KNIGHT TRANSPORTATION INC
Form 10-Q
August 09, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

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: 001-32396

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

| | |
|---|---|
| Arizona | 86-0649974 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

5601 West Buckeye Road
Phoenix, Arizona
85043
(Address of Principal Executive Offices)
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
x Yes o 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
x Yes o 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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

| | |
|---|---|
| Large accelerated filer x | Accelerated filer o |
| Non-accelerated filer o | Smaller reporting company o |

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

The number of shares outstanding of registrant's common stock, par value $0.01 per share, as of July 31, 2012 was 79,722,032 shares.

KNIGHT TRANSPORTATION, INC.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Balance Sheets
(in thousands)

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | $2,843 | $9,584 |
| Accounts receivable, net of allowance for doubtful accounts | 113,336 | 101,319 |
| Notes receivable, net of allowance for doubtful accounts | 864 | 1,034 |
| Related party notes and interest receivable | 2,814 | 2,868 |
| Prepaid expenses | 15,122 | 10,131 |
| Assets held for sale | 18,230 | 19,416 |
| Other current assets | 12,688 | 9,605 |
| Income tax receivable | - | 3,821 |
| Current deferred tax assets | 3,202 | 2,319 |
| Total current assets | 169,099 | 160,097 |
| | | |
| Property and Equipment: | | |
| Revenue equipment | 651,706 | 636,634 |
| Land and land improvements | 38,737 | 36,078 |
| Buildings and improvements | 87,187 | 81,627 |
| Furniture and fixtures | 13,818 | 11,378 |
| Shop and service equipment | 8,990 | 7,865 |
| Leasehold improvements | 2,906 | 2,853 |
| Gross Property and Equipment | 803,344 | 776,435 |
| Less: accumulated depreciation and amortization | (243,625) | (229,402) |
| Property and equipment, net | 559,719 | 547,033 |
| Notes receivable – long-term | 3,637 | 3,987 |
| Goodwill | 10,285 | 10,295 |
| Other long-term assets and restricted cash | 18,208 | 16,171 |
| Total assets | $760,948 | $737,583 |

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

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KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Balance Sheets (continued)
(in thousands, except par values)

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable | $ 6,372 | $ 14,322 |
| Accrued payroll and purchased transportation | 10,455 | 9,096 |
| Accrued liabilities | 20,558 | 13,645 |
| Claims accrual – current portion | 13,892 | 12,875 |
| Dividend payable – current portion | 91 | 77 |
| Total current liabilities | 51,368 | 50,015 |
| | | |
| Long-term Liabilities: | | |
| Claims accrual – long-term portion | 8,557 | 8,693 |
| Long-term dividend payable and other liabilities | 2,397 | 1,457 |
| Deferred tax liabilities | 143,660 | 145,668 |
| Long-term debt | 50,000 | 55,000 |
| Total long-term liabilities | 204,614 | 210,818 |
| | | |
| Total liabilities | 255,982 | 260,833 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Shareholders' Equity: | | |
| Preferred stock, $0.01 par value; 50,000 shares authorized; none issued and outstanding | - | - |
| Common stock, $0.01 par value; 300,000 shares authorized; 79,721 and 79,392 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively | 797 | 794 |
| Additional paid-in capital | 141,470 | 132,723 |
| Accumulated other comprehensive loss | (399) | (448) |
| Retained earnings | 362,842 | 343,290 |
| Total Knight Transportation shareholders' equity | 504,710 | 476,359 |
| Noncontrolling interest | 256 | 391 |
| Total shareholders' equity | 504,966 | 476,750 |
| | | |
| Total liabilities and shareholders' equity | $ 760,948 | $ 737,583 |

