

COVENANT TRANSPORTATION GROUP INC

Form 10-Q

November 09, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 0-24960

COVENANT TRANSPORTATION GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada

88-0320154

(State or other jurisdiction of
incorporation
or organization)

(I.R.S. Employer Identification
No.)

400 Birmingham Hwy.

Chattanooga, TN

(Address of principal executive
offices)

37419

(Zip Code)

423-821-1212

(Registrant's telephone number, including area code)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (November 4, 2015).

Class A Common Stock, \$.01 par value: 15,706,507 shares
Class B Common Stock, \$.01 par value: 2,350,000 shares

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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 14,022	\$ 21,330
Accounts receivable, net of allowance of \$1,613 in 2015 and \$1,767 in 2014	74,286	95,943
Drivers' advances and other receivables, net of allowance of \$1,009 in 2015 and \$1,290 in 2014	5,885	5,770
Inventory and supplies	4,152	4,402
Prepaid expenses	9,852	9,028
Assets held for sale	5,949	4,268
Deferred income taxes	4,243	14,713
Income taxes receivable	-	1,309
Total current assets	118,389	156,763
Property and equipment, at cost	598,358	505,345
Less: accumulated depreciation and amortization	(141,507)	(122,854)
Net property and equipment	456,851	382,491
Other assets, net	20,097	14,763
Total assets	\$ 595,337	\$ 554,017
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	9,263	9,623
Accrued expenses	28,364	39,470
Current maturities of long-term debt	32,473	27,824
Current portion of capital lease obligations	4,144	1,606
Current portion of insurance and claims accrual	15,997	17,565
Other short-term liabilities	14,418	7,999
Total current liabilities	104,659	104,087
Long-term debt	188,964	159,531
Long-term portion of capital lease obligations	10,866	13,372
Insurance and claims accrual	21,142	23,173
Deferred income taxes	62,533	73,717
Other long-term liabilities	13,118	10,933
Total liabilities	401,282	384,813
Commitments and contingent liabilities	-	-
Stockholders' equity:		
	170	168

Class A common stock, \$.01 par value; 20,000,000 shares authorized; 15,922,879 shares issued and 15,706,507 shares outstanding as of September 30, 2015 and 15,746,609 shares outstanding as of December 31, 2014

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	143,445	141,248
Treasury stock at cost; 216,372 shares and no shares as of September 30, 2015 and December 31, 2014, respectively	(4,994)	-
Accumulated other comprehensive loss	(14,310)	(13,101)
Retained earnings	69,720	40,865
Total stockholders' equity	194,055	169,204
Total liabilities and stockholders' equity	\$ 595,337	\$ 554,017

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

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COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(In thousands, except per share data)

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2015	2014	2015	2014
Revenue:				
Freight revenue	\$ 153,522	\$ 141,917	\$ 449,003	\$ 405,750
Fuel surcharge revenue	19,990	35,664	67,175	106,442
Total revenue	\$ 173,512	\$ 177,581	\$ 516,178	\$ 512,192
Operating expenses:				
Salaries, wages, and related expenses	60,241	57,636	177,624	166,651
Fuel expense	30,526	42,784	94,931	127,875
Operations and maintenance	12,728	11,934	35,666	35,498
Revenue equipment rentals and purchased transportation	27,548	25,871	76,714	78,818
Operating taxes and licenses	2,879	2,733	8,162	8,041
Insurance and claims	6,682	15,545	21,727	29,229
Communications and utilities	1,527	1,457	4,547	4,320
General supplies and expenses	2,060	3,950	9,993	12,289
Depreciation and amortization, including gains and losses on disposition of property and equipment	14,692	10,085	43,368	34,476
Total operating expenses	158,883	171,995	472,732	497,197
Operating income	14,629	5,586	43,446	14,995
Other (income) expenses:				
Interest expense	2,041	2,635	5,962	8,108
Interest income	-	(1)	-	(10)
Other expenses, net	2,041	2,634	5,962	8,098
Equity in income of affiliate	1,000	880	3,720	2,530
Income before income taxes	13,588	3,832	41,204	9,427
Income tax expense	5,961	1,975	12,349	5,164
Net income	\$ 7,627	\$ 1,857	\$ 28,855	\$ 4,263
Income per share:				
Basic net income per share	\$ 0.42	\$ 0.12	\$ 1.59	\$ 0.29
Diluted net income per share	\$ 0.42	\$ 0.12	\$ 1.57	\$ 0.28
Basic weighted average shares outstanding	18,119	14,959	18,175	14,935
Diluted weighted average shares outstanding	18,320	15,145	18,346	15,166

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

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COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(In thousands)

	Three months ended September 30, (unaudited)		Nine months ended September 30, (unaudited)	
	2015	2014	2015	2014
Net income	\$ 7,627	\$ 1,857	\$ 28,855	\$ 4,263
Other comprehensive loss:				
Unrealized loss on effective portion of cash flow hedges, net of tax of \$4,700 and \$4,874 in 2015 and \$2,339 and \$2,078 in 2014, respectively	(7,573)	(3,752)	(7,853)	(3,334)
Reclassification of cash flow hedge loss into statement of operations, net of tax of \$1,647 and \$4,124 in 2015 and \$304 and \$76 in 2014, respectively	2,652	487	6,644	122
Total other comprehensive loss	(4,921)	(3,265)	(1,209)	(3,212)
Comprehensive income (loss)	\$ 2,706	\$ (1,408)	\$ 27,646	\$ 1,051

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

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COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015
(Unaudited and in thousands)

	Common Stock		Additional		Accumulated		Total
	Class A	Class B	Paid-In Capital	Treasury Stock	Comprehensive Loss	Retained Earnings	Stockholders' Equity
Balances at December 31, 2014	\$ 168	\$ 24	\$ 141,248	\$ -	\$ (13,101)	\$ 40,865	\$ 169,204
Net income	-	-	-	-	-	28,855	28,855
Other comprehensive loss	-	-	-	-	(1,209)	-	(1,209)
Share repurchase	-	-	-	(4,994)	-	-	(4,994)
Exercise of stock options	1	-	1,091	-	-	-	1,092
Stock-based employee compensation expense	1	-	935	-	-	-	936
Issuance of restricted shares	-	-	(1,586)	-	-	-	(1,586)
Income tax benefit arising from restricted share vesting and option exercise	-	-	1,757	-	-	-	1,757
Balances at September 30, 2015	\$ 170	\$ 24	\$ 143,445	\$ (4,994)	\$ (14,310)	\$ 69,720	\$ 194,055

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

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COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(In thousands)

	Nine months ended September 30, (unaudited)	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 28,855	\$ 4,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for losses on accounts receivable	196	536
Deferred (reversal) gain on sales to equity method investee	38	(54)
Depreciation and amortization	43,741	36,410
Amortization of deferred financing fees	199	185
Deferred income tax benefit	1,798	5,043
Casualty premium credit	(3,600)	-
Income tax benefit arising from restricted share vesting	(1,757)	(145)
Unrealized gain (loss) on ineffective portion of cash flow hedges	(1,290)	525
Return of cash collateral on fuel hedge	5,000	-
Stock-based compensation expense	1,136	963
Equity in income of affiliate	(3,720)	(2,530)
Gain on disposition of property and equipment	(373)	(1,934)
Changes in operating assets and liabilities:		
Receivables and advances	22,655	208
Prepaid expenses and other assets	1,102	704
Inventory and supplies	250	214
Insurance and claims accrual	(3,599)	6,212
Accounts payable and accrued expenses	(12,071)	(2,007)
Net cash flows provided by operating activities	\$ 78,560	\$ 48,593
Cash flows from investing activities:		
Acquisition of property and equipment	(145,611)	(93,416)
Return on investment in affiliated company	-	307
Proceeds from disposition of property and equipment	31,104	69,159
Net cash flows used in investing activities	(114,507)	(23,950)
Cash flows from financing activities:		
Change in checks outstanding in excess of bank balances	-	(2,918)
Proceeds from issuance of notes payable	93,419	64,565
Proceeds from the exercise of stock options	1,092	152
Income tax benefit arising from restricted share vesting	1,757	145
Repayments of notes payable	(59,337)	(65,570)
Repayments of capital lease obligations	(1,286)	(5,840)
Proceeds under revolving credit facility, net	-	(6,983)
Payment of minimum tax withholdings on stock compensation	(1,786)	(174)
Common stock repurchased	(4,994)	-
Debt refinancing costs	(226)	(49)

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Net cash provided by (used in) financing activities	28,639	(16,672)
Net change in cash and cash equivalents	(7,308)	7,971
Cash and cash equivalents at beginning of period	21,330	9,263
Cash and cash equivalents at end of period	\$ 14,022	\$ 17,234

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

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COVENANT TRANSPORTATION GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note Significant Accounting Policies

1.

Basis of Presentation

The condensed consolidated financial statements include the accounts of Covenant Transportation Group, Inc., a Nevada holding company, and its wholly owned subsidiaries. References in this report to "we," "us," "our," the "Company," and similar expressions refer to Covenant Transportation Group, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X promulgated under the Securities Act of 1933. In preparing financial statements, it is necessary for management to make assumptions and estimates affecting the amounts reported in the condensed consolidated financial statements and related notes. These estimates and assumptions are developed based upon all information available. Actual results could differ from estimated amounts. In the opinion of management, the accompanying financial statements include all adjustments that are necessary for a fair presentation of the results for the interim periods presented, such adjustments being of a normal recurring nature.

Certain information and footnote disclosures have been condensed or omitted pursuant to such rules and regulations. The December 31, 2014, condensed consolidated balance sheet was derived from our audited balance sheet as of that date. The Company's operating results are subject to seasonal trends when measured on a quarterly basis; therefore operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in our Form 10-K for the year ended December 31, 2014. Results of operations in interim periods are not necessarily indicative of results to be expected for a full year.

Note Income Per Share

2.

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 income per share includes all unexercised options and a de minimus number of unvested shares since the effect of any assumed exercise of the related awards would be anti-dilutive for the three and nine months ended September 30, 2015 and 2014, respectively. Income per share is the same for both Class A and Class B shares.

The following table sets forth for the periods indicated the calculation of net income per share included in the condensed consolidated statements of operations:

	Three months ended	Nine months ended
(in thousands except per share data)	September 30,	September 30,

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	2015	2014	2015	2014
Numerator:				
Net income	\$ 7,627	\$ 1,857	\$ 28,855	\$ 4,263
Denominator:				
Denominator for basic earnings per share – weighted-average shares	18,119	14,959	18,175	14,935
Effect of dilutive securities:				
Equivalent shares issuable upon conversion of unvested restricted stock	200	185	166	231
Equivalent shares issuable upon conversion of unvested employee stock options	1	1	5	-
Denominator for diluted earnings per share – adjusted weighted-average shares and assumed conversions	18,320	15,145	18,346	15,166
Basic income per share:	\$ 0.42	\$ 0.12	\$ 1.59	\$ 0.29
Diluted income per share:	\$ 0.42	\$ 0.12	\$ 1.57	\$ 0.28

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NoteSegment Information

3.

We have one reportable segment, our asset-based truckload services or Truckload. Our other operations consist of several operating segments, which neither individually nor in the aggregate meet the quantitative or qualitative reporting thresholds. As a result, these operations are grouped in "Other" in the tables below.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in our 2014 Annual Report on Form 10-K. Substantially all intersegment sales prices are market based. We evaluate performance based on operating income of the respective business units.

"Unallocated Corporate Overhead" includes expenses that are incidental to our activities and are not specifically allocated to one of the segments.

