KS	Yes	Yes	Yes	Owned	15
Lakeland, FL	Yes	No	No	Leased	2
	Yes	No	No	Leased	2

Las Vegas, NV						
Memphis, TN	Yes	Yes	Yes	Owned		18
Minneapolis, MN	Yes	No	No	Leased		2
Ontario, CA	Yes	No	No	Leased		1
Phoenix, AZ	Yes	Yes	Yes	Owned		75
Portland, OR	Yes	Yes	Yes	Owned		7
Reno, NV	Yes	No	No	Leased		1
Richmond, VA	Yes	No	No	Leased		1.75
Seattle, WA	Yes	No	No	Leased		1.5
Salt Lake City, UT	Yes	Yes	No	Owned		15
Tulare, CA	Yes	Yes	No	Owned		23
Tulsa, OK	Yes	No	No	Owned		6

We also own and lease space in various locations for temporary trailer storage. Management believes that replacement space comparable to these trailer storage facilities is readily obtainable, if necessary. We lease excess trailer drop space at several of our facilities to other carriers.

We believe that our service centers are suitable and adequate for our present needs. We periodically seek to improve our service centers or identify other favorable locations.

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## Item 3. Legal Proceedings

We are a party to ordinary, routine litigation and administrative proceedings incidental to our business. These proceedings primarily involve claims for personal injury or property damage incurred in the transportation of freight and for personnel matters. We maintain insurance to cover liabilities arising from the transportation of freight in amounts in excess of self-insurance retentions.

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

We did not submit any matter to a vote of our security holders during the fourth quarter of 2007.

## PART II

## Item 5. Market for Company's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Our common stock is traded under the symbol KNX on the New York Stock Exchange ("NYSE"). The following table sets forth, for the periods indicated, the high and low closing prices per share of our common stock as reported by the NYSE.

2007	High	Low
First Quarter	\$20.23	\$17.44
Second Quarter	\$20.34	\$17.78
Third Quarter	\$20.00	\$17.03
Fourth Quarter	\$18.39	\$14.53
2006	High	Low
First Quarter	\$21.99	\$19.05
Second Quarter	\$21.42	\$17.60
Third Quarter	\$20.92	\$15.60
Fourth Quarter	\$19.35	\$16.70

As of February 1, 2008, we had 73 shareholders of record. However, we believe that many additional holders of our common stock are unidentified because a substantial number of shares are held of record by brokers or dealers for their customers in street names.

Starting in December 2004, and in each consecutive quarter since, we have paid a quarterly cash dividend. From December 2004, through the first quarter of 2007, we paid a quarterly dividend of \$.02 per share on our common stock. In the second quarter of 2007, we increased the quarterly cash dividend to \$.03 per share and paid a similar dividend in the third and fourth quarters of 2007. Our most recent dividend, which was declared in February 2008, is scheduled to be paid in March 2008. We currently expect to continue to pay quarterly cash dividends in the

future. Future payment of cash dividends, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

In November 2007, our Board of Directors voted unanimously to authorize the repurchase of up to 3.0 million shares of our Common Stock. The repurchase authorization will continue in effect until the share limit is reached or we terminate the program. The repurchase authorization is intended to afford us the flexibility to acquire shares opportunistically in future periods and does not indicate an intention to repurchase any particular number of shares within a definite timeframe. Repurchase of shares will be effected based upon share price and market conditions. The authorization extends to purchases of shares to prevent dilution from equity compensation awards as well as open market and negotiated transactions. We did not repurchase any shares during the fourth quarter of 2007.

See "Securities Authorized for Issuance Under Equity Compensation Plans" under Item 12 in Part III of this Annual Report for certain information concerning shares of our common stock authorized for issuance under our equity compensation plans.

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## Item 6. Selected Financial Data

The selected consolidated financial data presented below as of the end of, and for, each of the years in the five-year period ended December 31, 2007, are derived from our consolidated financial statements. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," below, and the Consolidated Financial Statements and Notes thereto included in Item 8 of this Form 10-K.

For the Years Ended December 31, 2007, 2006, 2005, 2004 and 2003  
(Dollar amounts in thousands, except per share amounts and operating data)

	2007	2006	2005	2004	2003
Statements of Income Data:					
Revenue, before fuel surcharge	\$ 601,359	\$ 568,408	\$ 498,996	\$ 411,717	\$ 326,856
Fuel surcharge	112,224	95,999	67,817	30,571	13,213
Total revenue	713,583	664,407	566,813	442,288	340,069
Operating expenses	611,141	544,915	465,118	362,926	280,620
Income from operations	102,442	119,492	101,695	79,362	59,449
Other income (expense)	1,983	353	1,019	398	(651)
Income before income taxes	104,425	119,845	102,714	79,760	58,798
Net income	63,123	72,966	61,714	47,860	35,458
Diluted earnings per share (1)	.72	.84	.71	.55	.41
Balance Sheet Data (at end of period):					
Working capital	\$ 104,901	\$ 59,389	\$ 66,129	\$ 63,327	\$ 69,916
Total assets	643,364	570,219	483,827	402,867	321,226
Cash dividend per share on common stock	.11	.08	.08	.02	-
Shareholders' equity	487,550	426,095	352,928	291,017	239,923
Operating Data (Unaudited):					
Operating ratio (2)	85.6%	82.0%	82.1%	82.1%	82.5%
Operating ratio, excluding fuel surcharge (3)	83.0%	79.0%	79.6%	80.7%	81.8%
Average revenue per tractor (4)	\$ 151,945	\$ 160,891	\$ 164,119	\$ 157,563	\$ 143,526
Average length of haul (miles)	542	561	580	556	532
Empty mile factor	12.8%	12.6%	11.7%	11.5%	10.8%
Tractors operated at end of period (5)	3,758	3,661	3,271	2,818	2,418
Trailers operated at end of period	8,809	8,761	7,885	7,126	6,212

(1) Diluted earnings per share for 2004 and 2003 have been restated to reflect 3-for-2 stock splits on December 23, 2005 and July 20, 2004, as applicable.

(2) Operating expenses as a percentage of total revenue.

(3) Operating expenses, net of fuel surcharge, as a percentage of revenue, before fuel surcharge. Management believes that eliminating the impact of this sometimes volatile source of revenue affords a more consistent basis for comparing our results of operations from period to period.

(4) Average revenue per tractor is based on revenue without brokerage and without fuel surcharge.

(5) Includes: (a) 231 independent contractor operated vehicles at December 31, 2007; (b) 249 independent contractor operated vehicles at December 31, 2006; (c) 237 independent contractor operated vehicles at December 31, 2005; (d) 244 independent contractor operated vehicles at December 31, 2004; and (e) 253 independent contractor

operated vehicles at December 31, 2003.



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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

Cautionary Note Regarding Forward-Looking Statements

Except for certain historical information contained herein, the following discussion 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 "Item 1A. Risk Factors," set forth above. We do not assume, and specifically disclaim, any obligation to update any forward-looking statement contained in this Annual Report.

Introduction

Business Overview

We are a transportation services provider with headquarters in Phoenix, Arizona. We transport general commodities for customers throughout the United States, generally focusing our operations on a short-to-medium length of haul. We provide regional truckload carrier services from our asset-based dry van and temperature controlled service centers, as well as brokerage services from our regional brokerage branches. The results of our brokerage activities were relatively immaterial for 2007 and, therefore, a detailed discussion of the financial results of these operations will not be separately presented.

