COVENANT TRANSPORTATION GROUP

ANNUAL REPORT 2019

COVENANT TRANSPORTATION GROUP, INC.

SUMMARY OF OPERATIONS

	2015	2016	2017	2018	2019
Total revenue (in thousands)	$ 724,240	$ 670,651	$ 705,007	$ 885,455	$ 894,528
Freight revenue (in thousands)	$ 640,120	$ 610,845	$ 626,809	$ 779,729	$ 800,401
Net income (in thousands)	$ 42,085(2) (3)	$ 16,835	$ 55,439(4)	$ 42,503	$ 8,477
Net margin(1)	6.6%(2) (3)	2.8%	8.8%(4)	5.5%	1.1%
Earnings per share (diluted)	$ 2.30(2) (3)	$ 0.92	$ 3.02(4)	$ 2.30	$ 0.45
Tangible book value at December 31 (in thousands)	$ 202,000	$ 236,400	$ 295,200	$ 269,000	$ 278,000
Operating ratio	90.6%	95.2%	96.0%	93.3%	98.2%
Adjusted operating ratio(5)(7)	90.0%	94.7%	95.5%	92.2%	97.6%
Net income to average invested capital	11.2%	4.0%	12.4%	8.4%	1.4%
Adjusted ROIC(4)(6)(7)	11.6%	6.0%	5.3%	10.4%	3.5%

(1) Net margin is net income (loss) as a percentage of freight revenue.

(2) Includes a $3.6 million pretax insurance policy commutation benefit.

(3) Includes federal income tax credit of $4.7 million.

(4) Includes $40.1 million benefit from income tax remeasurement related to the 2017 Tax Cuts and Jobs Act.

(5) Adjusted operating expenses, net of fuel surcharge revenue and amortization of intangibles, as a percentage of freight revenue. Adjustments exclude the item set forth in footnote 2.

(6) Calculated as follows: (i) the sum of adjusted operating income after tax applying our effective tax rate, plus contribution from equity investment, divided by (ii) the sum of average quarterly balance sheet debt (net of cash and cash equivalents) plus average quarterly stockholders' equity. Adjustments exclude the items set forth in footnotes 2, 3, and 4.

(7) Adjusted operating ratio and Adjusted ROIC are non-GAAP financial measures. Please see the reconciliation on pages iii and iv of this Annual Report.

This Annual Report contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended and such statements are subject to the safe harbor created by those sections and the Private Securities Litigation Reform Act of 1995, as amended. Such statements may be identified by their use of terms or phrases such as "expects," "estimates," "projects," "believes," "anticipates," "plans," "intends," "outlook," "focus," "seek," "potential," "may," "could," "would," "will," "continue," "goal," "target," "objective," "predicts" derivations thereof, and similar terms and phrases. Forward-looking statements are based upon the current beliefs and expectations of our management and 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 the "Risk Factors" section of this Annual Report, along with various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission. We disclaim any obligation to update or revise any forward-looking statements to reflect actual results or changes in the factors affecting the forward-looking information.

Covenant Transportation Group, Inc.

Dear Fellow Stockholders:

In 2020, our eyes are firmly focused on the road ahead. Already this year, we have implemented significant changes to our business units, our leadership team, our capital structure, and the ways we hold ourselves accountable. All of these changes are designed to deliver long-term, sustainable profitability and value. At the same time, we are navigating the impact of Covid-19. The courage, caring, and dedication of our driving, warehouse, maintenance technicians and staff team members has been inspiring. With the same forward-looking spirit that is driving the re-opening of business in America, I want to use this letter to describe the future of Covenant.

For several years, we have discussed becoming closer and more entrenched with our customers. To us, this means increasing the value we deliver by better aligning our logistics services and asset capacity to our customers' needs, resulting in longer term, mutually beneficial relationships. The extreme volatility of the freight market in 2019 and early 2020 revealed that many customers place substantial value on our contract logistics operations (long-term dedicated contract truckload, warehousing, and transportation management), freight brokerage, and expedited truckload operations. It also revealed that meaningful portions of our solo-driver truckload operations were providing an insufficient return to justify the investment, and that our fixed costs were too high. While we won't ever fully escape the inherent competition of a highly fragmented market, we believe we can increase our returns and reduce volatility through improved asset allocation, enhanced cost control, and a new disciplined accountability system.

Since early 2020, our board of directors and executive management team engaged in extensive planning concerning our business strategy, who should lead it, how to measure progress, and how to align all stakeholders' interests. At the same time, numerous internal process teams have been diligently implementing the initial action items. We are assembling a Covenant built to succeed in all market cycles.

Our strategy is to migrate our services toward contract logistics, freight brokerage, and expedited truckload services, while downsizing the remaining asset-based business units and lowering fixed overhead costs. We have accelerated this strategy in 2020 by reducing the size of our less profitable solo truckload operations by approximately one-third (15% of total fleet), selling three non-core facilities, and consolidating the management of all operations, sales, and marketing activities. At the same time, we are seeking a more balanced freight mix and to improve the quality of certain contracts in our dedicated operations to ensure more dependable commitments from our customers. We expect the result to be a more profitable, less volatile business with substantially less capital deployed along with temporarily reduced operating revenues.

To accomplish our strategy, we created a new executive leadership team consisting of John Tweed – Co-President and Chief Operating Officer, Joey Hogan – Co-President and Chief Administrative Officer, Paul Bunn – Executive Vice President and Chief Financial Officer, and myself. John has primary responsibility for the business mix and operating results of our business units, improving asset productivity and efficiency, and generating the operating results that will drive our company. Joey has primary responsibility for ensuring we have the talent, technology, and capital to deliver the strategic plan. Paul has primary responsibility for enterprise wide financial planning, cost control, and accounting. We meet daily to ensure seamless communication, and we have a deep and talented team supporting a unified effort across the enterprise.

We guide our decisions and measure our progress using a framework that includes sustained earnings, de-leveraging, and return on invested capital goals. We expect to say more about specific targets as the year progresses, but ultimately, our goal is to earn at least our cost of capital and drive meaningful value creation. Management expects to be tightly aligned with all stockholders through the issuance of performance-based equity grants that are intended to be aligned with significant increases in stockholder value.

More information on this plan is contained in our proxy statement.

With all that said, what should you expect from Covenant as we exit 2020?

- Smaller revenue and asset base more tightly organized around contract logistics, expedited team operations, and freight brokerage.
- Strong liquidity and significant de-leveraging of our balance sheet.
- Meaningful progress toward lowering our fixed costs.

- A weak used-equipment market weighing on our reported results, including earnings from our equity investment in TEL.
- Significant room for additional improvement in 2021 and beyond.

Given the wide range of forecasts regarding the speed and trajectory of economic recovery, we are less concerned with predicting upcoming quarterly results than with positioning the company for long-term success. After big picture moves in 2020, daily execution will move to the forefront going forward.

Any discussion of business today must mention Covid-19 and its extensive impact on every company and every community. Our hearts go out to the families at Covenant and elsewhere who have suffered hardship, sickness, or death. And our thanks go to the courageous people from every walk of life who have ministered to others in their time of need. At Covenant, we are blessed with an incredible team that has taken care of each other and our company in the midst of this pandemic. I'm especially proud of our drivers who took to the road to deliver essential supplies, including millions of surgical masks, to keep our fellow citizens fed, healthy, and safe. Meanwhile, our other personnel worked from warehouses, maintenance shops, offices, and their homes to service our customers, repair vehicles, redesign our network to respond to record surges and dips in demand, and maintain strong liquidity. Our team has been truly united in this effort.

Despite the best efforts of the business community and meaningful governmental intervention, the economic outlook remains uncertain. We are planning for an extended period until freight demand returns all the way to pre-Covid levels, mostly due to our prediction of lower industrial and discretionary consumer spending as budgets will be tightened for a few quarters. At the same time, we see a substantial likelihood that truck capacity exits our industry, and we expect periods of freight volatility as regions flex the restrictions on business activity due to fluctuations in infection rates. Various combinations of these factors could present upside opportunities. Moreover, we would expect fluctuations in supply and demand to have relatively less impact on our future results to the extent we are successful in increasing our contract logistics exposure. Our goal is to be prepared for any economic environment.

Before closing, I would like to note the upcoming changes to our board of directors. William Alt will be retiring after nearly 26 years of dedicated service to Covenant. Bill has been a strong proponent of our safety advances, and his uncanny ability to cut straight to the center of an issue will be missed. Michael Kramer is being nominated to join us as independent director. Mike is an experienced financial services CEO who is also adept with technology. Rachel Parker-Hatchett, my daughter and a Covenant employee with nearly 15 years of operations and freight brokerage experience, is nominated as a non-independent director. Mike and Rachel will contribute to continued active oversight from our board of directors.

Less than halfway through the year, 2020 already has been momentous for our company. By the end of the year, I predict we will have seen the most significant changes in business mix, management, and capital structure in many years, and all for the good. As I speak today, I believe Covenant is better positioned than ever to succeed in the supply chain of the future. With gratitude for our many blessings, we look forward with excitement to the balance of 2020 and beyond.

Respectfully,

David R. Parker
Chairman and Chief Executive Officer

Non-GAAP Reconciliation Tables

The following tables present the calculations for adjusted operating ratio and adjusted ROIC (non-GAAP financial measures) for the periods presented. Adjusted operating ratio and adjusted ROIC are not substitutes for the corresponding financial measures computed in accordance with GAAP. There are limitations to using non-GAAP financial measures. We believe the use of adjusted operating ratio and adjusted ROIC allow us to more effectively compare periods, while excluding the potentially volatile effect of changes in fuel prices, as well as amortization of intangibles. Our Board and management focus on these non-GAAP measures as indicators our performance from period to period. We believe our presentation of these non-GAAP measures is useful because it provides investors and securities analysts the same information that we use internally to assess our core operating performance. Although we believe that these non-GAAP measures improve comparability in analyzing our period-to-period performance, it could limit comparability to other companies in our industry, if those companies define such measures differently. Because of these limitations, these non-GAAP measures should not be considered a measure of income generated by our business or discretionary cash available to us to invest in the growth of our business. Management compensates for these limitations by primarily relying on GAAP results and using non-GAAP financial measures on a supplemental basis.

Adjusted Operating Ratio Reconciliation
($ in millions)

GAAP Presentation	**2015**	**2016**	**2017**	**2018**	**2019**
Total revenue	$ 724.2	$ 670.7	$ 705.0	$ 885.5	$ 894.5
Total operating expenses	656.5	638.2	676.9	826.5	878.5
Operating ratio	**90.6%**	**95.2%**	**96.0%**	**93.3%**	**98.2%**
Non-GAAP Presentation	**2015**	**2016**	**2017**	**2018**	**2019**
Total revenue	$ 724.2	$ 670.7	$ 705.0	$ 885.5	$ 894.5
Fuel surcharge revenue	84.1	59.8	78.2	105.7	94.1
Freight revenue	$ 640.1	$ 610.8	$ 626.8	$ 779.7	$ 800.4
Operating expenses	656.5	638.2	676.9	826.5	878.5
Less: Fuel surcharge revenue	(84.1)	(59.8)	(78.2)	(105.7)	(94.1)
Add: Insurance commutation	3.6	-	-	-	-
Less: Amortization of intangibles	-	-	-	(1.5)	(2.9)
Adjusted operating expenses	$ 576.0	$ 578.4	$ 598.7	$ 719.3	$ 781.4
Adjusted operating ratio	**90.0%**	**94.7%**	**95.5%**	**92.2%**	**97.6%**

Adjusted ROIC Reconciliation
($ in millions)

GAAP Presentation	**2015**	**2016**	**2017**	**2018**	**2019**
Net income	$ 42.1	$ 16.8	$ 55.4	$ 42.5	$ 8.5
Average net balance sheet debt	$ 188.7	$ 197.8	$ 197.4	$ 188.6	$ 280.7
Average equity	188.4	218.2	249.7	315.9	348.2
Average invested capital	$ 377.2	$ 416.0	$ 447.1	$ 504.6	$ 628.9
Net income to average invested capital	**11.2%**	**4.0%**	**12.4%**	**8.4%**	**1.4%**

Non-GAAP Presentation	**2015**	**2016**	**2017**	**2018**	**2019**
Net income	$ 42.1	$ 16.8	$ 55.4	$ 42.5	$ 8.5
Add: Interest expense, net	8.4	8.2	8.3	8.7	11.1
Net operating profit after tax (“NOPAT”)	$ 50.6	$ 25.0	$ 63.7	$ 51.2	$ 19.5
Less: Insurance commutation (after tax)	(2.2)	-	-	-	-
Add: Amortization of intangibles (after tax)	-	-	-	1.1	2.2
Non-recurring income tax adjustments	(4.7)	-	(40.1)	-	-
Adjusted NOPAT	$ 43.7	$ 25.0	$ 23.6	$ 52.3	$ 21.7
Average invested capital	$ 377.2	$ 416.0	$ 447.1	$ 504.6	$ 628.9
Adjusted ROIC	**11.6%**	**6.0%**	**5.3%**	**10.4%**	**3.5%**

BUSINESS

Cautionary Note Regarding Forward-Looking Statements

This Annual Report contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended and such statements are subject to the safe harbor created by those sections and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of earnings, revenues, 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 statements of assumptions underlying any of the foregoing. In this Annual Report, statements relating to our ability to achieve our strategic plan and the anticipated impact of our strategic initiatives, our ability to recruit and retain qualified independent contractors and qualified driver and non-driver employees, our ability to react to market conditions and gain market share, future demand for and supply of new and used tractors and trailers (including expected prices of such equipment), expected functioning and effectiveness of our information systems and other technology we implement, our ability to leverage technology to gain efficiencies, expected sources and adequacy of working capital and liquidity, future relationships, use, classification, compensation, and availability with respect to third-party service providers, future driver market conditions, including future driver pay, expected improvements to financial and operational measures, future allocation of capital, including equipment purchases and upgrades, future insurance and claims levels and expenses, future impact of pending litigation, future tax rates, expense, and deductions, future fuel management, expense, and the future effectiveness of fuel surcharge programs, future interest rates and effectiveness of interest rate swaps, future investments in and the growth of individual segments and services, expected capital expenditures (including the future mix of lease and purchase obligations), future asset dispositions, future asset utilization and efficiency, future trucking capacity, expected freight demand and volumes, future rates, future depreciation and amortization, future compliance with and impact of existing and proposed federal and state laws and regulations, future salaries, wages, and related expenses, future earnings from and value of our investments, including our equity investment in TEL, future customer relationships, future defaults under debt agreements, future payment of financing and operating lease liabilities, future unforeseen events such as strikes, work stoppages, and weather catastrophes, future acquisitions, future credit availability, future repurchases, if any, future stock prices, future goodwill impairment, future indebtedness, expected transition to and effect of new accounting standards, expected integration of systems, expected effect of deferred tax assets, our mix of single and team operations, the effect of safety ratings and hours-of-service expectations, and future operating and maintenance expenses, among others, are forward-looking statements. Such statements may be identified by their use of terms or phrases such as "believe," "may," "could," "expects," "estimates," "projects," "anticipates," "plans," "intends," and similar terms and phrases. Forward-looking statements are based on currently available operating, financial, and competitive information. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Risk Factors," set forth below. Readers should review and consider the factors discussed in "Risk Factors," along with various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission ("SEC").

All such forward-looking statements speak only as of the date of this Annual Report. You are cautioned not to place undue reliance on such forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.

References in this Annual Report to "we," "us," "our," or the "Company" or similar terms refer to Covenant Transportation Group, Inc. and its subsidiaries.

GENERAL

Background and Strategy

We were founded in 1986 as a provider of expedited freight transportation, primarily using two-person driver teams in transcontinental lanes. Since that time, we have grown from 25 tractors to approximately 3,100 tractors and expanded our services to include a wide array of transportation and logistics solutions for our customers. The expansion of our fleet and service offerings have placed us among the nation's twenty-five largest truckload transportation companies based on 2019 revenue. We are strategically focused on continuing to integrate into the supply chain of our customers and reducing our seasonal and cyclical volatility. Our 2018 acquisition of Landair Holdings, Inc., Landair Transport, Inc., Landair Logistics, Inc., and Landair Leasing, Inc., ("Landair"), is an example of that commitment. Landair is a leading for-hire truckload carrier and supplier of transportation management, warehousing, and logistics inventory management systems.

As our fleet has grown over three decades and our service platform matured, several important trends dramatically affected the truckload industry and our business. First, supply chain patterns became more fluid in response to dynamic changes in labor and transportation costs, ocean freight and rail-intermodal service standards, retail distribution center networks, governmental regulations, and other industry-wide factors. Second, the cost structure of the truckload business rose dramatically, particularly equipment, driver wages, and, at times, fuel prices and insurance premiums, impacting us and our customers' freight decisions. Third, customers used technology to constantly optimize their supply chains, which necessitated expanding our own technological capability to optimize our asset allocation, manage yields, and drive operational efficiency. Fourth, a confluence of regulatory constraints, safety and security demands, and scarcity of qualified driver applicants, negatively impacted our asset productivity and reinforced what a precious resource professional truck drivers are (and we believe increasingly will be) in our industry.

Results for 2019 were weaker than those of 2018, where we experienced the highest annual earnings in the company's 32-year history. We are proud of the operational improvements we have made, especially in light of headwinds we faced. We believe our return to profitability on a consistent basis since 2012 is the result of redefining and retooling our business model, and as the result of our strategic planning process, whereby we focus on six initiatives that fall under the following key tenets:

- **Organizational Excellence and Entrepreneurial Spirit.** In 2019, we re-aligned our management team, added talent, and implemented best practices to bring a new focus to metrics, accountability and ownership.

- **Focus on the Driver.** Drivers are the lifeblood of our company and our industry. We employ a broad range of safety, lifestyle, compensation, equipment technology, and personal recognition methods to convey our respect and appreciation for our drivers and to improve their careers. A portion of these techniques involve analytics to identify likely candidates, match teams, evaluate recruiting spending, deliver training content to drivers, and design tractor specifications.

- **Focus on the Customer Experience.** We offer premium service in sectors where we can make a difference, and we use our brokerage services to cover loads that cannot be as efficiently serviced through our asset based transportation services. With each interaction, we seek to enhance the value we bring to the customer relationship.

- **Rigorous Capital Allocation Process and Reduce Leverage.** Our senior management annually ranks capital investment opportunities against available capital and acceptable leverage levels, and material investments must pass return on investment and capital investment committee approval processes. In addition, reducing our leverage ratio has been a primary strategic goal. Our leverage ratio decreased in both 2019 and 2018 as compared to the respective prior years, as we remain focused on investing capital when we can obtain acceptable returns and reducing our leverage. We believe our disciplined investment review has contributed to our improved results by allocating capital to more profitable business units and downsizing other units into greater profitability.

- **Risk Management—Assess and Mitigate.** We evaluate risk areas with significant volatility, as well as the costs and benefits associated with mitigating the volatility. Diesel fuel prices, insurance and claims cost, and used equipment prices are all areas where we identified significant risk and volatility for our business. To manage these risks, we have at times employed fuel hedging contracts on a portion of our fuel usage not covered by customer fuel surcharges, lowered our self-insured accident liability retention, and expanded our ability to sell our used equipment to increase bargaining power with the tractor and trailer manufacturers.

- **Technology**. We purchase and deploy technology that we believe will allow us to operate more safely, securely, and efficiently. Our operational information systems are tailored to the needs of our various service offerings, utilizing software developed internally and purchased off-the-shelf depending on the operational needs. We will continue to seek out technology to improve efficiencies and expand our resources.

We believe the ongoing execution of our strategic plan has contributed to the substantial improvement in operating results and profitability we have generated over the past several years. Some of the significant successes resulting from our strategic planning efforts include the Landair Acquisition in 2018; completion of a follow-on stock offering in 2014 that helped significantly deleverage our balance sheet; consolidation of our sales force and back-office operations; enhancements to recruiting, retention, and business intelligence; upgraded information technology; and focus on service and on time delivery. Each of these accomplishments positively impacted the success of the key initiatives identified above, our overarching financial goals, and ultimately, the Company. However, we still have significant work ahead to achieve our goals, deliver a strong and stable product for our customers, provide a bright future for our employees and independent contractors, and create meaningful value for our stockholders.

The Company

We operate a relatively new tractor fleet and employ sophisticated tractor technology that enhances our operational efficiencies and our drivers' safety. Our company-owned tractor fleet has an average age of approximately 2.0 years, which compares favorably to an average U.S. Class 8 tractor age of approximately 7.2 years in 2018. Some of the technologies we employ include the following: (1) freight optimization software that can perform sophisticated analyses of profitability and other measures on each customer, route, and load; (2) routing software that selects the best route, identifies fuel stops, and warns of deviations from routing instructions; (3) a tracking and communications system that permits direct communication between drivers and fleet managers, as well as constant location and delivery updates; (4) electronic logging devices ("ELDs") in all of our tractors; (5) aerodynamics and other fuel efficiency systems that have significantly improved fuel mileage; and (6) safety technology, including rollover stability control, collision mitigation, adaptive cruise control, and lane-change warning. We believe our modern fleet lowers maintenance costs, improves fuel mileage, improves safety, contributes to better customer service, and assists with driver retention.

Reportable Operating Segments and Service Offerings

Our asset based transportation services include two separate reportable operating segments: (i) Highway Services and (ii) Dedicated Contract Services ("Dedicated"), both of which transport full trailer loads of freight from origin to destination without intermediate stops or handling. We provide truckload transportation services primarily throughout the continental United States utilizing equipment we own or lease or equipment owned by independent contractors. Our Highway Services operating segment includes two separate service offerings: (i) Expedited Services ("Expedited") and (ii) Over-the-Road Services ("OTR"), both of which transport one-way freight over nonroutine routes. Our Dedicated operating segment provides similar transportation services, but does so pursuant to agreements whereby we make our equipment available to a specific customer for shipments over particular routes at specified times.

To complement our asset based transportation services, we also offer non-asset based or asset light logistics services through our Managed Freight and Factoring reportable operating segments. Our Managed Freight reportable operating segment relies heavily on technology and provides: (i) freight brokerage ("Brokerage"), (ii) transportation management services ("TMS") and (iii) warehousing and shuttle and switching service offerings to our customers.

Our combined asset based and non-asset based capabilities, allow us to transport many types of freight for a diverse customer base. We concentrate on service offerings where we believe our capacity in relation to sector size and our operating proficiency can make a meaningful difference to customers. The primary service offerings are further described below:

- **Highway Services**

    - **Expedited**: In our Expedited business, we operate approximately 900 tractors, approximately 800 of which are driven by two-person driver teams. Our Expedited operations primarily involve high service freight with delivery standards, such as 1,000 miles in 22 hours, or 15-minute delivery windows that are difficult for competitors to satisfy with solo-driven tractors. Our Expedited services often involve high value, high security, or time-definite loads for integrated global freight companies, less-than-truckload carriers, manufacturers, and retailers. We believe we are one of the five largest team expedited providers, and that growth in omni-channel, organic food, manufacturing, and e-commerce freight make this an attractive sector.

- **OTR**: In our OTR business, we operate approximately 390 tractors, to provide one-way dry van and temperature controlled load capacity for customers with loads that are usually shorter in nature or have fewer delivery standard requirements as compared to our Expedited services.

- **Dedicated**

  - In our Dedicated business, we operate approximately 1,700 tractors, approximately 16 of which are driven by two-person driver teams, primarily for manufacturers located across the United States. The dedicated sector typically involves longer-term contracts that allocate a specified number of tractors and trailers to a specific customer, with fixed and variable compensation. Many of our Dedicated contract customers are automotive companies or shippers of produce, where the nature of the product we ship requires high service standards. We believe these sectors are growing because of an improved manufacturing environment in the United States, growth in organic produce, customer concerns about trucking capacity, and a need for dependable service.

- **Managed Freight**

  - **Brokerage**: In our Brokerage business, we provide logistics capacity to customers who prefer to handle their freight needs on a more transactional basis or when the freight does not fit our truckload network or profitability requirements by outsourcing the carriage of customers' freight to contracted third parties.

  - **TMS**: In our TMS business we provide comprehensive logistics services on a contractual basis to customers who prefer to outsource their logistics service needs.

  - **Warehousing**: In our Warehousing business we empower customers to outsource day-to-day operations of warehouse management. We also provide shuttle and switching services related to shuttling containers and trailers in or around freight yards and to/from warehouses.

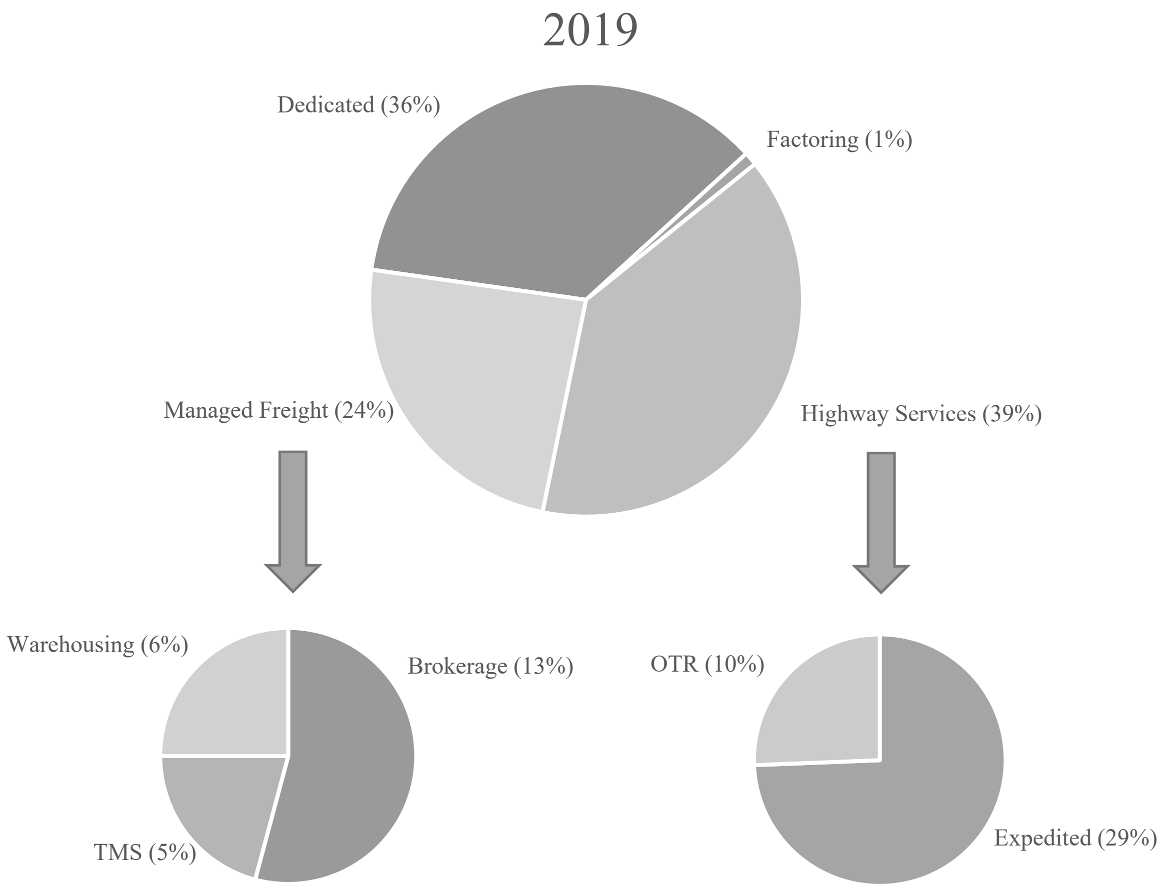
- **Factoring**

  - Our Factoring services assist current and potential capacity providers with improving their cash flows through secured invoice factoring services.

We believe this suite of services links our interests with those of our customers and current and potential third party capacity providers.

Additionally, we participate in the market for used equipment sales and leasing through our 49% ownership of Transport Enterprise Leasing, LLC ("TEL").

The following table reflects the size of each of our service offerings measured by 2019 total revenue, net of fuel surcharge revenue, which we refer to as "freight revenue":



Distribution of Freight Revenue Among Service Offerings	
Highway Services:	
Expedited	29%
OTR	10%
Total Highway Services	39%
Dedicated	36%
Managed Freight:	
Brokerage	13%
TMS	5%
Warehousing	6%
Total Managed Freight	24%
Factoring	1%
Total	100%

In our Highway Services and Dedicated segments, we primarily generate revenue by transporting freight for our customers. Generally, we are paid a predetermined rate per mile for our truckload services. We enhance our truckload 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 could affect our Highway Services revenue are the revenue per mile we receive from our customers, the percentage of miles for which we are compensated, and the number of shipments and miles we generate. 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 main expenses that impact the profitability of our Highway Services and Dedicated segments are the variable costs of transporting freight for our customers. These costs include fuel expenses, driver-related expenses, such as wages, benefits, training, and recruitment, and purchased transportation expenses, which primarily include compensating independent contractors. 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, self-insured retention versus insurance premiums, fleet age, efficiency, and other factors. Historically, our main fixed costs include rentals and depreciation of long-term assets, such as revenue equipment and terminal facilities, and the compensation of non-driver personnel.

We measure the productivity of our Highway Services and Dedicated segments with two key performance metrics: average freight revenue per total mile (excluding fuel surcharges) and average miles per tractor. Additionally, we measure our Highway Services segment with average freight revenue per tractor per week. A description of each follows:

Average Freight Revenue Per Total Mile. Our average freight revenue per total mile is primarily a function of 1) the allocation of assets among our subsidiaries and 2) the macro U.S. economic environment including supply/demand of freight and carriers.

Average Miles Per Tractor. Average miles per tractor reflect economic demand, driver availability, regulatory constraints, and the allocation of tractors among the service offerings.

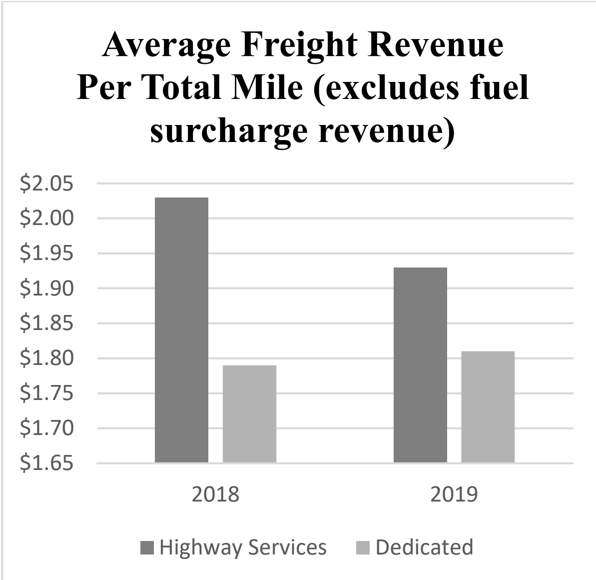
Average Freight Revenue Per Tractor Per Week. We use average freight revenue per tractor per week as our main measure of asset productivity. This operating metric takes into account the effects of freight rates, non-revenue miles, and miles per tractor. In addition, because we calculate average freight revenue per tractor using all of our tractors, it takes into account the percentage of our fleet that is unproductive due to lack of drivers, repairs, and other factors.

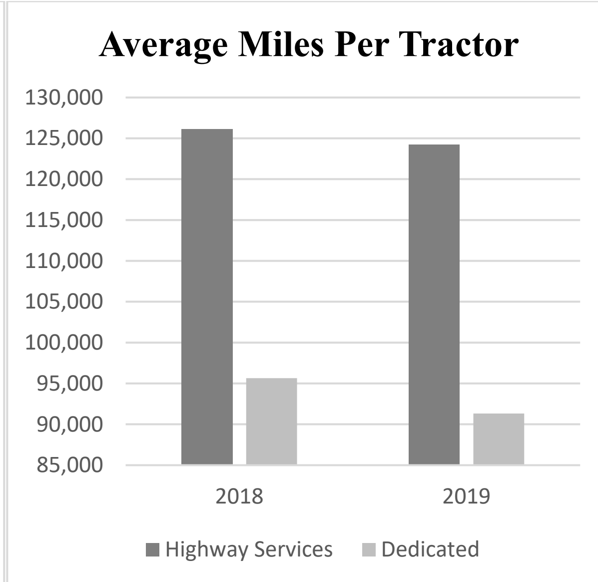
A summary of these metrics for our Highway Services segment for 2018 and 2019 is as follows:

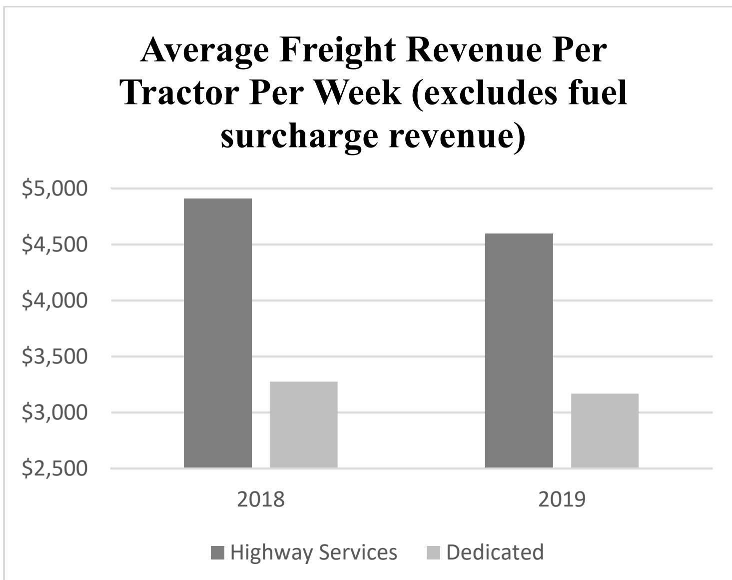
	2018	2019
Average freight revenue per total mile	$ 2.03	$ 1.93
Average miles per tractor	126,116	124,228
Average freight revenue per tractor per week	$ 4,908	$ 4,595

A summary of the key performance metrics for our Dedicated Services segment for 2018 and 2019 is as follows:

	2018	2019
Average freight revenue per total mile	$ 1.79	$ 1.81
Average miles per tractor	95,652	91,318
Average freight revenue per tractor per week	$ 3,275	$ 3,168







Within our Managed Freight segment, we derive revenue from providing Brokerage, TMS, and warehousing services, particularly arranging transportation services for customers directly and through relationships with thousands of third-party carriers and integration with our Highway Services segment, utilizing technology and process management to provide detailed visibility into a customer's movement of freight – inbound and outbound – throughout the customer's network providing focused customer support through multi-year contracts, and empowering customers to outsource warehousing management including moving containers and trailers in or around freight yards. We provide Brokerage services directly and through agents, who are paid a commission for the freight they provide. The main factors that impact profitability in terms of expenses are the variable costs of outsourcing the transportation freight for our customers and managing fixed costs, including salaries, facility warehousing costs, and selling, general, and administrative expenses.