The following table summarizes our segment information:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Total Revenues:				
Truckload	\$ 159,615	\$ 166,839	\$ 479,664	\$ 477,432
Other	13,897	10,742	36,514	34,760
Total	\$ 173,512	\$ 177,581	\$ 516,178	\$ 512,192
Operating Income:				
Truckload	\$ 15,983	\$ 10,854	\$ 46,799	\$ 23,369
Other	923	483	1,840	1,590
Unallocated Corporate Overhead	(2,277)	(5,751)	(5,193)	(9,964)
Total	\$ 14,629	\$ 5,586	\$ 43,446	\$ 14,995

Note Income Taxes

4.

Income tax expense varies from the amount computed by applying the federal corporate income tax rate of 35% 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. Drivers who meet the requirements and elect to receive per diem are generally required to 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 related expenses are slightly lower and our effective income tax rate is higher than the statutory rate. Generally, as pre-tax income or loss 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.

Our liability recorded for uncertain tax positions as of September 30, 2015 increased approximately \$1.6 million since December 31, 2014, primarily related to a reserve on a new tax position taken in the first quarter of 2015.

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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 September 30, 2015, for \$1.0 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.

NoteFair Value of Financial Instruments

5.

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accordingly, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or liability. The fair value of the hedge derivative liability was determined based on quotes from the counterparty which were verified by comparing them to the exchange on which the related futures are traded, adjusted for counterparty credit risk. A three-tier fair value hierarchy is used to prioritize the inputs in measuring fair value as follows:

Level 1. Observable inputs such as quoted prices in active markets;

Level 2. Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3. Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Liabilities Measured at Fair Value on a Recurring Basis

(in thousands)		
Hedge derivative liability	September 30, 2015 (1)	December 31, 2014 (1)
Fair Value of Derivatives	(\$23,395)	(\$22,720)
Quoted Prices in Active Markets (Level 1)	-	-
Significant Other Observable Inputs (Level 2)	(\$23,395)	(\$22,720)
Significant Unobservable Inputs (Level 3)	-	-

(1)Excludes cash collateral of \$5.0 million provided by the Company to the counterparty at December 31, 2014. No cash collateral was provided by the Company to the counterparty at September 30, 2015.

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, commodity contracts, accounts payable, and debt. 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. Included in accounts receivable is \$14.9 million of factoring receivables at September 30, 2015, net of a \$0.3 million allowance for bad debts. 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. At September 30, 2015, the retained amounts related to factored receivables totaled \$0.2 million and were included in accounts payable in the condensed consolidated balance sheets. Our 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.

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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 September 30, 2015, as the weighted average interest rate on these notes approximates the market rate for similar debt. Borrowings under our Credit Facility approximate fair value due to the variable interest rate on that facility. Additionally, commodity contracts, which are accounted for as hedge derivatives, as discussed in Note 6, are valued based on quotes from the counterparty, which were verified by comparing them to the forward rate of the specific indices upon which the contract is being settled and adjusted for counterparty credit risk using available market information and valuation methodologies.

NoteDerivative Instruments

6.

We engage in activities that expose us to market risks, including the effects of changes in fuel prices and changes 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 periodically enter into various derivative instruments, including forward futures swap contracts (which we refer to as "fuel hedge contracts"). Historically diesel fuel has not been a traded commodity on the futures market, so heating oil has been used as a substitute, as prices for both generally move in similar directions. Recently, however, we have been able to enter into fuel hedge contracts with respect to both heating oil and ultra low sulfur diesel ("ULSD"). Under these contracts, we pay a fixed rate per gallon of heating oil or ULSD and receive the monthly average price of New York heating oil per the New York Mercantile Exchange ("NYMEX") and Gulf Coast ULSD, respectively. The retrospective and prospective regression analyses provided that changes in the prices of diesel fuel and heating oil and diesel fuel and ULSD were each deemed to be highly effective based on the relevant authoritative guidance except for a small portion of our fuel hedge contracts, which we determined to be ineffective on a prospective basis. Consequently, for the three and nine months ended September 30, 2015, we recognized approximately \$0.3 million and \$1.2 million reductions, respectively, of fuel expense to mark the related liability to market as well as settlement for the related fuel hedge contracts. We do not engage in speculative transactions, nor do we hold or issue financial instruments for trading purposes.

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 as described in Note 7. 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. 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. The fair value of the swap agreement that was in effect at September 30, 2015, of approximately \$1.3 million, is included in other liabilities in the condensed consolidated balance sheet, and is included in accumulated other comprehensive loss, net of tax. Additionally, \$0.1 million was reclassified from accumulated other comprehensive loss into our results of operations as additional interest expense for the three and nine months ended September 30, 2015, related to changes in interest rates during such periods. Based on the amounts in accumulated other comprehensive loss as of September 30, 2015, we expect to reclassify losses of approximately \$0.4 million, net of tax, on derivative instruments from accumulated other comprehensive loss into our results of operations during the next twelve months due to changes in interest rates. The amounts actually realized will depend on the fair values as of the date of settlement.

We recognize all derivative instruments at fair value on our condensed consolidated balance sheets. Our derivative instruments are designated as cash flow hedges, thus the effective portion of the gain or loss on the derivatives is reported as a component of accumulated other comprehensive loss and will be reclassified into our results of operations in the same period during which the hedged transaction affects earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. For our fuel hedge contracts, to the extent the change in the fair value of the fuel hedge contract does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the fuel hedge contract is immediately recognized in our condensed consolidated statements of operations. Ineffectiveness is calculated using the cumulative dollar offset method as an estimate of the difference in the expected cash flows of the respective fuel hedge contracts (heating oil or ULSD) compared to the changes in the all-in cash outflows required for the diesel fuel purchases.

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At September 30, 2015, we had fuel hedge contracts on 3.1 million gallons for the remainder of 2015, or 22.5% of our projected remaining 2015 fuel requirements, 12.1 million gallons for 2016, or approximately 21.9% of our projected 2016 fuel requirements, 10.6 million gallons for 2017, or approximately 19.2% of our projected 2017 fuel requirements, and 4.5 million gallons for 2018, or approximately 8.2% of our projected 2018 fuel requirements.

The fair value of the fuel hedge contracts that were in effect at September 30, 2015, of approximately \$22.1 million, is included in other liabilities in the condensed consolidated balance sheet, and is included in accumulated other comprehensive loss, net of tax. Changes in the fair values of these instruments can vary dramatically based on changes in the underlying commodity prices. For example, during the third quarter of 2015, market "spot" prices for ULSD peaked at a high of approximately \$1.77 per gallon and hit a low price of approximately \$1.32 per gallon. During the same 2014 quarter, market "spot" prices ranged from a high of \$2.91 per gallon to a low of \$2.62 per gallon. Market price changes can be driven by factors such as supply and demand, inventory levels, weather events, refinery capacity, political agendas, the value of the U.S. dollar, geopolitical events, and general economic conditions, among other items.

Additionally, \$4.2 million and \$10.7 million were reclassified from accumulated other comprehensive loss into our results of operations as additional fuel expense for the three and nine months ended September 30, 2015, respectively, related to losses on fuel hedge contracts that expired. In addition to the \$4.2 million and \$10.7 million reclassified from accumulated other comprehensive loss for the quarter and nine months ended September 30, 2015, respectively, which related to losses on fuel hedge contracts that expired or were sold and for which we completed the forecasted transaction by purchasing the hedged diesel fuel, \$0.3 million and \$1.2 million, respectively, were recorded as favorable adjustments to fuel expense, related to fuel hedge contracts for which the fuel hedging relationship was deemed to be ineffective on a prospective basis for the same periods.

Based on the amounts in accumulated other comprehensive loss as of September 30, 2015, and the expected timing of the purchases of the diesel fuel hedged, we expect to reclassify losses of approximately \$8.9 million, net of tax, on derivative instruments from accumulated other comprehensive loss into our results of operations during the next twelve months due to the actual diesel fuel purchases. The amounts actually realized will be dependent on the fair values as of the date of settlement.

We perform both a prospective and retrospective assessment of the effectiveness of our fuel hedge contracts at inception and quarterly, including assessing the possibility of counterparty default. If we determine that a derivative is no longer expected to be highly effective, we discontinue hedge accounting prospectively and recognize subsequent changes in the fair value of the hedge in earnings. As a result of our effectiveness assessment at inception and at September 30, 2015, we believe our fuel hedge contracts have been and will continue to be highly effective in offsetting changes in cash flows attributable to the hedged risk, with the exception of the abovementioned contracts.

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. We do not expect any of the counterparties to fail to meet their obligations. Our credit exposure related to these financial instruments is represented by the fair value of contracts reported as assets. To manage credit risk, we review each counterparty's audited financial statements, credit ratings, and/or obtain references as we deem necessary.

If our fuel derivative instruments are in a net liability position with the counterparty and cash collateral is required, the cash collateral amounts provided are netted against the fair value of current outstanding derivative instruments. No cash collateral deposits were required by us at September 30, 2015, and at December 31, 2014, \$5.0 million in cash collateral was provided by us in connection with our outstanding fuel derivative instruments.

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NoteDebt

7.

Current and long-term debt consisted of the following at September 30, 2015 and December 31, 2014:

(in thousands)	September 30, 2015		December 31, 2014	
	Current	Long-Term	Current	Long-Term
Borrowings under Credit Facility	\$ -	\$ -	\$ -	\$ -
Revenue equipment installment notes with finance companies; weighted average interest rate of 3.6% and 3.7% at September 30, 2015 and December 31, 2014, respectively, due in monthly installments with final maturities at various dates ranging from October 2015 to January 2022, secured by related revenue equipment	31,408	158,455	27,550	155,832
Real estate notes; weighted average interest rate of 2.0% and 2.5% at September 30, 2015 and December 31, 2014, respectively due in monthly installments with fixed maturities at December 2018 and August 2035, secured by related real estate	1,065	30,509	166	3,608
Other note payable, interest rate of 3.0% at December 31, 2014	-	-	108	91
Total debt	32,473	188,964	27,824	159,531
Principal portion of capital lease obligations, secured by related revenue equipment	4,144	10,866	1,606	13,372
Total debt and capital lease obligations	\$ 36,617	\$ 199,830	\$ 29,430	\$ 172,903

We and substantially all of our subsidiaries (collectively, the "Borrowers") are parties to a Third Amended and Restated Credit Facility (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 accordion feature that, so long as no event of default existed, allowed us to request an increase in the revolving credit facility of up to \$50.0 million. The Credit Facility included, 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.

In August 2015, we entered into an eleventh amendment to the Credit Facility, which, among other things, (i) amended the "Applicable Margin" to improve the interest rate grid as set forth in the tables below, (ii) improved the unused line fee pricing to 0.25% per annum, retroactive to July 1, 2015 (previously the fee was 0.375% per annum when availability was less than \$50.0 million and 0.5% per annum when availability was at or over such amount), (iii) required each of Driven Analytic Solutions, LLC ("DAS") and Covenant Properties, LLC ("CPI") to be joined to the Credit Agreement as guarantors, (iv) required each of DAS, CPI and Star Properties Exchange, LLC, a Tennessee limited liability company, to pledge certain of its assets as security, (v) contained conditional amendments increasing the borrowing base real estate sublimit and lowering the amortization of the real estate sublimit, (vi) made technical amendments to a variety of sections, including without limitation, permitted investments, permitted stock repurchases, permitted indebtedness, and permitted liens, (vii) consented to the purchase of the Company's headquarters, including related financing, and (viii) extended the maturity date from September 2017 to September 2018. Following the effectiveness of the eleventh amendment, the applicable margin was changed as follows:

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New Pricing

	Average Pricing	Base Rate	LIBOR
Level Availability	Loans	Loans	
	>		
I	\$40,000,000	.50%	1.50%
	≤ \$40,000,000 but		
	>		
II	\$20,000,000	.75%	1.75%
III	≤ \$20,000,000	1.00%	2.00%

Prior Pricing

	Average Pricing	Base Rate	LIBOR	L/C
Level Availability	Loans	Loans	Fee	
	>			
I	\$75,000,000	.50%	1.50%	1.50%
	≤ \$75,000,000 but			
	>			
II	\$50,000,000	.75%	1.75%	1.75%
	≤ \$50,000,000 but			
	>			
III	\$25,000,000	1.00%	2.00%	2.00%
IV	≤ \$25,000,000	1.25%	2.25%	2.25%

In exchange for these amendments, we agreed to pay fees of \$0.1 million. Based on availability as of September 30, 2015 and December 31, 2014, there was no fixed charge coverage requirement.