From 2003 to 2006, we achieved substantial revenue and income growth. In 2007, our growth slowed as a result of economic conditions. Our revenue, before fuel surcharge, grew at a 16.5% compounded annual rate from \$326.9 million in 2003 to \$601.4 million in 2007, and our net income grew at a 15.7% compounded annual rate from \$35.5 million in 2003 to \$63.1 million in 2007.

During 2007, we opened eight brokerage branches and four asset-based service centers. As of December 31, 2007, we operated 31 asset-based dry van and temperature controlled service centers and 12 brokerage branches. In early 2008, we opened a brokerage branch in Gulfport, Mississippi.

Operating and Growth Strategy

Our operating strategy is focused on the following core elements:

**Focusing on Regional Operations.** We seek to operate primarily in high density, predictable freight lanes in selected geographic regions. We believe our regional operations allow us to obtain greater freight volumes and higher revenue per mile, and also enhance safety and driver recruitment and retention.

**Maintaining Operating Efficiencies and Controlling Costs.** We focus on operating in distinct geographic markets in order to achieve increased penetration of targeted service areas. We actively seek to control costs by, among other things, operating modern equipment, maintaining a high driver to non-driver employee ratio, and minimizing

empty miles.

**Providing a High Level of Customer Service.** We seek to compete on the basis of service, in addition to price, and offer our customers a broad range of services to meet their specific needs, including multiple stop pick ups and deliveries, on time pick ups and deliveries within narrow time frames, dedicated fleet and personnel, and specialized driver training.

**Using Technology to Enhance Our Business.** We use technology to help us be more efficient with our equipment and our headcount. We recognize the value technology brings as an accelerator in our operations.

The primary source of our revenue growth has been our ability to open and develop regional service centers and the markets they serve in selected geographic areas and operate the service centers at or near our targeted margins within a relatively short period of time. The addition of our brokerage branches has enabled us to expand our customer service offerings by providing non-asset-based capabilities to our customers when the shipments do not fit our asset-based model. The development of our brokerage model strengthens our relationships with our customers because it provides our customers with more options and complements our existing dry van and temperature controlled truckload carrier services. Our brokerage model is also a less capital intensive way for us to grow our business. The expansion of our services represents our continued progression as we build our brand as the premier national carrier, providing local service to the markets we serve.

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Revenue and Expenses

We primarily generate revenue by transporting freight for our customers. Generally, we are paid a predetermined rate per mile or per load for our services. We enhance our revenue by charging for tractor and trailer detention, loading and unloading activities, and other specialized services, as well as through the collection of fuel surcharges to mitigate the impact of increases in the cost of fuel. The main factors that affect our revenue are the revenue per mile we receive from our customers, the percentage of miles for which we are compensated, and the number of miles we generate with our equipment. These factors relate, among other things, to the general level of economic activity in the United States, inventory levels, specific customer demand, the level of capacity in the trucking industry, and driver availability.

The most significant expenses in our business include fuel, driver-related expenses, such as wages, benefits, training, and recruitment, and independent contractor costs, which are recorded on the "Purchased Transportation" line of our consolidated statements of income. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency, and other factors. Our main fixed costs are the acquisition and depreciation of long-term assets, such as revenue equipment and service centers and the compensation of non-driver personnel. Effectively controlling our expenses is an important element of assuring our profitability. The primary measure we use to evaluate our profitability is operating ratio, excluding the impact of fuel surcharge revenue (operating expenses, net of fuel surcharge, as a percentage of revenue, before fuel surcharge).

Recent Results of Operations and Year-End Financial Condition

Our results of operations for the year ended December 31, 2007 compared to the year ended December 31, 2006 were as follows:

Revenue, before fuel surcharge, increased 5.8%, to \$601.4 million from \$568.4 million;  
Net income decreased 13.6%, to \$63.1 million from \$73.0 million; and  
Net income per diluted share decreased to \$0.72 from \$0.84.

In comparison to prior years, 2007 represented one of the most difficult operating environments for the execution of our business model based on leading growth and profitability. For the second consecutive year, a strong "peak" shipping season did not materialize. The industry-wide supply of truckload equipment continued to outpace the freight demand, which pressured pricing and resulted in lower equipment utilization. With a decrease in revenue per total miles and lower average miles per tractor, our average revenue per tractor per week decreased 5.6%, to \$2,922 in 2007 from \$3,094 in 2006. Our empty mileage factor for the year increased slightly to 12.8% in 2007, from 12.6% in 2006. Our average length of haul decreased to 542 miles during 2007, from 561 miles in 2006. The difficult freight market, rising fuel costs, increased insurance and claims expense, and softer market for used tractors and trailers all contributed to a decrease in profitability in 2007.

At December 31, 2007, our balance sheet reflected \$31.3 million in cash, cash equivalents and short term investments, no debt, and shareholders' equity of \$487.6 million. For the year 2007, we generated \$118.4 million in cash flow from operations and used \$91.9 million for net capital expenditures.

Our liquidity is not materially affected by off-balance sheet transactions. See Off-Balance Sheet Transactions below for a description of our off-balance sheet transactions.

Trends and Outlook

In the fourth quarter of 2007, we reduced our tractor count by approximately 100 units. For the year ended 2007, we increased our fleet by 97 tractors from 2006. In this challenging environment, we will manage our fleet size carefully and consider internal growth or contraction of our tractor fleet as events unfold. In the near term, we expect revenue growth to come primarily from our brokerage business. In addition, we have ramped up our efforts to identify acquisitions or other investment opportunities that may offer a strategic advantage. Over the long term, we are optimistic about our competitive position in the industry and expect that proper execution of our decentralized growth model will position us to emerge from the downturn with the ability to add more capacity and gain more market share. Further because of our brokerage business, we are able to add customers without adding tractor capacity.

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## Results of Operations

The following table sets forth the percentage relationships of our expense items to total revenue and revenue, before fuel surcharge, for each of the three fiscal years indicated below. Fuel expense as a percentage of revenue, before fuel surcharge, is calculated using fuel expense, net of surcharge. Management believes that eliminating the impact of this sometimes volatile source of revenue affords a more consistent basis for comparing our results of operations from period to period.

	2007	2006	2005		2007	2006	2005
	100.0%	100.0%	100.0%		100.0%	100.0%	100.0%
Total revenue including fuel surcharge				Revenue, before fuel surcharge			
Operating expenses:				Operating expenses:			
Salaries, wages and benefits	28.3	28.8	28.7	Salaries, wages and benefits	33.6	33.7	32.6
Fuel (1)	26.5	24.9	23.6	Fuel (2)	12.8	12.2	13.2
Operations and maintenance	5.5	5.4	6.1	Operations and maintenance	6.4	6.3	6.9
Insurance and claims	4.5	3.9	4.4	Insurance and claims	5.4	4.6	5.0
Operating taxes and licenses	2.1	2.0	2.2	Operating taxes and licenses	2.5	2.4	2.5
Communications	0.8	0.9	0.8	Communications	0.9	1.0	0.9
Depreciation and amortization	9.2	9.1	9.3	Depreciation and amortization	10.9	10.6	10.5
Lease expense – revenue equipment	0.0	0.1	0.0	Lease expense – revenue equipment	0.1	0.1	0.0
Purchased transportation	7.3	6.0	5.6	Purchased transportation	8.7	7.0	6.4
Miscellaneous operating expenses	1.4	0.9	1.4	Miscellaneous operating expenses	1.6	1.1	1.6
Total operating expenses	85.6	82.0	82.1	Total operating expenses	82.9	79.0	79.6
Income from operations	14.4	18.0	17.9	Income from operations	17.1	21.0	20.4
Net interest and other income	0.2	0.1	0.2	Net interest and other income	0.3	0.0	0.2
Income before income taxes	14.6	18.1	18.1	Income before income taxes	17.4	21.0	20.6
Income taxes	5.8	7.1	7.2	Income taxes	6.9	8.2	8.2
Net Income	8.8%	11.0%	10.9%	Net Income	10.5%	12.8%	12.4%

(1)Gross fuel expense without fuel surcharge.