Within our Factoring segment, we derive revenue from purchasing accounts receivables from external asset carriers at a discount and collecting on the accounts receivables from the end consumers.

In May 2011, we acquired a 49.0% interest in TEL. TEL is a tractor and trailer equipment leasing company and used equipment reseller. We have accounted for our investment in TEL using the equity method of accounting and thus our financial results include our proportionate share of TEL's net income since May 2011, or $7.0 million in 2019 and $7.7 million in 2018. As a result, TEL's results and growth are significant to our current year results and, in our estimation, to our longer-term vision.

Refer to Note 13, "Segment Information," of the accompanying consolidated financial statements for further information about our reporting segment's operating and financial results for 2019 and 2018.

Customers and Operations

We focus on targeted markets throughout the United States where we believe our service standards can provide a competitive advantage. We are a major carrier for transportation companies such as parcel freight forwarders, less-than-truckload carriers, and third-party logistics providers that require a high level of service to support their businesses, as well as for traditional truckload customers such as manufacturers, retailers, and food and beverage shippers.

Walmart accounted for more than 10% of our consolidated revenue in 2019 and 2018. Walmart was serviced by our Highway Services, Dedicated, and Managed Freight segments. Our top ten customers accounted for approximately 45% and 49% of our total revenue in 2019 and 2018, respectively.

Within our asset based transportation service offerings (Highway Services and Dedicated), we operate tractors driven by a single driver and also tractors assigned to two-person driver teams. Our single driver tractors generally operate in shorter lengths of haul, generate fewer miles per tractor, and experience more non-revenue miles, but the lower productive miles are expected to be offset by generally higher revenue per loaded mile and the reduced employee expense of compensating only one driver. In contrast, our two-person driver tractors generally operate in longer lengths of haul, generate greater miles per tractor, and experience fewer non-revenue miles, but we typically receive lower revenue per loaded mile and incur higher employee expenses of compensating both drivers. We expect operating statistics and expenses to shift with the mix of single and team operations.

All of our operating subsidiaries operate on a uniform operational and financial system, except for the Landair subsidiary, which we plan to integrate into our existing systems over the next two years, as we have historically gained efficiencies from our subsidiaries operating on the same platform. We continue moving data into the cloud versus storing on local servers when possible. We expect to continue to evaluate where we can leverage technology to add further efficiencies across the Company and for our customers.

Drivers and Other Personnel

Driver recruitment, retention, and satisfaction are essential to our success, and we have made each of these factors a primary element of our strategy. We recruit both experienced and student drivers as well as independent contractor drivers who own and drive their own tractor and provide their services to us under contract. We conduct recruiting and/or driver orientation efforts from six of our locations, and we offer ongoing training throughout our terminal network. We emphasize driver-friendly operations throughout our organization. We have implemented automated programs to signal when a driver is scheduled to be routed toward home, and we assign fleet managers specific tractor units, regardless of geographic region, to foster positive relationships between the drivers and their principal contact with us.

The truckload industry has experienced difficulty in attracting and retaining enough qualified truck drivers. It is also common for the driver turnover rate of individual carriers to exceed 100% in a year. At times, there are driver shortages in the trucking industry. In past years, when there were driver shortages, the number of qualified drivers had not kept pace with freight growth because of (i) changes in the demographic composition of the workforce; (ii) alternative employment opportunities other than truck driving that became available in a growing economy; (iii) individual drivers' desire to be home more often; and (iv) regulatory requirements that limit the available pool of drivers.

Driver retention remained challenging in 2019, as economic growth provided more employment opportunities that attracted professional drivers. Our average number of teams as a percentage of our fleet decreased for 2019 as compared to 2018. Our average open tractors, including wrecked units, decreased to 3.8% for the year ended December 31, 2019, from approximately 4.5% for the year ended December 31, 2018.

We believe having a happy, healthy, and safe driver is the key to our success, both in the short term and over a longer period. As a result, we are actively working to enhance our drivers' experience in an effort to recruit and retain more drivers.

Independent contractors provide a tractor and a driver and are responsible for all operating expenses in exchange for a fixed payment per mile. We do not have the capital outlay of purchasing the tractor. The payments to independent contractors are recorded in revenue equipment rentals and purchased transportation. When independent contractor tractors are utilized, we avoid expenses generally associated with company-owned equipment, such as driver compensation, fuel, interest, and depreciation. Obtaining equipment from independent contractors and under operating leases effectively shifts financing expenses from interest to "above the line" operating expenses.

We continue to educate our drivers and non-driver personnel regarding the Federal Motor Carrier Safety Administration ("FMCSA") Compliance Safety Accountability program ("CSA"). We believe CSA, in conjunction with other U.S. Department of Transportation ("DOT") regulations, including those related to hours-of-service and ELDs, has reduced and will likely continue to impact effective capacity in our industry as well as negatively impact equipment utilization. Nevertheless, for carriers that are able to successfully manage this regulation-laden environment with driver-friendly equipment, compensation, and operations, we believe opportunities to increase market share may be available. Driver pay may increase as a result of regulation and economic expansion, which could provide more alternative employment opportunities. If economic growth is sustained, however, we expect the supply/demand environment to be favorable enough for us to offset expected compensation increases with better freight pricing.

We use driver teams in a substantial portion of our tractors. Driver teams permit us to provide expedited service on selected long haul lanes because teams are able to handle longer routes and drive more miles while remaining within DOT hours-of-service rules. The use of teams contributes to greater equipment utilization of the tractors they drive than obtained with single drivers. The use of teams, however, increases the accumulation of miles on tractors and trailers personnel costs as a percentage of revenue, and the number of drivers we must recruit.

We are not a party to any collective bargaining agreement. At December 31, 2019, we employed approximately 3,900 drivers and approximately 1,650 non-driver personnel. At December 31, 2019, we had engaged approximately 300 independent contractor drivers.

Revenue Equipment

At December 31, 2019, we operated 3,021 tractors and 6,739 trailers. Of these tractors, 1,823 tractors were owned, 897 tractors were financed under operating leases, and 301 tractors were provided by independent contractors, who own and drive their own tractors. Of these trailers, 5,136 trailers were owned, 1 trailer was financed under an operating lease, and 1,602 trailers were financed under finance leases. Furthermore, at December 31, 2019, approximately 74.7% of our trailers were dry vans, and the remaining trailers were refrigerated vans.

We believe that operating high quality, late-model equipment contributes to operating efficiency, helps us recruit and retain drivers, and is an important part of providing excellent service to customers. We operate a modern fleet of tractors, with the majority of units under warranty, to minimize repair and maintenance costs and reduce service interruptions caused by breakdowns. We also order most of our equipment with uniform specifications to reduce our parts inventory and facilitate maintenance. At December 31, 2019, our tractor fleet had an average age of approximately 2.0 years, and our trailer fleet had an average age of approximately 4.2 years. We equip our tractors with a satellite-based tracking and communications system that permits direct communication between drivers and fleet managers. We believe that this system enhances our operating efficiency and improves customer service and fleet management. This system also updates the tractor's position approximately every fifteen minutes, which allows us and our customers to locate freight and accurately estimate pick-up and delivery times. We also use the system to monitor engine idling time, speed, performance, and other factors that affect operating efficiency. At December 31, 2019, all of our tractors were equipped with ELDs, which, electronically monitor tractor miles and facilitate enforcement of hours-of-service regulations.

Over the past decade, the price of new tractors has risen dramatically and there has been significant volatility in the used equipment market. This has substantially increased our costs of operation.

Industry and Competition

Truckload is the largest segment of the for-hire ground freight transportation market based on revenue, surpassing the combined market size of less-than-truckload, railroad, intermodal, and parcel delivery combined. The truckload market is further segmented into sectors such as regional dry van, temperature-controlled van, flatbed, dedicated contract, expedited, and irregular route.

The U.S. trucking industry is highly competitive and includes thousands of "for-hire" motor carriers, none of which dominate the market. Service and price are the principal means of competition in the trucking industry. We compete to some extent with railroads and rail-truck intermodal service but attempt to differentiate ourselves from our competition on the basis of service. Rail and rail-truck intermodal movements are more often subject to delays and disruptions arising from rail yard congestion, which reduce the effectiveness of such service to customers with time-definite pick-up and delivery schedules. Historically, in times of high fuel prices or decreased consumer demand, however, rail-intermodal competition has been more significant.

Our industry is subject to dynamic factors that significantly affect our operating results. These factors include the availability of qualified truck drivers, the volume of freight in the sectors we serve, the price of diesel fuel, and government regulations that impact productivity and costs. Recently, our industry has experienced softened freight demand, scarcity of qualified truck drivers, decreased fuel costs, a depressed used tractor market, and regulations that limit productivity. In 2019, the rates declined from 2018, and costs such as driver pay for many trucking companies, including us, remained higher than pre-2017 periods. Based on our assessment of future regulatory changes, driver demographics, and expected growth rates of our major customers and sectors, we expect a relatively balanced freight environment in 2019, as increased rates are offset in part by higher driver pay and other inflationary costs. We believe large and diversified companies, like ourselves, are best positioned to capitalize on the current industry environment, because we can offer significant capacity commitments to major customers, safe and comfortable new equipment to drivers, and optimized routing and other business analytics to make the most of our drivers' federally limited operating hours.

We believe that the cost and complexity of operating trucking fleets are increasing and that economic and competitive pressures are likely to force many smaller competitors and private fleets to consolidate or exit the industry. As a result, we believe that larger, better-capitalized companies, like us, will have opportunities to increase profit margins and gain market share. In the market for dedicated services, we believe that truckload carriers, like us, have a competitive advantage over truck lessors, which are the other major participants in the market, because we expect to be able to offer lower prices by utilizing back-haul freight within our network that traditional lessors may not have.

Regulation

Transportation Regulations

Our operations are regulated and licensed by various U.S. agencies. Our limited Canadian business activities are subject to similar requirements imposed by the laws and regulations of Canada, as well as its provincial laws and regulations. Our company drivers and independent contractors also must comply with the safety and fitness regulations of the DOT, including those relating to drug and alcohol testing and hours-of-service. Such matters as weight and equipment dimensions are also subject to U.S. regulations. We also may become subject to new or more restrictive regulations relating to fuel emissions, drivers' hours-of-service, ergonomics, or other matters affecting safety or operating methods. Other agencies, such as the Environmental Protection Agency ("EPA") and the Department of Homeland Security ("DHS") also regulate our equipment, operations, and drivers.

The DOT, through the FMCSA, imposes safety and fitness regulations on us and our drivers, including rules that restrict driver hours-of-service. Changes to such hours-of-service rules can negatively impact our productivity and affect our operations and profitability by reducing the number of hours per day or week our drivers may operate and/or disrupting our network. However, in August 2019, the FMCSA issued a proposal to make changes to its hours-of-service rules that would allow truck drivers more flexibility with their 30-minute rest break and with dividing their time in the sleeper berth. It also would extend by two hours the duty time for drivers encountering adverse weather, and extend the shorthaul exemption by lengthening the drivers' maximum on-duty period from 12 hours to 14 hours. It is unclear how long the process of finalizing a final rule will take, if one does come to fruition. Any future changes to hours-of-service rules could materially and adversely affect our operations and profitability.

The DOT uses two methods of evaluating the safety and fitness of carriers. The first method is the application of a safety rating that is based on an onsite investigation and affects a carrier's ability to operate in interstate commerce. All of our subsidiaries with operating authority currently have a satisfactory DOT safety rating under this method, which is the highest available rating under the current safety rating scale. If we received a conditional or unsatisfactory DOT safety rating, it could adversely affect our business, as some of our existing customer contracts require a satisfactory DOT safety rating. In January 2016, the FMCSA published a Notice of Proposed Rulemaking outlining a revised safety rating measurement system which would replace the current methodology.

Under the proposed rule, the current three safety ratings of "satisfactory," "conditional," and "unsatisfactory" would be replaced with a single safety rating of "unfit." Thus, a carrier with no rating would be deemed fit. Moreover, data from roadside inspections and the results of all investigations would be used to determine a carrier's fitness on a monthly basis. This would replace the current methodology of determining a carrier's fitness based solely on infrequent comprehensive onsite reviews. The proposed rule underwent a public comment period that ended in June 2016 and several industry groups and lawmakers expressed their disagreement with the proposed rule, arguing that it violates the requirements of the FAST Act (as defined below) and that the FMCSA must first finalize its review of the CSA scoring system, described in further detail below. Based on this feedback and other concerns raised by industry stakeholders, in March 2017, the FMCSA withdrew the Notice of Proposed Rulemaking related to the new safety rating system. In its notice of withdrawal, the FMCSA noted that a new rulemaking related to a similar process may be initiated in the future. Therefore, it is uncertain if, when, or under what form any such rule could be implemented. The FMCSA also recently indicated its intent to perform a new study on the causation of crashes. Although it remains unclear whether such a study will ultimately be undertaken and completed, the results of such a study could spur further proposed and/or final rules in regards to safety and fitness.

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

During this period of review by the FMCSA, we will continue to have access to our own scores and will still be subject to intervention by the FMCSA when such scores are above the intervention thresholds. A study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate, and reliable. In June 2018, the FMCSA provided a report to Congress outlining the changes it may make to the CSA program in response to the study. Such changes include the testing and possible adoption of a revised risk modeling theory, potential collection and dissemination of additional carrier data and revised measures for intervention thresholds. The adoption of such changes is contingent on the results of the new modeling theory and additional public feedback. Therefore, it is unclear if, when and to what extent such changes to the CSA program will occur. However, any changes that increase the likelihood of us receiving unfavorable scores could adversely affect our results of operations and profitability.

Currently, certain of our subsidiaries are exceeding the established intervention thresholds in one or more of the seven categories of CSA, in comparison to their peer groups; however, they all continue to maintain a satisfactory rating with the DOT. We will continue to promote improvement of these scores in all seven categories with ongoing reviews of all safety-related policies, programs, and procedures for their effectiveness.

The FMCSA published a final rule in December 2015 that required the use of ELDs or automatic on board recording devices ("AOBRs") by nearly all carriers by December 2017 (the "2015 ELD Rule"). Enforcement of the 2015 ELD Rule was phased in, as states did not begin putting tractors out of service for non-compliance until April 1, 2018. However, carriers were subject to citations, on a state-by-state basis, for non-compliance with the rule after the December 2017 compliance deadline. Use of AOBRs is permitted until December 2019, at which time use of ELDs is required. Since we had proactively installed AOBRs on nearly 100% of our tractor fleet, implementation of the 2015 ELD Rule did not impact our operations or profitability or our use of AOBRs. We ultimately had ELDs (not AOBRs) installed on 100% of our fleet by the December 2019 deadline. We believe that more effective hours-of-service enforcement under the 2015 ELD Rule may improve our competitive position by causing all carriers to adhere more closely to hours-of-service requirements and may further reduce industry capacity.

In the aftermath of the September 11, 2001 terrorist attacks, the DHS and other federal, state, and municipal authorities implemented and continue to implement various security measures, including checkpoints and travel restrictions on large tractors. The U.S. Transportation Security Administration ("TSA") adopted regulations that require a 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 who are permitted to transport hazardous waste, which could require us to increase driver compensation, limit our fleet growth, or allow tractors to 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 could fail to meet the needs of our customers or could incur increased expenses to do so.

In December 2016, the FMCSA issued a final rule establishing a national clearinghouse for drug and alcohol testing results and requiring motor carriers and medical review officers to provide records of violations by commercial drivers of FMCSA drug and alcohol testing requirements. Motor carriers will be required to query the clearinghouse to ensure drivers and driver applicants do not have violations of federal drug and alcohol testing regulations that prohibit them from operating commercial motor vehicles. The final rule became effective on January 4, 2017, with a compliance date of January 6, 2020. In December 2019, however, the FMCSA announced a final rule extending by three years the date for state driver's licensing agencies to comply with certain Drug and Alcohol Clearinghouse requirements. The December 2016 commercial driver's license rule required states to request information from the Clearinghouse about individuals prior to issuing, renewing, upgrading, or transferring to a CDL. This new action will allow states' compliance with the requirement, which was set to begin January 2020, to be delayed until January 2023. That being said, the FMCSA has indicated that it will allow states the option to voluntarily query Clearinghouse information beginning January 2020. The compliance date of January 2020 remained in place for all other requirements set forth in the Clearinghouse final rule, however. Upon implementation, the rule may reduce the number of available drivers in an already constrained driver market.

In November 2015, the FMCSA published its final rule related to driver coercion, which took effect in January 2016. Under this rule, carriers, shippers, receivers, or transportation intermediaries that are found to have coerced drivers to violate certain FMCSA regulations (including hours-of-service rules) may be fined up to $16,000 for each offense. In addition, other rules have been recently proposed or made final by the FMCSA, including (i) a rule requiring the use of speed limiting devices on heavy duty tractors to restrict maximum speeds, which was proposed in 2016, and (ii) a rule setting forth minimum driver training standards for new drivers applying for commercial driver's licenses for the first time and to experienced drivers upgrading their licenses or seeking a hazardous materials endorsement, which was made final in December 2016, with a compliance date in February 2020 (FMCSA officials have recently reported, however, that they are delaying implementation of the final rule by two years). In July 2017, the DOT announced that it would no longer pursue a speed limiter rule, but left open the possibility that it could resume such a pursuit in the future. In 2019, U.S. Congressional representatives proposed a similar rule related to speed-limiting devices. The effect of these rules, to the extent they become effective, could result in a decrease in fleet production and driver availability, either of which could adversely affect our business or operations. U.S. Congressional representatives also proposed a bill in 2019 that would pave the way for commercial drivers younger than 21 to drive trucks across state lines. This new bill, which would lower the age requirement of 21 to 18 for interstate commercial driving if certain requirements are met, received support from the ATA during a February 2020 Senate hearing. It is unclear how long the process of finalizing such a bill will take, however, if one comes to fruition at all.

In March 2014, the Ninth Circuit Court of Appeals held that California state wage and hour laws are not preempted by federal law. The case was appealed to the Supreme Court of the United States, which in May 2015 refused to review the case, and accordingly, the Ninth Circuit Court of Appeals decision stood. However, in December 2018, the FMCSA granted a petition filed by the ATA and in doing so determined that federal law does preempt California's wage and hour laws, and interstate truck drivers are not subject to such laws. The FMCSA's decision has been appealed by labor groups and multiple lawsuits have been filed in federal courts seeking to overturn the decision, and thus it's uncertain whether it will stand. Other current and future state and local laws, including laws related to employee meal breaks and rest periods, may also vary significantly from federal law. Further, driver piece rate compensation, which is an industry standard, has been attacked as non-compliant with state minimum wage laws and lawsuits have recently been filed and/or adjudicated against carriers demanding compensation for sleeper berth time, layovers, rest breaks and pre-trip and post-trip inspections, the outcome of which could have major implications for the treatment of time that drivers spend off-duty (whether in a truck's sleeper berth or otherwise) under applicable wage laws. Both of these issues are adversely impacting the Company and the industry as a whole, with respect to the practical application of the laws, thereby resulting in additional cost. As a result, we, along with other companies in the industry, could become subject to an uneven patchwork of laws throughout the United States. In the past, certain legislators have proposed federal legislation to preempt certain state and local laws; however, passage of such legislation is uncertain. If federal legislation is not passed, we will either need to comply with the most restrictive state and local laws across our entire network, or overhaul our management systems to comply with varying state and local laws. Either solution could result in increased compliance and labor costs, driver turnover, decreased efficiency, and amplified legal exposure.

Tax and other regulatory authorities, as well as independent contractors themselves, have increasingly asserted that independent contractors in the trucking industry are employees rather than independent contractors, for a variety of purposes, including income tax withholding, workers' compensation, wage and hour compensation, unemployment, and other issues. Federal legislators have introduced legislation in the past to make it easier for tax and other authorities to reclassify independent contractors as employees, including legislation to increase the recordkeeping requirements for those that engage independent contractors and to heighten the penalties of companies who misclassify their employees and are found to have violated employees' overtime and/or wage requirements. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice, extend the Fair Labor Standards Act to independent contractors, and impose notice requirements based upon employment or independent contractor status and fines for failure to comply. Some states have put initiatives in place to increase their revenues from items such as unemployment, workers' compensation, and income taxes, and a reclassification of independent contractors as employees would help states with these initiatives.

Recently, courts in certain states have issued decisions that could result in a greater likelihood that independent contractors would be judicially classified as employees in such states. In September 2019, California enacted A.B. 5 (“AB5”), a new law that changed the landscape of the state’s treatment of employees and independent contractors. AB5 provides that the three-pronged “ABC Test” must be used to determine worker classification in wage-order claims. Under the ABC Test, a worker is presumed to be an employee, and the burden to demonstrate their independent contractor status is on the hiring company through satisfying all three of the following criteria:

- the worker is free from control and direction in the performance of services; and
- the worker is performing work outside the usual course of business of the hiring company; and
- the worker is customarily engaged in an independently established trade, occupation, or business.

How AB5 will be enforced is still to be determined. While it was set to go into effect in January 2020, a federal judge in California issued a preliminary injunction barring the enforcement of AB5 on the trucking industry while the California Trucking Association (“CTA”) moves forward with its suit seeking to invalidate AB5. While this preliminary injunction provides temporary relief to the enforcement of AB5, it remains unclear how long such relief will last, and whether the CTA will ultimately be successful in invalidating the law. It is also possible AB5 will spur similar legislation in states other than California, which could adversely affect our results of operations and profitability.

Further, class actions and other lawsuits have been filed against certain members of our industry seeking to reclassify independent contractors as employees for a variety of purposes, including workers' compensation and health care coverage. In addition, companies that utilize lease-purchase independent contractor programs, such as us, have been more susceptible to reclassification lawsuits and several recent decisions have been made in favor of those seeking to classify as employees certain independent contractors that participated in lease-purchase programs. Taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status. Our classification of independent contractors has been the subject of audits by such authorities from time to time. While we have been successful in continuing to classify our independent contractor drivers as independent contractors and not employees, we may be unsuccessful in defending that position in the future. If our independent contractors are determined to be our employees, we would incur additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment, and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings.

Environmental Regulations

We are subject to various environmental laws and regulations dealing with the hauling and handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, engine idling, and discharge and retention of storm water. Our tractor terminals often are located in industrial areas where groundwater or other forms of environmental contamination could occur. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. Certain of our facilities have waste oil or fuel storage tanks, and fueling islands. A small percentage of our freight consists of low-grade hazardous substances, which subjects us to a wide array of regulations. Additionally, increasing efforts to control emissions of greenhouse gases may have an adverse effect on us. Although we have instituted programs to monitor and control environmental risks and promote compliance with applicable environmental laws and regulations, if we are involved in a spill or other accident involving hazardous substances, if there are releases of hazardous substances we transport, if soil or groundwater contamination is found at our facilities or results from our operations, or if we are found to be in violation of applicable laws or regulations, we could be subject to cleanup costs and 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.

EPA regulations limiting exhaust emissions became more restrictive in 2010. In August 2011, the National Highway Traffic Safety Administration ("NHTSA") and the EPA adopted final rules that established the first-ever fuel economy and greenhouse gas standards for medium-and heavy-duty vehicles, including the tractors we employ (the "Phase 1 Standards"). The Phase 1 Standards apply to tractor model years 2014 to 2018 and require the achievement of an approximate 20 percent reduction in fuel consumption by the 2018 model year, which equates to approximately four gallons of fuel for every 100 miles traveled. In addition, in February 2014, President Obama announced that his administration would begin developing the next phase of tighter fuel efficiency and greenhouse gas standards for medium-and heavy-duty tractors and trailers (the "Phase 2 Standards"). In October 2016, the EPA and NHTSA published the final rule mandating that the Phase 2 Standards will apply to trailers beginning with model year 2018 and tractors beginning with model year 2021. The Phase 2 Standards require nine percent and 25 percent reductions in emissions and fuel consumption for trailers and tractors, respectively, by 2027. We believe these requirements will result in additional increases in new tractor and trailer prices and additional parts and maintenance costs incurred to retrofit our tractors and trailers with technology to achieve compliance with such standards, which could adversely affect our operating results and profitability, particularly if such costs are not offset by potential fuel savings. We cannot predict, however, the extent to which our operations and productivity will be impacted. In October 2017, the EPA announced a proposal to repeal the Phase 2 Standards as they relate to gliders (which mix refurbished older components, including transmissions and pre-emission-rule engines, with a new frame, cab, steer axle, wheels, and other standard equipment). The outcome of such proposal is still undetermined as the EPA continues to consider Congressionally requested investigations into the legality of the proposal and the merits of an anti-glider study that was published shortly after the proposal became official. Additionally, implementation of the Phase 2 Standards as they relate to trailers has been delayed due to a provisional stay granted in October 2017 by the U.S. Court of Appeals for the District of Columbia, which is overseeing a case against the EPA by the Truck Trailer Manufacturers Association, Inc. regarding the Phase 2 Standards.

In January 2020, the EPA announced it is seeking input on reducing emissions of nitrogen oxides and other pollutants from heavy-duty trucks. The EPA is aiming to release proposed standards for the new plan, commonly referred to as the “Cleaner Trucks Initiative,” later in 2020, and may take final action as soon as 2021. The EPA is targeting 2027 for these new standards to take effect.

The California Air Resources Board ("CARB") also adopted emission control regulations that will be applicable to all heavy-duty tractors that pull 53-foot or longer box-type trailers within the state of California. The tractors and trailers subject to these CARB regulations must be either EPA SmartWay certified or equipped with low-rolling, resistance tires and retrofitted with SmartWay-approved aerodynamic technologies. Enforcement of these CARB regulations for model year 2011 equipment began in January 2010 and have been phased in over several years for older equipment. We currently purchase Smart Way certified equipment in our new tractor and trailer acquisitions. In addition, in February 2017 CARB proposed California Phase 2 standards that generally align with the federal Phase 2 Standards, with some minor additional requirements, and as proposed would stay in place even if the federal Phase 2 Standards are affected by action from President Trump’s administration. In February 2019, the California Phase 2 standards became final. Thus, even if the trailer provisions of the Phase 2 Standards are permanently removed, we would still need to ensure the majority of our fleet is compliant with the California Phase 2 standards, which may result in increased equipment costs and could adversely affect our operating results and profitability. CARB has also recently announced intentions to adopt regulations ensuring that 100% of tractors operating in California are operating with battery or fuel cell-electric engines in the future. Whether these regulations will ultimately be adopted remains unclear. Federal and state lawmakers also have proposed a variety of other regulatory limits on carbon emissions and fuel consumption. Compliance with these regulations could increase the cost of new tractors and trailers, impair equipment productivity, and increase operating expenses. These effects, combined with the uncertainty as to the operating results that will be produced by the newly designed diesel engines and the residual values of these vehicles, could increase our costs or otherwise adversely affect our business or operations.

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

Food Safety Regulations

In April 2016, the Food and Drug Administration published a final rule establishing requirements for shippers, loaders, carriers by motor vehicle and rail vehicle, and receivers engaged in the transportation of food, to use sanitary transportation practices to ensure the safety of the food they transport as part of the Food Safety Modernization Act of 2011 (the "FSMA"). This rule sets forth requirements related to (i) the design and maintenance of equipment used to transport food, (ii) the measures taken during food transportation to ensure food safety, (iii) the training of carrier personnel in sanitary food transportation practices, and (iv) maintenance and retention of records of written procedures, agreements, and training related to the foregoing items. These requirements took effect for larger carriers such as us in April 2017 and are applicable when we perform as a carrier or as a broker. We believe we have been in compliance with these requirements since that time. However, if we are found to be in violation of applicable laws or regulations related to the FSMA or if we transport food or goods that are contaminated or are found to cause illness and/or death, we could be subject to substantial fines, lawsuits, penalties and/or criminal and civil liability, any of which could have a material adverse effect on our business, financial condition, and results of operations.

Executive and Legislative Climate

The regulatory environment has changed under the administration of President Trump. In January 2017, the President signed an executive order requiring federal agencies to repeal two regulations for each new one they propose and imposing a regulatory budget, which would limit the amount of new regulatory costs federal agencies can impose on individuals and businesses each year. In December 2019, the DOT announced a final rule indicating it is codifying this directive on our industry. This rule and any other anti-regulatory action by the President and/or Congress, may inhibit future new regulations and/or lead to the repeal or delayed effectiveness of existing regulations. Therefore, it is uncertain how we may be impacted in the future by existing, proposed, or repealed regulations.

The United States Mexico Canada Agreement (“USMCA”) has been ratified by the United States and Mexico, but must be ratified by the Parliament of Canada before it enters into effect. The USMCA is designed to modernize food and agriculture trade, advance rules of origin for automobiles and trucks, and enhance intellectual property protections, among other matters, according to the Office of U.S. Trade Representative. It is difficult to predict at this stage what could be the impact of the USMCA on the economy, including the transportation industry. However, given the amount of North American trade that moves by truck, if the USMCA enters into effect, it could have a significant impact on supply and demand in the transportation industry, and could adversely impact the amount, movement, and patterns of freight we transport.

With the FAST Act set to expire in September 2020, Congress has noted its intent to consider a multiyear highway measure that would update the FAST Act. However, if Congress fails to reauthorize the FAST Act or pass updated replacement legislation by the September 2020 deadline, and proceeds to manage transportation policy via short-term legislative directives, there will be uncertainty that could have a negative impact on our operations.

Fuel Availability and Cost

The cost of fuel trended lower from 2018 to 2019, as demonstrated by a decrease in the Department of Energy ("DOE") national average for diesel to approximately \$3.06 per gallon for 2019 compared to \$3.18 per gallon for 2018. There were no fuel hedging gains or losses in 2019 compared to gains of \$1.6 million in 2018 as a result of fuel prices increasing above the hedged rates, as well as contracts contributing to hedging losses in 2017 expiring and not being replaced.

We actively manage our fuel costs by routing our drivers through fuel centers with which we have negotiated volume discounts and through jurisdictions with lower fuel taxes, where possible. We have also reduced the maximum speed of many of our trucks, implemented strict idling guidelines for our drivers, purchased technology to enhance our management and monitoring of out-of-route miles, encouraged the use of shore power units in truck stops, and imposed standards for accepting broker freight that includes minimum rates and fuel surcharges. These initiatives have contributed to significant improvements in fleet wide average fuel mileage. Moreover, we have a fuel surcharge program in place with the majority of our customers, which has historically enabled us to recover some of the higher fuel costs. However, even with the fuel surcharges, the price of fuel can affect our profitability. Our fuel surcharges are billed on a lagging basis, meaning we typically bill customers in the current week based on a previous week's applicable index. Therefore, in times of increasing fuel prices, we do not recover as much as we are currently paying for fuel. In periods of declining prices, the opposite is true. In addition, we incur additional costs when fuel prices rise that cannot be fully recovered due to our engines being idled during cold or warm weather, empty or out-of-route miles, and for fuel used by refrigerated trailer units that generally is not billed to customers. In addition, from time-to-time customers attempt to modify their surcharge programs, some successfully, which can result in recovery of a smaller portion of fuel price increases. Rapid increases in fuel costs or shortages of fuel could have a materially adverse effect on our operations or future profitability.

To reduce the variability of the ultimate cash flows associated with fluctuations in diesel fuel prices, we have periodically entered into various derivative instruments, including forward futures swap contracts. We have historically entered into hedging contracts with respect to ultra-low sulfur diesel ("ULSD"). Under these contracts, we would pay a fixed rate per gallon of ULSD and receive the monthly average price of Gulf Coast ULSD. Because the fixed price is determined based on market prices at the time we enter into the hedge, in times of increasing fuel prices the hedge contracts become more valuable, whereas in times of decreasing fuel prices the opposite is true. At December 31, 2019, there are no remaining fuel hedge contracts.

Seasonality

In the transportation industry, results of operations generally follow a seasonal pattern. Freight volumes in the first quarter are typically lower due to less consumer demand, customers reducing shipments following the holiday season, and inclement weather. At the same time, operating expenses generally increase, and tractor productivity of the Company's fleet, independent contractors, and third-party carriers decreases during the winter months due to decreased fuel efficiency, increased cold-weather-related equipment maintenance and repairs, and increased insurance claims and costs attributed to higher accident frequency from harsh weather. These factors typically lead to lower operating profitability, as compared to other parts of the year. For the reasons stated, first quarter results historically have been lower than results in each of the other three quarters of the year, excluding charges. Over the past several years, we have seen increases in demand at varying times, primarily related to restocking required to replenish inventories that have been held significantly lower than historical averages. Beginning in the latter half of the third quarter and continuing into the fourth quarter, the Company typically experiences surges pertaining to holiday shopping trends toward delivery of gifts purchased over the Internet, as well as the length of the holiday season (consumer shopping days between Thanksgiving and Christmas). However, cyclical changes in the trucking industry, including imbalances in supply and demand, can override the seasonality faced in the industry.

Additional Information

At December 31, 2019, our corporate structure included Covenant Transportation Group, Inc., a Nevada corporation and holding company organized in May 1994, and its wholly owned subsidiaries: Covenant Transport, Inc., a Tennessee corporation; Southern Refrigerated Transport, Inc., an Arkansas corporation; Star Transportation, Inc., a Tennessee corporation, each d/b/a Covenant Transport Services; Covenant Transport Solutions, LLC, a Nevada limited liability company, d/b/a Transport Financial Services; Covenant Logistics, Inc., a Nevada corporation; Covenant Asset Management, LLC, a Nevada limited liability company; CTG Leasing Company, a Nevada corporation; IQS Insurance Risk Retention Group, Inc., a Vermont corporation; Driven Analytic Solutions, LLC, a Nevada limited liability company, Heritage Insurance, Inc., a Tennessee corporation; Landair Holdings, Inc., a Tennessee corporation; Landair Transport, Inc., a Tennessee corporation; Landair Logistics, Inc., a Tennessee corporation; Landair Leasing, Inc., a Tennessee corporation; and Transport Management Services, LLC, a Tennessee limited liability company.

Our headquarters is located at 400 Birmingham Highway, Chattanooga, Tennessee 37419, and our website address is www.covenanttransport.com. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all other reports we file or furnish with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") are available free of charge through our website. Information contained in or available through our website is not incorporated by reference into, and you should not consider such information to be part of, this Annual Report.