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 capital 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) 65% of the appraised fair market value of eligible real estate. We had no borrowings outstanding under the Credit Facility as of September 30, 2015, undrawn letters of credit outstanding of approximately \$33.4 million, and available borrowing capacity of \$61.6 million.

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.

Capital 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 September 30, 2015 terminate in October 2015 through February 2022 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 capital lease payments. These lease agreements require us to pay personal property taxes, maintenance, and operating expenses.

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 October 2015 to January 2022. 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 \$203.3 million are cross-defaulted with the Credit Facility. Additionally, a portion of the abovementioned fuel hedge contracts totaling \$19.0 million at September 30, 2015, is 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 the remainder of 2015 and in 2016, while any other property and equipment purchases, including trailers, are expected to be funded with a combination of available cash, notes, operating leases, capital leases, and/or from the Credit Facility.

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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. Concurrent with entering into the note, we entered into an interest rate swap to effectively fix the related interest rate to 4.2%. See Note 6 for further information about the interest rate swap.

NoteStock-Based Compensation

8.

In February 2013, the Compensation Committee of our Board of Directors approved, subject to stockholder approval, a third amendment (the "Third Amendment") to the 2006 Omnibus Incentive Plan (the "Incentive Plan"). The Third Amendment (i) provides that the maximum aggregate number of shares of Class A common stock available for grant of awards under the Incentive Plan from and after May 29, 2013, shall not exceed 750,000, plus any remaining available shares of the 800,000 shares previously made available under the second amendment to the Incentive Plan (the "Second Amendment"), and any expirations, forfeitures, cancellations, or certain other terminations of shares approved for grant under the Third Amendment or the Second Amendment previously reserved, plus any remaining expirations, forfeitures, cancellations, or certain other terminations of such shares, and (ii) re-sets the term of the Incentive Plan to expire with respect to the ability to grant new awards on June 30, 2023. The Compensation Committee also re-approved, subject to stockholder re-approval, the material terms of the performance-based goals under the Incentive Plan so that certain incentive awards granted thereunder would continue to qualify as exempt "performance-based compensation" under Internal Revenue Code Section 162(m). The Company's stockholders approved the adoption of the Third Amendment and re-approved the material terms of the performance-based goals under the Incentive Plan at the Company's 2013 Annual Meeting held on May 29, 2013.

The Incentive Plan permits annual awards of shares of our Class A common stock to executives, other key employees, consultants, non-employee directors, and eligible participants under various types of options, restricted stock awards, or other equity instruments. At September 30, 2015, 731,557 of the abovementioned 1,550,000 shares were available for award under the 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 September 30, 2023.

Included in salaries, wages, and related expenses within the condensed consolidated statements of operations for the three months ended September 30, 2015 and 2014, is stock-based compensation expense of approximately \$0.3 million and \$0.7 million respectively and expense of \$0.9 million for the nine months ended September 30, 2015 and 2014. All stock compensation expense recorded in 2014 and 2015 relates to restricted shares given no options were granted during these periods. Associated with stock compensation expense was a \$1.8 million income tax benefit at September 30, 2015 related to the exercise of stock options and restricted share vesting, resulting in related changes in taxable income and offsetting changes to additional paid in capital. An additional \$0.2 million and \$0.1 million of stock-based compensation was recorded in general supplies and expenses in the condensed consolidated statements of operations for the three and nine months ended September 30, 2015 and 2014, respectively, as it relates to the issuance of restricted stock to non-employee directors.

The Incentive Plan allows participants to pay the federal and state minimum statutory tax withholding requirements related to awards that vest or allows participants 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 through September 30, 2015, certain participants elected to forfeit receipt of 57,965 of shares of Class A common stock at a weighted average per share price of \$30.81 based on the closing price of our Class A common stock on the dates the shares vested in 2015, in lieu of the federal and state minimum statutory tax withholding requirements. We remitted \$1.8 million to the proper taxing authorities in satisfaction of the employees' minimum statutory withholding requirements.

During the third quarter of 2015, there were no employee stock options exercised.

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NoteEquity Method Investment

9.

TEL is 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. We own a 49.0% interest in TEL and have an option to acquire 100% of TEL through May 31, 2016, by purchasing the majority owners' interest based on a multiple of TEL's average earnings before interest and taxes, adjusted for certain items including cash and debt balances as of the acquisition date. Subsequent to May 31, 2016, TEL's majority owners have the option to acquire our interest based on the same terms detailed above. During the nine-month period ended September 30, 2015, we sold tractors and trailers to TEL totaling \$6.2 million and received \$0.8 million for providing various maintenance services, certain back-office functions, and for miscellaneous equipment. We recognized net deferred gains of less than \$0.1 million representing 49% of the gains on the units sold to TEL less any gains previously deferred and recognized when the equipment was subsequently sold to a third party. The deferred gains, totaling \$0.8 million at September 30, 2015, are being carried as a reduction in our investment in TEL. At September 30, 2015 and December 31, 2014, we had a receivable from TEL for \$2.6 million and \$2.2 million, respectively, related to cash disbursements made pursuant to a cash management agreement and related to providing various maintenance services, certain back-office functions, and for miscellaneous equipment.

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 2015 net income, or \$3.7 million. Our investment in TEL, totaling \$15.9 million and \$12.2 million, at September 30, 2015 and December 31, 2014, respectively, is included in other assets in the accompanying condensed consolidated balance sheets.

NoteCommitments and Contingencies

10.

From time-to-time, we are a party to routine litigation arising in the ordinary course of business, most of which involves claims for personal injury and 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 condensed consolidated financial statements.

In August 2014, the U.S. District Court for the Southern District of Ohio issued a pre-trial decision in a lawsuit against our Southern Refrigerated Transport, Inc. subsidiary ("SRT") relating to a cargo claim incurred in 2008. The court awarded the plaintiff approximately \$5.9 million plus prejudgment interest and costs and denied a cross-motion for summary judgment by SRT. Previously, the court had ruled in favor of SRT on all but one count before overturning its earlier decision and ruling in favor of the plaintiff. SRT filed a Notice of Appeal with the U.S. Sixth Circuit Court of Appeals on September 24, 2014. On November 5, 2015, the Sixth Circuit reversed the district court in part, finding that the plaintiff could not recover under two of its causes of action. The Sixth Circuit remanded the proceedings to the district court for further factual determinations relating to whether the plaintiff could recover under a third cause of action.

During the quarter ended September 30, 2015, we became party to a class action claim wherein plaintiff alleges failure to provide meal and rest breaks, unpaid wages, and other related wage and hour claims.

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.

Effective April 2015, we entered into a new auto liability policy with a three-year term. Additionally, effective April 2015, we commuted two liability policies for the period from April 1, 2013 through September 30, 2014, such that we are now responsible for any claim that occurred during that period up to \$20.0 million, should such a claim develop. We recorded a \$3.6 million reduction in insurance and claims expense in the second quarter of 2015 related to the commutation. The insurer did not remit the premium refund directly to the Company, but rather applied a credit to the current auto liability insurance policy, such that we recorded the policy release premium refund as a prepaid asset at June 30, 2015. As a result of the commutation and the Company's improved safety statistics over the prior policy, the Company received favorable premium pricing for the upcoming three year policy period, which we expect will reduce the fixed portion of insurance expense going forward.

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We had \$33.4 million and \$34.3 million of outstanding and undrawn letters of credit as of September 30, 2015 and December 31, 2014, respectively. The letters of credit are maintained primarily to support our insurance programs.

Note Accumulated Other Comprehensive Income ("AOCI")

11.

AOCI is comprised of net income and other adjustments, including changes in the fair value of certain derivative financial instruments qualifying as cash flow hedges.

The following table summarizes the change in the components of our AOCI balance for the periods presented (in thousands; presented net of tax):

Details about AOCI Components	Amount Reclassified from AOCI for the three months ended September 30, 2015	Amount Reclassified from AOCI for the nine months ended September 30, 2015	Affected Line Item in the Statement of Operations
Losses on cash flow hedges			
Fuel hedge contracts	\$ 4,200	\$ 10,669	Fuel expense
	(1,609)	(4,086)	Income tax
	\$ 2,591	\$ 6,583) benefit
			Net of tax
Interest rate swap contract	\$ 99	\$ 99	Interest
	(38)	(38)	expense
	\$ 61	\$ 61	Income tax
) benefit
			Net of tax

For additional information about our hedges, refer to Note 6.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The condensed consolidated financial statements include the accounts of Covenant Transportation Group, Inc., a Nevada holding company, and its wholly owned subsidiaries. References in this report to "we," "us," "our," the "Company," and similar expressions refer to Covenant Transportation Group, Inc. and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

This report contains certain statements that may be considered forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act of 1933, as amended (the "Securities Act") 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 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 Form 10-Q, statements relating to expected sources of working capital and liquidity (including our mix of debt, capital leases, and operating leases as a means of financing revenue equipment), expected capital expenditures, future costs associated with our purchase of our corporate headquarters (including expected performance of the associated rate swap agreement), expected cash flows, future trucking capacity, expected freight demand and volumes, future rates and prices, future depreciation and amortization, expected costs of fleet maintenance and repairs, expected driver compensation and related future expenses, future utilization of independent contractors, strategies for managing fuel costs, the effectiveness and impact of, and cash flows relating to, our fuel hedging contracts and fuel surcharge programs, future fleet size and management, the market value of equipment subject to operating or capital leases relative to our payment obligations under such operating leases (including residual value guarantees), the anticipated impact of our investment in Transport Enterprise Leasing, Inc. ("TEL"), the anticipated impact of existing and future industry regulation, future purchases under our recently authorized stock repurchase program, and anticipated levels of and fluctuations relating to insurance and claims expense, including with respect to the August 2014 adverse judgment relating to a 2008 cargo claim, among others, are forward-looking statements. Forward-looking statements may be identified by the use of terms or phrases such as "believe," "may," "could," "expects," "estimates," "projects," "anticipates," "plans," "intends," and similar terms and phrases. Such statements are based on currently available operating, financial, and competitive information. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Item 1A. Risk Factors," set forth in our Form 10-K for the year ended December 31, 2014. Readers should review and consider the factors discussed in "Item 1A. Risk Factors," set forth in our Form 10-K for the year ended December 31, 2014, along with various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission.

All such forward-looking statements speak only as of the date of this Form 10-Q. 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.

Executive Overview

Overall, we were pleased with our results for the third quarter of 2015 in an environment characterized by a competitive market for qualified professional drivers, soft freight demand, and falling fuel prices that we did not fully realize because of losses on fuel hedging contracts that we put in place two years ago when diesel fuel prices were higher. The operating ratio for our asset-based or "Truckload" segment improved 320 basis points to 90.2%, excluding the \$7.5 million cargo expense recorded in 2014 and a \$3.1 million increase in fuel hedging losses. The main positives in the third quarter were 1) a 3.3% increase in average freight revenue per loaded mile, 2) a year-over-year increase in our professional driver employee headcount, 3) decreased operating costs on a per mile basis, 4) a 5.0% year-over-year reduction in chargeable accidents per million miles as measured by the Department of Transportation, and 5) improved operating profitability from our Covenant Transport, Inc. and Covenant Transport Solutions, Inc. ("Solutions") subsidiaries. The main negatives in the quarter were 1) a 2.5% decrease in utilization versus last year, 2) the deterioration of operating profitability from our SRT subsidiary, and 3) the unfavorable fuel hedge position.