(2)Net fuel expense including fuel surcharge.

A discussion of our results of operations for the periods 2007 to 2006 and 2006 to 2005 is set forth below.

## Fiscal 2007 Compared to Fiscal 2006

Total revenue for 2007 increased 7.4% to \$713.6 million from \$664.4 million for 2006. Total revenue included \$112.2 million of fuel surcharge revenue in 2007 and \$96.0 million of fuel surcharge revenue in 2006. In discussing our results of operations we use revenue, before fuel surcharge (and fuel expense, net of surcharge), because management believes that eliminating the impact of this sometimes volatile source of revenue affords a more consistent basis for comparing our results of operations from period to period. We also discuss the changes in our expenses as a percentage of revenue, before fuel surcharge, rather than absolute dollar changes. We do this because we believe the relatively high fuel cost variability makes a comparison of changes in expenses as a percentage of revenue more meaningful than absolute dollar changes.

Revenue, before fuel surcharge, increased 5.8% to \$601.4 million for 2007, up from \$568.4 million in 2006. The increase is primarily due to the opening of eight brokerage branches and four asset-based service centers in 2007. Our average tractor fleet increased 9.7% to 3,780 tractors in 2007, from 3,446 tractors in 2006. The industry wide supply of truckload equipment outpaced demand throughout 2007, and resulted in lower equipment utilization. Declines in both revenue per mile and miles per tractor contributed to a 5.6% decline in average freight revenue per tractor per week, to \$2,922 per tractor in 2007, from \$3,094 per tractor in 2006. In the fourth quarter of 2007, we reduced our tractor fleet by approximately 100 tractors from the third quarter of 2007. We ended 2007 with 3,758 tractors, an increase of 97 tractors from a year ago.

Salaries, wages and benefits expense remained relatively constant as a percentage of revenue, before fuel surcharge, to 33.6% in 2007 from 33.7% in 2006. We record accruals for workers' compensation benefits as a component of our claims accrual, and the related expense is reflected in salaries, wages and benefits in our consolidated statements of income.

Fuel expense, net of fuel surcharge, as a percentage of revenue, before fuel surcharge, increased to 12.8% in 2007, from 12.2% in 2006. The increase in fuel expense is due to the combination of rising fuel costs and fuel mileage degradation caused by the use of ultra-low sulfur diesel fuel. The U.S. National average diesel fuel prices increased approximately \$0.13 per gallon in 2007 from 2006. We maintain a fuel surcharge program to assist us in recovering a portion of increased fuel costs. We were able to off-set a portion of the rising fuel cost due to improvements in

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fuel surcharge revenue. For the year ended December 31, 2007, fuel surcharge was \$112.2 million, compared to \$96.0 million for the same period in 2006. We believe that higher fuel prices may continue to adversely affect our operating expenses throughout 2008.

Operations and maintenance expense increased as a percentage of revenue, before fuel surcharge, to 6.4% in 2007, from 6.3% in 2006. The increase is a result of lower revenue per mile. Independent contractors pay for the maintenance of their own vehicles.

Insurance and claims expense increased as a percentage of revenue, before fuel surcharge, to 5.4% for 2007, compared to 4.6% for 2006. The increase is mainly due to the settlement of certain prior year claims in amounts greater than previously anticipated.

Operating taxes and license expense as a percentage of revenue, before fuel surcharge, increased slightly to 2.5% for 2007 from 2.4% for 2006. The increase is mainly due to lower revenue per mile.

Communications expense as a percentage of revenue, before fuel surcharge, decreased to 0.9% for 2007, compared to 1.0% for 2006. The reduction in communications expense is due to contractual rate changes.

Depreciation and amortization expense, as a percentage of revenue, before fuel surcharge, increased to 10.9% for 2007 from 10.6% in 2006. The increase is a result of lower revenue per mile and lower miles per tractor. In the fourth quarter of 2006, we increased the estimated salvage value of our tractors and trailers from 20% to 25%, which partially off-set the increase in depreciation expense in 2007.

Lease expense for revenue equipment, as a percentage of revenue, before fuel surcharge, remained at 0.1% for both 2007 and 2006. As of December 31, 2007 we had 13 tractors under operating leases.

Purchased transportation expense as a percentage of revenue, before fuel surcharge, increased to 8.7% for 2007, from 7.0% for 2006. The increase in this expense is primarily a result of the growth of our brokerage business. Excluding purchased transportation expense from our brokerage division, this expense as a percentage of revenue, before fuel surcharge, would have decreased to 4.6% in 2007, compared to 5.2% for 2006. As of December 31, 2007, our total fleet included 231 tractors owned and operated by independent contractors, compared to 249 tractors owned and operated by independent contractors at December 31, 2006. Purchased transportation represents the amount that independent contractors, as well as contracted carriers for our brokerage division, are paid to haul freight for us on a mutually agreed upon per-mile basis.

Miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, increased to 1.6% for 2007, compared to 1.1% for 2006. Gains from the sale of used equipment are included in miscellaneous operating expenses. Gains from sale of equipment decreased nearly 42.0%, to \$4.9 million for the year ended December 31, 2007, compared to \$8.5 million for the year ended December 31, 2006. Excluding gains from sale of used equipment, miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, remained constant at 2.5% for the years ended December 31, 2007 and 2006.

As a result of the above factors, our operating ratio (operating expenses, net of fuel surcharge, expressed as a percentage of revenue, before fuel surcharge) was 82.9% for 2007, compared to 79.0% for 2006.

Net interest and other income (expense) as a percentage of revenue, before fuel surcharge, increased to 0.3% for 2007, compared to less than 0.1% for 2006. In 2006 we recorded a \$713,000 impairment charge relating to our investment in Transportation Resource Partners, which reduced our net interest and other income to less than 0.1% for 2006. We had no outstanding debt at December 31, 2007 or 2006.

Income taxes have been provided at the statutory federal and state rates, adjusted for certain permanent differences between financial statement income and income for tax reporting. Our effective tax rate was 39.6% for 2007 and 39.1% for 2006.

As a result of the preceding changes, our net income, as a percentage of revenue, before fuel surcharge, was 10.5% for 2007, compared to 12.8% in 2006.



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Fiscal 2006 Compared to Fiscal 2005

Total revenue for 2006 increased 17.2% to \$664.4 million from \$566.8 million for 2005. Total revenue included \$96.0 million of fuel surcharge revenue in 2006 and \$67.8 million of fuel surcharge revenue in 2005.

Revenue, before fuel surcharge, increased 13.9% to \$568.4 million for 2006, up from \$499.0 million in 2005. This increase is due to a combination of fleet expansion associated with the opening of four dry van and one refrigerated regional service centers, and our purchase of most of the trucking assets of Roads West, as well as increased revenue per mile and the growth of our brokerage operations. Revenue generated from Roads West accounted for approximately \$4.2 million of the total \$69.4 million increase. As a result of the expansion, including the Roads West acquisition, our tractor fleet grew 11.9% to 3,661 tractors (including 249 owned by independent contractors) for 2006, up from 3,271 tractors in 2005. The growth in the fleet, along with a 3.4% increase in average revenue per total mile, resulted in a significant period-over-period improvement in freight revenue. These improvements were partially offset by a 5.2% decrease in average miles per tractor, a 7.7% increase in our percentage of non-revenue miles, and a 2.0% decrease in average revenue per tractor per week in 2006 compared to 2005.