Additionally, you may read all of the materials that we file with the SEC by visiting the SEC's website at www.sec.gov. This site contains reports, proxy and information statements and other information regarding the Company and other companies that file electronically with the SEC.

RISK FACTORS

Our future results may be affected by a number of factors over which we have little or no control. The following discussion of risk factors contains forward-looking statements as discussed in Item 1 above. 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, credit, business, and regulatory factors affecting the truckload industry that are largely beyond our control, any of which could have a materially adverse effect on our operating results.

The truckload industry is highly cyclical, and 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. We believe that some of the most significant of these factors include (i) excess tractor and trailer capacity in the trucking industry in comparison with shipping demand; (ii) declines in the resale value of used equipment; (iii) recruiting and retaining qualified drivers; (iv) strikes, work stoppages, or work slowdowns at our facilities or at customer, port, border crossing, or other shipping-related facilities; (v) increases in interest rates, fuel taxes, tolls, and license and registration fees; (vi) rising costs of healthcare; and (vii) industry compliance with ongoing regulatory requirements; and (viii) fluctuations in foreign exchange rates.

We are also affected by (i) recessionary economic cycles, such as the period from 2007 through 2009 and 2019 freight environment, which were characterized by weak demand and downward pressure on rates; (ii) changes in customers' inventory levels and practices, including shrinking product/package sizes, and in the availability of funding for their working capital; (iii) changes in the way our customers choose to utilize our services; and (iv) downturns in our customers' business cycles, particularly in market segments and industries, such as retail and manufacturing, where we have significant customer concentration. Economic conditions may adversely affect our customers and their demand for and ability to pay for our services. Customers encountering adverse economic conditions represent a greater potential for loss and we may be required to increase our allowance for doubtful accounts.

Economic conditions that decrease shipping demand or increase the supply of available tractors and trailers can exert downward pressure on rates and equipment utilization, thereby decreasing asset productivity. The risks associated with these factors are heightened when the United States economy is weakened, such as the period from 2007 through 2009. Some of the principal risks during such times, which risks we have experienced during prior recessionary periods, are as follows:

- we may experience a reduction in overall freight levels, which may impair our asset utilization;
- certain of our customers may face credit issues and could experience cash flow problems that may lead to payment delays, increased credit risk, bankruptcies, and other financial hardships that could result in even lower freight demand and may require us to increase our allowance for doubtful accounts;
- freight patterns may change as supply chains are redesigned, resulting in an imbalance between our capacity and our customers' freight demand;
- customers may solicit bids for freight from multiple trucking companies or select competitors that offer lower rates from among existing choices in an attempt to lower their costs, and we might be forced to lower our rates or lose freight;
- we may be forced to accept more freight from freight brokers, where freight rates are typically lower, or may be forced to incur more non-revenue miles to obtain loads; and
- lack of access to current sources of credit or lack of lender access to capital, leading to an inability to secure credit financing on satisfactory terms, or at all.

We are also subject to potential increases in various costs and other events that are outside 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, fuel and energy prices, driver and non-driver wages, purchased transportation costs, taxes, interest rates, tolls, license and registration fees, insurance premiums and claims, revenue equipment and related maintenance costs, tires and other components, and healthcare and other benefits for our employees. We could be affected by strikes or other work stoppages at our terminals, or at customer, port, border, or other shipping locations. Further, we may not be able to appropriately adjust our costs and staffing levels to changing market demands. In periods of rapid change, it is more difficult to match our staffing level to our business needs.

Changing impacts of regulatory measures could impair our operating efficiency and productivity, decrease our operating revenues and profitability, and result in higher operating costs. In addition, declines in the resale value of revenue equipment can also affect our profitability and cash flows. From time to time, various U.S. federal, state, or local taxes are also increased, including taxes on fuels. We cannot predict whether, or in what form, any such increase applicable to us will be enacted, but such an increase could adversely affect our results of operations and profitability.

In addition, we cannot predict future economic conditions, fuel price fluctuations, revenue equipment resale values, or how consumer confidence, macroeconomic conditions, or productions capabilities, could be affected by actual or threatened outbreaks of disease or other public health risks, armed conflicts or terrorist attacks, government efforts to combat terrorism, military action against a foreign state or group located in a foreign state, or heightened security requirements. Enhanced security measures in connection with such events could impair our operating efficiency and productivity and result in higher operating costs.

We may not be successful in achieving our strategic plan.

Several of our initiatives include growing our Dedicated and Managed Freight reportable operating segments, effectively managing the attraction, development, and retention of qualified drivers, providing premium customer service, investing capital at acceptable returns, reducing leverage, managing risk, and improving the operating performance of our OTR business. Such initiatives will require time, management and financial resources, changes in our operations and sales functions, and monitoring and implementation of technology. We may be unable to effectively and successfully implement, or achieve sustainable improvement from, our strategic plan and initiatives or achieve these objectives. In addition, our operating margins could be adversely affected by future changes in and expansion of our business, including whether we are able to expand our Expedited operations. Further, our operating results may be negatively affected by a failure to further penetrate our existing customer base, cross-sell our services, pursue new customer opportunities, or manage the operations and expenses. There is no assurance that we will be successful in achieving our strategic plan and initiatives. Even if we are successful in achieving our strategic plan and initiatives, we still may not achieve our goals. If we are unsuccessful in implementing our strategic plan and initiatives, our financial condition, results of operations, and cash flows could be adversely affected.

We operate in a highly competitive and fragmented industry, and numerous competitive factors could impair our ability to improve our profitability, limit growth opportunities, and could have a materially adverse effect on our results of operations.

Numerous competitive factors present in our industry could impair our ability to maintain or improve our current profitability, limit our prospects for growth, and could have a materially adverse effect on our results of operations. These factors include the following:

- we compete with many other truckload carriers of varying sizes and, to a lesser extent, with (i) less-than-truckload carriers, (ii) railroads, intermodal companies, and (iii) other transportation and logistics companies, many of which have access to more equipment and greater capital resources than we do;

- many of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth in the economy, which may limit our ability to maintain or increase freight rates or to maintain or expand our business or may require us to reduce our freight rates in order to maintain business and keep our equipment productive;

- many of our customers, including several in our top ten, are other transportation companies or also operate their own private trucking fleets, and they may decide to transport more of their own freight;

- we may increase the size of our fleet during periods of high freight demand during which our competitors also increase their capacity, and we may experience losses in greater amounts than such competitors during subsequent cycles of softened freight demand if we are required to dispose of assets at a loss to match reduced customer demand;

- a significant portion of our business is in the retail industry, which continues to undergo a shift away from the traditional brick and mortar model towards e-commerce, and this shift could impact the manner in which our customers source or utilize our services;

- many customers reduce the number of carriers they use by selecting so-called "core carriers" as approved service providers or by engaging dedicated providers, and we may not be selected;

- many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress freight rates or result in the loss of some of our business to competitors;

- the trend toward consolidation in the trucking industry may create large carriers with greater financial resources and other competitive advantages relating to their size, and we may have difficulty competing with these larger carriers;

- the market for qualified drivers is increasingly competitive, and our inability to attract and retain drivers could reduce our equipment utilization or cause us to increase compensation to our drivers and independent contractors we engage, both of which would adversely affect our profitability;

- competition from freight logistics and freight brokerage companies may adversely affect our customer relationships and freight rates;

- economies of scale that procurement aggregation providers may pass on to smaller carriers may improve such carriers' ability to compete with us;

- advances in technology may require us to increase investments in order to remain competitive, and our customers may not be willing to accept higher freight rates to cover the cost of these investments;

- the Covenant brand name is a valuable asset that is subject to the risk of adverse publicity (whether or not justified),which could result in the loss of value attributable to our brand and reduced demand for our services; and

- higher fuel prices and, in turn, higher fuel surcharges to our customers may cause some of our customers to consider freight transportation alternatives, including rail transportation.

We may not grow substantially in the future and we may not be successful in improving our profitability.

We may not be able to sustain or increase profitability in the future. Achieving profitability depends upon numerous factors, including our ability to effectively and successfully implement other strategic initiatives, increase our average revenue per tractor, improve driver retention, and control expenses. If we are unable to improve our profitability, then our liquidity, financial position, and results of operations may be adversely affected.

There is no assurance that in the future, our business will grow substantially or without volatility, nor can we assure you that we will be able to effectively adapt our management, administrative, and operational systems to respond to any future growth. Furthermore, there is no assurance that our operating margins will not be adversely affected by future changes in and expansion of our business.

We have terminals throughout the United States that serve markets in various regions. These operations require the commitment of additional personnel and revenue equipment, as well as management resources, for future development. Should the growth in our operations stagnate or decline, our results of operations could be adversely affected. We may encounter operating conditions in new markets, as well as our current markets, that differ substantially from our current operations, and customer relationships and appropriate freight rates in new markets could be challenging to attain.

In the future, we may need to obtain additional financing that may not be available or, if it is available, may result in a reduction in the percentage ownership of our stockholders.

We may need to raise additional funds in order to:

- finance working capital requirements, capital investments, or refinance existing indebtedness;

- develop or enhance our technological infrastructure and our existing products and services;
- fund strategic relationships;
- respond to competitive pressures; and
- acquire complementary businesses, technologies, products, or services.

If the economy and/or the credit markets weaken, or we are unable to enter into capital or operating leases to acquire revenue equipment on terms favorable to us, our business, financial results, and results of operations could be materially adversely affected, especially if consumer confidence declines and domestic spending decreases.

If adequate funds are not available or are not available on acceptable terms, our ability to fund our strategic initiatives, take advantage of unanticipated opportunities, develop or enhance technology or services, or otherwise respond to competitive pressures or market changes could be significantly limited. If we raise additional funds by issuing equity or convertible debt securities, the percentage ownership of our stockholders may be reduced, and holders of these securities may have rights, preferences, or privileges senior to those of our stockholders.

We self-insure for a significant portion of our claims exposure, which could significantly increase the volatility of, and decrease the amount of, our earnings.

Our business results in a substantial number of claims and litigation related to personal injuries, property damage, workers' compensation, employment issues, health care, and other issues. We self-insure a significant portion of our claims exposure, which could increase the volatility of, and decrease the amount of, our earnings, and could have a materially adverse effect on our results of operations. See Note 1, "Summary of Significant Accounting Policies," of the accompanying consolidated financial statements for more information regarding our self-insured retention amounts. Our future insurance and claims expenses may exceed historical levels, which could reduce our earnings. We currently accrue amounts for liabilities based on our assessment of claims that arise and our insurance coverage for the periods in which the claims arise, and we evaluate and revise these accruals from time to time based on additional information. Actual settlement of such liabilities could differ from our estimates due to a number of uncertainties, including evaluation of severity, legal costs, and claims that have been incurred but not reported. Due to our significant self-insured amounts, we have significant exposure to fluctuations in the number and severity of claims and the risk of being required to accrue or pay additional amounts if our estimates are revised or the claims ultimately prove to be more severe than originally assessed. Historically, we have had to significantly adjust our reserves on several occasions, and future significant adjustments may occur. Further, our self-insured retention levels could change and result in more volatility than in recent years. If we are required to accrue or pay additional amounts because our estimates are revised or the claims ultimately prove to be more severe than originally assessed or if our self-insured retention levels change, our financial condition and results of operations may be materially adversely affected.

We maintain insurance for most risks above the amounts for which we self-insure with licensed insurance carriers. If any claim were to exceed our coverage, or fall outside the aggregate coverage limit, we would bear the excess or uncovered amount, in addition to our other self-insured amounts. Although we believe our aggregate insurance limits are sufficient to cover reasonably expected claims, it is possible that one or more claims could exceed those limits. Insurance carriers have recently raised premiums for our industry, and premiums in the near term are expected to increase significantly. Our insurance and claims expense could increase if we have a similar experience at renewal, or we could find it necessary to raise our self-insured retention or decrease our aggregate coverage limits when our policies are renewed or replaced. Additionally, with respect to our insurance carriers, the industry is experiencing a decline in the number of carriers and underwriters that offer certain insurance policies or that are willing to provide insurance for trucking companies, and the necessity to go off-shore for insurance needs has increased. This may materially adversely affect our insurance costs or make insurance in excess of our self-insured retention more difficult to find, as well as increase our collateral requirements for policies that require security. Should these expenses increase, we become unable to find excess coverage in amounts we deem sufficient, we experience a claim in excess of our coverage limits, we experience a claim for which we do not have coverage, or we have to increase our reserves or collateral, there could be a materially adverse effect on our results of operations and financial condition.

Healthcare legislation and inflationary cost increases also could negatively impact financial results by increasing annual employee healthcare costs going forward. We cannot presently determine the extent of the impact healthcare costs will have on our financial performance. In addition, rising healthcare costs could force us to make changes to existing benefits program, which could negatively impact our ability to attract and retain employees.

Our auto liability insurance policy contains a provision under which we have the option, on a retroactive basis, to assume responsibility for the entire cost of covered claims during the policy period in exchange for a refund of a portion of the premiums we paid for the policy. This is referred to as "commuting" the policy. We have elected to commute policies in three of the past nine years. In exchange, we have assumed the risk for all claims during the years for the policies commuted. Our subsequent payouts for the claims assumed have been less than the refunds. We expect the total refunds to exceed the total payouts; however, not all of the claims have been finally resolved and we cannot assure you of the result. We may continue to commute policies for certain years in the future. To the extent we do so, and one or more claims result in large payouts, we will not have insurance, and our financial condition, results of operation, and liquidity could be materially and adversely affected.

Our self-insurance for auto liability at one of our subsidiaries and our use of captive insurance companies could adversely impact our operations.

Covenant Transport, Inc. has been approved to self-insure for auto liability by the FMCSA. We believe this status, along with the use of captive insurance companies, allows us to post substantially lower aggregate letters of credit and restricted cash than we would be required to post without this status or the use of captive insurance companies. We have two wholly owned captive insurance subsidiaries which are regulated insurance companies through which we insure a portion of our auto liability claims in certain states. An increase in the number or severity of auto liability claims for which we self-insure through the captive insurance companies or pressure in the insurance and reinsurance markets could adversely impact our earnings and results of operations. Further, both arrangements increase the possibility that our expenses will be volatile.

To comply with certain state insurance regulatory requirements, cash and cash equivalents must be paid to our captive insurance subsidiaries as capital investments and insurance premiums, which are restricted as collateral for anticipated losses. Significant future increases in the amount of collateral required by third-party insurance carriers and regulators would reduce our liquidity and could adversely affect our results of operations and capital resources.

Our captive insurance companies are subject to substantial government regulation.

Our captive insurance companies are regulated by state authorities. State regulations generally provide protection to policy holders, rather than stockholders, and generally involve:

- approval of premium rates for insurance;
- standards of solvency;
- minimum amounts of statutory capital surplus that must be maintained;
- limitations on types and amounts of investments;
- regulation of dividend payments and other transactions between affiliates;
- regulation of reinsurance;
- regulation of underwriting and marketing practices;
- approval of policy forms;
- methods of accounting; and
- filing of annual and other reports with respect to financial condition and other matters.

These regulations may increase our costs, limit our ability to change premiums, restrict our ability to access cash held by these subsidiaries, and otherwise impede our ability to take actions we deem advisable.

Fluctuations in the price or availability of fuel, the volume and terms of diesel fuel purchase commitments, surcharge collection, and hedging activities may increase our costs of operation, which could have a materially adverse effect on our profitability.

Fuel is one of our largest operating expenses. Diesel fuel prices fluctuate greatly due to factors beyond our control, such as political events, terrorist activities, armed conflicts, commodity futures trading, devaluation of the dollar against other currencies, weather events, and other natural or man-made disasters, each of which may lead to an increase in the cost of fuel. Fuel prices also are affected by the rising demand for fuel in developing countries and could be materially adversely affected by the use of crude oil and oil reserves for purposes other than fuel production and by diminished drilling activity. Such events may lead not only to increases in fuel prices, but also to fuel shortages and disruptions in the fuel supply chain. Because our operations are dependent upon diesel fuel, significant diesel fuel cost increases, shortages, rationings, or supply disruptions would materially and adversely affect our business, financial condition and results of operations.

Fuel also is subject to regional pricing differences and is often more expensive in certain areas where we operate. Increases in fuel costs, to the extent not offset by rate per mile increases or fuel surcharges, have a materially adverse effect on our operations and profitability. While we have fuel surcharge programs in place with a majority of our customers, which historically have helped us offset the majority of the negative impact of rising fuel prices associated with loaded or billed miles, we also incur fuel costs that cannot be recovered even with respect to customers with which we maintain fuel surcharge programs, such as those associated with non-revenue generating miles, time when our engines are idling, and fuel for refrigeration units on our refrigerated trailers. Moreover, the terms of each customer's fuel surcharge program vary, and certain customers have sought to modify the terms of their fuel surcharge programs to minimize recoverability for fuel price increases. In addition, because our fuel surcharge recovery lags behind changes in fuel prices, our fuel surcharge recovery may not capture the increased costs we pay for fuel, especially when prices are rising. This could lead to fluctuations in our levels of reimbursement, which have occurred in the past. During periods of low freight volumes, shippers can use their negotiating leverage to impose fuel surcharge policies that provide a lower reimbursement of our fuel costs. There is no assurance that our fuel surcharge programs can be maintained indefinitely or will be sufficiently effective. Our results of operations would be negatively affected to the extent we cannot recover higher fuel costs or fail to improve our fuel price protection through our fuel surcharge program.

From time to time, we use hedging contracts and volume purchase arrangements to attempt to limit the effect of price fluctuations. We may be forced to make cash payments under the hedging contracts or volume purchase arrangements. Our hedging and volume purchase arrangements effectively allow us to pay a fixed rate for fuel on a specified number of gallons that is determined based on the market rate at the time we enter into the arrangement. In times of falling diesel fuel prices, our costs will not be reduced to the same extent they would have reduced if we had not entered into the hedging contracts or volume purchase arrangements and we may incur significant expense in connection with our obligation to make cash payments under such contracts. Accordingly, in times of falling diesel fuel prices, our profitability and cash flows may be negatively impacted to a greater extent than if we had not entered into the hedging contracts.

We depend on the proper functioning and availability of our management information and communication systems and other information technology assets (including the data contained therein) and a system failure or unavailability, including those caused by cybersecurity breaches, or an inability to effectively upgrade such systems and assets could cause a significant disruption to our business and have a materially adverse effect on our results of operations.

We depend heavily on the proper functioning, availability, and security of our management information and communication systems and other information technology assets, including financial reporting and operating systems and the data contained in such systems and assets, in operating our business. Our operating system is critical to understanding customer demands, accepting and planning loads, dispatching equipment and drivers, and billing and collecting for our services. Our financial reporting system is critical to producing accurate and timely financial statements and analyzing business information to help us manage effectively.

Our operations and those of our technology and communications service providers are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, cyberattacks, terrorist attacks, Internet failures, computer viruses, and other events beyond our control. More sophisticated and frequent cyberattacks in recent years have also increased security risks associated with information technology systems. We also maintain information security policies to protect our systems, networks, and other information technology assets (and the data contained therein) from cybersecurity breaches and threats, such as hackers, malware and viruses; however, such policies cannot ensure the protection of our systems, networks, and other information technology assets (and the data contained therein). In addition, although we attempt to reduce the risk of disruption to our business operations should a disaster occur through redundant computer systems and networks and backup systems, there can be no assurance that such measures will be effective. If any of our critical information systems fail or become otherwise unavailable, whether as a result of a system upgrade project or otherwise, we would have to perform the functions manually, which could temporarily impact our ability to manage our fleet efficiently, to respond to customers' requests effectively, to maintain billing and other records reliably, and to bill for services and prepare financial statements accurately or in a timely manner. Our business interruption insurance may be inadequate to protect us in the event of an unforeseeable and extreme catastrophe. Any significant system failure, upgrade complication, security breach (including cyberattacks), or other system disruption could interrupt or delay our operations, damage our reputation, cause us to lose customers, or impact our ability to manage our operations and report our financial performance, any of which could have a materially adverse effect on our business. In addition, we are currently dependent on a single vendor to support several information technology functions. If the stability or capability of such vendor became compromised and we were forced to migrate such functions to a new platform, it could adversely affect our business, financial condition, and results of operations.

We receive and transmit confidential data with and among our customers, drivers, vendors, employees, and service providers in the normal course of business. Despite our implementation of secure transmission techniques, internal data security measures, and monitoring tools, our information and communication systems are vulnerable to disruption of communications with our customers, drivers, vendors, employees, and service providers and access, viewing, misappropriation, altering, or deleting information in our systems, including customer, driver, vendor, employee, and service provider information and our proprietary business information. A security breach (including cyberattacks) could damage our business operations and reputation and could cause us to incur costs associated with repairing our systems, increased security, customer notifications, lost operating revenue, litigation, regulatory action, and reputational damage.

Our Third Amended and Restated Credit Agreement (our "Credit Facility") and other financing arrangements contain certain covenants, restrictions, and requirements, and we may be unable to comply with such covenants, restrictions, and requirements. A default could result in the acceleration of all or part of our outstanding indebtedness, which could have an adverse effect on our financial condition, liquidity, results of operations, and the market price of our Class A common stock.

We have a $95.0 million Credit Facility and numerous other financing arrangements. Our Credit Facility contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions outside of the ordinary course of business, affiliate transactions, and a fixed charge coverage ratio, if availability is below a certain threshold. We have had difficulty meeting budgeted results and have had to request amendments or waivers in the past. If we are unable to meet budgeted results or otherwise comply with our Credit Facility, we may be unable to obtain amendments or waivers under our Credit Facility, or we may incur fees in doing so.

Certain other financing arrangements contain certain restrictions and non-financial covenants, in addition to those contained in our Credit Facility. In addition, certain of our fuel hedging contracts are with lenders under our Credit Facility and could be terminated by such lenders if the Credit Facility is terminated or replaced. If we fail to comply with any of our financing arrangement covenants, restrictions, and requirements, we will be in default under the relevant agreement, which could cause cross-defaults under our other financing arrangements. In the event of any such default, if we failed to obtain replacement financing, amendments to, or waivers under the applicable financing arrangements, our lenders could cease making further advances, declare our debt to be immediately due and payable, fail to renew letters of credit, impose significant restrictions and requirements on our operations, institute foreclosure procedures against their collateral, or impose significant fees and transaction costs. If acceleration occurs, economic conditions such as the recent credit market crisis may make it difficult or expensive to refinance the accelerated debt or we may have to issue equity securities, which would dilute stock ownership. Even if new financing is made available to us, credit may not be available to us on acceptable terms. A default under our financing arrangements could result in a materially adverse effect on our liquidity, financial condition, and results of operations.

We may be adversely affected by changes in the method of determining the London Interbank Offered Rate ("LIBOR") or the replacement of LIBOR with an alternative reference rate.

In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which is expected to result in these widely used reference rates no longer being available. Borrowings under the Credit Facility are classified as either "base rate loans" or "LIBOR loans."

Base rate loans accrue interest at a base rate equal to the greater of the Bank of America, N.A., prime rate, the federal funds rate plus 0.5%, or LIBOR plus 1.0%, plus an applicable margin ranging from 0.5% to 1.0%; while LIBOR loans accrue interest at LIBOR, plus an applicable margin ranging from 1.5% to 2.0%. Potential changes to LIBOR, as well as uncertainty related to such potential changes and the establishment of any alternative reference rate, may adversely affect our cost of capital. At this time, we cannot predict the overall effect of the modification or discontinuation of LIBOR or the establishment of any alternative benchmark rate.

Our substantial indebtedness and capital and operating lease obligations could adversely affect our ability to respond to changes in our industry or business.

As a result of our level of debt, finance leases, operating leases, and encumbered assets, we believe:

- our vulnerability to adverse economic and industry conditions and competitive pressures is heightened;

- we will continue to be required to dedicate a substantial portion of our cash flows from operations to lease payments and repayment of debt, limiting the availability of cash for our operations, capital expenditures, and future business opportunities;

- our flexibility in planning for, or reacting to, changes in our business and industry will be limited;

- our profitability is sensitive to fluctuations in interest rates because some of our debt obligations are subject to variable interest rates, and future borrowings and lease financing arrangements will be affected by any such fluctuations;

- our ability to obtain additional financing in the future for working capital, capital expenditures, debt service requirements, acquisitions, or other purposes may be limited;

- it may be difficult for us to comply with the multitude of financial covenants, borrowing conditions, or other obligations contained in our debt agreements, thereby increasing the risk that we trigger certain cross-default provisions; and

- we may be required to issue additional equity securities to raise funds, which would dilute the ownership position of our stockholders.

Our financing obligations could negatively impact our future operations, ability to satisfy our capital needs, or ability to engage in other business activities. We also cannot assure you that additional financing will be available to us when required or, if available, will be on terms satisfactory to us. Finally, we may be unsuccessful in our strategy to reduce leverage.

We may be unsuccessful in maintaining or increasing profitability.

Maintaining and improving profitability depends upon numerous factors, including the ability to increase average revenue per tractor, increase velocity, improve driver retention, and control operating expenses. We may not be able to improve profitability in the future, which could negatively impact our liquidity, financial position, and results of operations.

We have significant ongoing capital requirements that could affect our profitability if we are unable to generate sufficient cash from operations and obtain financing on favorable terms.

The truckload industry is capital intensive, and our policy of operating newer equipment requires us to expend significant amounts annually. We expect to pay for projected capital expenditures with cash flows from operations, borrowings under our Credit Facility, proceeds from the sale of our used revenue equipment, proceeds under other financing facilities, and leases of revenue equipment. If we are unable to generate sufficient cash from operations and obtain financing on favorable terms in the future, we may have to limit our fleet size, enter into less favorable financing arrangements, or operate our revenue equipment for longer periods, any of which could have a materially adverse effect on our profitability.

Credit markets may weaken at some point in the future, which would make it difficult for us to access our current sources of credit and difficult for our lenders to find the capital to fund us. We may need to incur additional debt, or issue debt or equity securities in the future, to refinance existing debt, fund working capital requirements, make investments, or support other business activities. Declines in consumer confidence, decreases in domestic spending, economic contractions, rating agency actions, and other trends in the credit market may impair our future ability to secure financing on satisfactory terms, or at all.

Our profitability may be materially adversely impacted if our capital investments do not match customer demand for invested resources or if there is a decline in the availability of funding sources for these investments.

Our operations require significant capital investments. The amount and timing of such investments depend on various factors, including anticipated freight demand and the price and availability of assets. If anticipated demand differs materially from actual usage, we may have too many or too few assets. Moreover, resource requirements vary based on customer demand, which may be subject to seasonal or general economic conditions. Our ability to select profitable freight and adapt to changes in customer transportation requirements is important to efficiently deploy resources and make capital investments in tractors and trailers (with respect to our asset based operations) or obtain qualified third-party capacity at a reasonable price (with respect to our Managed Freight segment). Although our business volume is not highly concentrated, our customers' financial failures or loss of customer business may also affect us.

Our engagement of independent contractors to provide a portion of our capacity exposes us to different risks than we face with our tractors driven by company drivers.

Pursuant to our fuel surcharge program with independent contractors, we pay independent contractors we contract with a fuel surcharge that increases with the increase in fuel prices. A significant increase or rapid fluctuation in fuel prices could cause our costs under this program to be higher than the revenue we receive under our customer fuel surcharge programs.

Our agreements with the independent contractors we engage are governed by the federal leasing regulations, which impose specific requirements on us and the independent contractors. If more stringent federal leasing regulations are adopted, independent contractors could be deterred from becoming independent contractor drivers, which could materially adversely affect our goal of growing our current fleet levels of independent contractors.

Independent contractors are third-party service providers, as compared with company drivers, who are employed by us. As independent business owners, they may make business or personal decisions that may conflict with our best interests. For example, if a load is unprofitable, route distance is too far from home, personal scheduling conflicts arise, or for other reasons, independent contractors may deny loads of freight from time to time. In these circumstances, we must be able to deliver the freight timely in order to maintain relationships with customers, and if we fail to meet certain customer needs or incur increased expenses to do so, this could materially adversely affect our business, financial condition, and results of operations. Furthermore, the autonomy of our independent contractors may frustrate any attempts to further utilize the capacity provided by independent contractors.

Developments in labor and employment law and any unionizing efforts by employees could have a materially adverse effect on our results of operations.

We face the risk that Congress, federal agencies or one or more states could approve legislation or regulations significantly affecting our businesses and our relationship with our employees, such as the previously proposed federal legislation referred to as the Employee Free Choice Act, which would have substantially liberalized the procedures for union organization. None of our domestic employees are currently covered by a collective bargaining agreement, but any attempt by our employees to organize a labor union could result in increased legal and other associated costs. Additionally, given the National Labor Relations Board's "speedy election" rule, our ability to timely and effectively address any unionizing efforts would be difficult. If we entered into a collective bargaining agreement with our domestic employees, the terms could materially adversely affect our costs, efficiency, and ability to generate acceptable returns on the affected operations.

Additionally, the Department of Labor issued a final rule in 2016 raising the minimum salary basis exemption from overtime payments for executive, administrative and professional employees. The rule purported to increase the minimum salary from the current amount of $23,660 to $47,476 and aimed to count non discretionary bonus, commission and other incentive payments towards the minimum salary requirement. The rule was scheduled to go into effect on December 1, 2016. However, the rule was temporarily enjoined from going into effect in November 2016, and later invalidated in August 2017, after several states and business groups filed separate lawsuits against the Department of Labor challenging the rule. However, on January 1, 2020, a similar final rule adopted by the

Department of Labor went into effect, raising the current minimum salary level for exempt employees from $455 per week, or $23,660 annually, to $684 per week, or $35,568 annually, and allowing for up to 10 percent of the standard salary level to come from non-discretionary bonuses and incentive payments (including commissions) that are paid at least annually. This rule, and any future rule similar to this rule that impacts the way we classify certain positions, increases our payment of overtime wages or increases the salaries we are required to pay to currently exempt employees to maintain their exempt status may have a material adverse effect on our business, financial condition, and results of operations.

These types of cases have increased since March 2014 when the Ninth Circuit Court of Appeals held that the application of California state wage and hour laws to interstate truck drivers is not preempted by federal law. The case was appealed to the Supreme Court of the United States, which denied certiorari in May 2015, and accordingly, the Ninth Circuit Court of Appeals decision stood. However, in December 2018, the FMCSA granted a petition filed by the American Trucking Associations and in doing so determined that federal law does preempt California's wage and hour laws, and interstate truck drivers are not subject to such laws. The FMCSA's decision has been appealed by labor groups and multiple lawsuits have been filed in federal courts seeking to overturn the decision, and thus it's uncertain whether it will stand. Other current and future state and local wage and hour laws, including laws related to employee meal breaks and rest periods, may also vary significantly from federal law. As a result, we, along with other companies in the industry, are subject to an uneven patchwork of state and local laws throughout the United States. In the past, federal legislation has been proposed to solidify the preemption of certain state and local laws applied to interstate truck drivers; however, passage of such legislation is uncertain. If such federal legislation is not passed, we may either need to comply with the most restrictive state and local laws across our entire fleet, or overhaul our management systems to comply with varying state and local laws. Either solution could result in increased compliance and labor costs, driver turnover, and decreased efficiency.

We derive a significant portion of our revenues from our major customers, and the loss of, or a significant reduction of business with, one or more of which could have a materially adverse effect on our business.

In 2019 and 2018, there was one customer which accounted for more than 10% of our consolidated revenue. Our top ten customers collectively accounted for approximately 45% and 49% of our total revenue in 2019 and 2018, respectively. Generally, we do not have long-term contracts with our major customers. A substantial portion of our freight is from customers in the retail industry. As such, our volumes are largely dependent on consumer spending and retail sales, and our results may be more susceptible to trends in unemployment and retail sales than carriers that do not have this concentration. In addition, our major customers engage in bid processes and other activities periodically (including currently) in an attempt to lower their costs of transportation. We may not choose to participate in these bids or, if we participate, may not be awarded the freight, either of which could result in a reduction of our freight volumes with these customers. In this event, we could be required to replace the volumes elsewhere at uncertain rates and volumes, suffer reduced equipment utilization, or reduce the size of our fleet. Failure to retain our existing customers, or enter into relationships with new customers, each on acceptable terms, could materially impact our business, financial condition, results of operations, and ability to meet our current and long-term financial forecasts.

Generally, we do not have contractual relationships that guarantee any minimum volumes with our customers, and there can be no assurance that our customer relationships will continue as presently in effect. Our Dedicated segment is typically subject to longer term written contracts than our non-Highway Services business. However, certain of these contracts contain cancellation clauses, including our "evergreen" contracts, which automatically renew for one year terms but that can be terminated more easily. There is no assurance any of our customers, including our Dedicated customers, will continue to utilize our services, renew our existing contracts, or continue at the same volume levels. For our multi-year and Dedicated contracts, the rates we charge may not remain advantageous. Further, despite the existence of contractual arrangements, certain of our customers may nonetheless engage in competitive bidding processes that could negatively impact our contractual relationship. In addition, certain of our major customers may increasingly use their own truckload and delivery fleets, which would reduce our freight volumes. A reduction in or termination of our services by one or more of our major customers, including our Dedicated customers, could have a material adverse effect on our business, financial condition, and results of operations.

Economic conditions and capital markets may materially adversely affect our customers and their ability to remain solvent. While we review and monitor the financial condition of our key customers on an ongoing basis to determine whether to provide services on credit, our customers' financial difficulties could nevertheless negatively impact our results of operations and financial condition, especially if these customers were to delay or default on payments to us.

We depend on third-party providers, particularly in our Managed Freight segment where we offer brokerage and other logistics services, and service instability from these providers could increase our operating costs and reduce our ability to offer such services, which could adversely affect our revenue, results of operations, and customer relationships.

Our Managed Freight segment is dependent upon the services of third-party capacity providers, including other truckload carriers. For this business, we do not own or control the transportation assets that deliver our customers' freight, and we do not employ the people directly involved in delivering the freight. This reliance could also cause delays in reporting certain events, including recognizing revenue and claims. These third-party providers may seek other freight opportunities and may require increased compensation in times of improved freight demand or tight truckload capacity. If we are unable to secure the services of these third parties or if we become subject to increases in the prices we must pay to secure such services, our business, financial condition, and results of operations may be materially adversely affected, and we may be unable to serve our customers on competitive terms. Our ability to secure sufficient equipment or other transportation services may be affected by many risks beyond our control, including equipment shortages in the transportation industry, particularly among contracted truckload carriers, interruptions in service due to labor disputes, driver shortages, changes in regulations impacting transportation, and changes in transportation rates.