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

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KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Statements of Income
(in thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| REVENUE: | | | | |
| Revenue, before fuel surcharge | $188,838 | $182,350 | $364,437 | $332,850 |
| Fuel surcharge | 47,430 | 46,133 | 91,363 | 82,107 |
| Total revenue | 236,268 | 228,483 | 455,800 | 414,957 |
| OPERATING EXPENSES: | | | | |
| Salaries, wages and benefits | 59,089 | 55,856 | 120,045 | 106,791 |
| Fuel | 56,612 | 60,079 | 113,923 | 109,778 |
| Operations and maintenance | 15,078 | 14,859 | 28,815 | 26,588 |
| Insurance and claims | 8,281 | 8,794 | 15,926 | 15,015 |
| Operating taxes and licenses | 3,973 | 3,893 | 8,075 | 7,605 |
| Communications | 1,271 | 1,396 | 2,666 | 2,721 |
| Depreciation and amortization | 20,933 | 18,351 | 41,305 | 36,825 |
| Purchased transportation | 36,064 | 34,801 | 67,924 | 60,240 |
| Miscellaneous operating expenses | 2,864 | 3,320 | 5,184 | 6,313 |
| Total operating expenses | 204,165 | 201,349 | 403,863 | 371,876 |
| | | | | |
| Income from operations | 32,103 | 27,134 | 51,937 | 43,081 |
| | | | | |
| Interest income | 108 | 462 | 221 | 807 |
| Interest expense | (114) | - | (242) | - |
| Other income | 197 | - | 394 | 8 |
| Income before income taxes | 32,294 | 27,596 | 52,310 | 43,896 |
| | | | | |
| Income taxes | 12,924 | 11,120 | 22,280 | 17,565 |
| Net income | 19,370 | 16,476 | 30,030 | 26,331 |
| | | | | |
| Net income attributable to noncontrolling interest | (81) | (118) | (195) | (117) |
| Net income attributable to Knight Transportation | $19,289 | $16,358 | $29,835 | $26,214 |
| | | | | |
| Earnings per common share and common share equivalent: | | | | |
| Basic | $0.24 | $0.20 | $0.37 | $0.31 |
| Diluted | $0.24 | $0.20 | $0.37 | $0.31 |
| | | | | |
| Weighted average number of common shares and common share equivalents outstanding: | | | | |
| Basic | 79,686 | 82,785 | 79,609 | 83,275 |
| Diluted | 80,076 | 83,307 | 80,045 | 83,882 |

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

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KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Statements of Comprehensive Income
(in thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net income attributable to Knight Transportation | $19,289 | $16,358 | $29,835 | $26,214 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized (loss)/gain from available-for-sale securities | (406) | (621) | 49 | (361) |
| Comprehensive income | $18,883 | $15,737 | $29,884 | $25,853 |

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

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KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Statements of Cash Flows
(in thousands)

| | Six Months Ended June 30, 2012 | 2011 |
|---|---|---|
| Cash Flows From Operating Activities: | | |
| Net income | $30,030 | $26,331 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 41,305 | 36,825 |
| Gain on sale of equipment | (4,827) | (2,610) |
| Gain from TRP I earnout | - | (13) |
| Loss from investment in Transportation Resource Partners III | 36 | 6 |
| Non-cash compensation expense for issuance of stock to certain members of board of directors | 148 | 112 |
| Provision for doubtful accounts and notes receivable | 604 | 282 |
| Excess tax benefits related to stock-based compensation | (88) | (117) |
| Stock-based compensation expense | 5,306 | 2,058 |
| Deferred income taxes | (2,922) | 5,688 |
| Changes in operating assets and liabilities: | | |
| Short-term investments held for trading | - | 24,379 |
| Accounts receivable | (12,637) | (16,903) |
| Related party interest receivable | - | (49) |
| Other current assets | (3,083) | (2,747) |
| Prepaid expenses | (4,991) | (113) |
| Income tax receivable | 3,821 | 6,914 |
| Other long-term assets | 21 | (13) |
| Accounts payable | 87 | 3,213 |
| Accrued liabilities and claims accrual | 9,600 | 6,612 |
| Net cash provided by operating activities | 62,410 | 89,855 |
| Cash Flows From Investing Activities: | | |
| Purchase of property and equipment | (78,284) | (46,783) |
| Proceeds from sales of equipment | 21,810 | 12,909 |
| Cash collection from notes receivable | 1,013 | 1,687 |
| Cash issued for notes receivable | (18) | (1,258) |
| Cash proceeds from related party notes receivable | 54 | 50 |
| Increase in restricted cash | (47) | (641) |
| Cash received from TRP I earnout | - | 13 |
| Investments in Transportation Resource Partners I & III | (1,957) | (288) |
| Net cash used in investing activities | (57,429) | (34,311) |