Salaries, wages and benefits expense increased as a percentage of revenue, before fuel surcharge, to 33.7% in 2006 from 32.6% in 2005. The increase is due to the combination of driver pay rate increases implemented in 2006, and a non-cash equity based compensation expense of approximately \$3.0 million for 2006, which expense was not recorded for years prior to 2006. For our drivers, we record accruals for workers' compensation benefits as a component of our claims accrual, and the related expense is reflected in salaries, wages and benefits in our consolidated statements of income. Due to fewer injury claims in fiscal year 2006, our workers' compensation expense decreased as a percentage of revenue, before fuel surcharge, to 0.8% in 2006, from 1.1% in 2005.

Fuel expense, net of fuel surcharge, as a percentage of revenue, before fuel surcharge, decreased to 12.2% in 2006, from 13.2% in 2005. This was mainly due to improved collection of fuel surcharge revenue during 2006, which offset higher fuel prices. We maintain a fuel surcharge program to assist us in recovering a portion of increased fuel costs. For the year ended December 31, 2006, fuel surcharge was \$96.0 million, compared to \$67.8 million for the same period in 2005. As a percentage of total revenue, including fuel surcharge, fuel expense increased to 24.9% in 2006, compared to 23.6% in 2005, as a result of higher fuel prices.

Operations and maintenance expense decreased as a percentage of revenue, before fuel surcharge, to 6.3% in 2006, from 6.9% in 2005. The decrease is primarily due to the reduction in the average age of our equipment and the increase in routine service and maintenance completed at our regional service centers. The average age of our company tractors and trailers at the end of 2006 was 1.4 years and 4.0 years, respectively, compared to 1.9 years and 4.3 years, respectively, in 2005. In addition, increased revenue per mile also contributed to a reduction in operations and maintenance expense as a percentage of revenue. Independent contractors pay for the maintenance of their own vehicles.

Insurance and claims expense decreased as a percentage of revenue, before fuel surcharge, to 4.6% for 2006, compared to 5.0% for 2005. The decrease is due to better claims experience and lower claims costs in 2006. Increased revenue per mile also improved this primarily mileage-based expense as a percentage of revenue.

Operating taxes and license expense as a percentage of revenue, before fuel surcharge, decreased slightly to 2.4% for 2006 from 2.5% for 2005. The decrease is mainly due to improved revenue per mile.

Communications expense as a percentage of revenue, before fuel surcharge, increased to 1.0% for 2006, compared to 0.9% for 2005. This slight increase is due to the implementation of new equipment tracking devices, for which we incur monthly service fees.

Depreciation and amortization expense, as a percentage of revenue, before fuel surcharge, increased to 10.6% for 2006 from 10.5% in 2005. This slight increase is due to the growth in the percentage of our fleet that is owned by us as opposed to owned by independent contractors. Effective October 1, 2006, we increased the estimated salvage value of our tractors and trailers from 20% to 25%. This decision was made during our routine, period review when we determined that the salvage values of our tractors and trailers was higher than originally expected. This determination was further based upon (i) favorable market conditions in equipment sales, (ii) a guaranteed re-purchase price with contracted dealerships, and (iii) a decrease in the average miles driven on the equipment being sold. This change in accounting estimate resulted in a decrease in depreciation expense of approximately \$1.3 million for the fiscal year 2006. Excluding the impact of this change in accounting estimate, depreciation expense for 2006 would have been 10.8% of revenue before fuel surcharge. This increase is due to the growth in the percentage of our fleet that is company owned, compared to our fleet that is operated by independent contractors.

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Lease expense for revenue equipment, as a percentage of revenue, before fuel surcharge, increased to 0.1% for 2006, compared to essentially zero for 2005. Prior to the acquisition of Edwards Bros., Inc. in the third quarter of 2005, we owned all of our revenue equipment and therefore did not incur lease expense for most of 2005. At year-end 2006, we had 26 tractors under operating leases.

Purchased transportation represents the amount that independent contractors, as well as contracted carriers for our brokerage division, are paid to haul freight for us on a mutually agreed upon per-mile basis. Purchased transportation expense as a percentage of revenue, before fuel surcharge, increased to 7.0% for 2006, from 6.4% for 2005. The increase in this category is primarily due to payments to outside carriers for transportation services arranged by our brokerage division, which began operations in the third quarter of 2005. Excluding purchased transportation expense from our brokerage division, this expense as a percentage of revenue, before fuel surcharge, would have decreased to 5.2% in 2006, compared to 6.0% for 2005. This decrease is attributed to a lower percentage of owner operator tractors being operated during 2006. As of December 31, 2006, our total fleet included 249 tractors owned and operated by independent contractors, compared to 237 tractors owned and operated by independent contractors at December 31, 2005.

Miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, decreased to 1.1% for 2006, compared to 1.6% for 2005. Gains from sale of used equipment are included in miscellaneous operating expenses. Gains from sale of equipment were \$8.5 million for the year ended December 31, 2006, compared to \$2.8 million for the year ended December 31, 2005. Excluding gains from sale of used equipment, miscellaneous operating expenses as a percentage of revenue, before fuel surcharge, increased to 2.5% for the year ended December 31, 2006, compared to 2.2% for the year ended December 31, 2005. This increase is primarily due to additional expenditures related to technology improvements, consulting and professional fees, and higher allowance for doubtful accounts.

As a result of the above factors, our operating ratio (operating expenses, net of fuel surcharge, expressed as a percentage of revenue, before fuel surcharge) was 79.0% for 2006, compared to 79.6% for 2005.

Net interest income as a percentage of revenue, before fuel surcharge, increased to 0.2% for 2006, compared to 0.1% for 2005. The average rate of return on our cash and short-term investments increased more than 100 basis points from 2006 to 2005. We had no outstanding debt at December 31, 2006 or 2005.

Other expense for 2006 was comprised of a \$713,000 impairment charge relating to our investment in Transportation Resource Partners ("TRP"). Other income for 2005 was comprised of \$591,000 gains resulting from the sale of our investment in Concentrek, Inc., along with a \$230,000 impairment charge relating to our investment in TRP.

Income taxes have been provided at the statutory federal and state rates, adjusted for certain permanent differences between financial statement income and income for tax reporting. Our effective tax rate was 39.1% for 2006 and 39.9% for 2005. The decrease in the effective tax rate is mainly due to hurricane tax credits, investment tax credits, and job creation and retention credits recognized in 2006. The decrease in the effective income tax rate was offset by an increase in income before tax, resulting in income tax expense as a percentage of revenue, before fuel surcharge, of 8.2% for both 2006 and 2005.

As a result of the preceding changes, our net income, as a percentage of revenue, before fuel surcharge, was 12.8% for 2006, compared to 12.4% in 2005.

#### Liquidity and Capital Resources

The growth of our business has required, and will continue to require, a significant investment in new revenue equipment. Our primary sources of liquidity have been funds provided by operations, and to a lesser extent lease

financing arrangements, issuances of stocks, and borrowings under our line of credit.

Net cash provided by operating activities was approximately \$118.4 million, \$133.0 million, and \$107.8 million for the years ended December 31, 2007, 2006, and 2005, respectively. The decrease for 2007 is mainly due to lower net income and an increase in our short-term investments.