Increases in driver compensation or difficulties attracting and retaining qualified drivers could have a materially adverse effect on our profitability and the ability to maintain or grow our fleet.

Like many truckload carriers, we experience substantial difficulty in attracting and retaining sufficient numbers of qualified drivers, which includes the engagement of independent contractors. The truckload industry periodically experiences a shortage of qualified drivers, particularly during periods of economic expansion, in which alternative employment opportunities, including in the construction and manufacturing industries, are more plentiful and freight demand increases, or during periods of economic downturns, in which unemployment benefits might be extended and financing is limited for independent contractors who seek to purchase equipment or for students who seek financial aid for driving school. Regulatory requirements, including those related to safety ratings, ELDs and hours-of-service changes, and an improved economy could further reduce the number of eligible drivers or force us to increase driver compensation to attract and retain drivers. We have seen evidence that stricter hours-of-service regulations adopted by the DOT in the past have tightened, and, to the extent new regulations are enacted, may continue to tighten, the market for eligible drivers. The lack of adequate tractor parking along some U.S. highways and congestion caused by inadequate highway funding may make it more difficult for drivers to comply with hours-of-service regulations and cause added stress for drivers, further reducing the pool of eligible drivers. We believe the required implementation of ELDs has and may further tighten the market. We believe the shortage of qualified drivers and intense competition for drivers from other trucking companies will create difficulties in maintaining or increasing the number of drivers and may restrain our ability to engage a sufficient number of drivers and independent contractors, and our inability to do so may negatively impact our operations. Further, the compensation we offer our drivers and independent contractor expenses are subject to market conditions, and we may find it necessary to increase driver and independent contractor compensation in future periods.

In addition, we and many other truckload carriers suffer from a high turnover rate of drivers and independent contractors, and our turnover rate is higher than the industry average and compared to our peers. This high turnover rate requires us to spend significant resources recruiting a substantial number of drivers and independent contractors in order to operate existing revenue equipment and maintain our current level of capacity and subjects us to a higher degree of risk with respect to driver and independent contractor shortages than our competitors. We also employ driver hiring standards that we believe are more rigorous than the hiring standards employed in general in our industry and could further reduce the pool of available drivers from which we would hire. Our use of team-driven tractors in our Expedited business requires two drivers per tractor, which further increases the number of drivers we must recruit and retain in comparison to operations that require one driver per tractor. If we are unable to continue to attract and retain a sufficient number of drivers, we could be forced to, among other things, adjust our compensation packages, increase the number of our tractors without drivers, or operate with fewer trucks and face difficulty meeting shipper demands, any of which could adversely affect our growth and profitability.

If our independent contractor drivers are deemed by regulators or judicial process to be employees, our business, financial condition and results of operations could be adversely affected.

Tax and other regulatory authorities, as well as independent contractors themselves, have increasingly asserted that independent contractor drivers in the trucking industry are employees rather than independent contractors, for a variety of purposes, including income tax withholding, workers' compensation, wage and hour compensation, unemployment, and other issues. Federal legislators have introduced legislation in the past to make it easier for tax and other authorities to reclassify independent contractor drivers as employees, including legislation to increase the recordkeeping requirements for those that engage independent contractors and to heighten the penalties of companies who misclassify their employees and are found to have violated employees' overtime and/or wage requirements. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice, extend the Fair Labor Standards Act to independent contractors, and impose notice requirements based upon employment or independent contractor status and fines for failure to comply. Some states have put initiatives in place to increase their revenues from items such as unemployment, workers' compensation, and income taxes, and a reclassification of independent contractors as employees would help states with these initiatives. Additionally, courts in certain states have issued recent decisions that could result in a greater likelihood that independent contractors would be judicially classified as employees in such states. In September 2019, California enacted a law that made it more difficult for workers to be classified as independent contractors (as opposed to employees). For further discussion of this new California law, please see “Regulation” under “Item 1. Business.” Further, class actions and other lawsuits have been filed against certain members of our industry seeking to reclassify independent contractors as employees for a variety of purposes, including workers' compensation and health care coverage. In addition, companies that utilize lease-purchase independent contractor programs, such as us, have been more susceptible to reclassification lawsuits and several recent court decisions have been made in favor of those seeking to classify as employees certain independent contractors that participated in lease-purchase programs. Taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status. Our classification of independent contractors has been the subject of audits by such authorities from time to time. While we have been successful in continuing to classify our independent contractor drivers as independent contractors and not employees, we may be unsuccessful in defending that position in the future. If our independent contractors are determined to be our employees, we would incur additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment, and tort laws, including for prior periods, as well as potential liability for employee benefits and tax withholdings.

We operate in a highly regulated industry, and changes in existing regulations or violations of existing or future regulations could have a materially adverse effect on our operations and profitability.

We operate in the United States pursuant to operating authority granted by the DOT and in various Canadian provinces pursuant to operating authority granted by the Ministries of Transportation and Communications in such provinces. Our company drivers and independent contractors also must comply with the safety and fitness regulations of the DOT, including those relating to drug and alcohol testing, driver safety performance, and hours-of-service. Matters such as weight, equipment dimensions, exhaust emissions, and fuel efficiency are also subject to government regulations. We also may become subject to new or more restrictive regulations relating to fuel efficiency, exhaust emissions, hours-of-service, ergonomics, on-board reporting of operations, collective bargaining, security at ports, speed limiters, driver training, and other matters affecting safety or operating methods. Future laws and regulations may be more stringent, require changes in our operating practices, influence the demand for transportation services, or require us to incur significant additional costs. Higher costs we incur, or higher costs incurred by suppliers who pass the costs on to us, could adversely affect our results of operations. In addition, the Trump administration has indicated a desire to reduce regulatory burdens that constrain growth and productivity, and also to introduce legislation such as infrastructure spending, that could improve growth and productivity. Changes in regulations, such as those related to trailer size and gross vehicle weight limits, hours-of-service, mandating ELDs, and drug and alcohol testing, could increase capacity in the industry or improve the position of certain competitors, either of which could negatively impact pricing and volumes, or require additional investments by us. The short and long-term impacts of changes in legislation or regulations are difficult to predict and could materially adversely affect our operations. The “Regulation” Section of this Annual Report discusses several proposed, pending, suspended, and final regulations that could materially impact our business and operations.

The CSA program adopted by the FMCSA could adversely affect our profitability and operations, our ability to maintain or grow our fleet, and our customer relationships.

Under CSA, fleets are evaluated and ranked against their peers based on certain safety-related standards. Carriers are grouped by category with other carriers that have a similar number of safety events (i.e. crashes, inspections, or violations) and carriers are ranked and assigned a rating percentile or score to prioritize them for interventions if they are above a certain threshold. As a result, our fleet could be ranked poorly as compared to peer carriers, which could have an adverse effect on our business, financial condition, and results of operations. We recruit and retain first-time drivers to be part of our fleet, and these drivers may have a higher likelihood of creating adverse safety events under CSA. The occurrence of future deficiencies could affect driver recruitment by causing high-quality drivers to seek employment with other carriers, limit the pool of available drivers, or could cause our customers to direct their business away from us and to carriers with higher fleet safety rankings, either of which would adversely affect our results of operations. Additionally, competition for drivers with favorable safety backgrounds may increase and thus could necessitate increases in driver-related compensation costs. Further, we may incur greater than expected expenses in our attempts to improve unfavorable scores.

Certain of our subsidiaries are currently exceeding the established intervention thresholds in one or more of the seven CSA safety-related categories. Based on these unfavorable ratings, we may be prioritized for an intervention action or roadside inspection, either of which could adversely affect our results of operations. In addition, customers may be less likely to assign loads to us. We have put procedures in place in an attempt to address areas where we are exceeding and have in the past exceeded the thresholds. However, we cannot assure you these measures will be effective. As part of our branding initiatives, we may consolidate our operations under one or two DOT authorities. Such consolidation may result in more of our operations being subject to unfavorable ratings or interventions if we experience safety issues.

In December 2015, Congress passed the FAST Act, which directs the FMCSA to conduct studies of the scoring system used to generate CSA rankings to determine if it is effective in identifying high-risk carriers and predicting future crash risk. This study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate and reliable. In June 2018, the FMCSA provided a report to Congress outlining the changes it may make to the CSA program in response to the study. Such changes include the testing and possible adoption of a revised risk modeling theory, potential collection and dissemination of additional carrier data, and revised measures for intervention thresholds. The adoption of such changes is contingent on the results of the new modeling theory and additional public feedback. Therefore, it is unclear if, when and to what extent such changes to the CSA program will occur. Additionally, with the FAST Act set to expire in September 2020, the U.S. Congress has noted its intent to consider a multiyear highway measure that would update the FAST Act, which could lead to further changes to the CSA program. Any changes that increase the likelihood of us receiving unfavorable scores could materially adversely affect our results of operations and profitability.

Receipt of an unfavorable DOT safety rating could have a materially adverse effect on our operations and profitability.

We currently have a satisfactory DOT rating, which is the highest available rating under the current safety rating scale. If we were to receive a conditional or unsatisfactory DOT safety rating, it could materially adversely affect our business, financial condition, and results of operations as customer contracts may require a satisfactory DOT safety rating, and a conditional or unsatisfactory rating could materially adversely affect or restrict our operations.

The FMCSA has proposed regulations that would modify the existing rating system and the safety labels assigned to motor carriers evaluated by the DOT. Under regulations that were proposed in 2016, the methodology for determining a carrier’s DOT safety rating would be expanded to include the on-road safety performance of the carrier’s drivers and equipment, as well as results obtained from investigations. Exceeding certain thresholds based on such performance or results would cause a carrier to receive an unfit safety rating. The proposed regulations were withdrawn in March 2017, but the FMCSA noted that a similar process may be initiated in the future. If similar regulations were enacted and we were to receive an unfit or other negative safety rating, our business would be materially adversely affected in the same manner as if we received a conditional or unsatisfactory safety rating under the current regulations. In addition, poor safety performance could lead to increased risk of liability, increased insurance, maintenance and equipment costs and potential loss of customers, which could materially adversely affect our business, financial condition and results of operations. These risks are heightened if we consolidate our operations under one or two DOT authorities.

Properties with environmental problems may create liabilities for us.

Under various federal, state, and local environmental laws, statutes, ordinances, rules, and regulations, as an owner of real property, we may be liable for the costs of removal or remediation of certain hazardous or toxic substances at, on, in, or under our properties, as well as certain other potential costs relating to hazardous or toxic substances (including government fines and penalties and damages for injuries to persons and adjacent property). These laws may impose liability without regard to whether we knew of, or were responsible for, the presence or disposal of those substances. This liability may be imposed on us in connection with the activities of an operator of, or tenant at, the property. The cost of any required remediation, removal, fines, or personal or property damages and our liability therefore could exceed the value of the property and/or our aggregate assets. In addition, the presence of those substances, or the failure to properly dispose of or remove those substances, may adversely affect our ability to sell or rent that property or to borrow using that property as collateral, which, in turn, would reduce our liquidity and adversely affect our operations.

Increased prices for new revenue equipment, design changes of new engines, future uses of autonomous tractors, volatility in the used equipment market, decreased availability of new revenue equipment, and the failure of manufacturers to meet their sale or trade-back obligations to us could have a materially adverse effect on our business, financial condition, results of operations, and profitability.

We are subject to risk with respect to higher prices for new tractors. We have experienced an increase in prices for new tractors over the past few years, and the resale value of the tractors has not increased to the same extent. Prices have increased and may continue to increase, due, in part, to (i) government regulations applicable to newly manufactured tractors and diesel engines, (ii) higher commodity prices, and (iii) the pricing discretion of equipment manufacturers. In addition, we have recently equipped our tractors with safety, aerodynamic, and other options that increase the price of new equipment. More restrictive regulations related to emissions and fuel efficiency standards have required vendors to introduce new engines and will require more fuel-efficient trailers. Compliance with such regulations has increased the cost of our new tractors, may increase the cost of new trailers, could impair equipment productivity, in some cases, result in lower fuel mileage, and increase our operating expenses. Our business could be harmed if we are unable to continue to obtain an adequate supply of new tractors and trailers for these or other reasons, and future use of autonomous tractors could increase the price of new tractors and decrease the value of used, non-autonomous tractors. As a result, we expect to continue to pay increased prices for equipment and incur additional expenses and related financing costs for the foreseeable future. Furthermore, reduced equipment efficiency may result from new engines designed to reduce emissions, thereby increasing our operating expenses.

A depressed market for used equipment could require us to trade our revenue equipment at depressed values or to record losses on disposal or impairments of the carrying values of our revenue equipment that is not protected by residual value arrangements. Used equipment prices are subject to substantial fluctuations based on freight demand, the supply of used tractors, the availability of financing, the presence of buyers for export to foreign countries, and commodity prices for scrap metal. If there is a deterioration of resale prices, it could have a material adverse effect on our business, financial condition and results of operations. Trades at depressed values and decreases in proceeds under equipment disposals and impairments of the carrying values of our revenue equipment could materially adversely affect our business, financial condition and results of operations.

Tractor and trailer vendors may reduce their manufacturing output in response to lower demand for their products in economic downturns or shortages of component parts. A decrease in vendor output may have a materially adverse effect on our ability to purchase a quantity of new revenue equipment that is sufficient to sustain our desired growth rate and to maintain a late-model fleet. Moreover, an inability to obtain an adequate supply of new tractors or trailers could have a materially adverse effect on our business, financial condition, and results of operation.

Certain of our revenue equipment financing arrangements have balloon payments at the end of the finance terms equal to the values we expect to be able to obtain in the used market. To the extent the used market values are lower than that, we may be forced to sell the equipment at a loss and our results of operations would be materially adversely affected.

If we are unable to retain our key employees, our business, financial condition, and results of operations could be harmed.

We are highly dependent upon the services of our executive management team and other key personnel, including David R. Parker, our Chairman of the Board and Chief Executive Officer, Joey B. Hogan, our President and Chief Operating Officer, and heads of our reportable operating segments. We currently do not have employment agreements with Messrs. Parker or Hogan or other key personnel. Turnover, planned or otherwise, in these or other key leadership positions may materially adversely affect our ability to manage our business efficiently and effectively, and such turnover can be disruptive and distracting to management, may lead to additional departures of existing personnel, and could have a material adverse effect on our operations and future profitability. We must continue to develop and retain a core group of managers and attract, develop, and retain sufficient additional managers if we are to continue to improve our profitability and have appropriate succession planning for key management personnel.

We may not make acquisitions in the future, or if we do, we may not be successful in our acquisition strategy.

We made eleven acquisitions since 1996. Accordingly, acquisitions have provided a substantial portion of our growth. We may not have the financial capacity or be successful in identifying, negotiating, or consummating any future acquisitions. If we fail to make any future acquisitions, our historical growth rate could be materially and adversely affected. Any acquisitions we undertake could involve the dilutive issuance of equity securities and/or incurring indebtedness. Any future acquisitions we may consummate involve numerous risks, any of which could have a materially adverse effect on our business, financial condition and results of operations, including:

- some of the acquired businesses may not achieve anticipated revenue, earnings or cash flows;
- we may assume liabilities that were not disclosed to us or otherwise exceed our estimates;
- we may be unable to integrate acquired businesses successfully, or at all, and realize anticipated economic, operational and other benefits in a timely manner, which could result in substantial costs and delays or other operational, technical, or financial problems;
- transaction costs and acquisition-related integration costs could adversely affect our results of operations in the period in which such charges are recorded;
- we may incur future impairment charges, write-offs, write-downs, or restructuring charges that could adversely impact our results of operations;
- acquisitions could disrupt our ongoing business, distract our management and divert our resources;
- we may experience difficulties operating in markets in which we have had no or only limited direct experience;
- we could lose customers, employees and drivers of any acquired company; and
- we may incur additional indebtedness.

Our 49% owned subsidiary, TEL, faces certain additional risks particular to its operations, any one of which could adversely affect our operating results.

In May 2011, we acquired a 49% interest in TEL, a used equipment leasing company and reseller. We account for our investment in TEL using the equity method of accounting. TEL faces several risks similar to those we face and additional risks particular to its business and operations. TEL has significant ongoing capital requirements and carries significant debt. The ability to secure financing and market fluctuations in interest rates could impact TEL's ability to grow its leasing business and its margins on leases. Adverse economic activity may restrict the number of used equipment buyers and their ability to pay prices for used equipment that we find acceptable. In addition, TEL's leasing customers are typically small trucking companies without substantial financial resources, and TEL is subject to risk of loss should those customers be unable to make their lease payments. In 2019, TEL had a significant customer that declared bankruptcy, which resulted in a material reduction in TEL’s profitability. A portion of TEL’s business includes leasing equipment to individual independent contractors who are generally not required to provide significant amounts to secure their obligations under the lease agreements with TEL. Such independent contractors generally have few assets and are at a heightened risk of defaulting under such lease agreements, which may cause TEL to incur unreimbursed costs related to the recovery of equipment, equipment maintenance and repair, missed lease payments, and the reletting of the equipment. In addition, the shrinking independent contractor market may decrease the number of drivers available to utilize such portion of TEL’s business and could decrease TEL’s revenues. Further, we believe the used equipment market will significantly impact TEL's results of operations and such market has been volatile in the past. There can be no assurance that TEL will experience gains on sale similar to those it has experienced in the past and it may incur losses on sale. As regulations change, the market for used equipment may be impacted as such regulatory changes may make used equipment costly to upgrade to comply with such regulations or we may be forced to scrap equipment if such regulations eliminate the market for particular used equipment. Further, there is an overlap in providers of equipment financing to TEL and our wholly owned operations and those providers may consider the combined exposure and limit the amount of credit available to us.

In May 2016, the operating agreement with TEL was amended to, among other things, remove the previously agreed to fixed date purchase options. Our option to acquire up to the remaining 51% of TEL would have expired May 31, 2016, and TEL's majority owners would have received the option to purchase our ownership in TEL. The options previously in effect were eliminated as part of the amendment. TEL's majority owners are generally restricted from transferring their interests in TEL, other than to certain permitted transferees, without our consent. There is no assurance that we will be able to agree on a revised formula or that TEL's ownership incentives will not be changed as a result of this process.

Finally, we do not control TEL's ownership or management. Our investment in TEL is subject to the risk that TEL's management and controlling members may make business, financial, or management decisions with which we do not agree or that the management or controlling members may take risks or otherwise act in a manner that does not serve our interests. If any of the foregoing were to occur, the value of our investment in TEL could decrease, and our financial condition, results of operations, and cash flow could suffer as a result.

We are exposed to risks related to our Factoring segment.

We engage in receivables factoring arrangements in our Factoring reportable operating segment pursuant to which our clients, consisting of smaller trucking companies, factor their receivables to us for a fee to facilitate faster cash flow. We advance 85% to 95% of each receivable factored and retain the remainder as collateral for collection issues that might arise. The retained amounts are returned to the clients after the related receivable has been collected, net of any interest and fees on the amount advanced. We evaluate each client's customer base under predefined criteria. These factored receivables are generally unsecured trade obligations, except when personal guarantees are received. While we have procedures to monitor and limit exposure to credit risk on these receivables, there can be no assurance such procedures will continue to effectively limit collection risk and avoid losses. We periodically assess the credit risk of our client's customers and regularly monitor the timeliness of payments. Slowdowns, bankruptcies, or financial difficulties within the markets our clients serve may impair the financial condition of one or more of our client's customers and may hinder such customers' ability to pay the factored receivables on a timely basis or at all. If any of these difficulties are encountered, our cash flows and results of operations could be adversely impacted.

Our Chairman of the Board and Chief Executive Officer and his wife control a large portion of our stock and have substantial control over us, which could limit other stockholders' ability to influence the outcome of key transactions, including changes of control.

Our Chairman of the Board and Chief Executive Officer, David Parker, and his wife, Jacqueline Parker, beneficially own or have sole voting and dispositive power over approximately 15% of our outstanding Class A common stock and 100% of our Class B common stock. On all matters with respect to which our stockholders have a right to vote, including the election of directors, each share of Class A common stock is entitled to one vote, while each share of Class B common stock is entitled to two votes. All outstanding shares of Class B common stock are owned by the Parkers and are convertible to Class A common stock on a share-for-share basis at the election of the Parkers or automatically upon transfer to someone outside of the Parker family. This voting structure gives the Parkers approximately 34% of the voting power of all of our outstanding stock. As such, the Parkers are able to substantially influence decisions requiring stockholder approval, including the election of our entire board of directors, the adoption or extension of anti-takeover provisions, mergers, and other business combinations. This concentration of ownership could limit the price that some investors might be willing to pay for the Class A common stock, and could allow the Parkers to prevent or could discourage or delay a change of control, which other stockholders may favor. The interests of the Parkers may conflict with the interests of other holders of Class A common stock, and they may take actions affecting us with which other stockholders disagree.

The market price of our Class A common stock may be volatile.

The price of our Class A common stock may fluctuate widely, depending upon a number of factors, many of which are beyond our control. These factors include, among other items: the perceived prospects of our business and our industry as a whole; differences between our actual financial and operating results and those expected by investors and analysts; changes in analysts' recommendations or projections, including such analysts' outlook on our industry as a whole; actions or announcements by our competitors; changes in the regulatory environment in which we operate; significant sales or hedging of shares by a principal stockholder; actions taken by stockholders that may be contrary to the Board of Director's recommendations; and changes in general economic or market conditions. In addition, stock markets generally experience significant price and volume volatility from time to time which may adversely affect the market price of our Class A common stock for reasons unrelated to our performance.

Compliance with various environmental laws and regulations upon which our operations are subject may increase our costs of operations and non-compliance with such laws and regulations could result in substantial fines or penalties.

In addition to direct regulation under the DOT and related agencies, we are subject to various environmental laws and regulations dealing with the hauling and handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, and discharge and retention of storm water. Our tractor terminals often are located in industrial areas where groundwater or other forms of environmental contamination may have occurred or could occur. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. We also maintain above-ground bulk fuel storage tanks and fueling islands at several of our facilities and one leased facility has below-ground bulk fuel storage tanks. A small percentage of our freight consists of low-grade hazardous substances, which subjects us to a wide array of regulations. Although we have instituted programs to monitor and control environmental risks and promote compliance with applicable environmental laws and regulations, if we are involved in a spill or other accident involving hazardous substances, if there are releases of hazardous substances we transport, if soil or groundwater contamination is found at our facilities or results from our operations, or if we are found to be in violation of applicable laws or regulations, we could be subject to cleanup costs and 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.

EPA regulations limiting exhaust emissions became more restrictive in 2010 when an executive memorandum was signed directing the NHTSA and the EPA to develop new, stricter fuel efficiency standards for heavy tractors. In 2011, the NHTSA and the EPA adopted final rules that established the Phase 1 Standards. The Phase 1 Standards apply to tractor model years 2014 to 2018, which are required to achieve an approximate 20 percent reduction in fuel consumption by 2018, and equates to approximately four gallons of fuel for every 100 miles traveled. In addition, in October 2016, the EPA and NHTSA published the final rule establishing the Phase 2 Standards that will apply to trailers beginning with model year 2018 and tractors beginning with model year 2021. The Phase 2 Standards require nine percent and 25 percent reductions in emissions and fuel consumption for trailers and tractors, respectively, by 2027. We believe these requirements will result in additional increases in new tractor and trailer prices and additional parts and maintenance costs incurred to retrofit our tractors and trailers with technology to achieve compliance with such standards, which could adversely affect our operating results and profitability, particularly if such costs are not offset by potential fuel savings. We cannot predict, however, the extent to which our operations and productivity will be impacted. In October 2017, the EPA announced a proposal to repeal the Phase 2 Standards as they relate to gliders (which mix refurbished older components, including transmissions and pre-emission-rule engines, with a new frame, cab, steer axle, wheels, and other standard equipment). The outcome of such proposal is still undetermined as the EPA continues to consider Congressionally requested investigations into the legality of the proposal and the merits of an anti-glider study that was published shortly after the proposal became official. Additionally, implementation of the Phase 2 Standards as they relate to trailers has been delayed due to a provisional stay granted in October 2017 by the U.S. Court of Appeals for the District of Columbia, which is overseeing a case against the EPA by the Truck Trailer Manufacturers Association, Inc. regarding the Phase 2 Standards. In addition, future additional emission regulations are possible. In addition, in February 2017, CARB proposed California Phase 2 standards that would generally align with the federal Phase 2 Standards, with some minor additional requirements. In February 2019, the California Phase 2 standards became final. Thus, even if the trailer provisions of the Phase 2 Standards are permanently removed, we would still need to ensure the majority of our fleet is compliant with the California Phase 2 standards, which may result in increased equipment costs and could adversely affect our operating results and profitability. Any federal, state, or local regulations that impose restrictions, caps, taxes, or other controls on emissions of greenhouse gases could adversely affect our operations and financial results. Until the timing, scope, and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results; however, any future regulation could impair our operating efficiency and productivity and result in higher operating costs.

Litigation may adversely affect our business, financial condition, and results of operations.

Our business is subject to the risk of litigation by employees, independent contractors, customers, vendors, government agencies, stockholders, and other parties through private actions, class actions, administrative proceedings, regulatory actions, and other processes. Recently, trucking companies, including us, have been and currently are subject to lawsuits, including class action lawsuits, alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal breaks, rest periods, overtime eligibility, and failure to pay for all hours worked. A number of these lawsuits have resulted in the payment of substantial settlements or damages by the defendants.

The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend litigation may also be significant. Not all claims are covered by our insurance, and there can be no assurance that our coverage limits will be adequate to cover all amounts in dispute. To the extent we experience claims that are uninsured, exceed our coverage limits, involve significant aggregate use of our self-insured retention amounts, or cause increases in future premiums, the resulting expenses could have a materially adverse effect on our business, results of operations, financial condition, or cash flows.

In addition, we may be subject, and have been subject in the past, to litigation resulting from trucking accidents. The number and severity of litigation claims may be worsened by distracted driving by both truck drivers and other motorists. These lawsuits have resulted, and may result in the future, in the payment of substantial settlements or damages and increases of our insurance costs.

Seasonality and the impact of weather and other catastrophic events affect our operations and profitability.

Our tractor productivity decreases during the winter season because inclement weather impedes operations, and some shippers reduce their shipments after the winter holiday season. Our Expedited operations, historically have experienced a greater reduction in first quarter demand than our other operations. Revenue also can be affected by bad weather and holidays, since revenue is directly related to available working days of shippers. At the same time, operating expenses increase and fuel efficiency declines because of engine idling and harsh weather creating higher accident frequency, increased claims, and more equipment repairs. In addition, many of our customers, particularly those in the retail industry where we have a large presence, demand additional capacity during the fourth quarter, which limits our ability to take advantage of more attractive spot market rates that generally exist during such periods. Further, despite our efforts to meet such demands, we may fail to do so, which may result in lost future business opportunities with such customers, which could have a materially adverse effect on our operations. Recently, the duration of this increased period of demand in the fourth quarter has shortened, with certain customers requiring the same volume of shipments over a more condensed timeframe, resulting in increased stress and demand on our network, people, and systems. If this trend continues, it could make satisfying our customers and maintaining the quality of our service during the fourth quarter increasingly difficult. We may also suffer from weather-related or other unforeseen events such as tornadoes, hurricanes, blizzards, ice storms, floods, fires, earthquakes, and explosions. These events may disrupt fuel supplies, increase fuel costs, disrupt freight shipments or routes, affect regional economies, destroy our assets, or adversely affect the business or financial condition of our customers, any of which could have a materially adverse effect on our results of operations or make our results of operations more volatile. Weather and other seasonal events could adversely affect our operating results.

As of December 31, 2018, we identified a material weakness in our internal control over financial reporting, which was remediated as of December 31, 2019. If we fail to maintain effective internal control over financial reporting in the future, there could be an elevated possibility of a material misstatement, and such a misstatement could cause investors to lose confidence in our financial statements, which could have a material adverse effect on our stock price.

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on the effectiveness of our internal control over financial reporting. In addition, our independent registered public accounting firm must report on its evaluation of our internal control over financial reporting. As disclosed in Item 9A of this report, we have identified a material weakness as of December 31, 2019 in our internal control over financial reporting due to information technology general controls. As a result of this material weakness, our external auditors have issued an adverse opinion indicating that we have not maintained effective internal control over financial reporting as of December 31, 2019. The material weakness, was remediated as of December 31, 2019. If we fail to maintain effective internal controls in the future, including any future acquisitions, it could result in a material misstatement of our financial statements, which could cause investors to lose confidence in our financial statements or cause our stock price to decline.

We could determine that our goodwill and other intangible assets are impaired, thus recognizing a related loss.

As of December 31, 2019, we had goodwill of $42.5 million and other intangible assets of $29.6 million, solely from the Landair Acquisition. We evaluate our goodwill and other intangible assets for impairment. We could recognize impairments in the future, and we may never realize the full value of our intangible assets. If these events occur, our profitability and financial condition will suffer.

Uncertainties in the interpretation and application of the Tax Act could materially affect our tax obligations and effective tax rate.

On December 2017, the U.S. enacted comprehensive tax legislation, commonly referred to as the Tax Act. The new law requires complex computations not previously required by U.S. tax law. As such, the application of accounting guidance for such items is currently uncertain. Further, compliance with the new law and the accounting for such provisions require preparation and analysis of information not previously required or regularly produced. In addition, the U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in future periods. Accordingly, while we have provided a provisional estimate on the effect of the new law in our accompanying audited financial statements, further regulatory or U.S. generally accepted accounting principles ("GAAP") accounting guidance for the law, our further analysis on the application of the law, and refinement of our initial estimates and calculations could materially change our current provisional estimates, which could in turn materially affect our tax obligations and effective tax rate. There are also likely to be significant future impacts that these tax reforms will have on our future financial results and our business strategies. In addition, there is a risk that states or foreign jurisdictions may amend their tax laws in response to these tax reforms, which could have a material impact on our future results.

We cannot guarantee the timing or amount of repurchases of our Class A common stock, if any.
The timing and amount of future repurchases of our Class A common stock, including repurchases under the stock repurchase program authorizing the purchase of up to $20 million of our Class A common stock announced on February 10, 2020, is at the discretion of our Board of Directors and will depend on many factors such as our financial condition, earnings, cash flows, capital requirements, any future debt service obligations, covenants under our existing or future debt agreements, industry practice, legal requirements, regulatory constraints and other factors our Board of Directors deems relevant.

We could be negatively impacted by the recent Coronavirus ("COVID-19") outbreak or other similar outbreaks.

The recent outbreak of COVID-19, and any other outbreaks of contagious diseases or other adverse public health developments, could have a materially adverse effect on our financial condition, liquidity, results of operations, and cash flows. The outbreak of COVID-19 has resulted in governmental authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, increased border and port controls and closures, and shutdowns. There is considerable uncertainty regarding such measures and potential future measures, all of which could limit our ability to meet customer demand, as well as reduce customer demand.

Certain of our operations and personnel at our headquarters in Chattanooga, Tennessee, and other locations have been working remotely, which could disrupt our management, business, finance, and financial reporting teams. We may experience an increase in absences or terminations among our driver and non-driver personnel due to the outbreak of COVID-19, which could have a materially adverse effect on our operating results. Further, our operations, particularly in areas of increased COVID-19 infections, could be disrupted resulting in a negative impact on our operations and results.

The outbreak of COVID-19 has significantly increased economic and demand uncertainty. The current outbreak has caused a slowdown in the global economy and it is possible that it could cause a global recession. Risks related to a slowdown or recession are described in our risk factor titled "Our business is subject to general economic, credit, business, and regulatory factors affecting the truckload industry that are largely beyond our control, any of which could have a materially adverse effect on our operating results" above.

The extent to which COVID-19 could impact our operations, financial condition, liquidity, results of operations, and cash flows is highly uncertain and will depend on future developments. Such developments may include the geographic spread and duration of the virus, the severity of the disease and the actions that may be taken by various governmental authorities and other third parties in response to the outbreak.

We may experience additional expenses, impairments, and losses related to future terminal closures and other restructuring activities.

As we continue to execute on our strategic plan, we have identified terminals for closure. Such terminal closures, as well as any other future closures or restructuring activities, could cause us to experience additional expenses, impairment, and losses. The expenses, impairments, and losses experienced in relation to such activities may be substantial and could be unforeseen at the time the decision is made to undertake such activities. Such expenses, impairments, and losses could have a material adverse effect on our business, financial condition, and results of operations.

PROPERTIES

We own or lease administrative offices and truck terminals (which provide a transfer location for trailer relays on transcontinental routes, parking space for equipment dispatch, facilities for recruiting and orientation, sales offices, and warehouses) throughout the continental United States, none of which are individually material.

LEGAL PROCEEDINGS

From time-to-time, we are a party to ordinary, routine litigation arising in the ordinary course of business, most of which involves claims for personal injury and/or property damage incurred in connection with the transportation of freight.

We maintain insurance to cover liabilities arising from the transportation of freight for amounts in excess of certain self-insured retentions. In management's opinion, our potential exposure under pending legal proceedings is adequately provided for in the accompanying consolidated financial statements.

Our Covenant Transport subsidiary is a defendant in a lawsuit filed on November 9, 2018 in the Superior Court of Los Angeles County, California. The lawsuit was filed on behalf of Richard Tabizon (a California resident and former driver), who is seeking to have the lawsuit certified as a class action. The complaint asserts that the time period covered by the lawsuit is from October 31, 2014 to the present and alleges claims for failure to properly pay drivers for rest breaks, failure to provide accurate itemized wage statements and/or reimbursement of business related expenses, unlawful deduction of wages, failure to pay proper minimum wage and overtime wages, failure to provide all wages due at termination, and other related wage and hour claims under the California labor Code. Since the original filing date, the case has been removed from the Los Angeles Superior Court to the U.S. District court in the Central District of California and subsequently the case was transferred to the U.S. District Court in the Eastern District of Tennessee where the case is now pending. We do not currently have enough information to make a reasonable estimate as to the likelihood, or amount of a loss, or a range of reasonably possible losses as a result of this claims, as such there have been no related accruals recorded as of December 31, 2019.

On February 28, 2019, Covenant Transport was named in a separate (but related) lawsuit filed in the Superior Court of Los Angeles County, California requesting civil penalties under the California Private Attorneys' General Act for the same underlying wage and hour claims at issue in the putative class action case noted above. On August 1, 2019, the Los Angeles Superior Court entered an order staying the action pending completion of the earlier-filed action that is pending in the United States District Court for the Eastern District of Tennessee. We do not currently have enough information to make a reasonable estimate as to the likelihood, or amount of a loss, or a range of reasonably possible losses as a result of this claims, as such there have been no related accruals recorded as of December 31, 2019.