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Additional items of note for the third quarter of 2015 include the following:

Total revenue of \$173.5 million, a decrease of 2.3% compared with the third quarter of 2014 and freight revenue of \$153.5 million (which excludes revenue from fuel surcharges), an increase of 8.2% compared with the third quarter of 2014;

Operating income of \$14.6 million and an operating ratio of 90.5%, compared with operating income of \$5.6 million and an operating ratio of 96.1% in the third quarter of 2014. Operating income for the 2014 quarter included the impact of a \$7.5 million increase in reserves for an adverse judgment in August 2014 stemming from a cargo loss in 2008;

Net income of \$7.6 million, or \$0.42 per diluted share, compared with net income of \$1.9 million, or \$0.12 per diluted share, in the third quarter of 2014, on a 21.3% increase in weighted average diluted shares resulting primarily from our public offering of 3,036,000 common shares completed in November 2014. Net income for the 2014 quarter includes an unfavorable after-tax impact of approximately \$4.6 million, or \$0.30 per share, for the abovementioned cargo claim;

With available borrowing capacity of \$61.6 million under our Credit Facility as of September 30, 2015, we do not expect to be required to test our fixed charge covenant in the foreseeable future;

Solutions' total revenue increased by 29.4% to \$13.9 million, compared to \$10.7 million for the third quarter of 2014, and Solutions' operating income increased to \$0.9 million for the third quarter of 2015 compared to \$0.5 million for the same 2014 quarter;

Our equity investment in TEL provided \$1.0 million of pre-tax earnings compared to \$0.9 million in the third quarter of 2014;

Since December 31, 2014, total indebtedness, net of cash and including the present value of off-balance sheet lease obligations has increased by \$17.3 million to \$244.0 million. In August 2015, we purchased our headquarters building and surrounding property, which was previously financed under an operating lease. The purchase price of approximately \$35.5 million exceeded the \$17.1 million present value of the remaining lease stream, which would have matured in April 2026. At the end of that lease period, we would have had to renew the lease, purchase the facility at a potentially higher price and higher interest rate, or relocate. In addition, the interest rate on the new financing is effectively fixed at 4.2% versus an implied interest rate of 8.2% on the previous operating lease; and

Stockholders' equity at September 30, 2015, was \$194.1 million and our tangible book value was \$193.9 million, or \$10.74 per basic share.

While the industry's driver shortage continues to be its most significant challenge, we are encouraged that our focus on improving our drivers' employment experience and keeping our trucks seated is providing results. Despite this challenge, our fleet experienced an increase of approximately 23 trucks in the third quarter of 2015 from our June 30, 2015, reported fleet size, and our fleet of team-driven trucks averaged 966 teams in the third quarter of 2015, a 1.6%

sequential increase over an average of 951 teams in the second quarter of 2015. Therefore, we actually increased our number of professional drivers by approximately 40 during the third quarter of 2015. Availability of team-driven trucks is especially important in order to help meet our expedited shippers' stronger fourth quarter demand for their time-sensitive freight. We expect continuing to maintain our drivers' employment experience and keep our tractors seated to be at the forefront of every initiative we implement and decision we make.

Similar to August and September, utilization for October 2015 has underperformed the prior year. Fourth quarter performance will depend to a significant extent on the level of involvement of our asset-based and Solutions subsidiaries in the supply chains of our LTL, e-commerce, parcel, and omni-channel shipping customers during the 2015 peak freight season and the associated pricing for our services. In general, we expect a solid fourth quarter. Our major peak season shippers have contracted for a higher volume of committed capacity than last year, but at lower contractual rates on average than last year. The combination of volumes, routes, and pricing is expected to be efficient and attractively profitable – perhaps generating more income on the contractual side than last year's contractual freight. However, this will leave a lower percentage of our fleet available for seasonal spot market business, which was extremely profitable last year, but might be less so this year. While diesel fuel prices are trending lower than those of 2014, we do not expect this trend to affect us to the same extent that it may affect some of our peers, as approximately 22.5% of our expected remaining 2015 fuel needs have been hedged at fixed prices that were set prior to the decline in market fuel prices.

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Revenue and Expenses

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 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. We also generate revenue through a subsidiary that provides other freight services, including brokerage and accounts receivable factoring.

We have one reportable segment, our asset-based truckload services, which we refer to as Truckload.

The Truckload segment consists of three asset-based operating fleets that are aggregated because they have similar economic characteristics and meet the aggregation criteria. The three operating fleets that comprise our Truckload segment are as follows: (i) Covenant Transport, Inc., our historical flagship operation, which provides expedited long haul, dedicated, temperature-controlled, and regional solo-driver service; (ii) Southern Refrigerated Transport, Inc., ("SRT"), which provides primarily long-haul, regional, and intermodal temperature-controlled service; and (iii) Star Transportation, Inc., which provides regional solo-driver and dedicated services, primarily in the southeastern United States.

In our Truckload segment, 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 affect our Truckload 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.

Our Truckload segment also derives revenue from fuel surcharges, loading and unloading activities, equipment detention, and other accessorial services. We measure revenue before fuel surcharges, or "freight revenue," because we believe that fuel surcharges tend to be a volatile source of revenue. We believe the exclusion of fuel surcharges affords a more consistent basis for comparing the results of operations from period-to-period. Nonetheless, freight revenue represents a non-GAAP financial measure. Accordingly, undue reliance should not be placed on the discussion of freight revenue, and discussions of freight revenue should be considered in combination with discussions of total revenue. For each expense item discussed below, we have provided a table setting forth the relevant expense first as a percentage of total revenue, and then as a percentage of freight revenue.

The main expenses that impact the profitability of our Truckload segment 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. Our main fixed costs include rentals and depreciation of long-term assets, such as revenue equipment and terminal facilities, and the compensation of nondriver personnel.

Our main measure of profitability is operating ratio, which we define as operating expenses, net of fuel surcharge revenue, divided by total revenue, less fuel surcharge revenue, or freight revenue.

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.

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In addition, our Solutions subsidiary has service offerings ancillary to our Truckload operations, including freight brokerage service directly and through freight brokerage agents who are paid a commission for the freight they provide and accounts receivable factoring. These operations consist of several operating segments, which neither individually nor in the aggregate meet the quantitative or qualitative reporting thresholds.

Revenue Equipment

At September 30, 2015, we operated 2,721 tractors and 6,598 trailers. Of such tractors, 2,330 were owned, 150 were financed under operating leases, and 241 were provided by independent contractors, who provide and drive their own tractors. Of such trailers, 3,632 were owned, were 2,294 financed under operating leases, and 672 were financed under capital leases. These leases generally run for a period of three to five years for tractors and five to seven years for trailers. At September 30, 2015, our fleet had an average tractor age of 1.7 years and an average trailer age of 5.0 years.

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 or leasing the tractor. The payments to independent contractors and the financing of equipment under operating leases are recorded in revenue equipment rentals and purchased transportation. Expenses associated with owned equipment, such as interest and depreciation, and expenses associated with employee drivers, including driver compensation, fuel, and other expenses, are not incurred with respect to independent contractors. Obtaining equipment from independent contractors and under operating leases effectively shifts financing expenses from interest to "above the line" operating expenses, and as such, we evaluate our efficiency using net margin as well as operating ratio.

RESULTS OF CONSOLIDATED OPERATIONS

COMPARISON OF THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 TO THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

The following tables set forth the percentage relationship of certain items to total revenue and freight revenue, where applicable (dollars in thousands):

Revenue

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue:				
Freight revenue	\$ 153,522	\$ 141,917	\$ 449,003	\$ 405,750
Fuel surcharge revenue	19,990	35,664	67,175	106,442
Total revenue	\$ 173,512	\$ 177,581	\$ 516,178	\$ 512,192

For the quarter ended September 30, 2015, total revenue decreased \$4.1 million, or 2.3%, to \$173.5 million from \$177.6 million in the 2014 quarter due to a \$15.7 million decrease in fuel surcharge revenue, partially offset by an \$11.6 million, or 8.2%, increase in freight revenue compared to the 2014 quarter. Fuel surcharge revenue decreased due to a significant decrease in national average fuel prices. The increase in freight revenue resulted from an \$8.5 million increase in freight revenues from our Truckload segment and a \$3.1 million increase in revenues from Solutions.

The \$8.5 million increase in Truckload freight revenue relates to a 0.4% increase in average freight revenue per tractor per week, a 5.2% increase in our average tractor fleet, and a \$1.0 million increase in freight revenue from our refrigerated intermodal service offering from the 2014 quarter. The increase in average freight revenue per tractor per week for the quarter ended September 30, 2015 is the result of a 3.0% increase, or 4.8 cents per mile, in average rate per total mile on an approximately 3.0% increase in average length of haul primarily associated with our team driven units. Additionally, team driven units increased approximately 13.5% to an average of 966 for the third quarter of 2015 compared to an average of 851 teams during the same 2014 quarter. These increases were partially offset by a 2.5% decrease in average miles per unit when compared to the same quarter in 2014 as a result of a weaker overall freight environment.

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For the nine-month period ended September 30, 2015, total revenue increased \$4.0 million, or 0.8%, to \$516.2 million from \$512.2 million in the 2014 period. Freight revenue increased \$43.3 million, or 10.7%, to \$449.0 million for the nine months ended September 30, 2015, from \$405.8 million in the 2014 period, while fuel surcharge revenue decreased \$39.3 million period-over-period. The increase in freight revenue resulted from a \$41.5 million increase in freight revenues from our Truckload segment and a \$1.8 million increase in revenue from Solutions.

The \$41.5 million increase in Truckload freight revenue relates to a 6.0% increase in average freight revenue per tractor per week, a 4.1% increase in our average tractor fleet, and a \$3.6 million increase in freight revenue from our refrigerated intermodal service offering compared to the same 2014 period. The increase in average freight revenue per tractor per week for the nine-month period ended September 30, 2015 is the result of a 4.5% increase, or 6.9 cents per mile, in average rate per total mile, as well as a 1.4% increase in average miles per unit when compared to the same period in 2014. Additionally, team driven units increased approximately 16.5% to an average of 948 for the nine-month period ended September 30, 2015 compared to an average of 814 teams during the same 2014 period.

Solutions' revenue increased \$3.1 million, or 29.4%, quarter-over-quarter and \$1.8 million year-over-year, as a result of 2015 internal and customer growth as well as improved coordination with our Truckload segment operations and new customers added during the latter portion of 2014.

If softer freight demand continues, we expect rates and utilization to moderate compared to the prior 24 months. However, if the electronic logging device mandates are announced or if economic growth improves the resulting impact to supply and demand could drive an increase in both rates and utilization.

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 quarter-to-quarter and period-to-period.

Salaries, wages, and related expenses

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Salaries, wages, and related expenses	\$ 60,241	\$ 57,636	\$ 177,624	\$ 166,651
% of total revenue	34.7 %	32.5 %	34.4 %	32.5 %
% of freight revenue	39.2 %	40.6 %	39.6 %	41.1 %

Salaries, wages, and related expenses increased approximately \$2.6 million, or 4.5%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, salaries, wages, and related expenses increased to 34.7% of total revenue for the three months ended September 30, 2015, from 32.5% in the same quarter in 2014. As a percentage of freight revenue, salaries, wages, and related expenses decreased to 39.2% of freight revenue for the three months ended September 30, 2015, from 40.6% in the same quarter in 2014.