Net cash used in investing activities was approximately \$92.0 million, \$145.6 million, and \$104.7 million for the years ended December 31, 2007, 2006, and 2005, respectively. The decrease is mainly due to a reduction in capital expenditures for revenue equipment in 2007. Capital expenditures for the purchase of revenue equipment, net of equipment sales and trade-ins, office equipment, and land and leasehold improvements, totaled \$91.9 million, \$127.7 million, and \$103.6 million for the years ended December 31, 2007, 2006, and 2005, respectively. In 2006,

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we spent approximately \$15.7 million relating to the acquisition of the Roads West equipment. We currently anticipate capital expenditures, net of trade-ins, of approximately \$80.0 to \$90.0 million for 2008. We expect these capital expenditures will be used primarily to acquire new revenue equipment.

Net cash used in financing activities was approximately \$4.3 million for the year ended December 31, 2007, compared to cash used in financing activities of approximately \$4.6 million for the year ended 2006. The change primarily consisted of a \$1.4 million increase in proceeds from the exercise of stock options and a \$0.9 million increase in dividends paid to common stock shareholders during 2007 compared to 2006. We increased our quarterly cash dividend from \$0.02 per share to \$0.03 per share in the second quarter of 2007.

At December 31, 2007, we had no outstanding debt. We currently maintain a line of credit, which permits revolving borrowings and letters of credit up to an aggregate of \$50.0 million. At December 31, 2007, the line of credit consisted solely of issued but unused letters of credit totaling \$31.4 million. We are obligated to comply with certain financial covenants under our line of credit agreement and were in compliance with these covenants at December 31, 2007.

As of December 31, 2007, our cash, cash equivalents, and short-term investments was \$31.3 million, compared to \$1.6 million as of December 31, 2006. In October 2006, we used cash to acquire most of the trucking assets of Roads West, which accounted for the low cash balance at December 31, 2006. We believe that we will be able to finance our near term needs for working capital over the next 12 months, as well as acquisitions of revenue equipment during such period, with cash flows from operations and borrowing available under our existing line of credit. We will continue to have significant capital requirements over the long-term, which may require us to incur debt or seek additional equity capital. The availability of additional capital will depend upon prevailing market conditions, the market price of our common stock, and several other factors over which we have limited control, as well as our financial condition and results of operations. Nevertheless, based on our recent operating results, anticipated future cash flows, and sources of financing that we expect will be available to us, we do not expect that we will experience any significant liquidity constraints in the foreseeable future.

#### Off-Balance Sheet Transactions

Our liquidity is not materially affected by off-balance sheet transactions. Like many other trucking companies, periodically we have utilized operating leases to finance a portion of our revenue equipment acquisitions. At December 31, 2007, we had 13 tractors held under operating leases with varying termination dates ranging from January 2009 to August 2009. Future operating lease commitments for revenue equipment, as of December 31, 2007, were \$439,000 with \$215,000 due in the next 12 months. The effective annual interest rate for these operating leases is 6.7%. Lease payments with respect to such vehicles are reflected in our Consolidated Statements of Income in the line item "Lease expense - revenue equipment." Our rental expense related to revenue equipment leases was \$350,000, \$431,000, and \$183,000 for the periods ended December 31, 2007, 2006, and 2005, respectively.

We also use operating leases to lease locations for certain of our terminal facilities and for temporary trailer storage. These operating leases have termination dates ranging from January 2008 through December 2013. Rental payments for such terminal facilities and trailer storage are reflected in our Consolidated Statements of Income in the line item "Miscellaneous operating expenses." Rental payments for our terminal facilities and trailer storage was \$1.6 million for the periods ended December 31, 2007 and 2006, and \$1.5 million for the period ended December 31, 2005.

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## Tabular Disclosure of Contractual Obligations

The following table sets forth, as of December 31, 2007, our contractual obligations and payments due by corresponding period for our short and long term operating expenses and other commitments.

Contractual Obligations	Total	Payments (in millions) due by period				
		Less than 1 year	1-3 years	3-5 years	More than 5 years	Other
Purchase obligations (revenue equipment) (1)	\$ 70.0	\$ 70.0	–	–	–	–
Investment in Transportation Resource Partners	\$ 1.0	\$ 1.0	–	–	–	–
Operating Leases – Revenue Equipment	\$ 0.4	\$ 0.2	\$ 0.2	–	–	–
Operating Leases – Terminal Building	\$ 2.9	\$ 1.1	\$ 1.6	\$ 0.2	–	–
FIN 48 Obligations, including interest and penalties (2)	\$ 0.3	–	–	–	–	\$ 0.3
Total	\$ 74.6	\$ 72.3	\$ 1.8	\$ 0.2	–	\$ 0.3

(1) Our purchase commitments for revenue equipment are currently under negotiation.

Upon execution of the purchase commitments, we anticipate that purchase commitments under contract will have a net purchase price of approximately \$70.0 million and will be paid throughout 2008.

(2) FIN48 Obligations represent potential liabilities relating to uncertain tax positions. We are uncertain when this liability will be settled.

## Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with United States Generally Accepted Accounting Principles ("GAAP") requires that management make a number of assumptions and estimates that affect the reported amounts of assets, liabilities, revenue, and expenses in our consolidated financial statements and accompanying notes. Management evaluates these estimates and assumptions on an ongoing basis, utilizing historical experience, consulting with experts, and using other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates and assumptions, and it is possible that materially different amounts would be reported using differing estimates or assumptions. We consider our critical accounting policies to be those that are both important to the portrayal of our financial condition and results of operations and that require significant judgment or use of complex estimates.

A summary of the significant accounting policies followed in preparation of the financial statements is contained in Note 1 to our consolidated financial statements attached hereto. The following discussion addresses our most critical accounting policies:

**Property and Equipment.** Property and equipment are stated at cost. Depreciation on property and equipment is calculated by the straight-line method over the estimated useful life, which ranges from three to 30 years, down to an estimated salvage value of the property and equipment, which ranges from 10% to 30% of the capitalized cost. We

periodically review the reasonableness of our estimates regarding useful lives and salvage values of our revenue equipment and other long-lived assets based upon, among other things, our experience with similar assets, conditions in the used revenue equipment market, and prevailing industry practice. On October 1, 2006, we increased the estimated salvage value of our tractors and trailers from 20% to 25%. This decision was made during our routine, periodic review when we determined that the salvage value of our tractors and trailers was higher than originally expected. This determination was further based upon (i) favorable market conditions in equipment sales, (ii) a guaranteed re-purchase price with contracted dealerships, and (iii) a decrease in the average miles driven on the equipment being sold. Future changes in our useful life or salvage value estimates, or fluctuation in market value that is not reflected in our estimates, could have a material effect in our results of operations. We continually monitor events and changes in circumstances that could indicate that the carrying amounts of our property and equipment may not be recoverable. When indicators of potential impairment are present that indicate that the carrying amounts may not be recoverable, we assess the recoverability of the assets by determining whether the carrying value of the assets will be recovered through the undiscounted future operating cash flows expected from the use of the assets and their eventual disposition. In the event that such expected undiscounted future cash flows do not exceed the carrying value, we will adjust the property and equipment to the fair value and recognize any impairment loss.