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

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock

Our Class A common stock is traded on the NASDAQ Global Select Market, under the symbol "CVTI."

As of March 6, 2020, we had approximately 87 stockholders of record of our Class A common stock; however, we estimate our actual number of stockholders is much higher because a substantial number of our shares are held of record by brokers or dealers for their customers in street names. As of March 6, 2020, Mr. Parker, together with certain of his family members, owned all of the outstanding Class B common stock.

Dividend Policy

We have never declared and paid a cash dividend on our Class A or Class B common stock. It is the current intention of our Board of Directors to continue to retain earnings to finance our business and reduce our indebtedness rather than to pay dividends. The payment of cash dividends is currently limited by our financing arrangements. Future payments of cash dividends will depend upon our financial condition, results of operations, capital commitments, restrictions under then-existing agreements, and other factors deemed relevant by our Board of Directors.

SELECTED FINANCIAL DATA

(In thousands, except per share and operating data amounts)

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Statement of Operations Data:					
Freight revenue	$ 800,401	$ 779,729	$ 626,809	$ 610,845	$ 640,120
Fuel surcharge revenue	94,127	105,726	78,198	59,806	84,120
Total revenue	$ 894,528	$ 885,455	$ 705,007	$ 670,651	$ 724,240
Operating expenses:					
Salaries, wages, and related expenses	321,997	304,447	241,784	234,526	244,779
Fuel expense	115,307	121,264	103,139	103,108	122,160
Operations and maintenance	59,505	55,505	48,774	45,864	46,458
Revenue equipment rentals and purchased transportation	204,655	183,645	141,954	117,472	118,583
Operating taxes and licenses	13,024	11,831	9,878	11,712	11,016
Insurance and claims (1)	47,724	43,333	33,155	32,596	31,909
Communications and utilities	6,969	7,061	6,938	6,057	6,162
General supplies and expenses	30,434	23,227	14,783	14,413	14,007
Depreciation and amortization, including gains and losses on disposition of equipment	78,879	76,156	76,447	72,456	61,384
Total operating expenses	878,494	826,469	676,852	638,204	656,458
Operating income	16,034	58,986	28,155	32,447	67,782
Interest expense, net	11,110	8,708	8,258	8,226	8,445
Income from equity method investment	(7,017)	(7,732)	(3,400)	(3,000)	(4,570)
Income before income taxes	11,941	58,010	23,297	27,221	63,907
Income tax expense (benefit)	3,464	15,507	(32,142)	10,386	21,822
Net income	$ 8,477	$ 42,503	$ 55,439	$ 16,835	$ 42,085
Basic income per share	$ 0.46	$ 2.32	$ 3.03	$ 0.93	$ 2.32
Diluted income per share	$ 0.45	$ 2.30	$ 3.02	$ 0.92	$ 2.30
Basic weighted average common shares outstanding	18,435	18,340	18,279	18,182	18,145
Diluted weighted average common shares outstanding	18,635	18,469	18,372	18,266	18,311

	Years Ended December 31,				
	2019	2018	2017	2016	2015
Selected Balance Sheet Data:					
Net property and equipment	$ 517,203	$ 450,595	$ 464,072	$ 465,471	$ 454,049
Total assets (2)	$ 881,640	$ 773,524	$ 649,668	$ 620,538	$ 646,717
Long-term debt and finance lease obligations, less current maturities	$ 267,069	$ 201,754	$ 186,242	$ 188,437	$ 206,604
Total stockholders' equity	$ 350,111	$ 343,142	$ 295,201	$ 236,414	$ 202,160
Selected Operating Data:					
Capital expenditures, net (3)	$ 91,664	$ 33,093	$ 72,006	$ 59,052	$ 148,994
Average freight revenue per loaded mile (4)	$ 2.07	$ 2.13	$ 1.89	$ 1.86	$ 1.89
Average freight revenue per total mile (4)	$ 1.87	$ 1.94	$ 1.70	$ 1.67	$ 1.69
Average freight revenue per tractor per week (4)	$ 3,778	$ 4,191	$ 3,917	$ 3,881	$ 3,967
Average miles per tractor per year	105,379	112,736	120,043	121,782	122,508
Weighted average tractors for year (5)	3,073	2,843	2,557	2,593	2,700
Total tractors at end of period (5)	3,021	3,154	2,559	2,535	2,656
Total trailers at end of period (6)	6,739	6,950	6,846	7,389	6,978
Team-driven tractors as percentage of fleet	27.4%	30.8%	38.1%	38.7%	35.3%

(1) 2017 insurance and claims expense includes $0.9 million of additional reserves for 2008 cargo claim.
(2) Adjusted for retrospective adoption of ASU 2015-17.
(3) Includes equipment purchased under finance leases.
(4) Excludes fuel surcharge revenue.
(5) Includes monthly rental tractors and tractors provided by independent contractors.
(6) Excludes monthly rental trailers.

The information set forth above should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes thereto included in this Annual Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with the "Business" Section of this Annual Report, as well as the consolidated financial statements and notes thereto. This discussion contains forward-looking statements as a result of many factors, including those set forth under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" of this Annual Report, and elsewhere in this report. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those discussed.

EXECUTIVE OVERVIEW

We are a leading provider of high-service truckload transportation services. Our strategy is to focus on value-added, less commoditized portions of our customers' supply chains and thereby become embedded in their business processes. We believe disciplined planning and execution of our strategy will reduce the cyclicality and seasonality of our financial results through growth in higher margin, less volatile services, which in turn will enhance sustainable long-term earnings power and return on invested capital for our stockholders.

Our four business segments are Highway Services, Dedicated, Managed Freight, and Factoring, each as described under "Reportable Operating Segments and Service Offering" above. Consistent with our strategic plan, we have been allocating capital toward Dedicated, Managed Freight, and Factoring, and away from Highway Services (particularly non-dedicated, solo-driver refrigerated services) over the past several years. The table below reflects the revenue trends in each of these segments:

Segment	2019	2018
Highway Services	$ 356,521	$ 469,308
Dedicated	342,473	257,739
Managed Freight	186,394	153,346
Factoring	9,140	5,062
Total	$ 894,528	$ 885,455

In 2019, we battled a difficult operating environment, marked by excess industry capacity, lackluster freight volumes, intense competition from freight brokerage competitors, and higher operating costs. This challenging environment reinforced our commitment to continuing to reduce exposure to more cyclical customers and markets. Our Managed Freight and Factoring segments were solidly profitable, our Dedicated segment was moderately profitable, and our Highway Services segment was unprofitable. Within Highway Services, our irregular route expedited business was moderately profitable but performed below our normal expectations. However, OTR operations deteriorated materially, primarily as a result of our solo-driver refrigerated operations, and generated a significant negative margin. Ongoing priorities within our strategic plan include increasing capital allocation to our Dedicated and Managed Freight segments, upgrading the legacy dedicated contracts in the Covenant side of the business to the terms and level of execution of the Landair dedicated business, decreasing capital allocated to Highway Services, and improving our operating and overhead efficiency.

Our consolidated financial results are summarized as follows:

- Total revenue was $894.5 million, compared with $885.5 million for 2018, and freight revenue (which excludes revenue from fuel surcharges) was $800.4 million, compared with $779.7 million for 2018;

- Operating income was $16.0 million, compared with operating income of $59.0 million for 2018;

- Net income was $8.5 million, or $0.45 per diluted share, compared with net income of $42.5 million, or $2.30 per diluted share, for 2018;

- With available borrowing capacity of $59.8 million under our Credit Facility as of December 31, 2019, we do not expect to be required to test our fixed charge covenant in the foreseeable future;

- Our equity investment in TEL provided $7.0 million of pre-tax earnings in 2019, compared to $7.7 million for 2018;

- Since December 31, 2018, total indebtedness, net of cash, increased by $112.3 million to $304.6 million however, $60.3 million of this increase related to recording right of use operating lease liabilities under ASU 842 in 2019, which was not required in 2018; and

- Stockholders' equity and tangible book value at December 31, 2019 were $350.1 million and $278.0 million, respectively.

Outlook

From a financial perspective, we expect operating cash flows and our ratio of debt to total capitalization to improve for fiscal 2020 compared with fiscal 2019. We expect these improvements to be weighted toward the second half of the year, as year-over-year comparisons in consolidated average freight revenue per total mile and margin performance in certain operations are expected to be negative for at least two quarters. From a balance sheet perspective, we expect to reduce total indebtedness, including operating lease right to use liabilities, net of cash, through a combination of net capital expenditures scheduled below normal replacement cycle, and improving operating cash flows. Our expectations for improving performance throughout 2020 are based on assumptions of (i) declining truckload industry capacity (due to, among other factors, a continuation of falling new truck production, competitors exiting the industry, and tighter federal drug testing regulations), (ii) continued U.S. economic expansion, (iii) the successful disposal of excess real estate and revenue equipment, and (iv) the reallocation of assets to more profitable operations. The timing and magnitude of these factors will impact our results.

RESULTS OF CONSOLIDATED OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations included in this document generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this document can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

The following table sets forth total revenue and freight revenue (total revenue less fuel surcharge revenue) for the periods indicated:

Revenue

	Year ended December 31,	
(in thousands)	2019	2018
Revenue:		
Freight revenue	$ 800,401	$ 779,729
Fuel surcharge revenue	94,127	105,726
Total revenue	$ 894,528	$ 885,455

For 2019, total revenue increased $9.1 million, or 1.0%, to $894.5 million from $885.5 million in 2018. Freight revenue increased $20.7 million or 2.7%, to $800.4 million for 2019, from $779.7 million in 2018, while fuel surcharge revenue decreased $11.6 million year-over-year. The increase in freight revenue resulted from a $77.5 million, $32.5, and $4.1 million increase in freight revenues from our Dedicated, Managed Freight, and Factoring segments, respectively, partially offset by a $93.4 million decrease in freight revenues from our Highway Services segment.

The increase in 2019 Dedicated revenue relates to a 511 (or 40.9%) average tractor increase partially offset by a decrease in average freight revenue per tractor per week of 3.3% compared to 2018. Landair contributed $68.2 million of freight revenue to Dedicated operations for the full year in 2019, compared to $28.9 million in approximately six months of post-acquisition operations in 2018. The increase in average tractors was attributable to the full year of Landair's operations plus a re-allocation of tractors from Highway Services to Dedicated. The decrease in average freight revenue per tractor per week is the result of fewer miles per tractor partially offset by a 1.3%, or 2.4 cents per mile, increase in average rate per total mile, both primarily attributable to a full year of Landair operations.

The decrease in 2019 Highway Services revenue relates to a 281 (or 17.6%) average tractor decrease as well as a decrease in average freight revenue per tractor per week of 6.4% compared to 2018. The decrease in average freight revenue per tractor per week is the result of a 5.0% decrease, or 10.1 cents per mile, in average rate per total mile, and an approximately 1.5% decrease in average miles per unit when compared to 2018. Team driven units decreased approximately 4.4% to an average of 825 teams in 2019 from 863 teams in 2018.

The increase in Managed Freight revenue is primarily the result of Landair's contribution of $83.3 million and $38.5 million of revenue in 2019 and 2018, respectively, to combined Managed Freight operations.

The increase in Factoring revenue is primarily the result of new customers as well as growth with existing customers.

For comparison purposes in the discussion below, we use total revenue and freight revenue (total revenue less fuel surcharge revenue) when discussing changes as a percentage of revenue. As it relates to the comparison of expenses to freight revenue, we believe removing fuel surcharge revenue, which is sometimes a volatile source of revenue, affords a more consistent basis for comparing the results of operations from period-to-period. Nonetheless, freight revenue is a non-GAAP financial measure and is not a substitute for revenue measured in accordance with GAAP. There are limitations to using non-GAAP financial measures. Our Board and management focus on our freight revenue as an indicator of our performance from period to period. We believe our presentation of freight revenue is useful because it provides investors and securities analysts the same information that we use internally to assess our core operating performance. Although we believe that freight revenue improves comparability in analyzing our period-to-period performance, it could limit comparability to other companies in our industry, if those companies define freight revenue differently. Because of these limitations, freight revenue should not be considered a measure of total revenue generated by or available to our business. Management compensates for these limitations by primarily relying on GAAP results and using non-GAAP financial measures on a supplemental basis.

Salaries, wages, and related expenses

	Year ended December 31,	
(dollars in thousands)	2019	2018
Salaries, wages, and related expenses	$ 321,997	$ 304,447
% of total revenue	**36.0%**	**34.4%**
% of freight revenue	40.2%	39.0%

Salaries, wages, and related expenses increased approximately $17.6 million, or 5.8%, for the year ended December 31, 2019, compared with 2018. As a percentage of total revenue, salaries, wages, and related expenses increased to 36.0% of total revenue for the year ended December 31, 2019, as compared to 34.4% in 2018. As a percentage of freight revenue, salaries, wages, and related expenses increased to 40.2% of freight revenue for the year ended December 31, 2019, from 39.0% in 2018. The change in salaries, wages, and related expenses is primarily due to increased headcount from the 2018 Landair Acquisition, pay adjustments for both driver and non-drivers since 2018, and increases in both workers' compensation and health insurance costs, compared to 2018. These increases are partially offset by decreases in incentive compensation for non-driving personnel and fees paid to third party agents related to our Managed Freight segment, and a lower percentage of our fleet comprised of team-driven tractors, which carry the costs of two drivers, as compared to 2018.

We believe salaries, wages, and related expenses will increase going forward as a result of higher incentive compensation, wage inflation, higher healthcare costs, and, in certain periods, increased incentive compensation due to better performance. In addition to general wage inflation, if freight market rates increase, we would expect to, as we have historically, pass a portion of those rate increases on to our professional drivers. Salaries, wages, and related expenses will fluctuate to some extent based on the percentage of revenue generated by independent contractors and our Managed Freight segment, for which payments are reflected in the purchased transportation line item.

Fuel expense

	Year ended December 31,	
(dollars in thousands)	2019	2018
Fuel expense	$ 115,307	$ 121,264
% of total revenue	**12.9%**	**13.7%**
% of freight revenue	14.4%	15.6%

Total fuel expense decreased $6.0 million for the year ended December 31, 2019, compared with 2018. As a percentage of total revenue, total fuel expense decreased 12.9% for the year ended December 31, 2019, as compared to 2018. As a percentage of freight revenue, total fuel expense decreased to 14.4% of freight revenue for the year ended December 31, 2019, from 15.6% in 2018. These changes primarily related to lower fuel prices in 2019, partially offset by a 1.0% increase in total miles.

We receive a fuel surcharge on our loaded miles from most shippers; however, this does not cover the entire increase in fuel prices for several reasons, including the following: surcharges cover only loaded miles we operate; surcharges do not cover miles driven out-of-route by our drivers; and surcharges typically do not cover refrigeration unit fuel usage or fuel burned by tractors while idling. Moreover, most of our business relating to shipments obtained from freight brokers does not carry a fuel surcharge. Finally, fuel surcharges vary in the percentage of reimbursement offered, and not all surcharges fully compensate for fuel price increases even on loaded miles.

The rate of fuel price changes also can have an impact on results. Most fuel surcharges are based on the average fuel price as published by the DOE for the week prior to the shipment, meaning we typically bill customers in the current week based on the previous week's applicable index. Therefore, in times of increasing fuel prices, we do not recover as much as we are currently paying for fuel. In periods of declining prices, the opposite is true. Fuel prices as measured by the DOE averaged approximately $0.12 per gallon lower in 2019 than 2018.

Additionally, none and $1.6 million were reclassified from accumulated other comprehensive income (loss) to our results of operations for the years ended December 31, 2019 and 2018, respectively, as a reduction to fuel expense for 2018, related to gains and losses on fuel hedge contracts that expired. As of December 31, 2019, we have no remaining fuel hedge contracts.

To measure the effectiveness of our fuel surcharge program, we subtract fuel surcharge revenue (other than the fuel surcharge revenue we reimburse to independent contractors and other third parties, which is included in purchased transportation) from our fuel expense. The result is referred to as net fuel expense. Our net fuel expense as a percentage of freight revenue is affected by the cost of diesel fuel net of fuel surcharge revenue, the percentage of miles driven by company tractors, our fuel economy, and our percentage of deadhead miles, for which we do not receive material fuel surcharge revenues. Net fuel expense is shown below:

	Year ended December 31,	
(dollars in thousands)	2019	2018
Total fuel surcharge	$ 94,127	$ 105,726
Less: Fuel surcharge revenue reimbursed to independent contractors and other third parties	11,673	12,635
Company fuel surcharge revenue	$ 82,454	$ 93,091
Total fuel expense	$ 115,307	$ 121,264
Less: Company fuel surcharge revenue	82,454	93,091
Net fuel expense	$ 32,853	$ 28,173
% of freight revenue	4.1%	3.6%

Net fuel expense increased $4.7 million, or 16.6%, for the year ended December 31, 2019 compared to 2018. As a percentage of freight revenue, net fuel expense increased 0.5% for the year ended December 31, 2019, compared to 2018. These increases primarily resulted from the $1.6 million reduction in fuel hedge gains and lower fuel surcharge reimbursement from customers.

We expect to continue managing our idle time and tractor speeds, investing in more fuel-efficient tractors to improve our miles per gallon, locking in fuel hedges when deemed appropriate, and partnering with customers to adjust fuel surcharge programs that are inadequate to recover a fair portion of fuel costs. Going forward, our net fuel expense is expected to fluctuate as a percentage of revenue based on factors such as diesel fuel prices, percentage recovered from fuel surcharge programs, percentage of uncompensated miles, percentage of revenue generated by team-driven tractors (which tend to generate higher miles and lower revenue per mile, thus proportionately more fuel cost as a percentage of revenue), percentage of revenue generated by refrigerated operation (which uses diesel fuel for refrigeration, but usually does not recover fuel surcharges on refrigeration fuel), percentage of revenue generated from independent contractors, and the success of fuel efficiency initiatives.

Operations and maintenance

(dollars in thousands)	Year ended December 31, 2019	2018
Operations and maintenance	$ 59,505	$ 55,505
% of total revenue	**6.7%**	**6.3%**
% of freight revenue	7.4%	7.1%

Operations and maintenance increased $4.0 million, or 7.2%, for the year ended December 31, 2019, compared with 2018. As a percentage of total revenue, operations and maintenance increased to 6.7% of total revenue in 2019, compared with 6.3% in 2018. As a percentage of freight revenue, operations and maintenance increased to 7.4% of freight revenue for 2019, from 7.1% in 2018. The increase in dollar amount was primarily due to the addition of the Landair business and its comparatively older tractor fleet.

Going forward, we believe this category will fluctuate based on several factors, including expected upgrades to Landair's fleet, our continued ability to maintain a relatively young fleet in our other operating companies, accident severity and frequency, weather, and the reliability of new and untested revenue equipment models.

Revenue equipment rentals and purchased transportation

(dollars in thousands)	Year ended December 31, 2019	2018
Revenue equipment rentals and purchased transportation	$ 204,655	$ 183,645
% of total revenue	**22.9%**	**20.7%**
% of freight revenue	25.6%	23.6%

Revenue equipment rentals and purchased transportation increased approximately $21.0 million, or 11.4%, for the year ended December 31, 2019, compared with 2018. As a percentage of total revenue, revenue equipment rentals and purchased transportation increased to 22.9% of total revenue for the year ended December 31, 2019, from 20.7% in 2018. As a percentage of freight revenue, revenue equipment rentals and purchased transportation increased to 25.6% of freight revenue for the year ended December 31, 2019, from 23.6% in 2018. These increases were primarily the result of the acquisition of Landair's freight brokerage and TMS within the Managed Freight segment, which added to overall purchased transportation cost but is less reliant on purchased transportation to generate revenue, compared to our legacy brokerage and logistics services. Additionally, rent under operating leases increased in 2019 due to a full year of Landair's operations, which relied to a greater extent on operating leases. Additionally, the percentage of the total miles run by independent contractors increased from 11.9% for 2018 to 12.5% for 2019.

We expect revenue equipment rentals to decrease going forward as a result of our increase in acquisition of revenue equipment through financed purchases or finance leases rather than operating leases, particularly as we transition Landair from operating leases to owned equipment.

We expect purchased transportation to increase as we seek to grow the freight brokerage and TMS within the Managed Freight segment. In addition, if fuel prices increase, it would result in a further increase in what we pay third party carriers and independent contractors. However, this expense category will fluctuate with the number and percentage of loads hauled by independent contractors, loads handled by Managed Freight, and tractors, trailers, and other assets financed with operating leases. In addition, factors such as the cost to obtain third party transportation services and the amount of fuel surcharge revenue passed through to the third party carriers and independent contractors will affect this expense category. If industry-wide trucking capacity were to tighten in relation to freight demand, we may need to increase the amounts we pay to third-party transportation providers and independent contractors, which could increase this expense category on an absolute basis and as a percentage of freight revenue absent an offsetting increase in revenue. We continue to actively recruit independent contractors and, if we are successful, we would expect this line item to increase as a percentage of revenue.

Operating taxes and licenses

(dollars in thousands)	Year ended December 31, 2019	2018
Operating taxes and licenses	$ 13,024	$ 11,831
% of total revenue	**1.5%**	**1.3%**
% of freight revenue	1.6%	1.5%

Operating taxes and licenses increased approximately $1.2 million, or 10.1%, for the year ended December 31, 2019, compared with 2018. As a percentage of total revenue, operating taxes and licenses increased slightly to 1.5% of total revenue for the year ended December 31, 2019, from 1.3% in 2018. As a percentage of freight revenue, operating taxes and licenses increased slightly to 1.6% of freight revenue for the year ended December 31, 2019, from 1.5% in 2018. The increase in operating taxes and licenses was not significant as either a percentage of total revenue or freight revenue for the year ended December 31, 2019.

Insurance and claims

(dollars in thousands)	Year ended December 31, 2019	2018
Insurance and claims	$ 47,724	$ 43,333
% of total revenue	**5.3%**	**4.9%**
% of freight revenue	6.0%	5.6%

Insurance and claims, consisting primarily of premiums and deductible amounts for liability, physical damage, and cargo damage insurance and claims, increased approximately $4.4 million, or 10.1%, for the year ended December 31, 2019, compared to 2018. As a percentage of total revenue, insurance and claims increased to 5.3% of total revenue for the year ended December 31, 2019, from 4.9% in 2018. As a percentage of freight revenue, insurance and claims increased to 6.0% of freight revenue for the years ended December 31, 2019, compared to 5.6% in 2018. Insurance and claims per mile cost increased to 14.3 cents per mile for 2019 from 13.3 cents per mile in 2018. The per mile increase is primarily the result of the inflation in overall expected cost per claim, development on prior period claims during the twelve months ended December 31, 2019, and increased frequency of higher severity incidents compared to 2018.

Our auto liability (personal injury and property damage), cargo, and general liability insurance programs include significant self-insured retention amounts. We are also self-insured for physical damage to our equipment. Because of these significant self-insured exposures, insurance and claims expense may fluctuate significantly from period-to-period. Any increase in frequency or severity of claims, or any increases to then-existing reserves, could adversely affect our financial condition and results of operations. We periodically evaluate strategies to efficiently reduce our insurance and claims expense. The auto liability policy contains a feature whereby we are able to retroactively obtain a partial refund of the premium in exchange for taking on the liability for incidents that occurred during the period and releasing the insurers. This is referred to as "commuting" the policy or "policy commutation." In several past periods we have commuted the policy, which has lowered our insurance and claims expense. We intend to evaluate our ability to commute the current policy and any such commutation could significantly impact insurance and claims expense. Our prior auto liability policy that ran from October 1, 2014 through March 31, 2018, included a commutation provision if we were to commute the policy for the entire 42 months. Based on claims paid to date the policy premium release refund could range from zero to $5.2 million, depending on actual claims settlements in the future. Effective April 2018, we entered into new auto liability policies with a three-year term. The policy includes a limit for a single loss of $9.0 million, an aggregate of $18.0 million for each policy year, and a $30.0 million aggregate for the 36 month term ended March 31, 2021. The policy included a policy release premium refund or commutation option of up to $14.0 million, less any future amounts paid on claims by the insurer. A decision with respect to commutation of the policy could be made before April 1, 2021. Management cannot predict whether or not future claims or the development of existing claims will justify a commutation of either policy period, and accordingly, no related amounts were recorded at December 31, 2019.

Communications and utilities

(dollars in thousands)	Year ended December 31, 2019	2018
Communications and utilities	$ 6,969	$ 7,061
% of total revenue	**0.8%**	**0.8%**
% of freight revenue	0.9%	0.9%

For the periods presented, the changes in communications and utilities were not significant as either a percentage of total revenue or freight revenue.

General supplies and expenses

(dollars in thousands)	Year ended December 31, 2019	2018
General supplies and expenses	$ 30,434	$ 23,227
% of total revenue	**3.4%**	**2.6%**
% of freight revenue	3.8%	3.0%

For the year ended December 31, 2019, general supplies and expenses increased approximately $7.2 million, or 31.0%, compared with 2018. As a percentage of total revenue, general supplies and expenses increased to 3.4% of total revenue and 3.8% of freight revenue for the year ended December 31, 2019, compared to 2.6% and 3.0%, respectively, in 2018. These increases primarily relate to the additional general supplies and expenses of Landair as a result of the acquisition of Landair in the third quarter of 2018, partially offset by the lack of legal and professional fees expenses incurred during the second quarter of 2018 related to that acquisition. Landair contributed $7.7 million to general supplies and expenses for the year ended December 31, 2019, compared to $4.3 million in 2018.

Depreciation and amortization

(dollars in thousands)	Year ended December 31, 2019	2018
Depreciation and amortization	$ 78,879	$ 76,156
% of total revenue	**8.8%**	**8.6%**
% of freight revenue	9.9%	9.8%

Depreciation and amortization consists primarily of depreciation of tractors, trailers and other capital assets (including those under finance leases) offset or increased, as applicable, by gains or losses on dispositions of capital assets, as well as amortization of intangible assets. Depreciation and amortization in 2019 increased $2.7 million, or 3.6%, compared with 2018. As a percentage of total revenue, depreciation and amortization increased to 8.8% of total revenue for the year ended December 31, 2019, from 8.6% in 2018. As a percentage of freight revenue, depreciation and amortization increased to 9.9% of freight revenue for the year ended December 31, 2019, from 9.8% in 2018. Depreciation, consisting primarily of depreciation of revenue equipment and excluding gains and losses, increased $3.2 million in 2019 from 2018, primarily due to increased tractor and trailer counts from the Landair Acquisition. These increases were partially offset by gains on sale of equipment of $1.7 million in 2019, compared to losses of $0.3 million in 2018. Amortization of intangible assets increased to $2.9 million in 2019 from $1.5 million in 2018, due to the Landair Acquisition.

We expect depreciation and amortization, including amortization of intangible assets, to more closely resemble the second half of 2019 going forward. We have a significant number of assets held for sale as well as a plan to reduce our overall tractor count in 2020. If the used tractor market were to continue at its currently depressed level, or decline, we could have to adjust residual values, increase depreciation, hold assets longer than planned, or experience increased losses on sale.

Interest expense, net

(dollars in thousands)	Year ended December 31, 2019	2018
Interest expense, net	$ 11,110	$ 8,708
% of total revenue	**1.2%**	**1.0%**
% of freight revenue	1.4%	1.1%

For the periods presented, the change in interest expense, net was not significant as either a percentage of total revenue or freight revenue.

This line item will fluctuate based on our decision with respect to purchasing revenue equipment with balance sheet debt versus operating leases as well as our ability to continue to generate profitable results and reduce our leverage. Going forward, we expect this line item to decrease if we are able to reduce our debt as planned.

Income from equity method investment

(in thousands)	Year ended December 31, 2019	2018
Income from equity method investment	$ 7,017	$ 7,732

We have accounted for our investment in TEL using the equity method of accounting and thus our financial results include our proportionate share of TEL's net income. For the year ended December 31, 2019, our earnings resulting from our investment in TEL decreased to $7.0 million. The decrease in 2019 as compared to 2018 is the result of TEL's write-off of receivables and the revenue impact associated with customer bankruptcy during the fourth quarter of 2019. We expect the impact on our earnings resulting from our investment in TEL to be down year-over-year for the first half of 2020 as a result of the discontinued business, but to return to prior levels during the latter half of 2020.

Income tax expense (benefit)

(dollars in thousands)	Year ended December 31, 2019	2018
Income tax expense (benefit)	$ 3,464	$ 15,507
% of total revenue	**0.4%**	**1.8%**
% of freight revenue	0.4%	2.0%

Income tax expense decreased approximately $12.0 million, or 77.7%, for the year ended December 31, 2019, compared to 2018. As a percentage of total revenue, income tax expense decreased to 0.4% of total revenue for 2019 from 1.8% in 2018. As a percentage of freight revenue, income tax expense decreased to 0.4% of freight revenue for 2019 compared to 2.0% in 2018. These decreases were primarily related to the decrease in operating income of $43.0 million for 2019, compared to 2018 as described above as well as a decrease in our effective tax rate.

The effective tax rate is different from the expected combined tax rate due primarily to permanent differences related to our per diem pay structure for drivers. Due to the partial nondeductible effect of the per diem payments, our tax rate will fluctuate in future periods as income fluctuates. We are currently estimating our 2020 effective income tax rate to be approximately 25.5%.

RESULTS OF SEGMENT OPERATIONS

We have four reportable segments, Highway Services, Dedicated, Managed Freight, and Factoring. Highway Services represents non-dedicated, irregular route truckload services without fixed volume commitments in the expedited and over-the-road solo markets. Dedicated represents truckload services under long-term contracts that generally include minimum prices and volumes. Our Managed Freight segment has service offerings ancillary to our Highway Services and Dedicated segments, including: freight brokerage service provided both directly and through freight brokerage agents, who are paid a commission for the freight they provide, TMS, and warehousing services. In addition, our Factoring segment offers accounts receivable factoring services for external carriers. Our Highway Services and Managed Freight operations each consist of multiple operating segments, which are aggregated into our reportable segments due to having similar economic characteristics and meeting the aggregation criteria.

The operation of each of these businesses is described in our notes to this Annual Report.

The following table summarizes revenue and operating income data by reportable segment and service offering:

	Year ended December 31,	
(in thousands)	2019	2018
Revenues:		
Highway Services:		
Expedited	$ 262,764	$ 317,244
OTR	93,757	152,064
Total Highway Services	$ 356,521	$ 469,308
Dedicated	342,473	257,739
Managed Freight:		
Brokerage	102,479	102,730
TMS	36,136	27,036
Warehousing	47,779	23,580
Total Managed Freight	$ 186,394	$ 153,346
Factoring	9,140	5,062
Total revenues	$ 894,528	$ 885,455
Operating Income:		
Highway Services:		
Expedited	$ 10,629	$ 25,877
OTR	(11,727)	6,816
Total Highway Services	$ (1,098)	$ 32,693
Dedicated	1,026	12,699
Managed Freight:		
Brokerage	314	3,805
TMS	3,014	3,457
Warehousing	5,520	2,873
Total Managed Freight	$ 8,848	$ 10,135
Factoring	7,258	3,459
Total operating income	$ 16,034	$ 58,986

Comparison of Year Ended December 31, 2019 to Year Ended December 31, 2018

For 2019, total revenue increased $9.1 million, or 1.0%, to $894.5 million from $885.5 million in 2018. Our Highway Services total revenue decreased $112.8 million, as freight revenue decreased $93.4 million and fuel surcharge revenue decreased $19.4 million. The decrease in 2019 Highway Services revenue relates to a 281 (or 17.6%) average tractor decrease as well as a decrease in average freight revenue per tractor per week of 6.4% compared to 2018. The decrease in average freight revenue per tractor per week is the result of a 5.0% decrease, or 10.1 cents per mile, in average rate per total mile, and an approximately 1.5% decrease in average miles per unit when compared to 2018. Team driven units decreased approximately 4.4% to an average of 825 teams in 2019 from 863 teams in 2018.

Our Dedicated total revenue increased $84.7 million, as freight revenue increased $77.5 million and fuel surcharge revenue increased $7.2 million. The increase in 2019 Dedicated freight revenue relates to a 511 (or 40.9%) average tractor increase partially offset by a decrease in average freight revenue per tractor per week of 3.3% compared to 2018. Landair contributed $83.8 million of freight revenue to Dedicated operations in 2019, compared to $37.6 million for approximately six months in 2018. The increase in average tractors was attributable to the full year of Landair's operations plus a re-allocation of tractors from Highway Services to Dedicated. The decrease in average freight revenue per tractor per week is the result of fewer miles per tractor partially offset by a 1.3%, or 2.4 cents per mile, increase in average rate per total mile primarily attributable to a full year of Landair operations, which generate higher revenue per mile and lower miles per tractor.

Our Highway Services and Dedicated operating income were $33.8 million and $11.7 million lower in 2019 than 2018. Highway Services operating income, which generally fluctuates with market cycles to a greater extent than Dedicated, declined primarily due to a difficult operating environment that imposed negative pressure on rates and volumes. In particular, the operating results of our temperature-controlled business were significantly unprofitable. Dedicated operating income declined due to accepting contract pricing in non-Landair operations that was better than Highway Services but below our targeted profitability, offset by improved results at Landair. Additionally, higher insurance and claims expense and lower fuel surcharge recovery negatively impacted both of these reportable segments.

Managed Freight total revenue increased $33.0 million in 2019 compared to 2018 and Managed Freight operating income decreased $1.3 million in 2019 compared to 2018. The increase in Managed Freight revenue is primarily the result of Landair's full-year contribution of $83.9 million in revenue in 2019 versus partial-year contribution of $38.5 million in 2018. The decrease in operating income is primarily related to lower gross margin in brokerage due to significant pressure on revenue per load.

The increase in Factoring revenue is primarily the result of new customers as well as growth with existing customers. The increase in Factoring operating income is primarily the result of the increase in revenue as the majority of the related costs are fixed.

LIQUIDITY AND CAPITAL RESOURCES

Our business requires significant capital investments over the short-term and the long-term. Recently, we have financed our capital requirements with borrowings under our Credit Facility, cash flows from operations, long-term operating leases, finance leases, secured installment notes with finance companies, and proceeds from the sale of our used revenue equipment. Going forward, we expect revenue equipment acquisitions through purchases and finance leases to increase as a percentage of our fleet as we decrease our use of operating leases. Further, we expect to increase our capital allocation toward our Dedicated and Managed Freight segments to become the go-to partner for our customers' most critical transportation and logistics needs. We had working capital (total current assets less total current liabilities) of $93.1 million and $84.3 million at December 31, 2019 and 2018, respectively. Our working capital on any particular day can vary significantly due to the timing of collections and cash disbursements. Based on our expected financial condition, net capital expenditures, results of operations, related net cash flows, installment notes, and other sources of financing, we believe our working capital and sources of liquidity will be adequate to meet our current and projected needs and we do not expect to experience material liquidity constraints in the foreseeable future.