For the nine months ended September 30, 2015 salaries, wages, and related expenses increased approximately \$11.0 million, or 6.6%, compared with the same period in 2014. As a percentage of total revenue, salaries, wages, and related expenses increased to 34.4% for the nine months ended September 30, 2015 from 32.5% of total revenue for

the nine months ended September 30, 2015 and 2014. As a percentage of freight revenue, salaries, wages, and related expenses declined to 39.6% of freight revenue for the nine months ended September 30, 2015, from 41.1% in the same period in 2014.

These changes for the quarter and nine-month period ended September 30, 2015 are primarily due to a higher percentage of our fleet comprised of team-driven tractors, driver and nondriver employee pay increases since the second quarter of 2014, and higher group health costs partially offset by lower workers' compensation costs.

Going forward, we believe salaries, wages, and related expenses will increase as a result of a tight driver market, wage inflation, higher healthcare costs, and increased incentive compensation due to better performance. In particular, we expect driver pay to increase as we look to reduce the number of unseated trucks in our fleet in a tight market for drivers. As a percentage of total revenue and freight revenue, salaries, wages, and related expenses will fluctuate to some extent based on the percentage of revenue generated by independent contractors and our Solutions business, for which payments are reflected in the purchased transportation line item.

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Fuel expense

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Total fuel expense	\$ 30,526	\$ 42,784	\$ 94,931	\$ 127,875
% of total revenue	17.6 %	24.1 %	18.4 %	25.0 %

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 Department of Energy ("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. Ultra low sulfur diesel prices as measured by the DOE averaged approximately \$1.21 per gallon and \$1.05 per gallon lower, respectively, for the quarter and nine-month period ended September 30, 2015 compared with the same 2014 quarter and period.

Additionally, \$4.2 million and \$10.7 million, respectively, were reclassified from accumulated other comprehensive loss into our results of operations as additional fuel expense for the three and nine months ended September 30, 2015, related to losses on contracts that expired. In addition to the amounts reclassified from accumulated other comprehensive loss for the quarter and nine-month period ended September 30, 2015, which related to losses on contracts that expired or were sold and for which we completed the forecasted transaction by purchasing the hedged diesel fuel, \$0.3 million and \$1.2 million, respectively, were recorded as favorable adjustments to fuel expense, related to contracts for which the hedging relationship was no longer deemed to be effective on a prospective basis for the same quarter and period.

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 trucks, our fuel economy, our percentage of deadhead miles, for which we do not receive fuel surcharge revenues, and the net impact of fuel hedging gains and losses. Net fuel expense is shown below:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Total fuel surcharge	\$ 19,990	\$ 35,664	\$ 67,175	\$ 106,442
Less: Fuel surcharge revenue reimbursed to independent contractors and other	1,984	2,690	6,050	8,287

third parties

Company fuel							
surcharge revenue	\$	18,006	\$	32,974	\$	61,125	\$ 98,155
Total fuel expense	\$	30,526	\$	42,784	\$	94,931	\$ 127,875
Less: Company fuel							
surcharge revenue		18,006		32,974		61,125	98,155
Net fuel expense	\$	12,520	\$	9,810	\$	33,806	\$ 29,720
% of freight revenue		8.2 %		6.9 %		7.5 %	7.3 %

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Total fuel expense decreased approximately \$12.3 million, or 28.7%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, total fuel expense decreased to 17.6% of total revenue for the three months ended September 30, 2015, from 24.1% in the same quarter in 2014. As a percentage of freight revenue, total fuel expense decreased to 19.9% of freight revenue for the three months ended September 30, 2015, from 30.1% in the same quarter in 2014.

For the nine months ended September 30, 2015, total fuel expense decreased approximately \$32.9 million, or 25.8%, compared with the same period in 2014. As a percentage of total revenue, total fuel expense decreased to 18.4% of total revenue for the nine months ended September 30, 2015, from 25.0% in the 2014 period. As a percentage of freight revenue, total fuel expense decreased to 21.1% of freight revenue for the nine months ended September 30, 2015, from 31.5% in the 2014 period.

These decreases for the quarter and nine-month period ended September 30, 2015 are primarily due to an increase in our average fuel miles per gallon during 2015 as a result of purchasing equipment with more fuel-efficient engines and improved fuel pricing, partially offset by net losses from fuel hedging transactions of \$3.9 million and \$9.5 million, respectively, in the 2015 quarter and period compared to losses of \$0.8 million and \$0.2 million, respectively, in the 2014 quarter and period, as well as an approximately \$0.9 million fuel tax credit taken during the second quarter of 2014 related to amended fuel tax returns for years 2010 – 2013.

Net fuel expense increased \$2.7 million, or 27.6%, and \$4.1 million, or 13.7%, respectively, for the quarter and nine months ended September 30, 2015, as compared to the same 2014 quarter and period. As a percentage of freight revenue, net fuel expense increased to 8.2% and 7.5%, respectively, for the quarter and nine months ended September 30, 2015, as compared to the same 2014 quarter and period. These changes are primarily the result of lower fuel surcharge recovery partially offset by improved miles per gallon due to new engine technology, in each case, net of gains and losses on fuel hedging contracts as well as a \$0.9 million tax credit taken during the second quarter of 2014.

We expect to continue managing our idle time and truck 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, the success of fuel efficiency initiatives, and gains and losses on fuel hedging contracts. We have focused our efforts on increasing our ability to recover fuel surcharges under our customer contracts for fuel used in refrigeration units. If these efforts are successful, they could give rise to an increase in fuel surcharges recovered and a corresponding decrease in net fuel expense. Additionally, in recent months petroleum based markets have experienced rapid declines such that current pricing has reached four-year lows and, at current prices, we would experience continued fuel hedging losses over the next four quarters. The amount of these losses would vary depending on market fuel prices. As such, there has been significant volatility in our net fuel expense, and we would expect such volatility to continue if these market conditions persist.

Operations and maintenance

Three months ended September 30,		Nine months ended September 30,	
2015	2014	2015	2014
\$ 12,728	\$ 11,934	\$ 35,666	\$ 35,498

Operations and maintenance								
% of total revenue	7.3	%	6.7	%	6.9	%	6.9	%
% of freight revenue	8.3	%	8.4	%	7.9	%	8.7	%

Operations and maintenance increased approximately \$0.8 million, or 6.7%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, operations and maintenance increased to 7.3% of total revenue for the three months ended September 30, 2015, from 6.7% in the same quarter in 2014. As a percentage of freight revenue, operations and maintenance remained relatively constant for the three months ended September 30, 2015 and the same quarter in 2014.

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For the nine months ended September 30, 2015, operations and maintenance remained relatively even compared with the same period in 2014. As a percentage of total revenue, operations and maintenance remained constant at 6.9% of total revenue for the nine months ended September 30, 2015, compared to the same period in 2014. As a percentage of freight revenue, operations and maintenance decreased to 7.9% of freight revenue for the nine months ended September 30, 2015, from 8.7% in the same period in 2014 due a decrease in our average age of equipment.

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

Revenue equipment rentals and purchased transportation

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenue equipment rentals and purchased transportation	\$ 27,548	\$ 25,871	\$ 76,714	\$ 78,818
% of total revenue	15.9 %	14.6 %	14.9 %	15.4 %
% of freight revenue	17.9 %	18.2 %	17.1 %	19.4 %

Revenue equipment rentals and purchased transportation increased approximately \$1.7 million, or 6.5%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, revenue equipment rentals and purchased transportation increased to 15.9% of total revenue for the three months ended September 30, 2015, from 14.6% in the same quarter in 2014. As a percentage of freight revenue, revenue equipment rentals and purchased transportation decreased to 17.9% of freight revenue for the three months ended September 30, 2015, from 18.2% in the same quarter in 2014.

For the nine months ended September 30, 2015, revenue equipment rentals and purchased transportation decreased approximately \$2.1 million, or 2.7%, compared with the same period in 2014. As a percentage of total revenue, revenue equipment rentals and purchased transportation decreased to 14.9% of total revenue for the nine months ended September 30, 2015, from 15.4% in the same period in 2014. As a percentage of freight revenue, revenue equipment rentals and purchased transportation decreased to 17.1% of freight revenue for the nine months ended September 30, 2015, from 19.4% in the same period in 2014.

These fluctuations for the three and nine months ended September 30, 2015 were primarily the result of a reduction in operating leases in favor of owned equipment, primarily trailers, partially offset by increased costs related to the growth of our refrigerated intermodal service offering.

This expense category will fluctuate with the number of loads hauled by independent contractors and handled by Solutions, the percentage of our fleet financed with operating leases, the cost to obtain third party transportation services, and growth of our intermodal service offerings, as well as the amount of fuel surcharge revenue passed through to the third party carriers and independent contractors. If capacity remains tight, we believe we may need to increase the amounts we pay to third-party transportation providers, independent contractors, and intermodal transportation providers, which would increase this expense category 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

	Three months ended September 30, 2015		2014		Nine months ended September 30, 2015		2014	
Operating taxes and licenses	\$	2,879	\$	2,733	\$	8,162	\$	8,041
% of total revenue	1.7	%	1.5	%	1.6	%	1.6	%
% of freight revenue	1.9	%	1.9	%	1.8	%	2.0	%

For the periods presented, the change in operating taxes and licenses was not significant as either a percentage of total revenue or freight revenue.

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Insurance and claims

	Three months ended September 30, 2015		September 30, 2014		Nine months ended September 30, 2015		September 30, 2014	
Insurance and claims	\$	6,682	\$	15,545	\$	21,727	\$	29,229
% of total revenue	3.9	%	8.8	%	4.2	%	5.7	%
% of freight revenue	4.4	%	11.0	%	4.8	%	7.2	%

Insurance and claims, consisting primarily of premiums and deductible amounts for liability, physical damage, and cargo damage insurance and claims, decreased approximately \$8.9 million, or 57.0%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, insurance and claims decreased to 3.9% of total revenue for the three months ended September 30, 2015, from 8.8% in the same quarter of 2014. As a percentage of freight revenue, insurance and claims decreased to 4.4% of freight revenue for the three months ended September 30, 2015, from 11.0% in the same quarter in 2014. Insurance and claims per mile cost decreased to 8.0 cents per mile in the third quarter of 2015 from 9.8 cents per mile in the third quarter of 2014 excluding the approximately \$7.5 million of additional reserves related to the adverse judgment regarding a 2008 cargo claim. The decrease is primarily related to a decrease in our chargeable accidents per million miles, as measured by the Department of Transportation, which improved by approximately 5.0% from the 2014 period as well as additional investment in safety technology and a decrease in the loss development factors resulting from decreased frequency.

For the nine months ended September 30, 2015, insurance and claims, consisting primarily of premiums and deductible amounts for liability, physical damage, and cargo damage insurance and claims, decreased approximately \$7.5 million, or 25.7%, compared with the same period in 2014. As a percentage of total revenue, insurance and claims decreased to 4.2% of total revenue for the nine months ended September 30, 2015, from 5.7% in the same period in 2014. As a percentage of freight revenue, insurance and claims decreased to 4.8% of freight revenue for the nine months ended September 30, 2015, from 7.2% in the same period in 2014. Insurance and claims per mile cost decreased to 8.6 cents per mile in the nine months ended September 30, 2015 from 9.1 cents per mile in the same 2014 period, excluding the approximately \$7.5 million of additional reserves related to the adverse judgment regarding a 2008 cargo claim. These changes primarily related to the \$3.6 million auto liability commutation credit received during the second quarter of 2015 and a decrease in the loss development factors resulting from decreased frequency, partially offset by greater severity of claims for accidents incurred.