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Claims Accrual. Reserves and estimates for claims is another of our critical accounting policies. The primary claims arising for us consist of cargo liability, personal injury, property damage, collision and comprehensive, workers' compensation, and employee medical expenses. We maintain self-insurance levels for these various areas of risk and have established reserves to cover these self-insured liabilities. We also maintain insurance to cover liabilities in excess of the self-insurance amounts. The claims reserves are adjusted quarterly and represent accruals for the estimated self-insured portion of pending claims, including adverse development of known claims, as well as incurred but not reported claims. Our estimates require judgments concerning the nature and severity of the claim, historical trends, advice from third-party administrators and insurers, the specific facts of individual cases, the jurisdictions involved, estimates of future claims development, and the legal and other costs to settle or defend the claims. We have significant exposure to fluctuations in the number and severity of claims. If there is an increase in the frequency and severity of claims, or we are required to accrue or pay additional amounts if the claims prove to be more severe than originally assessed, or any of the claims would exceed the limits of our insurance coverage, our profitability would be adversely affected.

In addition to estimates within our self-insured retention, we also must make judgments concerning our coverage limits. If any claim was to exceed our coverage limits, we would have to accrue for the excess amount. Our critical estimates include evaluating whether a claim may exceed such limits and, if so, by how much. Currently, we are not aware of any such claims. If one or more claims were to exceed our effective coverage limits, our financial condition and results of operations could be materially and adversely affected.

Accounting for Income Taxes. Income taxes are accounted for under the asset and liability method, in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes ("SFAS109"), as amended. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Significant management judgment is required in determining our provision for income taxes and in determining whether deferred tax assets will be realized in full or in part. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. If it were ever estimated that it is more likely than not that all or some portion of specific deferred tax assets will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that are determined not to be realizable. A valuation allowance for deferred tax assets has not been deemed necessary due to our profitable operations. Accordingly, if the facts or financial results were to change, thereby impacting the likelihood of realizing the deferred tax assets, judgment would have to be applied to determine the amount of valuation allowance required in any given period.

Management judgment also is required regarding a variety of other factors, including, the appropriateness of tax strategies, expected future tax consequences based on our future performance, and to the extent tax strategies are challenged by taxing authorities, our likelihood of success. We utilize certain income tax planning strategies to reduce our overall cost of income taxes. It is possible that certain strategies might be disallowed, resulting in an increased liability for income taxes. Significant management judgments are involved in assessing the likelihood of sustaining the strategies and in determining the likely range of defense and settlement costs, and an ultimate result worse than our expectations could adversely affect our results of operations.

A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. Further information related to the implementation is discussed in Note 3 to the consolidated financial



statements.

**Share-Based Payments.** We have stock options outstanding under our stock compensation plan. Exercises are permitted in pre-determined installments based upon a vesting schedule established at the time of grant. Each stock option expires on a date determined at the time of the grant, but not to exceed ten years from the date of the grant.

The calculation of employee compensation expense involves estimates that require management judgments. These estimates include determining the value of each of our stock options on the date of grant using a Black-Scholes option-pricing model discussed in Note 8. The fair value of our stock options, which typically vest ratably over a five-year period, is expensed on a straight-line basis over the vesting life of the options. Expected volatility is based on historical volatility of our stock. The risk-free rate for periods within the contractual life of the stock option award is based on the rate of a zero-coupon Treasury bond on the date the stock option is granted with a maturity equal to the expected term of the stock option. Management judgment is required to estimate stock option exercises and forfeitures within our valuation model and management bases such decisions on historical data. The expected life of our stock option awards is derived from historical experience under our share-based payment plans and represents the period of time that we expect our stock options to be outstanding.

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New Accounting Pronouncements

See Note 1 for discussion of recently-issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk changes in interest rates on debt and from changes in commodity prices.

Under Financial Accounting Reporting Release Number 48 and SEC rules and regulations, we are required to disclose information concerning market risk with respect to foreign exchange rates, interest rates, and commodity prices. We have elected to make such disclosures, to the extent applicable, using a sensitivity analysis approach based on hypothetical changes in interest rates and commodity prices.

We do not currently use derivative financial instruments for risk management purposes and do not use them for either speculation or trading. Because our operations are confined almost entirely to the United States, we are not subject to a material foreign currency risk.

Interest Rate Risk

We are subject to interest rate risk to the extent we borrow against our line of credit or incur debt. We attempt to manage our interest rate risk by managing the amount of debt we carry. At December 31, 2007, we did not have any outstanding borrowings. In the opinion of management, an increase in short-term interest rates could have a materially adverse effect on our financial condition only if we incur substantial indebtedness and the interest rate increases are not offset by freight rate increases or other items. Management does not foresee or expect in the near future any significant changes in our exposure to interest rate fluctuations or in how that exposure is managed by us.

Commodity Price Risk

We are subject to commodity price risk with respect to purchases of fuel. Historically, we have sought to recover a portion of our short-term fuel price increases from customers through fuel surcharges. Fuel surcharges that can be collected do not always fully offset an increase in the cost of diesel fuel. We believe that the majority of the fuel price increases are generally passed to our customers.

Item 8. Financial Statements and Supplementary Data

The consolidated balance sheets of Knight Transportation, Inc. and subsidiaries, as of December 31, 2007 and 2006, and the related consolidated balance sheets, statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, together with the related notes, the report of Deloitte & Touche LLP, our independent registered public accounting firm for the years ended December 31, 2007, 2006, and 2005 are set forth at pages F-1 through F-19, elsewhere in this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

In accordance with the requirements of the Exchange Act and SEC rules and regulations promulgated thereunder, we have established and maintain disclosure controls and procedures and internal control over financial reporting. Our

management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures and internal control over financial reporting will prevent all error, misstatements, or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

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Evaluation of Disclosure Controls and Procedures.

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) to ensure that material information relating to our company, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors. Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, as of December 31, 2007, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and (ii) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

No changes occurred in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended December 31, 2007, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange

Act as a process designed by, or under the supervision of, the principal executive and principal financial officers and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our management's evaluation under the criteria set forth in Internal Control - Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2007. The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Deloitte & Touche, LLP, an independent registered accounting firm, as stated in their attestation report, which is included herein.



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Knight Transportation, Inc.  
Phoenix, Arizona

We have audited the internal control over financial reporting of Knight Transportation, Inc. and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007 of the Company and our report dated February 29, 2008 expressed an unqualified opinion on those financial

statements and financial statement schedule and included an explanatory paragraph regarding the adoption of Statement of Financial Accounting Standard No. 123(R), Share-Based Payments, using the modified prospective method in 2006 and the adoption of the provisions of the Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes, in 2007.

/s/ Deloitte & Touche LLP

Phoenix, Arizona  
February 29, 2008

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## Item 9B. Other Information

Not Applicable.

## PART III

## Item 10. Directors, Executive Officers, and Corporate Governance

We incorporate by reference the information contained under the headings "Proposal No. 1 - Election of Directors," "Continuing Directors," "Corporate Governance - Our Executive Officers and Certain Significant Employees," "Corporate Governance - The Board of Directors and Its Committees - Committees of the Board of Directors - The Audit Committee," "Corporate Governance - Compliance with Section 16(a) of the Exchange Act," and "Corporate Governance - Code of Ethics," from our definitive Proxy Statement to be delivered to our shareholders in connection with the 2008 Annual Meeting of Shareholders to be held May 22, 2008.

## Item 11. Executive Compensation

We incorporate by reference the information contained under the headings "Executive Compensation," "Corporate Governance - The Board of Directors and Its Committees - Committees of the Board of Directors - The Compensation Committee - Compensation Committee Interlocks and Insider Participation," and "Corporate Governance - The Board of Directors and Its Committees - Committees of the Board of Directors - The Compensation Committee - Compensation Committee Report" from our definitive Proxy Statement to be delivered to our shareholders in connection with the 2008 Annual Meeting of Shareholders to be held May 22, 2008.

## Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

## Securities Authorized For Issuance Under Equity Compensation Plans

The following table provides certain information, as of December 31, 2007, with respect to our compensation plans and other arrangements under which shares of our common stock are authorized for issuance.

## Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options warrants and rights	Number of securities remaining eligible for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	4,182,780	\$14.06	2,152,698



Equity compensation plans not approved by security holders	-	-	-
Total	4,182,780	\$14.06	2,152,698

We incorporate by reference the information contained under the heading "Security Ownership of Certain Beneficial Owners and Management" from our definitive Proxy Statement to be delivered to our shareholders in connection with the 2008 Annual Meeting of Shareholders to be held May 22, 2008.

Item 13. Certain Relationships and Related Transactions, and Director Independence

We incorporate by reference the information contained under the headings "Certain Relationships and Related Transactions," and "Corporate Governance - The Board of Directors and Its Committees" from our definitive Proxy Statement to be delivered to our shareholders in connection with the 2008 Annual Meeting of Shareholders to be held May 22, 2008.

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Item 14. Principal Accounting Fees and Services

We incorporate by reference the information contained under the heading "Principal Accounting Fees and Services" from our definitive Proxy Statement to be delivered to our shareholders in connection with the 2008 Annual Meeting of Shareholders to be held May 22, 2008.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this report on Form 10-K at pages F-1 through F-19, below.

1. Consolidated Financial Statements:

Knight Transportation, Inc. and Subsidiaries

Report of Deloitte & Touche LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2007, 2006 and 2005

Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

Notes to Consolidated Financial Statements

2. Consolidated Financial Statement Schedules required to be filed by Item 8 and Paragraph (b) of Item 15:

Valuation and Qualifying Accounts and Reserves

Schedules not listed (i.e., schedules, other than Schedule II) have been omitted because of the absence of conditions under which they are required or because the required material information is included in the Consolidated Financial Statements or Notes to the Consolidated Financial Statements included herein.

3. Exhibits.

The Exhibits required by Item 601 of Regulation S-K are listed at paragraph (b), below, and at the Exhibit Index appearing at the end of this report.

(b) Exhibits:

The following exhibits are filed with this Form 10-K or incorporated herein by reference to the document set forth next to the exhibit listed below:

Exhibit Number	Descriptions
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- 3.1 Second Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed April 20, 2007.)
- 3.2 Sixth Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3 to the Company's Report on Form 8-K dated December 18, 2007 and filed on December 19, 2007.)
- 4.1 Articles 4, 10, and 11 of the Second Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.1 to this Report on Form 10-K.)
- 4.2 Sections 2 and 5 of the Sixth Amended and Restated Bylaws of the Company. (Incorporated by reference to Exhibit 3.2 to this Report on Form 10-K.)
- 4.3 † Knight Transportation, Inc. Amended and Restated 2003 Stock Option Plan. (Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed December 1, 2005.)

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- 10.1 † Amended Indemnification Agreements between the Company, Don Bliss, Gary J. Knight, Keith Knight, Kevin P. Knight, Randy Knight, and G. D. Madden, and dated as of February 5, 1997. (Incorporated by reference to Exhibit 10.6 to the Company's Report on Form 10-K for the period ended December 31, 1996.)
- 10.2 † Indemnification Agreements between the Company and Timothy M. Kohl, dated as of October 16, 2000, and May 9, 2001, respectively. (Incorporated by reference to Exhibit 10.6.1 to the Company's Report on Form 10-K for the period ended December 31, 2001.)
- 10.3 † Indemnification Agreements between the Company and Mark Scudder and Michael Garnreiter, dated as of November 10, 1999, and September 19, 2003, respectively. (Incorporated by reference to Exhibit 10.5.2 to the Company's Report on Form 10-K for the period ended December 31, 2003.)
- 10.4 Master Equipment Lease Agreement dated as of January 1, 1996, between the Company and Quad-K Leasing, Inc. (Incorporated by reference to Exhibit 10.7 to the Company's Report on Form 10-K for the period ended December 31, 1995.)
- 10.5 † Knight Transportation, Inc. Amended and Restated 2003 Stock Option Plan. (Incorporated by reference to the Company's Definitive Proxy Statement on Schedule 14A filed December 1, 2005.)
- 10.6 Credit Agreement between Knight Transportation, Inc. and Wells Fargo Bank, N.A., dated September 15, 2005. (Incorporated by reference to Exhibit 10.11 to the Company's Report on Form 10-Q for the period ended September 30, 2005.)
- 10.6.1 Modification Agreement to Credit Agreement between Knight Transportation, Inc. and Wells Fargo Bank, dated October 6, 2006. (Incorporated by reference to Exhibit 10.6.1 to the Company's Report on Form 10-K for the period ended December 31, 2006.)
- 21.1 \* Subsidiaries of the Company.
- 23.1 \* Consent of Deloitte & Touche LLP.
- 31.1 \* Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Kevin P. Knight, the Company's Chief Executive Officer.
- 31.2 \* Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by David A. Jackson, the Company's Chief Financial Officer.
- 32.1 \* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Kevin P. Knight, the Company's Chief Executive Officer.
- 32.2 \* Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by David A. Jackson, the Company's Chief Financial Officer.

\* Filed herewith.

† Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KNIGHT TRANSPORTATION, INC.

By: /s/ Kevin P. Knight  
Kevin P. Knight  
Chief Executive Officer, in his capacity as  
such  
and on behalf of the registrant

Date: February 29, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature and Title	Date
/s/ Kevin P. Knight  Kevin P. Knight, Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)	February 29, 2008
/s/ David A. Jackson  David A. Jackson, Chief Financial Officer and Secretary (Principal Financial Officer)	February 29, 2008
/s/ Wayne Yu  Wayne Yu, Chief Accounting Officer (Principal Accounting Officer)	February 29, 2008
/s/ Gary J. Knight  Gary J. Knight, Vice Chairman and Director	February 29, 2008
/s/ Randy Knight	February 29, 2008

Randy Knight, Director

/s/ Donald A. Bliss February 29,  
2008

Donald A. Bliss, Director

February 29,  
2008

G.D. Madden, Director

/s/ Kathryn Munro February 29,  
2008

Kathryn Munro, Director

/s/ Michael Garnreiter February 29,  
2008

Michael Garnreiter,  
Director

/s/ Richard Lehmann February 29,  
2008

Richard Lehmann,  
Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Knight Transportation, Inc.  
Phoenix, Arizona

We have audited the accompanying consolidated balance sheets of Knight Transportation, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Knight Transportation, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 8 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123(R), Share-Based Payment, using the modified prospective method. In addition, as discussed in Note 3 to the consolidated financial statements, as of January 1, 2007, the Company adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Phoenix, AZ  
February 29, 2008





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## KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets  
December 31, 2007 and 2006  
(In thousands)