As of December 31, 2019, we had no of borrowings outstanding, undrawn letters of credit outstanding of approximately $35.2 million, and available borrowing capacity of $59.8 million under the Credit Facility. Fluctuations in the outstanding balance and related availability under our Credit Facility are driven primarily by cash flows from operations and the timing and nature of property and equipment additions that are not funded through notes payable and leases, as well as the nature and timing of collection of accounts receivable, payments of accrued expenses, and receipt of proceeds from disposals of property and equipment. Refer to Note 6, "Debt" of the accompanying consolidated financial statements for further information about material debt agreements.

With an average tractor fleet age of 2.0 years, we believe we have flexibility to manage our fleet and we plan to regularly evaluate our tractor replacement cycle, new tractor purchase requirements, and financing options.

Cash Flows

Net cash flows provided by operating activities were $64.0 million in 2019 compared with $124.8 million in 2018, primarily due to $34.0 million decrease in net income and a $22.8 million negative net swing in accounts receivable and accounts payable/accrued expenses due to growth in our Factoring segment and timing of expense payment.

Net cash flows used by investing activities were $93.0 million in 2019 compared with $120.9 million in 2018. The net investment in the Landair acquisition in 2018 was $105.9 million. Excluding the Landair acquisition, net investment in our fleet was $91.7 million in 2019 compared with $13.5 million in 2018. The increase in 2019 relates primarily to a change in financing method, where more equipment was purchased in 2019 versus acquired under operating or finance leases in 2018. The softer market for used equipment in 2019 also produced lower proceeds per unit, and we had a significant number of tractors held for sale at December 31, which are expected to generate proceeds in 2020. We took delivery of approximately 775 tractors new company tractors and disposed of approximately 831 used tractors in 2019, compared to delivery and disposal of 635 tractors and 615 tractors, respectively, in 2018. We expect net capital expenditures to decrease in 2020 compared to 2019, primarily due to expected purchases of approximately 550 tractors and disposals of approximately 750 used tractors (including 625 held for sale at December 31, 2019) in 2020.

Net cash flows provided by financing activities were $49.5 million in 2019 compared to net cash flows provided financing activities of $3.9 million in 2018. The changes were primarily a function of reduced net borrowings related to the trade cycle of our revenue equipment, whereby we have taken delivery of fewer new company tractors and disposed of more used tractors in 2019, compared to 2018.

Going forward, our cash flows may fluctuate depending on capital expenditures, future stock repurchases, strategic investments or divestitures, and the extent of future income tax obligations and refunds.

Contractual Obligations and Commercial Commitments

The following table sets forth our contractual cash obligations and commitments as of December 31, 2019:

Payments due by period: (in thousands)	Total	2020 (less than 1 year)	2021 (1-3 years)	2022 (1-3 years)	2023 (3-5 years)	2024 (3-5 years)	More than 5 years
Credit Facility (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Revenue equipment and property installment notes, including interest (2)	$279,645	$ 63,317	$ 77,543	$ 85,843	$ 28,710	$ 2,077	$ 22,155
Operating leases (3)	$ 65,952	$ 21,991	$ 18,223	$ 16,014	$ 7,293	$ 439	$ 1,992
Finance leases (4)	$ 35,642	$ 8,184	$ 7,719	$ 9,269	$ 9,080	$ 1,390	$ -
Purchase obligations (5)	$ 68,422	$ 68,422	$ -	$ -	$ -	$ -	$ -
Total contractual cash obligations (6)	$446,846	$159,099	$103,485	$111,126	$ 45,083	$ 3,906	$ 24,147

(1) Represents principal owed at December 31, 2019 and interest on such principal amount through maturity. The borrowings consist of draws under our Credit Facility, with fluctuating borrowing amounts and variable interest rates. In determining future contractual interest and principal obligations, for variable interest rate debt, the interest rate and principal amount in place at December 31, 2019, was utilized. The table assumes long-term debt is held to maturity. Refer to Note 6, "Debt" of the accompanying consolidated financial statements for further information.

(2) Represents principal and interest payments owed at December 31, 2019. The borrowings consist of installment notes with finance companies, with fixed borrowing amounts and fixed interest rates, except for a variable rate real estate note, for which the interest rate is effectively fixed through an interest rate swap. The table assumes these installment notes are held to maturity. Refer to Note 6, "Debt" of the accompanying consolidated financial statements for further information.

(3) Represents future monthly rental payment obligations under operating leases for tractors, trailers, and terminal properties, and computer and office equipment. Substantially all lease agreements for revenue equipment have fixed payment terms based on the passage of time. The tractor lease agreements generally stipulate maximum miles and provide for mileage penalties for excess miles. These leases generally run for

a period of three to five years for tractors and five to seven years for trailers. Refer to Note 7, "Leases" of the accompanying consolidated financial statements for further information.

(4) Represents principal and interest payments owed at December 31, 2019. The borrowings consist of finance leases with one finance company, with fixed borrowing amounts and fixed interest rates or rates that are floating but effectively fixed through related interest rate swaps. Borrowings in 2019 and thereafter include the residual value guarantees on the related equipment as balloon payments. Refer to Note 6, "Debt" of the accompanying consolidated financial statements for further information.

(5) Represents purchase obligations for revenue equipment totaling approximately $68.4 million in 2019. These commitments are cancelable, subject to certain adjustments in the underlying obligations and benefits. These purchase commitments are expected to be financed by operating leases, finance leases, long-term debt, proceeds from sales of existing equipment, and/or cash flows from operations. Refer to Notes 6 and 7, "Debt" and "Leases," respectively, of the accompanying consolidated financial statements for further information.

(6) Excludes any amounts accrued for unrecognized tax benefits as we are unable to reasonably predict the ultimate amount or timing of settlement of such unrecognized tax benefits.

Non-GAAP Financial Measures

Operating Ratio

Operating Ratio ("OR") From 2018 to 2019

GAAP Operating Ratio:	**2019**	**OR %**	**2018**	**OR %**
Total revenue	$ 894,528		$ 885,455	
Total operating expenses	878,494	98.2%	826,469	93.3%
Operating income	$ 16,034		$ 58,986	

Adjusted Operating Ratio:	2019	Adj. OR %	2018	Adj. OR %
Total revenue	$ 894,528		$ 885,455	
Fuel surcharge revenue	(94,127)		(105,726)	
Freight revenue (total revenue, excluding fuel surcharge)	800,401		779,729	
Total operating expenses	878,494		826,469	
Adjusted for:				
Fuel surcharge revenue	(94,127)		(105,726)	
Amortization of intangibles	(2,923)		(1,462)	
Adjusted operating expenses	781,444	97.6%	719,281	92.2%
Adjusted operating income	$ 18,957		$ 60,448	

In addition to operating ratio, we use "adjusted operating ratio" as a key measure of profitability. Adjusted operating ratio means operating expenses, net of fuel surcharge revenue and intangibles amortization, expressed as a percentage of revenue, excluding fuel surcharge revenue. Adjusted operating ratio is not a substitute for operating ratio measured in accordance with GAAP. There are limitations to using non-GAAP financial measures. We believe the use of adjusted operating ratio allows us to more effectively compare periods, while excluding the potentially volatile effect of changes in fuel prices. Our Board and management focus on our adjusted operating ratio as an indicator of our performance from period to period. We believe our presentation of adjusted operating ratio is useful because it provides investors and securities analysts the same information that we use internally to assess our core operating performance. Although we believe that adjusted operating ratio improves comparability in analyzing our period-to-period performance, it could limit comparability to other companies in our industry, if those companies define adjusted operating ratio differently. Because of these limitations, adjusted operating ratio should not be considered a measure of income generated by our business or discretionary cash available to us to invest in the growth of our business. Management compensates for these limitations by primarily relying on GAAP results and using non-GAAP financial measures on a supplemental basis.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with GAAP requires us to make decisions based upon estimates, assumptions, and factors we consider as relevant to the circumstances. Such decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which impact reported amounts and disclosures. Changes in future economic conditions or other business circumstances may affect the outcomes of our estimates and assumptions. Accordingly, actual results could differ from those anticipated. A summary of the significant accounting policies followed in preparation of the financial statements is contained in Note 1, "Summary of Significant Accounting Policies," of the consolidated financial statements attached hereto. The following discussion addresses our most critical accounting policies, which are 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.

Revenue Recognition

Revenue, drivers' wages, and other direct operating expenses generated by our Highway Services and Dedicated reportable segment are recognized proportionally as the transportation service is performed based on the percentage of miles completed as of the period end, as opposed to recognizing revenue upon the completion of the load, which was our historic practice prior to the adoption of ASU 2014-09 on January 1, 2018. Revenue is recognized on a gross basis at amounts charged to our customers because we control and are primarily responsible for the fulfillment of the promised service. Revenue includes transportation revenue, fuel surcharges, loading and unloading activities, equipment detention, and other accessorial services.

Revenue generated by our Managed Freight and Factoring segments is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs, as we act as a principal with substantial risks as primary obligor, except for transactions whereby equipment from our Highway Services and Dedicated segments perform the related services, which we record on a net basis in accordance with the related authoritative guidance. Included in Dedicated and Managed Freight revenue is lease revenue resulting from embedded leases for certain tractors and warehouse space. Revenue for the factoring business is recognized on a net basis after giving effect to receivables payments we make to the factoring client, given we are acting as an agent and are not the primary generator of the factored receivables in these transactions. Revenue for the warehousing business is generally, recognized as the service is performed based upon a weekly rate.

Depreciation of Revenue Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation for book purposes is determined using the straight-line method over the estimated useful lives of the assets, while depreciation for tax purposes is generally recorded using an accelerated method. Depreciation of revenue equipment is our largest item of depreciation. We generally depreciate new tractors (excluding day cabs) over five years to salvage values of approximately 15% of their cost. We generally depreciate new trailers over seven years for refrigerated trailers and ten years for dry van trailers to salvage values of approximately 25% of their cost. We annually 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. Changes in the useful life or salvage value estimates, or fluctuations in market values that are not reflected in our estimates, could have a material effect on our results of operations. Gains and losses on the disposal of revenue equipment are included in depreciation expense in the consolidated statements of operations.

We review salvage values of our revenue equipment annually and make adjustments periodically, based on trends in the used equipment market, to reflect updated estimates of fair value at disposal.

We lease certain revenue equipment under finance and operating leases with terms of approximately 48 to 84 months. Amortization of leased assets under finance leases is included in depreciation and amortization expense, while rental expense under operating leases is recorded under revenue equipment rentals and purchased transportation.

Pursuant to applicable accounting standards, revenue equipment and other long-lived assets are tested for impairment whenever an event occurs that indicates impairment may exist. Expected future cash flows are used to analyze whether an impairment has occurred. If the sum of expected undiscounted cash flows is less than the carrying value of the long-lived asset, then an impairment loss is recognized. We measure the impairment loss by comparing the fair value of the asset to its carrying value. Fair value is determined based on a discounted cash flow analysis or the appraised value of the assets, as appropriate.

A portion of our tractors are protected by non-binding indicative trade-in values or binding trade-back agreements with the manufacturers. The remainder of our tractors and substantially all of our owned trailers continue to be subject to fluctuations in market prices for used revenue equipment. Moreover, our trade-back agreements are contingent upon reaching acceptable terms for the purchase of new equipment. Continuing depressed prices of further declines in the price of used revenue equipment or failure to reach agreement for the purchase of new tractors with the manufacturers issuing trade-back agreements could result in impairment of, or losses on the sale of, revenue equipment. Historically, a small percentage of our equipment has been sold back to the dealers pursuant to the trade back agreements as we have generally found that market prices exceeded the trade back allowances.

Assets Held For Sale

Assets held for sale include property and revenue equipment no longer utilized in continuing operations which are available and held for sale. Assets held for sale are no longer subject to depreciation, and are recorded at the lower of depreciated book value or fair market value less selling costs. We periodically review the carrying value of these assets for possible impairment. We expect to sell these assets within twelve months.

Goodwill and Other Intangible Assets

We classify intangible assets into two categories: (i) intangible assets with finite lives subject to amortization and (ii) goodwill. We test goodwill for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. We test intangible assets with finite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. Such conditions may include an economic downturn in a geographic market or a change in the assessment of future operations. We record an impairment charge when the carrying value of the finite lived intangible asset is not recoverable by the cash flows generated from the use of the asset.

We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement, the history of the asset, our long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have finite lives are amortized, generally on a straight-line basis, over their useful lives, ranging from 5 to 15 years.

Insurance and Other Claims

The primary claims arising against us consist of auto liability (personal injury and property damage), workers' compensation, cargo, commercial liability, and employee medical expenses. At December 31, 2019, our insurance program involves self-insurance with the following risk retention levels (before giving effect to any commutation of an auto liability policy):

- auto liability - $1.0 million
- workers' compensation - $1.3 million
- cargo - $0.3 million
- employee medical - $0.4 million
- physical damage - 100%

Due to our significant self-insured retention amounts, we have exposure to fluctuations in the number and severity of claims and to variations between our estimated and actual ultimate payouts. We accrue the estimated cost of the uninsured portion of pending claims and an estimate for allocated loss adjustment expenses including legal and other direct costs associated with a claim. Estimates require judgments concerning the nature and severity of the claim, historical trends, advice from third-party administrators and insurers, the size of any potential damage award based on factors such as the specific facts of individual cases, the jurisdictions involved, the prospect of punitive damages, future medical costs, and inflation 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 could be adversely affected.

In addition to estimates within our self-insured retention layers, we also must make judgments concerning claims where we have third party insurance and for claims outside our coverage limits. Upon settling claims and expenses associated with claims where we have third party coverage, we are generally required to initially fund payment to the claimant and seek reimbursement from the insurer. Additionally, we accrue claims above our self-insured retention and record a corresponding receivable for amounts we expect to collect from insurers upon settlement of such claims. We evaluate collectability of the receivables based on the credit worthiness and surplus of the insurers, along with our prior experience and contractual terms with each. If any claim occurrence were to exceed our aggregate 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. If one or more claims were to exceed our then effective coverage limits, our financial condition and results of operations could be materially and adversely affected.

We also make judgments regarding the ultimate benefit versus risk of commuting certain periods within our auto liability policy. If we commute a policy, we assume 100% risk for covered claims in exchange for a policy refund.

Lease Accounting

In February 2016, the FASB issued a new standard ASU 2016-02, *Leases*, and subsequently issued additional ASUs amending this ASU (collectively ASC 842, *Leases*). The Company adopted the provisions of ASC 842 on January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption in line with the new transition method allowed under ASU 2018-11 – See Recent Accounting Pronouncements.

At the commencement date of a new lease agreement with contractual terms longer than twelve months, we recognize an asset and a lease liability on the balance sheet and categorize the lease as either finance or operating. Certain lease agreements have lease and nonlease components, and we have elected to account for these components separately.

Right-of-use assets and lease liabilities are initially recorded based on the present value of lease payments over the term of the lease. When the rate implicit in the lease is readily determinable, this rate is used for calculating the present value of remaining lease payments; otherwise, our incremental borrowing rate is used. Right-of-use assets also include prepaid lease expenses and initial direct costs of executing the leases, which are reduced by landlord incentives. Options to extend or terminate a lease agreement are included in or excluded from the lease term, respectively, when those options are reasonably certain to be exercised. Right-of-use assets are tested for impairment in the same manner as long-lived assets

Finance lease obligations are utilized to finance a portion of our revenue equipment and are entered into with certain finance companies who are not parties to our Credit Facility and may contain guarantees of the residual value of the related equipment by us. As such, the residual guarantees are included in the related debt balance as a balloon payment at the end of the related term as well as included in the future minimum finance lease payments. These lease agreements require us to pay personal property taxes, maintenance, and operating expenses. Our operating lease obligations do not typically include residual value guarantees or material restrictive covenants.

Right-of-use assets are included in net property and equipment. For finance leases, right-of-use assets are amortized on a straight-line basis over the shorter of the expected useful life or the lease term, and the carrying amount of the lease liability is adjusted to reflect interest expense, which is recorded in interest expense, net. Operating lease right-of-use assets are amortized over the lease term on a straight-line basis, and the lease liability is measured at the present value of the remaining lease payments. Variable lease payments not included in the lease liability for mileage charges on leased revenue equipment are expensed as incurred. Operating lease costs are recognized on a straight-line basis over the term of the lease within operating expenses.

Accounting for Income Taxes

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 basis. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We believe the future tax deductions will be realized principally through future reversals of existing taxable temporary differences and future taxable income, except for when a valuation allowance has been provided.

In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Potential accrued interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense.

Stock-Based Employee Compensation

We issue several types of stock-based compensation, including awards that vest based on service and performance conditions or a combination of the conditions. Performance-based awards vest contingent upon meeting certain performance criteria established by the Compensation Committee of our Board of Directors. For performance-based awards, determining the appropriate amount to expense in each period is based on likelihood and timing of achieving the stated targets and requires judgment, including forecasting future financial results. The estimates are revised periodically based on the probability and timing of achieving the required performance targets and adjustments are made as appropriate. Awards that are only subject to time vesting provisions are amortized using the straight-line method.

Recent Accounting Pronouncements

Accounting Standards adopted

In May 2014 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, which supersedes virtually all existing revenue guidance. The new standard introduces a five-step model to determine when and how revenue is recognized. The premise of the new model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires enhanced disclosures regarding the nature, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The new standard became effective for us for our annual and interim reporting periods beginning January 1, 2018. The guidance permits the use of either a full retrospective or modified retrospective adoption approach with a cumulative effect adjustment recorded in either scenario as necessary upon transition.

As permitted by the guidance, we elected the modified retrospective approach and thus recognized the cumulative effect of adoption of $0.6 million, net of tax, as a positive adjustment to retained earnings in the first quarter of 2018 as a result of the initial recording of in process revenue and associated direct expenses.

Based on our review of our customer shipping arrangements and the related guidance, we have concluded that we will recognize revenue from loads proportionally as the transportation service is performed based on the percentage of miles completed as of the period end, as opposed to recognizing revenue upon the completion of the load, which was our historic practice. Revenue will be recognized on a gross basis at amounts charged to our customers because we control and are primarily responsible for the fulfillment of the promised service. Our recognition of revenue under the new standard approximates our recognition of revenue under the prior standard, as there will generally be a consistent amount of freight in process at the beginning and end of the period; however, seasonality and the day on which the period ends may cause minor differences.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, which establishes Topic 842 to replace Topic 840 regarding accounting for leases. Topic 842 requires lessees to recognize a right-of-use asset and a lease liability for most leases on the balance sheet. Leases that were previously described as capital leases are now called finance leases, and operating leases with a term of at least twelve months are now required to be recorded on the balance sheet. We adopted this standard on January 1, 2019 using the modified retrospective approach.

In July 2018, FASB issued ASU 2018-11, which provides an optional transition method allowing application of Topic 842 as of the adoption date and recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, with no restatement of comparative prior periods. We have adopted the standard using this optional transition method.

Within Topic 842, FASB has provided a number of practical expedients for applying the new lease standard in relation to leases that commenced prior to the standard's effective date. We have elected the package of practical expedients which allowed us, among other things, to carry forward the operating and finance lease classifications from Topic 840 to the new operating and finance lease classifications under Topic 842.

The adoption of this ASU resulted in the initial recognition of operating lease assets of $40.1 million and liabilities totaling $41.0 million, comprised of $15.3 million of current operating lease obligations and $25.7 million of long-term operating lease obligations.

Accounting Standards not yet adopted

In June 2016, FASB issued ASU 2016-13, *Financial Instruments - Measurement of Credit Losses on Financial Instruments*, which will require an entity to measure credit losses for certain financial instruments and financial assets, including trade receivables. Under this update, on initial recognition and at each reporting period, an entity will be required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. This update will be effective for us for our annual reporting period beginning January 1, 2023, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impacts the adoption of this standard will have on the consolidated financial statements.

INFLATION, NEW EMISSIONS CONTROL REGULATIONS, AND FUEL COSTS

Most of our operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. In recent years, the most significant effects of inflation have been on revenue equipment prices and the related depreciation, litigation and claims, and driver and non-driver wages. New emissions control regulations and increases in wages of manufacturing workers and other items have resulted in higher tractor prices, while the market value of used equipment has fluctuated significantly. The cost of fuel has been volatile over the last several years, with costs increasing in 2018 and 2019 after significant decreases in both 2017 and 2016. Health care prices have increased faster than general inflation, primarily due to the rapid increase in prescription drug costs and more people on our health plan. The nationwide shortage of qualified drivers has caused us to raise driver wages per mile at a rate faster than general inflation for the past four years, and this trend may continue as additional government regulations constrain industry capacity. Additionally, competition and the related cost to employ non-drivers have increased, especially for the more skilled or technical positions, including mechanics, those with information technology related skills, and degreed professionals.

Geographic Areas

We operate throughout the U.S. and in parts of Canada, with substantially all of our revenue generated from within the U.S. All of our tractors are domiciled in the U.S., and we have generated less than one percent and less than two percent of our revenue in Canada and Mexico in 2019 and 2018, respectively. In 2019, as part of our strategic plan to improve profitability, we have discontinued our services within Mexico. We do not separately track domestic and foreign revenue from customers, and providing such information would not be meaningful. Excluding a de minimis number of trailers, all of our long-lived assets are, and have been for the last three fiscal years, located within the United States.

SEASONALITY

During 2018 and 2019, though not to the same extent as in the past, we experienced marked increases in business and profitability during the fourth quarter holiday season, due to our team drivers and customer base. After this surge, revenue generally decreases as customers reduce shipments following the holiday season and as inclement weather impedes operations. At the same time, operating expenses generally increase, with fuel efficiency declining because of engine idling and weather, creating more physical damage equipment repairs. For the reasons stated, first quarter results historically have been lower than results in each of the other three quarters of the year, excluding charges. The duration of what is considered peak season has shortened over the last few years and now is approximately a five-week period beginning the week of Thanksgiving and ending on Christmas Eve, and we have seen our customers' networks adjust accordingly. If this trend continues, our ability to take advantage of this surge in business and our fourth quarter profitability could be negatively affected.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We experience various market risks, including changes in interest rates and fuel prices. We do not enter into derivatives or other financial instruments for trading or speculative purposes, or when there are no underlying related exposures. Because our operations are mostly confined to the United States, we are not subject to a material amount of foreign currency risk.

COMMODITY PRICE RISK

We engage in activities that expose us to market risks, including the effects of changes in fuel prices and in interest rates. Financial exposures are evaluated as an integral part of our risk management program, which seeks, from time-to-time, to reduce the potentially adverse effects that the volatility of fuel markets and interest rate risk may have on operating results.

In an effort to seek to reduce the variability of the ultimate cash flows associated with fluctuations in diesel fuel prices, we have periodically entered into various derivative instruments, including forward futures swap contracts. We have historically entered into hedging contracts with respect to ULSD. Under these contracts, we paid a fixed rate per gallon of ULSD and received the monthly average price of Gulf Coast ULSD. The retrospective and prospective regression analyses provided that changes in the prices of diesel fuel and ULSD were deemed to be highly effective based on the relevant authoritative guidance. At December 31, 2019, there are no remaining fuel hedge contracts. We do not engage in speculative transactions, nor do we hold or issue financial instruments for trading purposes.

A one dollar increase in the price of diesel per gallon would decrease our net income by $5.8 million. This sensitivity analysis considers that we expect to purchase approximately 42.3 million gallons of diesel annually, with an assumed fuel surcharge recovery rate of 86.1% of the cost (which was our fuel surcharge recovery rate during the year ended December 31, 2019).

INTEREST RATE RISK

In August 2015, we entered into an interest rate swap agreement with a notional amount of $28.0 million, which was designated as a hedge against the variability in future interest payments due on the debt associated with the purchase of our corporate headquarters. The terms of the swap agreement effectively convert the variable rate interest payments on this note to a fixed rate of 4.2% through maturity on August 1, 2035. In 2016, we also entered into several interest rate swaps, which were designated to hedge against the variability in future interest rate payments due on rent associated with the purchase of certain trailers. Because the critical terms of the swap and hedged item coincide, in accordance with the requirements of ASC 815, the change in the fair value of the derivative is expected to exactly offset changes in the expected cash flows due to fluctuations in the LIBOR rate over the term of the debt instrument, and therefore no ongoing assessment of effectiveness is required. For the years ended December 31, 2019 and 2018, the fair value of the swap agreements, amounts reclassified from accumulated other comprehensive income (loss) into our results of operations, and amounts expected to be reclassified from accumulated other comprehensive income (loss) into our results of operations during the next twelve months due to interest rate changes, are immaterial. The amounts actually realized will depend on the fair values as of the date of settlement.

Our market risk is also affected by changes in interest rates. Historically, we have used a combination of fixed-rate and variable-rate obligations to manage our interest rate exposure. Fixed-rate obligations expose us to the risk that interest rates might fall. Variable-rate obligations expose us to the risk that interest rates might rise. Of our total $348.2 million of debt including operating and finance leases, we had $31.5 million of variable rate debt outstanding at December 31, 2019, including our Credit Facility, a real-estate note and certain equipment notes, of which the real-estate note of $23.8 million was hedged with the interest rate swap agreement noted above at 4.2% and certain of our equipment notes totaling $7.7 million were hedged at a weighted average interest rate of 2.9%. Our earnings would be affected by changes in these short-term interest rates. Risk can be quantified by measuring the financial impact of a near-term adverse increase in short-term interest rates. At our December 31, 2019 level of borrowing on our non-hedged variable rate debt, a 1% increase in our applicable rate would reduce annual net income by less than $0.1 million. Our remaining debt is fixed rate debt, and therefore changes in market interest rates do not directly impact our interest expense.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Covenant Transportation Group, Inc. and subsidiaries, including the consolidated balance sheets as of December 31, 2019 and 2018, and the related statements of operations, statements of comprehensive income, statements of stockholders' equity, and statements of cash flows for each of the years in the three-year period ended December 31, 2019, together with the related notes, and the report of KPMG LLP, our independent registered public accounting firm as of December 31, 2019 and 2018, and for each of the years in the three year period ended December 31, 2019 are set forth at pages 61 through 90 elsewhere in this report.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On April 17, 2020, the Audit Committee of the Board of Directors (the "Audit Committee") of the Company made the decision to change the Company's independent registered public accounting firm and the Company dismissed KPMG LLP ("KPMG") as its independent registered public accounting firm.

The audit reports of KPMG on the Company's consolidated financial statements as of and for the years ended December 31, 2019 and 2018 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles, except as follows:

- The audit report of KPMG on the consolidated financial statements of the Company as of and for the year ended December 31, 2019 contained a paragraph stating that "As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of ASU 2016-02, Leases, and subsequently issued additional ASUs amending this ASU (collectively ASC 842, Leases)."

The audit reports of KPMG on the effectiveness of internal control over financial reporting as of and for the years ended December 31, 2019 and 2018 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles, except that KPMG's report indicates that the Company did not maintain effective internal control over financial reporting as of December 31, 2018 because of the effect of a material weakness described in the following paragraph.

During the two fiscal years ended December 31, 2019 and 2018, and from January 1, 2020 through March 10, 2020, there were no "disagreements" (as defined in Item 304(a)(1)(iv) of Regulation S-K and related instructions) with KPMG on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of KPMG, would have caused KPMG to make reference in connection with their opinion to the subject matter of the disagreement. During the years ended December 31, 2019 and 2018, and from January 1, 2020 through April 17, 2020, there have been no "reportable events" (as defined in Regulation S-K Item 304(a)(1)(v)); except for a material weakness in internal control over financial reporting identified during the audit for the year ended December 31, 2018 related to the design and maintenance of effective program change management controls over certain information technology ("IT") operating systems, databases and IT applications that support the Company's financial reporting processes. This material weakness was disclosed in Item 9A of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and was disclosed by the Company as remediated in Item 9A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

On April 17, 2020, the Audit Committee made the decision to engage Grant Thornton LLP ("GT") as the Company's independent registered public accounting firm, effective immediately, to perform independent audit services for the fiscal year ending December 31, 2020. During the fiscal years ended December 31, 2019 or 2018, and from January 1, 2020 through April 17, 2020, neither the Company nor anyone on its behalf consulted GT regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered with respect to the consolidated financial statements of the Company, and no written report or oral advice was provided to the Company by GT that was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was the subject of a "disagreement" (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a "reportable event" (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to us, 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.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2019.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Management, including our Chief Executive Officer and Chief Financial Officer under the oversight of our Board of Directors, assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, our management used the criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management believes that, as of December 31, 2019, our internal control over financial reporting is effective based on those criteria.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with GAAP. A company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving its control objectives.

An internal control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all our control issues and instances of fraud, if any, have been detected.

KPMG LLP, the independent registered public accounting firm who audited the Company's Consolidated Financial Statements included in this Annual Report, has issued a report on the Company's internal control over financial reporting which is included herein.

Remediation of Previously Disclosed Material Weakness

As disclosed in "Controls and Procedures" in our Annual Report for the fiscal year ended December 31, 2018, during the fourth quarter of fiscal 2018 we identified a material weakness in internal control related to ineffective program change management controls over certain of our information technology ("IT") operating systems, databases and IT applications that support the Company's financial reporting processes.

During 2019, management implemented our previously disclosed remediation plan that included: (i) developing a training program addressing ITGCs and policies, including educating control owners concerning the principles and requirements of each control, with a focus on those related to change-management over IT systems impacting financial reporting; (ii) implementing controls to address and maintain documentation of completeness and accuracy of system generated information used to support the operation of the controls; (iii) developing enhanced change-management intake procedures and controls related to changes in IT systems; (iv) implementing an IT management review and testing plan to monitor ITGCs with a specific focus on systems supporting our financial reporting processes; and (v) enhanced monthly reporting on the remediation measures to the Audit Committee of our Board of Directors.

During the fourth quarter of 2019, we completed our testing of the operating effectiveness of the implemented controls and found them to be effective. As a result, we have concluded the material weakness has been remediated as of December 31, 2019.

Changes in Internal Control Over Financial Reporting

Except for changes in connection with our implementation of the remediation process described above, and the implementation of controls related to the Landair Acquisition, as of December 31, 2019, there have been no other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the fourth quarter of fiscal 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Covenant Transportation Group, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Covenant Transportation Group, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 9, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

We did not audit the financial statements of Transport Enterprise Leasing, LLC (a 49% percent owned investee company). The Company's investment in Transport Enterprise Leasing, LLC was $31.9 million as of December 31, 2019, and its equity in earnings of Transport Enterprise Leasing, LLC was $7.0 million for the year ended December 31, 2019. The financial statements of Transport Enterprise Leasing, LLC were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Transport Enterprise Leasing, LLC, is based solely on the report of the other auditors.

Adoption of ASU 2016-02

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of ASU 2016-02, *Leases*, and subsequently issued additional ASUs amending this ASU (collectively ASC 842, *Leases*).

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2001.