With our significant self-insured retention (including the abovementioned increased self-insured retention resulting from our policy commutations), insurance and claims expense could adversely affect our financial condition and results of operations.

In August 2014, the U.S. District Court for the Southern District of Ohio issued a pre-trial decision in a lawsuit against SRT relating to a cargo claim incurred in 2008. The court awarded the plaintiff approximately \$5.9 million plus prejudgment interest and costs and denied a cross-motion for summary judgment by SRT. Previously, the court had ruled in favor of SRT on all but one count before overturning its earlier decision and ruling in favor of the plaintiff. SRT filed a Notice of Appeal with the U.S. Sixth Circuit Court of Appeals on September 24, 2014. Oral arguments were heard August 6, 2015 and decision is pending. We expect a decision from the appellate court within the next six months.

Communications and utilities

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
Communications and utilities	\$	1,527	\$	1,457	\$	4,547	\$	4,320
% of total revenue	0.9	%	0.8	%	0.9	%	0.8	%
% of freight revenue	1.0	%	1.0	%	1.0	%	1.1	%

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

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General supplies and expenses

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
General supplies and expenses	\$	2,060	\$	3,950	\$	9,993	\$	12,289
% of total revenue	1.2	%	2.2	%	1.9	%	2.4	%
% of freight revenue	1.3	%	2.8	%	2.2	%	3.0	%

General supplies and expenses decreased approximately \$1.9 million, or 47.8%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, general supplies and expenses decreased to 1.2% of total revenue for the three months ended September 30, 2015, from 2.2% in the same quarter in 2014. As a percentage of freight revenue, general supplies and expenses decreased to 1.3% of freight revenue for the three months ended September 30, 2015, from 2.8% in the same quarter in 2014.

For the nine months ended September 30, 2015, general supplies and expenses decreased approximately \$2.3 million, or 18.7%, compared with the same period in 2014. As a percentage of total revenue, general supplies and expenses decreased to 1.9% of total revenue for the nine months ended September 30, 2015, from 2.4% in the same period in 2014. As a percentage of freight revenue, general supplies and expenses decreased to 2.2% of freight revenue for the nine months ended September 30, 2015, from 3.0% in the same period in 2014.

These decreases are primarily the result of the approximately \$1.2 million reversal of deferred rent expense and reduced building rent expense related to the purchase of our previously leased Chattanooga headquarters property.

Depreciation and amortization

	Three months ended September 30,				Nine months ended September 30,			
	2015		2014		2015		2014	
Depreciation and amortization	\$	14,692	\$	10,085	\$	43,368	\$	34,476
% of total revenue	8.5	%	5.7	%	8.4	%	6.7	%
% of freight revenue	9.6	%	7.1	%	9.7	%	8.5	%

Depreciation and amortization consists primarily of depreciation of owned revenue equipment, net of gains and losses on disposition of capital assets. Depreciation and amortization increased approximately \$4.6 million, or 45.7%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, depreciation and amortization increased to 8.5% of total revenue for the three months ended September 30, 2015, from 5.7% in the same quarter in 2014. As a percentage of freight revenue, depreciation and amortization increased to 9.6% of freight revenue for the three months ended September 30, 2015, from 7.1% in the same quarter in 2014.

For the nine months ended September 30, 2015, depreciation and amortization increased approximately \$8.9 million, or 25.8%, compared with the same period in 2014. As a percentage of total revenue, depreciation and amortization increased to 8.4% of total revenue for the nine months ended September 30, 2015, from 6.7% in the same period in 2014. As a percentage of freight revenue, depreciation and amortization increased to 9.7% of freight revenue for the nine months ended September 30, 2015, from 8.5% in the same period in 2014.

Excluding gains and losses, depreciation increased \$3.3 million and \$7.4 million, respectively, for the quarter and nine-month period ended September 30, 2015, primarily as a result of the addition of new equipment and more owned units in the 2015 quarter and period than the 2014 quarter and period. Gains on the sale of property and equipment decreased \$1.3 million and \$1.6 million, respectively, in the quarter and nine-month period ended September 30, 2015 than the same 2014 quarter and period, primarily due to the number, type, and mileage of the units sold. We expect to see an increase in depreciation and amortization going forward as a result of our expected increase in acquisition of revenue equipment through purchases and capital leases rather than operating leases and as a result of our purchase of our corporate headquarters, executed in August 2015. Over the next six to twelve months we expect that the recent softening of the used tractor market could result in lower gains than we've experienced in the prior years, thereby increasing our depreciation and amortization expense.

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Other expense, net

	Three months ended September 30, 2015		2014		Nine months ended September 30, 2015		2014	
Other expense, net	\$	2,041	\$	2,634	\$	5,962	\$	8,098
% of total revenue	1.2	%	1.5	%	1.2	%	1.6	%
% of freight revenue	1.3	%	1.9	%	1.3	%	2.0	%

Other expense, net consists primarily of interest expense, interest income, and other miscellaneous non-operating items. Other expense, net decreased approximately \$0.6 million, or 22.5%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, other expense, net decreased to 1.2% of total revenue for the three months ended September 30, 2015, from 1.5% in the same quarter in 2014. As a percentage of freight revenue, other expense, net decreased to 1.3% of freight revenue for the three months ended September 30, 2015, from 1.9% in the same quarter in 2014.

For the nine months ended September 30, 2015, other expense, net decreased approximately \$2.1 million, or 26.4% compared with the same 2014 period. As a percentage of total revenue, other expense, net decreased to 1.2% of total revenue for the nine months ended September 30, 2015, from 1.6% in the same 2014 period. As a percentage of freight revenue, other expense, net decreased to 1.3% of freight revenue for the nine months ended September 30, 2015, from 2.0% in the same 2014 period.

These decreases are primarily the result of the repayments of debt and capital leases from the proceeds of our late November 2014 follow-on stock offering partially offset by the increase in debt at a lower average interest rate related to the purchase of our corporate headquarters. Going forward this decrease could be partially offset by the incurrence of balance sheet debt as we expect to transition away from operating leases and towards equipment notes as a means of financing revenue equipment.

This line item will fluctuate based on our decision with respect to purchasing revenue equipment with balance sheet debt (including capital leases) versus operating leases, as well as our ability to continue to generate profitable results and reduce our balance sheet leverage. Going forward, we expect this line item to increase related to recent historical periods as a result of the August 2015 purchase of our corporate headquarters.

Equity in income of affiliate

	Three months ended September 30, 2015		2014		Nine months ended September 30, 2015		2014	
Equity in income of affiliate	\$	1,000	\$	880	\$	3,720	\$	2,530

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 three and nine months ended September 30, 2015. The increase in TEL's contributions to our results is the result of their growth in both leasing and truck sales. Given TEL's growth over the past three years and volatility in the used and leased equipment markets in which TEL operates, we

expect the impact on our earnings resulting from our investment and TEL's profitability to stabilize over the next twelve months (assuming we do not exercise our option to purchase the remaining 51% of TEL). Additionally, should we exercise our option to purchase the remaining 51% of TEL, the consolidation of TEL's results and balance sheet would provide for a significant fluctuation to our presentation and amounts reported. The extent of such a fluctuation could depend on a number of factors, including the exercise price, the amount of TEL's debt upon exercise, how TEL is financing their fleet of tractors and trailers (which would impact depreciation, amortization, and revenue equipment rentals), and compensation and benefits at TEL.

Income tax expense

	Three months ended September 30, 2015		September 30, 2014		Nine months ended September 30, 2015		September 30, 2014	
Income tax expense	\$	5,961	\$	1,975	\$	12,349	\$	5,164
% of total revenue	3.4	%	1.1	%	2.4	%	1.0	%
% of freight revenue	3.9	%	1.4	%	2.8	%	1.3	%

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Income tax expense increased approximately \$4.0 million, or 201.8%, for the three months ended September 30, 2015, compared with the same quarter in 2014. As a percentage of total revenue, income tax expense increased to 3.4% of total revenue for the three months ended September 30, 2015, from 1.1% in the same quarter in 2014. As a percentage of freight revenue, income tax expense increased to 3.9% of freight revenue for the three months ended September 30, 2015, from 1.4% in the same quarter in 2014. These increases were primarily related to the \$9.8 million increase in the pre-tax income in the 2015 quarter compared to the 2014 quarter, resulting from the improvements in operating income noted above and the increase in the contribution from TEL's earnings.

For the nine months ended September 30, 2015, income tax expense increased approximately \$7.2 million, or 139.1%, compared with the same period in 2014. As a percentage of total revenue, income tax expense increased to 2.4% of total revenue for the nine months ended September 30, 2015, from 1.0% in the same period in 2014. As a percentage of freight revenue, income tax expense increased to 2.8% of freight revenue for the nine months ended September 30, 2015, compared to 1.3% for the same period of 2014. These increases were primarily related to the \$31.8 million increase in the pre-tax income in the 2015 period compared to the 2014 period, resulting from the improvements in operating income noted above and the increase in the contribution from TEL's earnings partially offset by a one time tax credit of approximately \$4.7 million taken during the first quarter of 2015.

The effective tax rate is different from the expected combined tax rate due 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.

RESULTS OF SEGMENT OPERATIONS

COMPARISON OF THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 TO THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014

The following table summarizes financial and operating data by reportable segment:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Total Revenues:				
Truckload	\$ 159,615	\$ 166,839	\$ 479,664	\$ 477,432
Other	13,897	10,742	36,514	34,760
Total	\$ 173,512	\$ 177,581	\$ 516,178	\$ 512,192
Operating Income:				
Truckload	\$ 15,983	\$ 10,854	\$ 46,799	\$ 23,369
Other	923	483	1,840	1,590
Unallocated Corporate Overhead	(2,277)	(5,751)	(5,193)	(9,964)
Total	\$ 14,629	\$ 5,586	\$ 43,446	\$ 14,995

For the 2015 quarter Truckload total revenue decreased \$7.2 million due to a \$15.7 million decrease in fuel surcharge revenue, partially offset by an \$8.5 million increase in freight revenue. Fuel surcharge revenue decreased due to a

significant decrease in national average fuel prices. The increase in freight revenue relates to a 0.4% increase in average freight revenue per tractor per week, a 5.2% increase in our average tractor fleet, and a \$1.0 million increase in freight revenue from our refrigerated intermodal service offering from the 2014 quarter. The increase in average freight revenue per tractor per week for the quarter ended September 30, 2015 is the result of a 3.0% increase, or 4.8 cents per mile, in average rate per total mile on an approximately 3.0% increase in average length of haul. These improvements were partially offset by a 2.5% decrease in our average miles per unit. Additionally, team driven units increased approximately 13.5% to an average of 966 for the third quarter of 2015 compared to an average of 851 teams during the same 2014 quarter. These increases were partially offset by a 2.5% decrease in average miles per unit when compared to the same quarter in 2014 as a result of a weaker overall freight environment.

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Our Truckload operating income was \$5.1 million higher in the 2015 quarter than in the same 2014 quarter, due to the abovementioned increase in freight revenue. These improvements were partially offset by increased operating costs per mile, net of fuel surcharge revenue, due to increased net fuel costs, increased salaries, wages, and related expenses (which was primarily due to a higher percentage of our fleet comprised of team-driven tractors, driver and nondriver employee pay increases since the third quarter of 2014), and increased capital costs.

Other total revenue and operating income increased \$3.1 million and \$0.4 million quarter-over-quarter, respectively, as a result of 2015 internal and customer growth as well as improved coordination with our Truckload segment operations and new customers added during the latter portion of 2014.

The change in unallocated corporate overhead for the three months ended September 30, 2015 is primarily related to reduced workers' compensation expense and insurance and claims expense as a result of additional investment in safety technology combined with good claims experience.