Assets	2007	2006
Current Assets:		
Cash and cash equivalents	\$ 23,688	\$ 1,582
Short term investments	7,620	-
Trade receivables, net of allowance for doubtful accounts of \$2,429 and \$2,154, respectively	88,535	85,350
Notes receivable, net of allowance for doubtful notes receivable of \$79 and \$140, respectively	19	341
Prepaid expenses	8,776	8,342
Other current assets	24,994	16,613
Income tax receivable	3,558	-
Deferred tax assets	10,157	8,759
Total current assets	167,347	120,987
Property and Equipment:		
Land and land improvements	26,878	21,778
Buildings and improvements	46,685	38,656
Furniture and fixtures	6,910	6,410
Shop and service equipment	3,935	3,738
Revenue equipment	521,085	496,117
Leasehold improvements	776	516
	606,269	567,215
Less: accumulated depreciation and amortization	(146,721)	(133,387)
Property and equipment, net	459,548	433,828
Notes receivable, net of current portion	887	348
Goodwill	10,372	10,256
Intangible assets, net	238	300
Other long-term assets & restricted cash	4,972	4,500
Total assets	\$ 643,364	\$ 570,219

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

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## KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

Consolidated Balance Sheets  
December 31, 2007 and 2006  
(In thousands, except par value)

Liabilities and Shareholders' Equity	2007	2006
Current Liabilities:		
Accounts payable	\$ 17,744	\$ 13,077
Accrued payroll and purchased transportation	7,992	7,411
Accrued liabilities	8,048	15,184
Claims accrual	28,662	25,926
Total current liabilities	62,446	61,598
Deferred tax liabilities	93,368	82,526
Total liabilities	155,814	144,124
Commitments and Contingencies (Note 4)		
Shareholders' Equity:		
Preferred stock, \$0.01 par value; 50,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value; 100,000 shares authorized; 86,697 and 86,111 shares issued and outstanding at December 31, 2007 and 2006, respectively	867	861
Additional paid-in capital	102,450	94,220
Retained earnings	384,233	331,014
Total shareholders' equity	487,550	426,095
Total liabilities and shareholders' equity	\$ 643,364	\$ 570,219

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

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## KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

Consolidated Statements of Income  
 For the Years Ended December 31, 2007, 2006 and 2005  
 (In thousands, except per share data)

	2007	2006	2005
Revenue:			
Revenue, before fuel surcharge	\$ 601,359	\$ 568,408	\$ 498,996
Fuel surcharge	112,224	95,999	67,817
Total revenue	713,583	664,407	566,813
Operating Expenses:			
Salaries, wages and benefits	201,856	191,550	162,778
Fuel	189,055	165,594	133,469
Operations and maintenance	39,083	35,881	34,449
Insurance and claims	32,440	26,189	25,159
Operating taxes and licenses	14,754	13,507	12,412
Communications	5,539	5,649	4,267
Depreciation and amortization	65,688	60,387	52,603
Lease expense - revenue equipment	350	431	183
Purchased transportation	52,370	39,937	31,787
Miscellaneous operating expenses	10,006	5,790	8,011
Total operating expenses	611,141	544,915	465,118
Income from operations	102,442	119,492	101,695
Other Income (expense):			
Interest income	1,315	1,067	658
Interest (expense)	-	(1)	-
Other income (expense)	668	(713)	361
Total other income	1,983	353	1,019
Income before income taxes	104,425	119,845	102,714
Income Taxes	(41,302)	(46,879)	(41,000)
Net income	\$ 63,123	\$ 72,966	\$ 61,714
Basic Earnings Per Share	\$ 0.73	\$ 0.85	\$ 0.72
Diluted Earnings Per Share	\$ 0.72	\$ 0.84	\$ 0.71
Weighted Average Shares Outstanding - Basic	86,391	85,802	85,302

Weighted Average Shares Outstanding - Diluted	87,240	87,040	86,647
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The accompanying notes are an integral part of these consolidated financial statements.

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## KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

Consolidated Statements of Shareholders' Equity  
For the Years Ended December 31, 2007, 2006 and 2005  
(In thousands)

	Common Stock (a)		Additional Paid-in Capital (a)	Retained Earnings	Total
	Shares Issued	Amount			
Balance, January 1, 2005	84,995	850	81,834	208,333	291,017
Exercise of stock options	669	7	2,786	-	2,793
Issuance of common stock	2	-	35	-	35
Tax benefit of stock option exercises	-	-	2,493	-	2,493
Cash dividend	-	-	-	(5,124)	(5,124)
Net income	-	-	-	61,714	61,714
Balance, December 31, 2005	85,666	857	87,148	264,923	352,928
Exercise of stock options	440	4	2,445	-	2,449
Issuance of common stock	5	-	80	-	80
Tax benefit of stock option exercises	-	-	1,542	-	1,542
Employee stock-based compensation expense	-	-	3,005	-	3,005
Cash dividend	-	-	-	(6,875)	(6,875)
Net income	-	-	-	72,966	72,966
Balance, December 31, 2006	86,111	861	94,220	331,014	426,095
Exercise of stock options	577	6	3,822	-	3,828
Issuance of common stock	9	-	174	-	174
Excess tax benefit of stock option exercises	-	-	1,604	-	1,604
Employee stock-based compensation expense	-	-	2,630	-	2,630
FIN48 adoption	-	-	-	(394)	(394)
Cash dividend	-	-	-	(9,510)	(9,510)
Net income	-	-	-	63,123	63,123
Balance, December 31, 2007	86,697	\$ 867	\$ 102,450	\$ 384,233	\$ 487,550

(a) Common stock and additional paid-in capital have been restated to reflect a 3-for-2 stock split on December 23, 2005.

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

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## KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
For the Years Ended December 31, 2007, 2006 and 2005  
(In thousands)

	2007	2006	2005
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 63,123	\$ 72,966	\$ 61,714
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	65,688	60,387	52,603
Gain on sale of equipment	(4,927)	(8,461)	(2,803)
Gain on sale of investment	-	-	(591)
Earn-out on sold investment	(188)	-	-
Building impairment due to fire	412	-	-
Impairment of investment	-	713	230
Non-cash compensation expense for issuance of common stock to certain members of board of directors	174	80	35
Provision for allowance for doubtful accounts and notes receivable	213	360	(45)
Deferred income taxes	9,604	5,423	1,292
Tax benefit on stock option exercises	-	-	2,493
Excess tax benefits related to stock-based compensation	(1,431)	(1,542)	-
Stock option compensation expense	2,630	3,005	-
Changes in assets and liabilities:			
(Increase) decrease in short-term investments	(7,620)	2,278	(76)
Increase in trade receivables	(3,460)	(5,980)	(17,810)
Decrease (increase) in inventories and supplies	159	(563)	(1,023)
Increase in prepaid expenses	(434)	(992)	(1,762)
(Increase) decrease in income tax receivable	(3,558)	-	3,216
Increase in other assets	(415)	(178)	(121)
Increase in accounts payable	1,161	596	33
(Decrease) increase in accrued liabilities and claims accrual	(2,768)	4,938	10,379
Net cash provided by operating activities	118,363	133,030	107,764
<b>Cash Flows From Investing Activities:</b>			
Purchases of property and equipment	(135,219)	(175,221)	(116,586)
Proceeds from sale of equipment/assets held for sale	43,355	47,496	13,003
(Increase) decrease in notes receivable	(156)	314	(323)
Acquisition-related contingent payment	(135)	(320)	-
Payment made for acquisitions of businesses	-	(15,709)	(3,284)
Restricted cash	-	(384)	(211)
Investments in Transportation Resource Partners	(488)	(1,836)	(1,496)
Return of investment in Transportation Resource Partners	449	-	-
Proceeds from sale of investment in Knight Flight Services	-	-	1,388
Proceeds/earn-out from sale of investment in Concentrek, Inc.	188	-	2,836
Net cash used in investing activities	(92,006)	(145,660)	(104,673)
<b>Cash Flows From Financing Activities:</b>			
Dividends paid	(9,510)	(8,588)	(3,411)

Advance on line of credit

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