Nashville, Tennessee
March 9, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Covenant Transportation Group, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Covenant Transportation Group, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated March 9, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Nashville, Tennessee
March 9, 2020

COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In thousands, except share data)

	2019	2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 43,591	$ 23,127
Accounts receivable, net of allowance of $1,944 in 2019 and $1,985 in 2018	167,825	151,093
Drivers' advances and other receivables, net of allowance of $692 in 2019 and $626 in 2018	8,507	16,675
Inventory and supplies	4,210	4,067
Prepaid expenses	11,707	11,579
Assets held for sale	12,010	2,559
Income taxes receivable	5,403	1,109
Other short-term assets	1,132	1,435
Total current assets	254,385	211,644
Property and equipment, at cost	725,383	638,770
Less: accumulated depreciation and amortization	(208,180)	(188,175)
Net property and equipment	517,203	450,595
Goodwill	42,518	41,598
Other intangibles, net	29,615	32,538
Other assets, net	37,919	37,149
Total assets	$ 881,640	$ 773,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Checks outstanding in excess of bank balances	$ 592	$ 1,857
Accounts payable	25,745	22,101
Accrued expenses	31,840	49,503
Current maturities of long-term debt	54,377	28,710
Current portion of finance lease obligations	7,258	5,374
Current portion of operating lease obligations	19,460	-
Current portion of insurance and claims accrual	21,800	19,787
Other short-term liabilities	185	-
Total current liabilities	161,257	127,332
Long-term debt	200,177	166,635
Long-term portion of finance lease obligations	26,010	35,119
Long-term portion of operating lease obligations	40,882	-
Insurance and claims accrual	20,295	22,193
Deferred income taxes	80,330	77,467
Other long-term liabilities	2,578	1,636
Total liabilities	531,529	430,382
Commitments and contingent liabilities	-	-
Stockholders' equity:		
Class A common stock, $.01 par value; 40,000,000 shares authorized; 16,165,145 shares issued and outstanding as of December 31, 2019; and 20,000,000 authorized; 16,015,708 shares issued and outstanding as of December 31, 2018	173	171
Class B common stock, $.01 par value; 5,000,000 shares authorized; 2,350,000 shares issued and outstanding	24	24
Additional paid-in-capital	141,885	142,177
Accumulated other comprehensive income	(1,014)	204
Retained earnings	209,043	200,566
Total stockholders' equity	350,111	343,142
Total liabilities and stockholders' equity	$ 881,640	$ 773,524

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

COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(In thousands, except per share data)

	2019	2018	2017
Revenues			
Freight revenue	$ 800,401	$ 779,729	$ 626,809
Fuel surcharge revenue	94,127	105,726	78,198
Total revenue	$ 894,528	$ 885,455	$ 705,007
Operating expenses:			
Salaries, wages, and related expenses	321,997	304,447	241,784
Fuel expense	115,307	121,264	103,139
Operations and maintenance	59,505	55,505	48,774
Revenue equipment rentals and purchased transportation	204,655	183,645	141,954
Operating taxes and licenses	13,024	11,831	9,878
Insurance and claims	47,724	43,333	33,155
Communications and utilities	6,969	7,061	6,938
General supplies and expenses	30,434	23,227	14,783
Depreciation and amortization, including gains and losses on disposition of property and equipment	78,879	76,156	76,447
Total operating expenses	878,494	826,469	676,852
Operating income	16,034	58,986	28,155
Interest expense, net	11,110	8,708	8,258
Income from equity method investment	(7,017)	(7,732)	(3,400)
Income before income taxes	11,941	58,010	23,297
Income tax expense (benefit)	3,464	15,507	(32,142)
Net income	$ 8,477	$ 42,503	$ 55,439
Income per share:			
Basic income per share	$ 0.46	$ 2.32	$ 3.03
Diluted income per share	$ 0.45	$ 2.30	$ 3.02
Basic weighted average shares outstanding	18,435	18,340	18,279
Diluted weighted average shares outstanding	18,635	18,469	18,372

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

COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(In thousands)

	2019	2018	2017
Net income	$ 8,477	$ 42,503	$ 55,439
Other comprehensive income:			
Unrealized (loss) gain on effective portion of cash flow hedges, net of tax of $437, $377, and $51 in 2019, 2018 and 2017, respectively	(1,278)	993	149
Reclassification of cash flow hedge gains (losses) into statement of operations, net of tax of ($5), $408, and $1,719 in 2019, 2018 and 2017, respectively	15	(1,076)	2,784
Unrealized holding gain (loss) on investments classified as available-for-sale	45	(6)	-
Total other comprehensive (loss) income	(1,218)	(89)	2,933
Comprehensive income	$ 7,259	$ 42,414	$ 58,372

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

COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(In thousands)

	Common Stock Class A	Common Stock Class B	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders Equity
Balances at December 31, 2016	$ 170	$ 24	$ 137,912	$ (1,084)	$ (2,640)	$102,032	$ 236,414
Net income	-	-	-	-	-	55,439	55,439
Other comprehensive income	-	-	-	-	2,933	-	2,933
Stock-based employee compensation expense	-	-	951	-	-	-	951
Issuance of restricted shares, net	1	-	(1,621)	1,084	-	-	(536)
Balances at December 31, 2017	$ 171	$ 24	$ 137,242	$ -	$ 293	$157,471	$ 295,201
Net income	-	-	-	-	-	42,503	42,503
Effect of adoption of ASU 2014-09	-	-	-	-	-	592	592
Other comprehensive loss	-	-	-	-	(89)	-	(89)
Stock-based employee compensation expense	-	-	4,802	-	-	-	4,802
Issuance of restricted shares, net	-	-	133	-	-	-	133
Balances at December 31, 2018	$ 171	$ 24	$ 142,177	$ -	$ 204	$200,566	$ 343,142
Net income	-	-	-	-	-	8,477	8,477
Other comprehensive loss	-	-	-	-	(1,218)	-	(1,218)
Stock-based employee compensation expense	-	-	819	-	-	-	819
Issuance of restricted shares, net	2	-	(1,111)	-	-	-	(1,109)
Balances at December 31, 2019	$ 173	$ 24	$ 141,885	$ -	$ (1,014)	$209,043	$ 350,111

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

COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(In thousands)

	2019	2018	2017
Cash flows from operating activities:			
Net income	$ 8,477	$ 42,503	$ 55,439
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for losses on accounts receivable	255	507	454
Reversal of gain on sales to equity method investee	(7)	(189)	(179)
Depreciation and amortization	80,529	75,859	72,422
Amortization of deferred financing fees	147	148	242
Deferred income tax expense (benefit)	3,454	13,840	(23,023)
Income tax (expense) benefit arising from restricted share vesting and stock options exercised	(105)	(44)	457
Stock-based compensation expense	819	5,177	1,201
Equity in income of affiliate	(7,017)	(7,732)	(3,400)
Return on investment in affiliated company	1,225	1,960	1,960
(Gain) loss on disposition of property and equipment	(2,829)	298	4,024
Return on investment in available-for-sale securities	13	(13)	-
Changes in operating assets and liabilities:			
Receivables and advances	(6,706)	(27,199)	(23,670)
Prepaid expenses and other assets	487	(2,127)	1,768
Inventory and supplies	(143)	168	(252)
Insurance and claims accrual	945	2,412	(1,165)
Operating lease right-of-use asset amortization	553	-	-
Accounts payable and accrued expenses	(16,066)	19,232	(3,425)
Net cash flows provided by operating activities	64,031	124,800	82,853
Cash flows from investing activities:			
Acquisition of Landair Holdings, Inc., net of cash acquired	-	(105,946)	-
Purchase of available-for-sale securities	(1,365)	(1,496)	-
Acquisition of property and equipment	(138,273)	(75,142)	(110,802)
Proceeds from disposition of property and equipment	46,609	61,687	48,749
Net cash flows used by investing activities	(93,029)	(120,897)	(62,053)
Cash flows from financing activities:			
Change in checks outstanding in excess of bank balances	(1,265)	1,857	(189)
Proceeds from issuance of notes payable	107,251	100,811	121,210
Repayments of notes payable	(44,278)	(89,569)	(122,676)
Repayments of finance lease obligations	(7,225)	(3,883)	(7,416)
Proceeds under revolving credit facility	1,734,338	1,598,213	1,271,669
Repayments under revolving credit facility	(1,738,249)	(1,603,309)	(1,274,847)
Payment of minimum tax withholdings on stock compensation	(1,110)	(242)	(785)
Debt refinancing costs	-	(10)	(160)
Net cash flows provided by (used in) financing activities	49,462	3,868	(13,194)
Net change in cash and cash equivalents	20,464	7,771	7,606
Cash and cash equivalents at beginning of year	23,127	15,356	7,750
Cash and cash equivalents at end of year	$ 43,591	$ 23,127	$ 15,356
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	$ 11,026	$ 8,568	$ 8,268
Income taxes	$ 752	$ (5,388)	$ (2,222)
Equipment purchased under finance leases	$ -	$ 19,638	$ 9,953

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Covenant Transportation Group, Inc., a Nevada holding company, together with its wholly owned subsidiaries offers transportation and logistics services to customers throughout the continental United States.

Segment Realignment

In 2019, we made a number of changes to our organizational structure. These changes impacted the company's reportable operating segments but did not impact the company's Consolidated Financial Statements. Under this revised reporting structure, we have four reportable operating segments, which include:

- Non-dedicated truckload services ("Highway Services"), which consists of two truckload service offerings that are aggregated because they have similar economic characteristics and meet the aggregation criteria. The two truckload service offerings include: (i) expedited and (ii) over-the-road ("OTR").
- Dedicated contract truckload services ("Dedicated"), which consists of our truckload business that involves longer-term contracts that allocate a specified number of tractors and trailers to a specific customer, with fixed and variable compensation.
- Freight brokerage, transportation management services ("TMS"), and warehousing services ("Managed Freight"), which consists of three service offerings that are aggregated because they have similar economic characteristics and meet the aggregation criteria. The three service offerings that comprise our Managed Freight segment are as follows: (i) Freight brokerage ("Brokerage"); (ii) TMS, (iii) and Warehousing ("Warehousing").
- Accounts receivable factoring services ("Factoring"), which assists current and potential capacity providers with improving their cash flows through secured invoice factoring services.

The following table summarizes our revenue by our four reportable operating segment, disaggregated to the service offering level, as used by our chief operating decision maker in making decisions regarding allocation of resources, etc., organized first by reporting operating segment and then by service offering for the years ended December 31, 2019, 2018, and 2017:

	Years ended December 31,		
(in thousands)	2019	2018	2017
Revenues:			
Highway Services:			
Expedited	$ 262,764	$ 317,244	$ 314,579
OTR	93,757	152,064	153,413
Total Highway Services	356,521	469,308	467,992
Dedicated	342,473	257,739	144,845
Managed Freight:			
Brokerage	102,479	102,730	79,630
TMS	36,136	27,036	9,412
Warehousing	47,779	23,580	-
Total Managed Freight	186,394	153,346	89,042
Factoring	9,140	5,062	3,128
Total revenues	$ 894,528	$ 885,455	$ 705,007

Principles of Consolidation

The consolidated financial statements include the accounts of Covenant Transportation Group, Inc., a holding company incorporated in the state of Nevada in 1994, and its wholly owned subsidiaries: Covenant Transport, Inc., a Tennessee corporation; Southern Refrigerated Transport, Inc., an Arkansas corporation; Star Transportation, Inc., a Tennessee corporation, each d/b/a Covenant Transport Services; Covenant Transport Solutions, LLC., a Nevada limited liability company, d/b/a Transport Financial Services; Covenant Logistics, Inc., a Nevada corporation; Covenant Asset Management, LLC., a Nevada limited liability corporation; CTG Leasing Company, a Nevada corporation; IQS Insurance Risk Retention Group, Inc., a Vermont corporation; Driven Analytic Solutions, LLC, a Nevada limited liability company; Heritage Insurance, Inc., a Tennessee corporation; Landair Holdings, Inc., a Tennessee corporation; Landair Transport, Inc., a Tennessee corporation; Landair Logistics, Inc., a Tennessee corporation; Landair Leasing, Inc., a Tennessee corporation; and Transport Management Services, LLC, a Tennessee limited liability company.

References in this report to "it," "we," "us," "our," the "Company," and similar expressions refer to Covenant Transportation Group, Inc. and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Investment in Transport Enterprise Leasing, LLC

Transport Enterprise Leasing, LLC ("TEL") is a tractor and trailer equipment leasing company and used equipment reseller. We evaluated our investment in TEL to determine whether it should be recorded on a consolidated basis. Our percentage of ownership interest (49%), an evaluation of control, and whether a variable interest entity ("VIE") existed were all considered in our consolidation assessment. Based on the analysis, the Company is not the primary beneficiary of TEL and TEL should not be consolidated. We have accounted for our investment in TEL using the equity method of accounting given our 49% ownership interest and ability to exercise significant influence over operating and financial policies. Under the equity method, the cost of our investment is adjusted for our share of equity in the earnings of TEL and reduced by distributions received and our proportionate share of TEL's net income is included in our earnings.

On a periodic basis, we assess whether there are any indicators that the fair value of our investment in TEL may be impaired. The investment is impaired only if the estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss would be measured as the excess of the carrying amount of the investment over the fair value of the investment. As a result of TEL's earnings, no impairment indicators were noted that would provide for impairment of our investment.

Revenue Recognition

Revenue, drivers' wages, and other direct operating expenses generated by our Highway Services and Dedicated reportable segments are recognized proportionally as the transportation service is performed based on the percentage of miles completed as of the period end, as opposed to recognizing revenue upon the completion of the load, which was our historic practice prior to the adoption of ASU 2014-09 on January 1, 2018. Revenue is recognized on a gross basis at amounts charged to our customers because we control and are primarily responsible for the fulfillment of the promised service. Revenue includes transportation revenue, fuel surcharges, loading and unloading activities, equipment detention, and other accessorial services.

Revenue generated by our Managed Freight and Factoring segments is recognized upon completion of the services provided. Revenue is recorded on a gross basis, without deducting third party purchased transportation costs, as we act as a principal with substantial risks as primary obligor, except for transactions whereby equipment from our Highway Services and Dedicated segments perform the related services, which we record on a net basis in accordance with the related authoritative guidance. Revenue for the factoring business is recognized on a net basis after giving effect to receivables payments we make to the factoring client, given we are acting as an agent and are not the primary generator of the factored receivables in these transactions. Revenue for the warehousing business is generally recognized as the service is performed, based upon a weekly rate.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make decisions based upon estimates, assumptions, and factors we consider as relevant to the circumstances. Such decisions include the selection of applicable accounting principles and the use of judgment in their application, the results of which impact reported amounts and disclosures. Changes in future economic conditions or other business circumstances may affect the outcomes of our estimates and assumptions. Accordingly, actual results could differ from those anticipated.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less at acquisition to be cash equivalents. Additionally, we are also subject to concentrations of credit risk related to deposits in banks in excess of the Federal Deposit Insurance Corporation limits.

Accounts Receivable and Concentration of Credit Risk

We extend credit to our customers in the normal course of business. We perform ongoing credit evaluations and generally do not require collateral. Trade accounts receivable are recorded at their invoiced amounts, net of allowance for doubtful accounts. We evaluate the adequacy of our allowance for doubtful accounts quarterly. Accounts outstanding longer than contractual payment terms are considered past due and are reviewed individually for collectability. We maintain reserves for potential credit losses based upon its loss history and specific receivables aging analysis. Receivable balances are written off when collection is deemed unlikely.

Accounts receivable are comprised of a diversified customer base that mitigates the level of concentration of credit risk. During 2019, 2018, and 2017, our top ten customers generated 45%, 49%, and 49% of total revenue, respectively. In 2019 and 2018, one customer accounted for more than 10% of our consolidated revenue in each year. In 2017, there were two such customers. The carrying amount reported in the consolidated balance sheet for accounts receivable approximates fair value based on the fact that the receivables collection averaged approximately 33 days and 32 days in 2019 and 2018, respectively.

Included in accounts receivable is $86.6 million and $53.6 million of factoring receivables at December 31, 2019 and 2018, respectively, net of allowances for bad debts of $0.5 million and $0.4 million in those years. We advance approximately 85% to 95% of each receivable factored and retain the remainder as collateral for collection issues that might arise. The retained amounts are returned to the clients after the related receivable has been collected, net of interest and fees on the amount we advanced. At December 31, 2019, the retained amounts related to factored receivables totaled $1.8 million and were included in accounts payable in the consolidated balance sheet. Our factoring clients are smaller trucking companies that factor their receivables to us for a fee to facilitate faster cash flow. We evaluate each client's customer base under predefined criteria. The carrying value of the factored receivables approximates the fair value, as the receivables are generally repaid directly to us by the client's customer within 30–40 days due to the combination of the short-term nature of the financing transaction and the underlying quality of the receivables.

The following table provides a summary (in thousands) of the activity in the allowance for doubtful accounts for 2019, 2018, and 2017:

Years ended December 31:	Beginning balance January 1,	Additional provisions to (reversal of) allowance	Write-offs and other adjustments	Ending balance December 31,
2019	$ 1,985	$ 255	$ (296)	$ 1,944
2018	$ 1,456	$ 507	$ 22	$ 1,985
2017	$ 1,345	$ 454	$ (343)	$ 1,456

Inventories and Supplies

Inventories and supplies consist of parts, tires, fuel, and supplies. Tires on new revenue equipment are capitalized as a component of the related equipment cost when the tractor or trailer is placed in service and recovered through depreciation over the life of the vehicle. Replacement tires and parts on hand at year end are recorded at the lower of cost or net realizable value with cost determined using the first-in, first-out (FIFO) method. Replacement tires are expensed when placed in service.

Assets Held for Sale

Assets held for sale include property and revenue equipment no longer utilized in continuing operations which are available and held for sale. Assets held for sale are no longer subject to depreciation, and are recorded at the lower of depreciated book value or fair market value less selling costs. We periodically review the carrying value of these assets for possible impairment. We expect to sell these assets within twelve months.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation for book purposes is determined using the straight-line method over the estimated useful lives of the assets. Depreciation of revenue equipment is our largest item of depreciation. We generally depreciate new tractors (excluding day cabs) over five years to salvage values of approximately 15% of their cost. We generally depreciate new trailers over seven years for refrigerated trailers and ten years for dry van trailers to salvage values of approximately 25% of their cost. We annually 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. Changes in the useful life or salvage value estimates, or fluctuations in market values that are not reflected in our estimates, could have a material effect on our results of operations. Gains and losses on the disposal of revenue equipment are included in depreciation expense in the consolidated statements of operations.

We lease certain revenue equipment under finance and operating leases with terms of approximately 48 to 84 months. Amortization of assets under finance and operating leases are included in depreciation and amortization expense and revenue and equipment rentals and purchased transportation, respectively.

A portion of our tractors are protected by non-binding indicative trade-in values or binding trade-back agreements with the manufacturers. The remainder of our tractors and substantially all of our owned trailers are subject to fluctuations in market prices for used revenue equipment. Moreover, our trade-back agreements are contingent upon reaching acceptable terms for the purchase of new equipment. Declines in the price of used revenue equipment or failure to reach agreement for the purchase of new tractors with the manufacturers issuing trade-back agreements could result in impairment of, or losses on the sale of, revenue equipment.

Goodwill and Other Intangible Assets

We classify intangible assets into two categories: (i) intangible assets with finite lives subject to amortization and (ii) goodwill. We test goodwill for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. We test intangible assets with finite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. Such conditions may include an economic downturn in a geographic market or a change in the assessment of future operations. We record an impairment charge when the carrying value of the finite lived intangible asset is not recoverable by the cash flows generated from the use of the asset.

We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement, the history of the asset, our long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have finite lives are amortized, generally on a straight-line basis, over their useful lives, ranging from 5 to 15 years.

Impairment of Long-Lived Assets

Pursuant to applicable accounting standards, revenue equipment and other long-lived assets are tested for impairment whenever an event occurs that indicates an impairment may exist. Expected future cash flows are used to analyze whether an impairment has occurred. If the sum of expected undiscounted cash flows is less than the carrying value of the long-lived asset, then an impairment loss is recognized. We measure the impairment loss by comparing the fair value of the asset to its carrying value. Fair value is determined based on a discounted cash flow analysis or the appraised value of the assets, as appropriate.

Insurance and Other Claims

The primary claims arising against us consist of auto liability (personal injury and property damage), workers' compensation, cargo, commercial liability, and employee medical expenses. At December 31, 2019, our insurance program involves self-insurance with the following risk retention levels (before giving effect to any commutation of an auto liability policy):

- auto liability - $1.0 million
- workers' compensation - $1.3 million
- cargo - $0.3 million
- employee medical - $0.4 million
- physical damage - 100%

Due to our significant self-insured retention amounts, we have exposure to fluctuations in the number and severity of claims and to variations between our estimated and actual ultimate payouts. We accrue the estimated cost of the uninsured portion of pending claims and an estimate for allocated loss adjustment expenses including legal and other direct costs associated with a claim. Estimates require judgments concerning the nature and severity of the claim, historical trends, advice from third-party administrators and insurers, the size of any potential damage award based on factors such as the specific facts of individual cases, the jurisdictions involved, the prospect of punitive damages, future medical costs, and inflation 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 could be adversely affected.

In addition to estimates within our self-insured retention layers, we also must make judgments concerning claims where we have third party insurance and for claims outside our coverage limits. Upon settling claims and expenses associated with claims where we have third party coverage, we are generally required to initially fund payment to the claimant and seek reimbursement from the insurer. Receivables from insurers for claims and expenses we have paid on behalf of insurers were $0.3 million and $3.0 million at December 31, 2019 and 2018, respectively, and are included in drivers' advances and other receivables on our consolidated balance sheet. Additionally, we accrue claims above our self-insured retention and record a corresponding receivable for amounts we expect to collect from insurers upon settlement of such claims. We have $2.1 million and $5.1 million at December 31, 2019 and 2018, respectively, as a receivable in other assets and as a corresponding accrual in the long-term portion of insurance and claims accruals on our consolidated balance sheet for claims above our self-insured retention for which we believe it is reasonably assured that the insurers will provide their portion of such claims. We evaluate collectability of the receivables based on the credit worthiness and surplus of the insurers, along with our prior experience and contractual terms with each. If any claim occurrence were to exceed our aggregate 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. If one or more claims were to exceed our then effective coverage limits, our financial condition and results of operations could be materially and adversely affected.

We also make judgments regarding the ultimate benefit versus risk of commuting certain periods within our auto liability policy. If we commute a policy, we assume 100% risk for covered claims in exchange for a policy refund.

Effective April 2018, we entered into new auto liability policies with a three-year term. The policy includes a limit for a single loss of $9.0 million, an aggregate of $18.0 million for each policy year, and a $30.0 million aggregate for the 36 month term ended March 31, 2021. The policy included a policy release premium refund or commutation option of up to $14.0 million, less any future amounts paid on claims by the insurer. A decision with respect to commutation of the policy could be made before April 1, 2021. Additionally, our prior auto liability policy that ran from October 1, 2014 through March 31, 2018, included a commutation provision if we were to commute the policy for the entire 42 months. Based on claims paid to date the policy premium release refund could range from zero to $5.2 million, depending on actual claims settlements in the future. Management cannot predict whether or not future claims or the development of existing claims will justify a commutation of either policy period, and accordingly, no related amounts were recorded at December 31, 2019. We carry excess policy layers above the primary auto liability policy described above.

Interest

We capitalize interest on major projects during construction. Interest is capitalized based on the average interest rate on related debt. Capitalized interest was $0.1 million in 2019 and less than $0.1 million in 2018 and 2017, respectively.

Fair Value of Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, available-for-sale securities, accounts payable, debt, and interest rate swaps. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and current debt approximates their fair value because of the short-term maturity of these instruments. The carrying value of the factored receivables approximates the fair value, as the receivables are generally repaid directly to us by the client's customer within 30–40 days due to the combination of the short-term nature of the financing transaction and the underlying quality of the receivables. Interest rates that are currently available to us for issuance of long-term debt with similar terms and remaining maturities are used to estimate the fair value of our long-term debt, which primarily consists of revenue equipment installment notes. The fair value of our revenue equipment installment notes approximated the carrying value at December 31, 2019, as the weighted average interest rate on these notes approximates the market rate for similar debt. Borrowings under our revolving Credit Facility approximate fair value due to the variable interest rate on the facility. Additionally, certain investments intended to serve the purposes of capital preservation and to fund insurance losses are designated as available-for-sale as discussed in Note 14 and are valued based on quoted prices in active markets. The fair value of our interest rate swap agreements is determined using the market-standard methodology of netting the discounted future fixed-cash payments and the discounted expected variable-cash receipts. The variable-cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. These analyses reflect the contractual terms of the swap, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The fair value calculation also includes an amount for risk of non-performance of our counterparties using "significant unobservable inputs" such as estimates of current credit spreads to evaluate the likelihood of default, which we have determined to be insignificant to the overall fair value of our interest rate swap agreements.

Income Taxes

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 basis. 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. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We have reflected the net liability after offsetting our deferred tax assets and liabilities in the deferred income taxes line in the accompanying consolidated balance sheets. We believe the future tax deductions will be realized principally through future reversals of existing taxable temporary differences and future taxable income, except for when a valuation allowance has been provided as discussed in Note 8.

In the ordinary course of business there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Potential accrued interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense.

Our policy is to recognize income tax benefit arising from the exercise of stock options and restricted share vesting based on the ordering provisions of the tax law as prescribed by the Internal Revenue Code, including indirect tax effects, if any.

Lease Accounting

At the commencement date of a new lease agreement with contractual terms longer than twelve months, we recognize an asset and a lease liability on the balance sheet and categorize the lease as either finance or operating. Certain lease agreements have lease and nonlease components, and we have elected to account for these components separately.

Right-of-use assets and lease liabilities are initially recorded based on the present value of lease payments over the term of the lease. When the rate implicit in the lease is readily determinable, this rate is used for calculating the present value of remaining lease payments; otherwise, our incremental borrowing rate is used. Right-of-use assets also include prepaid lease expenses and initial direct costs of executing the leases, which are reduced by landlord incentives. Options to extend or terminate a lease agreement are included in or excluded from the lease term, respectively, when those options are reasonably certain to be exercised. Right-of-use assets are tested for impairment in the same manner as long-lived assets

Finance lease obligations are utilized to finance a portion of our revenue equipment and are entered into with certain finance companies who are not parties to our Credit Facility and may contain guarantees of the residual value of the related equipment by us. As such, the residual guarantees are included in the related debt balance as a balloon payment at the end of the related term as well as included in the future minimum finance lease payments. These lease agreements require us to pay personal property taxes, maintenance, and operating expenses. Our operating lease obligations do not typically include residual value guarantees or material restrictive covenants.

Right-of-use assets are included in net property and equipment. For finance leases, right-of-use assets are amortized on a straight-line basis over the shorter of the expected useful life or the lease term, and the carrying amount of the lease liability is adjusted to reflect interest expense, which is recorded in interest expense, net. Operating lease right-of-use assets are amortized over the lease term on a straight-line basis, and the lease liability is measured at the present value of the remaining lease payments. Variable lease payments not included in the lease liability for mileage charges on leased revenue equipment are expensed as incurred. Operating lease costs are recognized on a straight-line basis over the term of the lease within operating expenses.

Capital Structure

The shares of Class A and B common stock are substantially identical except that the Class B shares are entitled to two votes per share and immediately convert to Class A shares if beneficially owned by anyone other than our Chief Executive Officer or certain members of his immediate family, while Class A shares are entitled to one vote per share. The terms of any future issuances of preferred shares will be set by our Board of Directors.

Income Per Share

Basic income per share excludes dilution and is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted income per share reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings. The calculation of diluted earnings per share includes approximately 0.2 million unvested shares. A de minimis number of unvested shares have been excluded from the calculation of diluted earnings per share since the effect of any assumed exercise of the related awards would be anti-dilutive for the years ended December 31, 2019, 2018, and 2017, respectively. Income per share is the same for both Class A and Class B shares.

The following table sets forth the calculation of net income per share included in the consolidated statements of operations for each of the three years ended December 31:

(in thousands except per share data)	2019	2018	2017
Numerator:			
Net income	$ 8,477	$ 42,503	$ 55,439
Denominator:			
Denominator for basic income per share – weighted-average shares	18,435	18,340	18,279
Effect of dilutive securities:			
Equivalent shares issuable upon conversion of unvested restricted shares	200	129	93
Denominator for diluted income per share adjusted weighted-average shares and assumed conversions	18,635	18,469	18,372
Net income per share:			
Basic income per share	$ 0.46	$ 2.32	$ 3.03
Diluted income per share	$ 0.45	$ 2.30	$ 3.02

Stock-Based Employee Compensation

We issue several types of stock-based compensation, including awards that vest based on service and performance conditions or a combination of the conditions. Performance-based awards vest contingent upon meeting certain performance criteria established by the Compensation Committee of the Board of Directors. All awards require future service. For performance-based awards, determining the appropriate amount to expense in each period is based on likelihood and timing of achieving the stated targets for performance-based awards and requires judgment, including forecasting future financial results. The estimates are revised periodically based on the probability and timing of achieving the required performance and adjustments are made as appropriate. Awards that are only subject to time vesting provisions are amortized using the straight-line method.

Recent Accounting Pronouncements

Accounting Standards adopted

In May 2014 the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, which supersedes virtually all existing revenue guidance. The new standard introduces a five-step model to determine when and how revenue is recognized. The premise of the new model is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also requires enhanced disclosures regarding the nature, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The new standard became effective for us for our annual and interim reporting periods beginning January 1, 2018. The guidance permits the use of either a full retrospective or modified retrospective adoption approach with a cumulative effect adjustment recorded in either scenario as necessary upon transition.

As permitted by the guidance, we elected the modified retrospective approach and thus recognized the cumulative effect of adoption of $0.6 million, net of tax, as a positive adjustment to retained earnings in the first quarter of 2018 as a result of the initial recording of in process revenue and associated direct expenses.

Based on our review of our customer shipping arrangements and the related guidance, we have concluded that we will recognize revenue from loads proportionally as the transportation service is performed based on the percentage of miles completed as of the period end, as opposed to recognizing revenue upon the completion of the load, which was our historic practice. Revenue will be recognized on a gross basis at amounts charged to our customers because we control and are primarily responsible for the fulfillment of the promised service. Our recognition of revenue under the new standard approximates our recognition of revenue under the prior standard, as there will generally be a consistent amount of freight in process at the beginning and end of the period; however, seasonality and the day on which the period ends may cause minor differences.

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, which establishes Topic 842 to replace Topic 840 regarding accounting for leases. Topic 842 requires lessees to recognize a right-of-use asset and a lease liability for most leases on the balance sheet. Leases that were previously described as capital leases are now called finance leases, and operating leases with a term of at least twelve months are now required to be recorded on the balance sheet. We adopted this standard on January 1, 2019 using the modified retrospective approach.

In July 2018, FASB issued ASU 2018-11, which provides an optional transition method allowing application of Topic 842 as of the adoption date and recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption, with no restatement of comparative prior periods. We have adopted the standard using this optional transition method.

Within Topic 842, FASB has provided a number of practical expedients for applying the new lease standard in relation to leases that commenced prior to the standard's effective date. We have elected the package of practical expedients which allowed us, among other things, to carry forward the operating and capital lease classifications from Topic 840 to the new operating and finance lease classifications under Topic 842.

The adoption of this ASU resulted in the initial recognition of operating lease assets of $40.1 million and liabilities totaling $41.0 million, comprised of $15.3 million of current operating lease obligations and $25.7 million of long-term operating lease obligations.

Accounting Standards not yet adopted

In June 2016, FASB issued ASU 2016-13, *Financial Instruments - Measurement of Credit Losses on Financial Instruments*, which will require an entity to measure credit losses for certain financial instruments and financial assets, including trade receivables. Under this update, on initial recognition and at each reporting period, an entity will be required to recognize an allowance that reflects the entity's current estimate of credit losses expected to be incurred over the life of the financial instrument. This update will be effective for us for our annual reporting period beginning January 1, 2023, including interim periods within that reporting period. Early adoption is permitted. We are currently evaluating the impacts the adoption of this standard will have on the consolidated financial statements.

2. LIQUIDITY

Our business requires significant capital investments over the short-term and the long-term. We generally finance our capital requirements with borrowings under our Credit Facility, cash flows from operations, long-term operating leases, finance leases, secured installment notes with finance companies, and proceeds from the sale of our used revenue equipment. We had working capital (total current assets less total current liabilities) of $93.1 million and $84.3 million at December 31, 2019 and 2018, respectively. Based on our expected financial condition, net capital expenditures, and results of operations and related net cash flows, we believe our working capital and sources of liquidity will be adequate to meet our current and projected needs for at least the next year.

As of December 31, 2019, we had no borrowings outstanding, undrawn letters of credit outstanding of approximately $35.2 million, and available borrowing capacity of $59.8 million under the Credit Facility. Fluctuations in the outstanding balance and related availability under our Credit Facility are driven primarily by cash flows from operations and the timing and nature of property and equipment additions that are not funded through notes payable, as well as the nature and timing of collection of accounts receivable, payments of accrued expenses, and receipt of proceeds from disposals of property and equipment.

3. STOCK-BASED COMPENSATION

Our Third Amended and Restated 2006 Omnibus Incentive Plan, as amended (the "Incentive Plan") governs the issuance of equity awards and other incentive compensation to management and members of the board of directors. On May 8, 2019, the stockholders, upon recommendation of the board of directors, approved the First Amendment (the “First Amendment”) to the Third Amended and Restated Incentive Plan. The First Amendment (i) increases the number of shares of Class A common stock available for issuance under the Incentive Plan by an additional 750,000 shares, (ii) implements additional changes designed to comply with certain shareholder advisory group guidelines and best practices, (iii) makes technical updates related to Section 162(m) of the Internal Revenue Code in light of the 2017 Tax Cuts and Jobs Act, (iv) re-sets the term of the Incentive Plan to expire with respect to the ability to grant new awards on March 31, 2029, and (v) makes such other miscellaneous, administrative and conforming changes as were necessary.

The Incentive Plan permits annual awards of shares of our Class A common stock to executives, other key employees, non-employee directors, and eligible participants under various types of options, restricted share awards, or other equity instruments. At December 31, 2019, 477,245 of the 2,300,000 shares noted above were available for award under the amended Incentive Plan. No participant in the Incentive Plan may receive awards of any type of equity instruments in any calendar-year that relates to more than 200,000 shares of our Class A common stock. No awards may be made under the Incentive Plan after March 31, 2023. To the extent available, we have issued treasury stock to satisfy all share-based incentive plans.

Included in salaries, wages, and related expenses within the consolidated statements of operations is stock-based compensation expense of $0.4 million, $4.8 million, and $1.0 million in 2019, 2018, and 2017, respectively. Included in general supplies and expenses within the consolidated statements of operations is stock-based compensation expenses for non-employee directors of $0.4 million in 2019 and 2018 and $0.3 million in 2017, respectively. All stock compensation expense recorded in 2019, 2018, and 2017 relates to restricted shares granted, as no options were granted during these periods. Associated with stock compensation expense was $0.1 million, of income tax expense in 2019 and 2018 as well as income tax benefit of $0.3 million in 2017, respectively, related to the exercise of stock options and restricted share vesting.

The Incentive Plan allows participants to pay the federal and state minimum statutory tax withholding requirements related to awards that vest or allows the participant to deliver to us shares of Class A common stock having a fair market value equal to the minimum amount of such required withholding taxes. To satisfy withholding requirements for shares that vested, certain participants elected to deliver to us 62,255, 11,052, and 31,297 Class A common stock shares, which were withheld at weighted average per share prices of $17.75, $21.89, and $25.09, respectively, based on the closing prices of our Class A common stock on the dates the shares vested in 2019, 2018, and 2017, respectively, in lieu of the federal and state minimum statutory tax withholding requirements. We remitted $1.1 million, $0.2 million, and $0.8 million in 2019, 2018, and 2017, respectively, to the proper taxing authorities in satisfaction of the employees' minimum statutory withholding requirements. The payment of minimum tax withholdings on stock compensation are reflected within the issuances of restricted shares from treasury stock in the accompanying consolidated statement of stockholders' equity.

The following table summarizes our restricted share award activity for the fiscal years ended December 31, 2019, 2018, and 2017:

	Number of stock awards (in thousands)	Weighted average grant date fair value
Unvested at December 31, 2016	265	$ 18.63
Granted	434	$ 16.69
Vested	(96)	$ 12.78
Forfeited	(16)	$ 19.25
Unvested at December 31, 2017	587	$ 18.14
Granted	153	$ 30.32
Vested	(35)	$ 25.97
Forfeited	(30)	$ 27.58
Unvested at December 31, 2018	675	$ 20.08
Granted	351	$ 15.42
Vested	(191)	$ 19.22
Forfeited	(48)	$ 19.33
Unvested at December 31, 2019	787	$ 18.25

The unvested shares at December 31, 2019 will vest based on when and if the related vesting criteria are met for each award. All awards require continued service to vest, and 250,112 of these awards vest solely based on continued service, in varying increments between 2020 and 2026. Performance based awards account for 537,348 of the unvested shares at December 31, 2019, of which 534,086 shares are performance shares for which vesting is not probable, and 3,262 shares relate to performance for the years ended December 31, 2019 through 2022 and have less than $0.1 million of unrecognized compensation cost.

The fair value of restricted share awards that vested in 2019, 2018, and 2017 was approximately $3.4 million, $0.7 million, and $2.4 million, respectively. As of December 31, 2019, we had approximately $3.3 million of unrecognized compensation expense related to 250,112 service-based shares and 3,262 performance-based share awards with 2019 through 2022 performance periods, which is probable to be recognized over a weighted average period of approximately 20 months. All restricted shares awarded to executives and other key employees pursuant to the Incentive Plan provide the holder with voting and other stockholder-type rights, but will not be issued until the relevant restrictions are satisfied.