For the nine months ended September 30, 2015 Truckload total revenue increased \$2.2 million due to a \$41.5 million increase in freight revenue, partially offset by a \$39.3 million decrease in fuel surcharge revenue. The increase in freight revenue is the result of a 6.0% increase in average freight revenue per tractor per week, a 4.1% increase in our average tractor fleet, and a \$3.6 million increase in freight revenue from our refrigerated intermodal service offering compared to the same 2014 period. The increase in average freight revenue per tractor per week for the nine-month period ended September 30, 2015 is the result of a 4.5% increase, or 6.9 cents per mile, in average rate per total mile, as well as a 1.4% increase in average miles per unit when compared to the same period in 2014. Additionally, team driven units increased approximately 16.5% to an average of 948 for the nine-month period ended September 30, 2015 compared to an average of 814 teams during the same 2014 period.

Our Truckload operating income was \$23.4 million higher in the nine-month period ended September 30, 2015 compared to the same 2014 period, due to the abovementioned increase in freight revenue. Additionally, operating costs per mile, net of fuel surcharge revenue, decreased primarily due to reduced workers' compensation expense and operations and maintenance expense partially offset by increased salaries, wages, and related expenses (which was primarily due to a higher percentage of our fleet comprised of team-driven tractors, driver and nondriver employee pay increases since the same 2014 period), and increased capital costs.

Other total revenue and operating income increased \$1.8 million and \$0.3 million period-over-period, respectively, as a result of 2015 internal and customer growth, as well as improved coordination with our Truckload segment operations and new customers added during the latter portion of 2014.

The change in unallocated corporate overhead for the nine months ended September 30, 2015, includes the abovementioned \$3.6 million return of previously expensed insurance premiums for the commutation of our primary auto liability policy for the period of April 1, 2013 through September 2014.

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, capital leases, secured installment notes with finance companies, and proceeds from the sale of our used revenue equipment. Our primary sources of liquidity at September 30, 2015, were funds provided by operations, borrowings under our Credit Facility, borrowings from secured installment notes, capital leases, operating leases of revenue equipment, and cash and cash equivalents. We had working capital (total current assets less total current liabilities) of \$13.7 million and \$52.7 million at September 30, 2015 and December 31, 2014, respectively. Based on our expected financial condition, results of operations, net capital expenditures, sources of financing, and net cash

flows during the next twelve months, we believe our working capital and sources of liquidity will be adequate to meet our current and projected needs for at least the next twelve months.

Borrowings from the financial affiliates of our primary revenue equipment suppliers are available to fund most new tractors expected to be delivered in 2015 and 2016, while any other property and equipment purchases, including trailers, are expected to be funded with a combination of notes, capital leases, and/or from the Credit Facility. Going forward, we expect revenue equipment acquisitions through purchases and capital leases to increase as a percentage of our fleet as we decrease our use of operating leases. With a relatively young average fleet age at September 30, 2015, we believe there is significant flexibility to manage our fleet, and we plan to regularly evaluate our tractor replacement cycle and new tractor purchase requirements. If we are successful in our attempts to grow our independent contractor fleet, our capital requirements would be reduced. As of September 30, 2015, we had no outstanding borrowings under the Credit Facility, undrawn letters of credit outstanding of approximately \$33.4 million, and available borrowing capacity of \$61.6 million. Our intra-period borrowings on the Credit Facility ranged from none to approximately \$37.0 million during the first nine months of 2015. Fluctuations in the outstanding balance and related availability on the 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 receipt of proceeds from disposals of property and equipment.

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Cash Flows

Net cash flows provided by operating activities were higher in the nine-month period ended September 30, 2015 than 2014 period, partially due to net income of \$28.9 million in the 2015 period compared to net income of \$4.3 million in the 2014 period, the 2014 insurance reserves increase of \$7.5 million stemming from a cargo loss in 2008, and the 2015 return of \$5.0 million which we previously provided to certain of our derivative counterparties related to the net liability position of certain of its fuel derivative instruments. Additionally, depreciation and amortization increased approximately \$7.3 million in the 2015 period, primarily due to more expensive revenue equipment and an increase in the number of owned units. A portion of the net income fluctuation relates to a \$3.6 million pre-tax reduction in insurance and claims expense recorded in the second quarter of 2015 associated with commuting two auto liability policies. The insurer did not remit the premium refund directly to the Company, but instead applied a credit to the current auto liability insurance policy, such that we recorded the policy release premium refund as a prepaid asset at June 30, 2015; however there was no corresponding cash flow effect. The cash flow effects are being realized over the 36 month term of the policy as the portion of the premiums covered by the credit would have been due absent the credit. The change in receivables and advances is the result of increased cash collected during the nine months ended September 30, 2015 related to increased freight revenues and an improvement in our average receivable days outstanding to 33.6 days for the first nine months of 2015 compared with 36.0 days for the same 2014 period. The fluctuations in cash flows from accounts payable and accrued expenses primarily related to the timing and amount of incentive compensation payments in the 2015 period compared to the 2014 period as well as timing of payments on our accrued expenses in the 2015 period compared to the 2014 period.

The change in net cash flows used in investing activities was primarily the result of the purchase of our corporate headquarters, a maintenance facility, and certain of the surrounding property in Chattanooga, Tennessee during August 2015 for approximately \$35.5 million. Additionally, during the 2015 period, we took delivery of approximately 715 new company tractors and disposed of approximately 410 used tractors compared to the 2014 period in which dispositions significantly exceeded acquisitions. Recently, the used revenue equipment market for tractors has slowed significantly, which could negatively impact net capital expenditures over the next several quarters.

The change in net cash flows used in financing activities was primarily a function of the net use of notes payable in the purchase of our corporate headquarters and the trade cycle of our revenue equipment, as well as the repurchase of \$5.0 million of our common stock, partially offset by repayment of the balance under our Credit Facility. These changes were also impacted by cash flows from investing and operating activities discussed above. Going forward, our cash flows may fluctuate depending on the resolution of the 2008 cargo claim, our investment in TEL, and the extent of future income tax obligations.

Material Debt Agreements

We and substantially all of our subsidiaries (collectively, the "Borrowers") are parties to a Third Amended and Restated Credit Facility (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 accordion feature that, so long as no event of default existed, allowed us to request an increase in the revolving credit facility of up to \$50.0 million. The Credit Facility included, 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.

In August 2015, we entered into an eleventh amendment to the Credit Facility, which, among other things, (i) amended the "Applicable Margin" to improve the interest rate grid as set forth in the tables below, (ii) improved the unused line fee pricing to 0.25% per annum, retroactive to July 1, 2015 (previously the fee was 0.375% per annum when availability was less than \$50.0 million and 0.5% per annum when availability was at or over such amount), (iii) required each of Driven Analytic Solutions, LLC ("DAS") and Covenant Properties, LLC ("CPI") to be joined to the Credit Agreement as guarantors, (iv) required each of DAS, CPI and Star Properties Exchange, LLC, a Tennessee limited liability company, to pledge certain of its assets as security, (v) contained conditional amendments increasing the borrowing base real estate sublimit and lowering the amortization of the real estate sublimit, (vi) made technical amendments to a variety of sections, including without limitation, permitted investments, permitted stock repurchases, permitted indebtedness, and permitted liens, (vii) consented to the purchase of the Company's headquarters, including related financing, and (viii) extended the maturity date from September 2017 to September 2018. Following the effectiveness of the eleventh amendment, the applicable margin was changed as follows:

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New Pricing

	Average Pricing	Base Rate	LIBOR
Level Availability	Loans	Loans	
	>		
I	\$40,000,000	.50%	1.50%
	≤ \$40,000,000 but		
	>		
II	\$20,000,000	.75%	1.75%
III	≤ \$20,000,000	1.00%	2.00%

Prior Pricing

	Average Pricing	Base Rate	LIBOR	L/C
Level Availability	Loans	Loans	Fee	
	>			
I	\$75,000,000	.50%	1.50%	1.50%
	≤ \$75,000,000 but			
	>			
II	\$50,000,000	.75%	1.75%	1.75%
	≤ \$50,000,000 but			
	>			
III	\$25,000,000	1.00%	2.00%	2.00%
IV	≤ \$25,000,000	1.25%	2.25%	2.25%

In exchange for these amendments, we agreed to pay fees of \$0.1 million. Based on availability as of September 30, 2015 and December 31, 2014, there was no fixed charge coverage requirement.

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 capital 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) 65% of the appraised fair market value of eligible real estate. We had no borrowings outstanding under the Credit Facility as of September 30, 2015, undrawn letters of credit outstanding of approximately \$33.4 million, and available borrowing capacity of \$61.6 million.

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.

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Capital 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 September 30, 2015 terminate in October 2015 through February 2022 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 capital lease payments. These lease agreements require us to pay personal property taxes, maintenance, and operating expenses.

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 October 2015 to January 2022. 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 \$203.3 million are cross-defaulted with the Credit Facility. Additionally, a portion of the abovementioned fuel hedge contracts totaling \$19.0 million at September 30, 2015, is 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 the remainder of 2015 and in 2016, while any other property and equipment purchases, including trailers, are expected to be funded with a combination of available cash, notes, operating leases, capital 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. Concurrent with entering into the note, we entered into an interest rate swap to effectively fix the related interest rate to 4.2%. See Note 6 for further information about the interest rate swap.

OFF-BALANCE SHEET ARRANGEMENTS

Operating leases have been an important source of financing for our revenue equipment, and certain real estate. At September 30, 2015, we had financed 150 tractors and 2,294 trailers under operating leases. Vehicles held under operating leases are not carried on our condensed consolidated balance sheets, and operating lease payments in respect of such vehicles are reflected in our condensed consolidated statements of operations in the line item "Revenue equipment rentals and purchased transportation." Our revenue equipment rental expense in the third quarter was \$3.1 million and \$5.2 million for the 2015 and 2014 quarters, respectively primarily due to repayments of debt and leases with proceeds from our follow on stock offering in late November 2014. The total present value amount of remaining payments under operating leases as of September 30, 2015, was approximately \$21.5 million. In connection with various operating leases, we issued residual value guarantees, which provide that if we do not purchase the leased equipment from the lessor at the end of the lease term, we are liable to the lessor for an amount equal to the shortage (if any) between the proceeds from the sale of the equipment and an agreed value. The undiscounted value of the residual guarantees was approximately \$4.0 million at September 30, 2015. We expect our residual guarantees to approximate the market value at the end of the lease term. We believe that proceeds from the sale of equipment under operating leases would exceed the payment obligation on substantially all operating leases.

CONTRACTUAL OBLIGATIONS

In August 2015, we purchased our corporate headquarters, a maintenance facility, and certain surrounding property in Chattanooga, Tennessee. The purchase was partially financed with a third party lender and the interest was effectively fixed with a related interest rate swap. See Note 6 for further information about the interest rate swap.

Excluding the aforementioned purchase of the corporate headquarters facility, there were no material changes in our commitments or contractual liabilities for the three and nine months ended September 30, 2015.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires us to 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. There have been no material changes to our most critical accounting policies and estimates during the nine months ended September 30, 2015, compared to those disclosed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in our 2014 Annual Report on Form 10-K.

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ITEM 3. 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.