There were no outstanding stock options for the fiscal years ended December 31, 2019, 2018, and 2017.

4. PROPERTY AND EQUIPMENT

A summary of property and equipment, at cost, as of December 31, 2019 and 2018 is as follows:

(in thousands)	Estimated Useful Lives (Years)	2019	2018
Revenue equipment	3-10	$ 588,828	$ 504,192
Communications equipment	5-10	6,189	3,850
Land and improvements	0-15	23,398	25,240
Buildings and leasehold improvements	7-40	75,471	75,134
Construction in-progress	-	400	3,121
Other	2-10	31,097	27,233
		$ 725,383	$ 638,770

Depreciation expense was $77.6 million, $74.4 million, and $71.4 million, in 2019, 2018, and 2017, respectively. This depreciation expense excludes net gains on the sale of property and equipment totaling $1.7 million in 2019, and net losses of $0.3 million and $4.0 million in 2018 and 2017, respectively, which are presented net of gains on sale in depreciation and amortization expense in the consolidated statements of operations.

We lease certain revenue equipment under finance and operating leases with terms of approximately 48 to 84 months. At December 31, 2019 and 2018, property and equipment included finance and operating leases. Our finance leases had capitalized costs of $55.0 million and $55.4 million and accumulated amortization of $21.0 million and $15.6 million at December 31, 2019 and 2018, respectively. Amortization of these leased assets is included in depreciation and amortization expense in the consolidated statement of operations and totaled $5.5 million, $5.4 million, and $2.6 million during 2019, 2018, and 2017, respectively. See Note 7. *Leases* for additional information about our finance and operating leases.

5. GOODWILL, OTHER INTANGIBLE, AND OTHER ASSETS

On July 3, 2018, we acquired 100% of the outstanding stock of Landair Holdings, Inc., a Tennessee corporation ("Landair"). Landair is a dedicated and for-hire truckload carrier, as well as a supplier of transportation management, warehousing, and inventory management services. Landair's results have been included in the consolidated financial statements since the date of acquisition. The Company's only goodwill and other intangible assets are a result of the Landair acquisition. In 2019, the allocation of the Landair purchase price was subject to change based on finalization of the valuation of long lived and intangible assets and self-insurance reserves, as well as our ongoing evaluation of Landair's accounting principles of consistency with ours. The impact of this assessment was an increase of $0.9 million to the carrying value of goodwill in 2019. The final assignment of goodwill and intangible assets to our reportable operating segments was completed as of June 30, 2019.

The Company conducted its annual impairment assessments and tests of goodwill for each reporting unit as of October 1, 2019. The first step of the goodwill impairment test is the Company's assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, including goodwill. When performing the qualitative assessment, the Company considers the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If based on the qualitative assessments, the Company believes it more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, or periodically as deemed appropriate by management, the Company will prepare an estimation of the respective reporting unit's fair value utilizing a quantitative approach.

If the estimation of fair value indicates that impairment potentially exists, the Company will then measure the amount of the impairment, if any. Goodwill impairment exists when the estimated implied fair value of goodwill is less than its carrying value. Changes in strategy or market conditions could significantly impact these fair value estimates and require adjustments to recorded asset balances.

A summary of indefinite-lived goodwill and other intangible assets, by reportable operating segment as of December 31, 2019 and 2018 is as follows:

(in thousands)	December 31, 2019	
	Gross/net goodwill	
Dedicated	$	15,320
Managed Freight		27,198
Total goodwill	$	42,518

(in thousands)	December 31, 2019			
	Gross intangible assets	Accumulated amortization	Net intangible assets	Remaining Life (months)
Trade name:				
Dedicated	$ 2,402	$ (240)	$ 2,162	
Managed Freight	1,998	(200)	1,798	
Total trade name	4,400	(440)	3,960	162
Non-Compete agreement:				
Dedicated	914	(274)	640	
Managed Freight	486	(146)	340	
Total non-compete agreement	1,400	(420)	980	42
Customer relationships:				
Dedicated	14,072	(1,759)	12,313	
Managed Freight	14,128	(1,766)	12,362	
Total customer relationships:	28,200	(3,525)	24,675	126
Total other intangible assets	$ 34,000	$ (4,385)	$ 29,615	

(in thousands)	December 31, 2018
	Gross/net goodwill
Goodwill	$ 41,598

(in thousands)	December 31, 2018			
	Gross intangible assets	Accumulated amortization	Net intangible assets	Remaining Life (months)
Trade name	$ 4,400	$ (147)	$ 4,253	174
Non-Compete agreement	1,400	(140)	1,260	54
Customer relationships	28,200	(1,175)	27,025	138
Total other intangible assets	$ 34,000	$ (1,462)	$ 32,538	

The above finite-lived intangible assets have a weighted average remaining life of 128 months and 140 months as of December 31, 2019 and 2018, respectively. Amortization expenses of intangible assets were $2.9 million, $1.5 million, and $0.2 million for 2019, 2018, and 2017, respectively. The expected amortization expense of these assets for the next five years is as follows:

	(In thousands)
2020	$ 2,923
2021	2,923
2022	2,923
2023	2,783
2024	2,643
Thereafter	15,420

A summary of other assets as of December 31, 2019 and 2018 is as follows:

(in thousands)	2019	2018
Investment in TEL	$ 31,906	$ 26,106
Other assets, net	6,013	11,043
Total other assets, net	$ 37,919	$ 37,149

Additionally, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated cash flows expected to result from the use of the asset is less than the carrying value. If such measurement indicates a possible impairment, the estimated fair value of the asset is compared to its net book value to measure the impairment charge, if any.

6. DEBT

Current and long-term debt consisted of the following at December 31, 2019 and 2018:

(in thousands)	December 31, 2019		December 31, 2018	
	Current	Long-Term	Current	Long-Term
Borrowings under Credit Facility	$ -	$ -	$ -	$ 3,911
Revenue equipment installment notes; weighted average interest rate of 3.7% at December 31, 2019, and 3.7% December 31, 2018, due in monthly installments with final maturities at various dates ranging from January 2020 to July 2023, secured by related revenue equipment	53,431	177,514	27,809	139,115
Real estate notes; interest rate of 3.3% at December 31, 2019 and 4.1% at December 31, 2018 due in monthly installments with a fixed maturity at August 2035, secured by related real estate	1,093	22,670	1,048	23,763
Deferred loan costs	(147)	(7)	(147)	(154)
Total debt	54,377	200,177	28,710	166,635
Principal portion of finance lease obligations, secured by related revenue equipment	7,258	26,010	5,374	35,119
Principal portion of operating lease obligations, secured by related equipment	19,460	40,882	-	-
Total debt and lease obligations	$ 81,095	$ 267,069	$ 34,084	$ 201,754

We and substantially all of our subsidiaries (collectively, the "Borrowers") are parties to the Credit Facility with Bank of America, N.A., as agent (the "Agent") and JPMorgan Chase Bank, N.A. ("JPM," and together with the Agent, the "Lenders"). The Credit Facility is a $95.0 million revolving credit facility, with an uncommitted accordion feature that, so long as no event of default exists, allows us to request an increase in the revolving credit facility of up to $50.0 million subject to Lender acceptance of the additional funding commitment. The Credit Facility includes, within our $95.0 million revolving credit facility, a letter of credit sub facility in an aggregate amount of $95.0 million and a swing line sub facility in an aggregate amount equal to the greater of $10.0 million or 10% of the Lenders' aggregate commitments under the Credit Facility from time-to-time. The Credit Facility matures in September 2021.

Borrowings under the Credit Facility are classified as either "base rate loans" or "LIBOR loans." Base rate loans accrue interest at a base rate equal to the greater of the Agent’s prime rate, the federal funds rate plus 0.5%, or LIBOR plus 1.0%, plus an applicable margin ranging from 0.5% to 1.0%; while LIBOR loans accrue interest at LIBOR, plus an applicable margin ranging from 1.5% to 2.0%. The applicable rates are adjusted quarterly based on average pricing availability. The unused line fee is the product of 0.25% times the average daily amount by which the Lenders' aggregate revolving commitments under the Credit Facility exceed the outstanding principal amount of revolver loans and the aggregate undrawn amount of all outstanding letters of credit issued under the Credit Facility. The obligations under the Credit Facility are guaranteed by us and secured by a pledge of substantially all of our assets, with the notable exclusion of any real estate or revenue equipment pledged under other financing agreements, including revenue equipment installment notes and finance leases.

Borrowings under the Credit Facility are subject to a borrowing base limited to the lesser of (A) $95.0 million, minus the sum of the stated amount of all outstanding letters of credit; or (B) the sum of (i) 85% of eligible accounts receivable, plus (ii) the lesser of (a) 85% of the appraised net orderly liquidation value of eligible revenue equipment, (b) 95% of the net book value of eligible revenue equipment, or (c) 35% of the Lenders' aggregate revolving commitments under the Credit Facility, plus (iii) the lesser of (a) $25.0 million or (b) 75% of the appraised fair market value of eligible real estate, as reduced by a periodic amortization amount. We had no of borrowings outstanding under the Credit Facility as of December 31, 2019, undrawn letters of credit outstanding of approximately $35.2 million, and available borrowing capacity of $59.8 million. Based on availability as of December 31, 2019 and 2018, there was no fixed charge coverage requirement.

The Credit Facility includes usual and customary events of default for a facility of this nature and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the Credit Facility may be accelerated, and the Lenders' commitments may be terminated. If an event of default occurs under the Credit Facility and the Lenders cause all of the outstanding debt obligations under the Credit Facility to become due and payable, this could result in a default under other debt instruments that contain acceleration or cross-default provisions. The Credit Facility contains certain restrictions and covenants relating to, among other things, debt, dividends, liens, acquisitions and dispositions outside of the ordinary course of business, and affiliate transactions. Failure to comply with the covenants and restrictions set forth in the Credit Facility could result in an event of default.

Pricing for the revenue equipment installment notes is quoted by the respective financial affiliates of our primary revenue equipment suppliers and other lenders at the funding of each group of equipment acquired and include fixed annual rates for new equipment under retail installment contracts. The notes included in the funding are due in monthly installments with final maturities at various dates ranging from January 2020 to July 2023. The notes contain certain requirements regarding payment, insuring of collateral, and other matters, but do not have any financial or other material covenants or events of default except certain notes totaling $204.7 million are cross-defaulted with the Credit Facility. Additional borrowings from the financial affiliates of our primary revenue equipment suppliers and other lenders are expected to be available to fund new tractors expected to be delivered in 2020, while any other property and equipment purchases, including trailers, are expected to be funded with a combination of available cash, notes, operating leases, finance leases, and/or from the Credit Facility.

In August 2015, we financed a portion of the purchase of our corporate headquarters, a maintenance facility, and certain surrounding property in Chattanooga, Tennessee by entering into a $28.0 million variable rate note with a third party lender. Concurrently with entering into the note, we entered into an interest rate swap to effectively fix the related interest rate to 4.2%.

As of December 31, 2019, the scheduled principal payments of debt, excluding finance leases for which future payments are discussed in Note 7 are as follows:

	(in thousands)
2020	$ 54,524
2021	71,231
2022	82,150
2023	27,703
2024	1,294
Thereafter	17,806

7. LEASES

We finance a portion of our revenue equipment, office and terminal properties, computer and office equipment, and other equipment using leases. A number of these leases include one or more options to renew or extend the agreements beyond the expiration date or to terminate the agreement prior to the lease expiration date, and such options are included in or excluded from the lease term, respectively, when those options are reasonably certain to be exercised.

Finance lease obligations are utilized to finance a portion of our revenue equipment and are entered into with certain finance companies who are not parties to our Credit Facility. The leases in effect at December 31, 2019 terminate in January 2020 through November 2024 and contain guarantees of the residual value of the related equipment by us. As such, the residual guarantees are included in the related debt balance as a balloon payment at the end of the related term as well as included in the future minimum finance lease payments. These lease agreements require us to pay personal property taxes, maintenance, and operating expenses. Our operating lease obligations do not typically include residual value guarantees or material restrictive covenants.

A summary of our lease obligations for the twelve months ended December 31, 2019 are as follows:

(dollars in thousands)	Twelve Months Ended December 31, 2019
Finance lease cost:	
Amortization of right-of-use assets	$ 5,469
Interest on lease liabilities	1,107
Operating lease cost	24,393
Variable lease cost	326
Total lease cost	$ 31,295
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows for finance leases	$ 7,226
Operating cash flows for operating leases	$ 24,393
Financing cash flows for finance leases	$ 1,107
Right-of-use assets obtained in exchange for new finance lease liabilities	$ -
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 37,080
Weighted-average remaining lease term—finance leases	2.9 years
Weighted-average remaining lease term—operating leases	3.4 years
Weighted-average discount rate—finance leases	3.0%
Weighted-average discount rate—operating leases	5.2%

At December 31, 2019, right-of-use assets of $58.8 million for operating leases and $35.6 million for finance leases are included in net property and equipment in our consolidated balance sheets. At December 31, 2018, we had operating lease commitments of $42.5 million, which were off-balance sheet, and finance leases of $40.5 million included in net property and equipment in our consolidated balance sheets. Operating lease right-of-use asset amortization is included in revenue equipment rentals and purchased transportation, communication and utilities, and general supplies and expenses, depending on the underlying asset, in the consolidated statement of operations. Amortization of finance leased assets is included in depreciation and amortization expense in the consolidated statement of operations.

Our future minimum lease payments as of December 31, 2019, summarized as follows by lease category:

(in thousands)	Operating	Finance
2020	$ 21,991	$ 8,185
2021	18,223	7,719
2022	16,014	9,269
2023	7,293	9,080
2024	439	1,390
Thereafter	1,992	-
Total minimum lease payments	$ 65,952	$ 35,643
Less: amount representing interest	(5,610)	(2,375)
Present value of minimum lease payments	60,342	33,268
Less: current portion	(19,460)	(7,258)
Lease obligations, long-term	$ 40,882	$ 26,010

Certain leases contain cross-default provisions with other financing agreements and additional charges if the unit's mileage exceeds certain thresholds defined in the lease agreement.

Rental expense is summarized as follows for each of the three years ended December 31:

(in thousands)	2019	2018	2017
Revenue equipment rentals	$ 20,989	$ 14,682	$ 12,055
Building and lot rentals	2,898	1,339	448
Other equipment rentals	506	881	261
Total rental expense	$ 24,393	$ 16,902	$ 12,764

8. INCOME TAXES

Income tax expense (benefit) for the years ended December 31, 2019, 2018, and 2017 is comprised of:

(in thousands)	2019	2018	2017
Federal, current	$ (1,174)	$ -	$ (7,780)
Federal, deferred	3,976	14,117	(28,055)
State, current	1,077	1,410	(1,737)
State, deferred	(415)	(20)	5,430
Income tax expense (benefit)	$ 3,464	$ 15,507	$ (32,142)

Income tax expense (benefit) for the years ended December 31, 2019, 2018, and 2017 is summarized below:

(in thousands)	2019	2018	2017
Computed "expected" income tax expense	$ 2,508	$ 12,182	$ 8,154
State income taxes, net of federal income tax effect	(351)	2,610	862
831(b) election	(393)	(200)	(290)
Per diem allowances	1,450	1,446	2,145
Tax contingency accruals	601	(57)	(43)
Valuation allowance, net	321	-	(1,167)
Tax credits	(377)	(968)	(1,352)
Impact of Tax Act remeasurement	-	-	(40,123)
Excess tax benefits on share-based compensation	105	50	(457)
Change in prior year estimates	(420)	-	-
Other, net	20	444	129
Income tax expense (benefit)	$ 3,464	$ 15,507	$ (32,142)

Income tax expense varies from the amount computed by applying the applicable federal corporate income tax rate of 21% for 2019 and 2018 and of 35% for 2017, to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences, the most significant of which is the effect of the per diem pay structure for drivers and the impacts of tax reform discussed below. Drivers who meet the requirements to receive per diem receive non-taxable per diem pay in lieu of a portion of their taxable wages. This per diem program increases our drivers' net pay per mile, after taxes, while decreasing gross pay, before taxes. As a result, salaries, wages, and employee benefits are slightly lower and our effective income tax rate is higher than the statutory rate. Generally, as pre-tax income increases, the impact of the driver per diem program on our effective tax rate decreases, because aggregate per diem pay becomes smaller in relation to pre-tax income, while in periods where earnings are at or near breakeven, the impact of the per diem program on our effective tax rate is significant. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings.

The temporary differences and the approximate tax effects that give rise to our net deferred tax liability at December 31, 2019 and 2018 are as follows:

(in thousands)	2019	2018
Deferred tax assets:		
Insurance and claims	$ 10,269	$ 9,593
Net operating loss carryovers	25,849	10,260
Tax credits	10,942	11,985
Leased liability	15,668	-
Capital lease obligation	8,483	-
State bonus	6,576	5,938
Other	2,160	2,412
Valuation allowance	(385)	(63)
Total deferred tax assets	79,562	40,125
Deferred tax liabilities:		
Property and equipment	(97,066)	(87,939)
Investment in partnership	(36,669)	(26,066)
Deferred fuel hedge	-	(73)
ROU Asset- leases	(15,280)	-
481(a) – Capital leases	(7,462)	-
Other	(449)	(569)
Prepaid expenses	(2,966)	(2,945)
Total deferred tax liabilities	(159,892)	(117,592)
Net deferred tax liability	$ (80,330)	$ (77,467)

The net deferred tax liability of $80.3 million primarily relates to differences in cumulative book versus tax depreciation of property and equipment, partially off-set by tax credit carryovers and insurance claims that have been reserved but not paid. The carrying value of our deferred tax assets assumes that we will be able to generate, based on certain estimates and assumptions, sufficient future taxable income in certain tax jurisdictions to utilize these deferred tax benefits. If these estimates and related assumptions change in the future, we may be required to establish a valuation allowance against the carrying value of the deferred tax assets, which would result in additional income tax expense. On a periodic basis, we assess the need for adjustment of the valuation allowance. Based on forecasted taxable income resulting from the reversal of deferred tax liabilities, primarily generated by accelerated depreciation for tax purposes in prior periods, and tax planning strategies available to us, a valuation allowance has been established at December 31, 2019 of approximately $0.4 million related to certain state net operating loss carry forwards. If these estimates and related assumptions change in the future, we may be required to modify our valuation allowance against the carrying value of the deferred tax assets.

As of December 31, 2019, we had a $0.9 million liability recorded for unrecognized tax benefits, which includes interest and penalties of $0.1 million. We recognize interest and penalties accrued related to unrecognized tax benefits in tax expense. As of December 31, 2018, we had a $2.7 million liability recorded for unrecognized tax benefits, which included interest and penalties of $0.9 million. Interest and penalties recognized for uncertain tax positions provided for a $0.1 million expense in 2018 and a $0.8 million and $0.1 million benefit in 2019 and 2017, respectively.

The following tables summarize the annual activity related to our gross unrecognized tax benefits (in thousands) for the years ended December 31, 2019, 2018, and 2017:

	2019	2018	2017
Balance as of January 1,	$ 1,796	$ 1,924	$ 2,051
Increases related to prior year tax positions	2,969	4	19
Decreases related to prior year positions	-	(9)	(10)
Increases related to current year tax positions	287	-	-
Decreases related to settlements with taxing authorities	(4,200)	-	-
Decreases related to lapsing of statute of limitations	(29)	(123)	(136)
Balance as of December 31,	$ 823	$ 1,796	$ 1,924

If recognized, approximately $0.9 million and $2.5 million of unrecognized tax benefits would impact our effective tax rate as of both December 31, 2019 and 2018. Any prospective adjustments to our reserves for income taxes will be recorded as an increase or decrease to our provision for income taxes and would impact our effective tax rate.

Our 2015 through 2018 tax years remain subject to examination by the IRS for U.S. federal tax purposes, our major taxing jurisdiction. As of December 31, 2019, the 2013 audit was settled and the resulting adjustments have been recorded in the 2019 financial statements. In the normal course of business, we are also subject to audits by state and local tax authorities. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe that our reserves reflect the more likely than not outcome of known tax contingencies. We adjust these reserves, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular issue would usually require the use of cash. Favorable resolution would be recognized as a reduction to our annual tax rate in the year of resolution. We do not expect any significant increases or decreases for uncertain income tax positions during the next year. The charitable contributions will begin expiring in 2022.

Our federal net operating loss of $103.9 million is available to offset future federal taxable income, if any, of which $1.4 million will expire in 2037, with the remaining loss of $102.5 million with indefinite life. In addition to the federal net operating losses, we also have $10.4 million of federal tax credits plus $2.1 million of charitable contributions which will begin to expire in 2028 and 2022, respectively.

Our federal tax credits of $10.4 million are available to offset future federal taxable income, which will begin to expire in 2028. We have a federal alternative minimum tax credit carryforward of $1.2 million that, under the Tax Act, will be fully refunded by 2021. Our state net operating loss carryforwards and state tax credits of $115.7 million and $0.6 million, respectively expire beginning in 2021 and 2029 based on jurisdiction.

9. EQUITY METHOD INVESTMENT

We own a 49.0% interest in TEL, a tractor and trailer equipment leasing company and used equipment reseller. We have not guaranteed any of TEL's debt and have no obligation to provide funding, services, or assets. In May 2016, the operating agreement with TEL was amended to, among other things, remove the previously agreed to fixed date purchase options. Our option to acquire up to the remaining 51% of TEL would have expired May 31, 2016, and TEL’s majority owners would have received the option to purchase our ownership in TEL. There are no current put rights to purchase or sell with any owners. TEL’s majority owners are generally restricted from transferring their interests in TEL, other than to certain permitted transferees, without our consent. For the years ended December 31, 2019, 2018, and 2017, we sold tractors and trailers to TEL for none, less than $0.1 million, and $0.1 million, respectively, and received $9.4 million, $8.2 million, and $5.9 million, respectively, for providing various maintenance services, certain back-office functions, and for miscellaneous equipment. Equipment purchased from TEL totaled $10.5 million, $1.8 million, and none in 2019, 2018, and 2017, respectively. Additionally, we paid $0.6 million, $0.9 million, and $0.5 million to TEL for leases of revenue equipment in 2019, 2018, and 2017, respectively. We reversed previously deferred gains of less than $0.1 million and $0.2 million for the years ending December 31, 2019 and 2018, respectively, representing 49% of the gains on units sold to TEL less any gains previously deferred and recognized when the equipment was sold to a third party. Deferred gains totaling $0.2 million at December 31, 2019 and 2018, respectively, are being carried as a reduction in our investment in TEL. At December 31, 2019 and 2018, we had accounts receivable from TEL of $1.3 million, and $7.2 million respectively, related to cash disbursements made pursuant to our performance of certain back-office and maintenance functions on TEL's behalf.

We have accounted for our investment in TEL using the equity method of accounting and thus our financial results include our proportionate share of TEL's net income, which amounted to $7.0 million in 2019, $7.7 million in 2018, and $3.4 million in 2017. We received an equity distribution from TEL for $1.2 million in 2019 and $2.0 million in each of 2018 and 2017, which was distributed to each member based on its respective ownership percentage. Our investment in TEL, totaling $31.9 million and $26.1 million at December 31, 2019 and 2018, respectively, is included in other assets in the accompanying consolidated balance sheet. Our investment in TEL is comprised of $4.9 million cash investment and our equity in TEL's earnings since our investment, partially offset by dividends received since our investment for minimum tax withholdings as noted above and the abovementioned deferred gains on sales of equipment to TEL.

See TEL's summarized financial information below.

(in thousands)	As of the years ended December 31,	
	2019	2018
Current Assets	$ 28,577	$ 25,877
Non-current Assets	346,014	273,987
Current Liabilities	85,751	78,530
Non-current Liabilities	232,992	176,389
Total Equity	$ 55,848	$ 44,945

(in thousands)	As of the years ended December 31,		
	2019	2018	2017
Revenue	$ 110,298	$ 108,801	$ 84,865
Cost of Sales	20,404	37,307	37,343
Operating Expenses	65,058	47,281	35,525
Operating Income	24,836	24,213	11,997
Net Income	$ 13,403	$ 16,496	$ 6,954

10. DEFERRED PROFIT SHARING EMPLOYEE BENEFIT PLAN

We have a deferred profit sharing and savings plan under which all of our employees with at least six months of service are eligible to participate. Employees may contribute a percentage of their annual compensation up to the maximum amount allowed by the Internal Revenue Code. We may make discretionary contributions as determined by a committee of our Board of Directors. We made contributions of $1.9 million in 2019, $1.7 million in 2018, and $0.9 million in 2017 to the profit sharing and savings plan.

11. RELATED PARTY TRANSACTIONS

Other than those associated with TEL, there are no material related party transactions. See Note 9 for discussions of the related party transactions associated with TEL.

12. COMMITMENTS AND CONTINGENT LIABILITIES

From time-to-time, we are a party to ordinary, routine litigation arising in the ordinary course of business, most of which involves claims for personal injury and/or property damage incurred in connection with the transportation of freight.

We maintain insurance to cover liabilities arising from the transportation of freight for amounts in excess of certain self-insured retentions. In management's opinion, our potential exposure under pending legal proceedings is adequately provided for in the accompanying consolidated financial statements.

Our Covenant Transport subsidiary is a defendant in a lawsuit filed on November 9, 2018 in the Superior Court of Los Angeles County, California. The lawsuit was filed on behalf of Richard Tabizon (a California resident and former driver), who is seeking to have the lawsuit certified as a class action. The complaint asserts that the time period covered by the lawsuit is from October 31, 2014 to the present and alleges claims for failure to properly pay drivers for rest breaks, failure to provide accurate itemized wage statements and/or reimbursement of business related expenses, unlawful deduction of wages, failure to pay proper minimum wage and overtime wages, failure to provide all wages due at termination, and other related wage and hour claims under the California labor Code. Since the original filing date, the case has been removed from the Los Angeles Superior Court to the U.S. District court in the Central District of California and subsequently the case was transferred to the U.S. District Court in the Eastern District of Tennessee where the case is now pending. We do not currently have enough information to make a reasonable estimate as to the likelihood, or amount of a loss, or a range of reasonably possible losses as a result of this claims, as such there have been no related accruals recorded as of December 31, 2019.

On February 28, 2019, Covenant Transport was named in a separate (but related) lawsuit filed in the Superior Court of Los Angeles County, California requesting civil penalties under the California Private Attorneys' General Act for the same underlying wage and hour claims at issue in the putative class action case noted above. On August 1, 2019, the Los Angeles Superior Court entered an order staying the action pending completion of the earlier-filed action that is pending in the United States District Court for the Eastern District of Tennessee. We do not currently have enough information to make a reasonable estimate as to the likelihood, or amount of a loss, or a range of reasonably possible losses as a result of this claims, as such there have been no related accruals recorded as of December 31, 2019.

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

We had $35.2 million and $36.3 million of outstanding and undrawn letters of credit as of December 31, 2019 and 2018, respectively. The letters of credit are maintained primarily to support our insurance programs.

We had commitments outstanding at December 31, 2019, to acquire revenue equipment totaling approximately $68.4 million in 2020 versus commitments at December 31, 2018 of approximately $156.3 million. These commitments are cancelable upon stated notice periods, subject to certain adjustments in the underlying obligations and benefits. These purchase commitments are expected to be financed by operating leases, finance leases, long-term debt, proceeds from sales of existing equipment, and/or cash flows from operations.

13. SEGMENT INFORMATION

As discussed in Note 1, in 2019 the company made a number of changes to its organizational structure. To align with how our Chief Operating Decision Maker ("CODM") allocates resources and assesses performance against key growth strategies, we have made changes to the company's reportable segments. As a result, it was determined that the Company has four reportable segments consisting of Highway Services, Dedicated, Managed Freight, and our accounts receivable Factoring.

With respect to the four reportable segments:

- Highway Services: Includes the Company's Expedited and OTR services, which are typically ad-hoc and do not include long-term contracts.
  - Expedited services primarily involves high service freight with delivery standards, such as 1,000 miles in 22 hours, or 15-minute delivery windows. Expedited services generally require two-person driver teams on equipment either owned or leased by the Company.
  - OTR services provide customers with one-way load capacity over irregular routes for loads that are typically shorter in nature.
- Dedicated: Specializes in providing customers with committed capacity over extended contract periods using equipment either owned or leased by the Company.
- Managed Freight: Includes the Company's Brokerage, TMS and Warehousing services.
  - Brokerage services provide logistics capacity by outsourcing the carriage of customers' freight to contractual third parties.
  - TMS provides comprehensive logistics services on a contractual basis to customers who prefer to outsource their logistics needs.
  - Warehousing services provides day-to-day warehouse management services to customers who have chosen to outsource this function.

- Factoring services assist freight capacity providers with improving cash flows by purchasing accounts receivables at a discount and collecting them directly from the end consumer.

These changes impacted the company's reportable segments but did not impact the company's Consolidated Financial Statements. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Substantially all intersegment sales prices are market based. We evaluate performance based on operating income of the respective business units.

The following table summarizes our segment information for 2019, 2018, and 2017:

(in thousands)

Year Ended December 31, 2019	Highway Services	Dedicated	Managed Freight	Factoring	Consolidated
Total revenue from external customers	$ 356,521	$ 342,473	$ 186,394	$ 9,140	$ 894,528
Intersegment revenue	10,302	-	-	-	10,302
Operating (loss) income	(1,098)	1,026	8,848	7,258	16,034
Depreciation and amortization (1)	38,325	37,944	2,583	27	78,879

Year Ended December 31, 2018	Highway Services	Dedicated	Managed Freight	Factoring	Consolidated
Total revenue from external customers	$ 469,308	$ 257,739	$ 153,346	$ 5,062	$ 885,455
Intersegment revenue	7,298	-	-	-	7,298
Operating income	32,693	12,699	10,135	3,459	58,986
Depreciation and amortization (1)	46,931	28,515	695	15	76,156

Year Ended December 31, 2017	Highway Services	Dedicated	Managed Freight	Factoring	Consolidated
Total revenue from external customers	$ 467,992	$ 144,845	$ 89,042	$ 3,128	$ 705,007
Intersegment revenue	6,009	-	-	-	6,009
Operating income	14,323	5,244	6,388	2,200	28,155
Depreciation and amortization (1)	56,925	19,498	11	13	76,447

(1) Includes gains and losses on disposition of equipment.

(in thousands)	**For the years ended December 31,**		
	2019	**2018**	**2017**
Total external revenues for reportable segments	$ 894,528	$ 885,455	$ 705,007
Intersegment revenues for reportable segments	10,302	7,298	6,009
Elimination of intersegment revenues	(10,302)	(7,298)	(6,009)
Total consolidated revenues	$ 894,528	$ 885,455	$ 705,007

14. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

(in thousands except per share amounts) Quarters ended	Mar. 31, 2019	June 30, 2019	Sep. 30, 2019	Dec. 31, 2019
Total revenue	$ 219,181	$ 219,298	$ 222,914	$ 233,135
Operating income (loss)	5,426	8,844	(1,931)	3,695
Net income (loss)	4,433	6,071	(3,189)	1,162
Basic income (loss) per share	0.24	0.33	(0.17)	0.06
Diluted income (loss) per share	0.24	0.33	(0.17)	0.05

(in thousands except per share amounts) Quarters ended	Mar. 31, 2018	June 30, 2018	Sep. 30, 2018	Dec. 31, 2018
Total revenue	$ 173,566	$ 196,318	$ 243,303	$ 272,268
Operating income	6,425	14,065	16,181	22,315
Net income	4,417	9,971	11,614	16,501
Basic income per share	0.24	0.54	0.63	0.91
Diluted income per share	0.24	0.54	0.63	0.89

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COVENANT TRANSPORTATION GROUP, INC. CORPORATE INFORMATION

DIRECTORS AND DIRECTOR NOMINEES

David R. Parker
Chairman of the Board,
Chief Executive Officer

William T. Alt (not standing for reelection)
Attorney

Robert E. Bosworth
Retired President & Chief Operating Officer,
Chattem, Inc.

D. Michael Kramer (director nominee)
Executive Chairman of Southeastern Trust Company
Chief Executive Officer of Peak Financial, LLC

Bradley A. Moline
President & Chief Executive Officer,
Allo Communications, LLC

Rachel Parker-Hatchett (director nominee).
Women of Covenant Director, Covenant Transportation Group, Inc.

Herbert J. Schmidt
Retired Executive Vice President of Con-way Inc. &
President of Con-way Truckload

W. Miller Welborn
Chairman of SmartFinancial, Inc.

OFFICERS

David R. Parker
Chairman of the Board &
Chief Executive Officer
Covenant Transportation Group, Inc.
(principal executive officer)

Joey B. Hogan
Co-President and Chief Administrative Officer
Covenant Transportation Group, Inc.

John A. Tweed
Co-President and Chief Operating Officer
Covenant Transportation Group, Inc.

M. Paul Bunn
Executive Vice President, Chief Financial Officer, and Secretary
Covenant Transportation Group, Inc.
(principal financial officer)

Richard B. Cribbs
Senior Vice President of Strategy & Investor Relations,
Treasurer
Covenant Transportation Group, Inc.

James "Tripp" S. Grant
Corporate Controller
Covenant Transportation Group, Inc.
(principal accounting officer)

James "Jamie" Heartfield
General Counsel
Covenant Transportation Group, Inc.

Samuel "Sam" F. Hough
Executive Vice President- Highway Services

T. Ryan Rogers
Chief Transformation Officer & Executive Vice President
Covenant Transportation Group, Inc.

INDEPENDENT AUDITORS (AS OF APRIL 2020)

GRANT THORNTON, LLP
Atlanta, Georgia

TRANSFER AGENT AND REGISTRAR

Computershare
P.O. Box 505000
Louisville, KY 40233

CORPORATE HEADQUARTERS

400 Birmingham Highway
Chattanooga, Tennessee 37419
(423) 821-1212

CORPORATE COUNSEL

Scudder Law Firm, P.C., L.L.O.
Lincoln, Nebraska

ANNUAL MEETING

Covenant's Annual Meeting will be held at 10:00 a.m. local time on July 1, 2020, by teleconference.

COMMON STOCK

NASDAQ Global Select Market – CVTI

On March 9, 2020, the Company filed its Sarbanes-Oxley Section 302 Certifications as exhibits to the Company's Annual Report on Form 10-K for the period ended December 31, 2019.

A copy of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission, may be obtained by stockholders of record without charge upon written request to M. Paul Bunn, Executive Vice President, Chief Financial Officer, and Secretary, at 400 Birmingham Highway, Chattanooga, Tennessee 37419.