COMMODITY PRICE RISK

We engage in activities that expose us to market risks, including the effects of changes in fuel prices and changes 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 periodically enter into various derivative instruments, including forward futures swap contracts (which we refer to as "fuel hedge contracts"). Historically diesel fuel has not been a traded commodity on the futures market, so heating oil has been used as a substitute, as prices for both generally move in similar directions. Recently, however, we have been able to enter into fuel hedge contracts with respect to both heating oil and ultra low sulfur diesel ("ULSD"). Under these contracts, we pay a fixed rate per gallon of heating oil or ULSD and receive the monthly average price of New York heating oil per the New York Mercantile Exchange ("NYMEX") and Gulf Coast ULSD, respectively. The retrospective and prospective regression analyses provided that changes in the prices of diesel fuel and heating oil and diesel fuel and ULSD were each deemed to be highly effective based on the relevant authoritative guidance except for a small portion of our fuel hedge contracts, which we determined to be ineffective on a prospective basis. Consequently, for the three and nine months ended September 30, 2015, we recognized approximately \$0.3 million and \$1.2 million reductions, respectively, of fuel expense to mark the related liability to market as well as settlement for the related fuel hedge contracts. We do not engage in speculative transactions, nor do we hold or issue financial instruments for trading purposes.

We recognize all derivative instruments at fair value on our condensed consolidated balance sheets. Our derivative instruments are designated as cash flow hedges, thus the effective portion of the gain or loss on the derivatives is reported as a component of accumulated other comprehensive loss and will be reclassified into our results of operations in the same period during which the hedged transaction affects earnings. The effective portion of the derivative represents the change in fair value of the hedge that offsets the change in fair value of the hedged item. For our fuel hedge contracts, to the extent the change in the fair value of the fuel hedge contract does not perfectly offset the change in the fair value of the hedged item, the ineffective portion of the fuel hedge contract is immediately recognized in our condensed consolidated statements of operations. Ineffectiveness is calculated using the cumulative dollar offset method as an estimate of the difference in the expected cash flows of the respective fuel hedge contracts (heating oil or ULSD) compared to the changes in the all-in cash outflows required for the diesel fuel purchases.

At September 30, 2015, we had fuel hedge contracts on 3.1 million gallons for the remainder of 2015, or 22.5% of our projected remaining 2015 fuel requirements, 12.1 million gallons for 2016, or approximately 21.9% of our projected 2016 fuel requirements, 10.6 million gallons for 2017, or approximately 19.2% of our projected 2017 fuel requirements, and 4.5 million gallons for 2018, or approximately 8.2% of our projected 2018 fuel requirements.

The fair value of the fuel hedge contracts that were in effect at September 30, 2015, of approximately \$22.1 million, is included in other liabilities in the condensed consolidated balance sheet, and is included in accumulated other comprehensive loss, net of tax. Changes in the fair values of these instruments can vary dramatically based on changes in the underlying commodity prices. For example, during the third quarter of 2015, market "spot" prices for ULSD peaked at a high of approximately \$1.77 per gallon and hit a low price of approximately \$1.32 per

gallon. During the same 2014 quarter, market "spot" prices ranged from a high of \$2.91 per gallon to a low of \$2.62 per gallon. Market price changes can be driven by factors such as supply and demand, inventory levels, weather events, refinery capacity, political agendas, the value of the U.S. dollar, geopolitical events, and general economic conditions, among other items.

Additionally, \$4.2 million and \$10.7 million were reclassified from accumulated other comprehensive loss into our results of operations as additional fuel expense for the three and nine months ended September 30, 2015, respectively, related to losses on fuel hedge contracts that expired. In addition to the \$4.2 million and \$10.7 million reclassified from accumulated other comprehensive loss for the quarter and nine months ended September 30, 2015, respectively, which related to losses on fuel hedge contracts that expired or were sold and for which we completed the forecasted transaction by purchasing the hedged diesel fuel, \$0.3 million and \$1.2 million, respectively, were recorded as favorable adjustments to fuel expense, related to fuel hedge contracts for which the fuel hedging relationship was deemed to be ineffective on a prospective basis for the same periods.

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Based on the amounts in accumulated other comprehensive loss as of September 30, 2015, and the expected timing of the purchases of the fuel hedged, we expect to reclassify losses of approximately \$8.9 million, net of tax on derivative instruments from accumulated other comprehensive loss into our results of operations during the next twelve months due to the actual diesel fuel purchases. The amounts actually realized will be dependent on the fair values as of the date of settlement.

We perform both a prospective and retrospective assessment of the effectiveness of our fuel hedge contracts at inception and quarterly, including assessing the possibility of counterparty default. If we determine that a derivative is no longer expected to be highly effective, we discontinue hedge accounting prospectively and recognize subsequent changes in the fair value of the hedge in earnings. As a result of our effectiveness assessment at inception and at September 30, 2015, we believe our fuel hedge contracts have been and will continue to be highly effective in offsetting changes in cash flows attributable to the hedged risk, with the exception of the abovementioned contracts.

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. We do not expect any of the counterparties to fail to meet their obligations. Our credit exposure related to these financial instruments is represented by the fair value of contracts reported as assets. To manage credit risk, we review each counterparty's audited financial statements, credit ratings, and/or obtain references as we deem necessary.

If our fuel derivative instruments are in a net liability position with the counterparty and cash collateral is required, the cash collateral amounts provided are netted against the fair value of current outstanding derivative instruments. No cash collateral deposits were required by us at September 30, 2015, and at December 31, 2014, \$5.0 million in cash collateral was provided by us in connection with our outstanding fuel derivative instruments.

A one dollar increase or decrease in heating oil or diesel per gallon would have a de minimis impact to our net income due to our fuel surcharge recovery and existing fuel hedge contracts. This sensitivity analysis considers that we expect to purchase approximately 13.8 million gallons of diesel during the remainder of 2015, on which we recover approximately 78.6% of the cost (which was our fuel surcharge recovery rate during the nine months ended September 30, 2015). Assuming our fuel surcharge recovery is consistent during the remainder of 2015, this leaves 3.0 million gallons that are not covered by the natural hedge created by our fuel surcharges, which are fully hedged. Because the majority of our fuel hedge contracts were established prior to the recent decline in diesel fuel prices, we have not been able to realize the cost savings resulting from such decline to the same extent we would have had we not entered into our hedge contracts.

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. 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. The fair value of the swap agreement that was in effect at September 30, 2015, of approximately \$1.3 million, is included in other liabilities in the condensed consolidated balance sheet, and is included in accumulated other comprehensive loss, net of tax. Additionally, \$0.1 million was reclassified from accumulated other comprehensive loss into our results of operations as additional interest expense for the three and nine months ended September 30, 2015, related to changes in interest rates during such time periods. Based on the amounts in accumulated other comprehensive loss as of September 30, 2015, we expect to reclassify losses of approximately \$0.4 million, net of tax on derivative instruments from

accumulated other comprehensive loss into our results of operations during the next twelve months due to changes in interest rates. The amounts actually realized will depend on the fair values as of the date of settlement.

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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. In November and December of 2014, we paid off approximately \$60.0 million in fixed-rate equipment debt and capital lease obligations with the proceeds of our November 2014 follow-on offering, which resulted in a corresponding decrease in interest rate risk with respect to such obligations. Of our total \$236.4 million of debt and capital leases, we had \$31.6 million of variable rate debt outstanding at September 30, 2015, including both our Credit Facility and real estate notes, of which \$27.9 million was hedged with the aforementioned interest rate swap agreement at 4.2%. The interest rates applicable to these agreements are based on either the prime rate or LIBOR. 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 September 30, 2015 level of borrowing, a 1% change in our applicable rate would change annual net income by a de minimis amount. Our remaining debt is effectively fixed rate debt, and therefore changes in market interest rates do not directly impact our interest expense. As of September 30, 2015, we had no derivative financial instruments to reduce our exposure to interest rate fluctuations.

ITEM 4. CONTROLS AND PROCEDURES

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

Based on their evaluation as of September 30, 2015, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) are effective at a reasonable assurance level to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer, as appropriate, to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected or that are reasonably likely to materially affect our internal control over financial reporting.

We have confidence in our internal controls and procedures. Nevertheless, our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure procedures and controls or our internal controls will prevent all errors or intentional fraud. 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 controls system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all internal controls systems, no evaluation of controls can provide absolute assurance that all our controls issues and instances of fraud, if any, have been detected.

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PART II OTHER INFORMATION

ITEM 1. 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 property damage incurred in connection with the transportation of freight. We are also, from time-to-time, party to ordinary, routine litigation relating to wage and hour claims and similar employment issues (including class actions) arising in the ordinary course of business. 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 condensed consolidated financial statements.

In August 2014, the U.S. District Court for the Southern District of Ohio issued a pre-trial decision in a lawsuit against SRT relating to a cargo claim incurred in 2008. The court awarded the plaintiff approximately \$5.9 million plus prejudgment interest and costs and denied a cross-motion for summary judgment by SRT. Previously, the court had ruled in favor of SRT on all but one count before overturning its earlier decision and ruling in favor of the plaintiff. SRT filed a Notice of Appeal with the U.S. Sixth Circuit Court of Appeals on September 24, 2014. On November 5, 2015, the Sixth Circuit reversed the district court in part, finding that the plaintiff could not recover under two of its causes of action. The Sixth Circuit remanded the proceedings to the district court for further factual determinations relating to whether the plaintiff could recover under a third cause of action.

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.

ITEM 1A. RISK FACTORS

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business, some level of risk and uncertainty will always be present. Our Form 10-K for the year ended December 31, 2014, in the section entitled "Item 1A. Risk Factors," describes some of the risks and uncertainties associated with our business. These risks and uncertainties have the potential to materially affect our business, financial condition, results of operations, cash flows, projected results, and future prospects. In addition to the risk factors set forth in our Form 10-K, we believe that the following additional issues, uncertainties, and risks should be considered in evaluating our business and growth outlook:

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

Our business is subject to the risk of litigation by employees, independent contractor drivers, customers, vendors, government agencies, and other parties through private actions, class actions, administrative proceedings, regulatory actions, and other processes. Recently, trucking companies, including us, have been 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 material adverse effect on our business, results of operations, financial condition, or cash flows.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the quarter ended September 30, 2015, we did not engage in unregistered sales of securities or any other transactions required to be reported under this Item 2 of Part II on Form 10-Q.

The payment of cash dividends is currently limited by our financing arrangements, including certain covenants under our Credit Facility.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

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ITEM 6. EXHIBITS

Exhibit Number	Reference	Description
3.1	(1)	Amended and Restated Articles of Incorporation
3.2	(2)	Second Amended and Restated Bylaws
4.1	(1)	Amended and Restated Articles of Incorporation
4.2	(2)	Second Amended and Restated Bylaws
<u>10.1</u>	#	Joinder, Supplement and Eleventh Amendment to Third Amended and Restated Credit Agreement dated effective as of August 6, 2015 among Covenant Transportation Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, Inc., Southern Refrigerated Transport, Inc., Covenant Transport Solutions, Inc., Star Transportation, Inc., Driven Analytic Solutions, LLC., Covenant Properties, LLC., Bank of America, N.A., and JPMorgan Chase Bank, N.A.
<u>31.1</u>	#	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by David R. Parker, the Company's Principal Executive Officer
<u>31.2</u>	#	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Richard B. Cribbs, the Company's Principal Financial Officer
<u>32.1</u>	#	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by David R. Parker, the Company's Chief Executive Officer
<u>32.2</u>	#	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Richard B. Cribbs, the Company's Chief Financial Officer
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Taxonomy Extension Schema Document
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document
References:		
(1)	Incorporated by reference to Exhibit 99.2 to the Company's Report on Form 8-K, filed May 29, 2007.	
(2)	Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q, filed May 13, 2011.	
#	Filed herewith.	
*	In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be "furnished" and not "filed."	

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COVENANT TRANSPORTATION
GROUP, INC.

Date: November 9, 2015

By: /s/ Richard B. Cribbs
Richard B. Cribbs
Senior Vice President and
Chief Financial Officer
in his capacity as such and as
a duly authorized officer
on behalf of the issuer