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

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KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES
Condensed Consolidated Unaudited Statements of Cash Flows (continued)
(in thousands)

| | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|
| Cash Flows From Financing Activities: | | |
| Dividends paid | $(9,688) | $(10,018) |
| Purchase of company stock on open market | - | (59,200) |
| Payments to borrowing on line of credit | (5,000) | - |
| Excess tax benefits related to stock-based compensation | 88 | 117 |
| Distribution to noncontrolling interest | (330) | - |
| Proceeds from exercise of stock options | 3,208 | 1,216 |
| Net cash used in financing activities | (11,722) | (67,885) |
| Net decrease in cash and cash equivalents | (6,741) | (12,341) |
| Cash and cash equivalents, beginning of period | 9,584 | 28,013 |
| Cash and cash equivalents, end of period | $2,843 | $15,672 |
| Supplemental Disclosures: | | |
| Non-cash investing and financing transactions: | | |
| Equipment acquired with accounts payable | $1,992 | $4,002 |
| Transfer from property and equipment to assets held for sale | $16,549 | $4,065 |
| Financing provided to independent contractors for equipment sold | $635 | $1,863 |
| Dividend accrued for restricted stock units | $133 | $137 |
| Cash flow information: | | |
| Income taxes paid | $16,353 | $2,045 |
| Interest expense paid | $244 | - |

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

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KNIGHT TRANSPORTATION, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

Note 1. Financial Information

References in this Report on Form 10-Q to "we," "us," "our," "Knight," or the "Company" or similar terms refer to Knight Transportation, Inc. and its consolidated subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

The accompanying condensed consolidated unaudited financial statements of Knight Transportation, Inc. and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America and Regulation S-X, instructions to Form 10-Q, and other relevant rules and regulations of the Securities and Exchange Commission (the "SEC"), as applicable to the preparation and presentation of interim financial information. Certain information and footnote disclosures have been omitted or condensed pursuant to such rules and regulations. We believe all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Results of operations in interim periods are not necessarily indicative of results for a full year. These condensed consolidated unaudited financial statements and notes thereto should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011.

Note 2. Stock-Based Compensation

On May 17, 2012, our shareholders approved the 2012 Equity Compensation Plan, effective May 18, 2012. This replaces the stock-based employee compensation plan known as the Knight Transportation, Inc. Amended and Restated 2003 Stock Option and Equity Compensation Plan, as amended and restated in May 2009 (the "2003 Plan"). Grants outstanding under the 2003 Plan will continue in force and effect, but any grants of stock-based compensation after May 18, 2012, will be made under the 2012 Equity Compensation Plan. Stock based compensation cost for the three months and six months ended June 30, 2012 and 2011, respectively, are as follows:

| | Three Months Ended June 30, (in thousands) | | Six Months Ended June 30, (in thousands) | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Stock compensation expense for options, net of forfeitures | $ 53 | $ 616 | $ 4,090 | $ 1,315 |
| Stock compensation expense for restricted stock units, net of forfeitures | 433 | 367 | 1,216 | 743 |
| Combined stock compensation expense | $ 486 | $ 983 | $ 5,306 | $ 2,058 |

In the first quarter of 2012, the compensation committee of the board of directors approved the accelerated vesting of certain stock options issued prior to 2009, resulting in approximately $4.0 million of pre-tax stock compensation expense ($3.9 million after tax) in the six months ended June 30, 2012.

We received approximately $0.6 million and $3.2 million in cash from the exercise of stock options during the three months and six months ended June 30, 2012, compared to $0.5 million and $1.2 million for the same periods in 2011.

As of June 30, 2012, we have approximately $1.0 million of unrecognized compensation cost related to unvested options granted under our equity compensation plan. This cost is expected to be recognized over a weighted-average period of 2.9 years and a total period of 5.4 years. We also have approximately $15.5 million of unrecognized compensation expense related to restricted stock unit awards, which is anticipated to be recognized over a weighted average period of 5.4 years and a total period of 10.6 years.

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The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model that uses the following assumptions:

- Dividend yield – the dividend yield is based on our historical experience and future expectation of dividend payouts.
- Expected volatility – we analyzed the volatility of our stock using historical data for the past 7 years through the end of the most recent period to estimate the expected volatility.
- Risk-free interest rate – the risk-free interest rate assumption is based on U.S. Treasury securities at a constant maturity with a maturity period that most closely resembles the expected term of the stock option award.
- Expected term – the expected term of employee stock options represents the weighted-average period the stock options are expected to remain outstanding and has been determined based on an analysis of historical exercise behavior for the past 7 years through the end of the most recent period.

No options were granted during the first six months of either 2012 or 2011. A summary of the option award activity under our equity compensation plan as of June 30, 2012, and changes during the six-month period is presented below:

| | Option Totals | Weighted Average Exercise Price Per Share |
|---|---|---|
| Outstanding as of December 31, 2011 | 3,823,585 | $ 15.80 |
| Granted | - | - |
| Exercised | (251,103 ) | 12.79 |
| Forfeited | (44,058 ) | 16.95 |
| Outstanding as of June 30, 2012 | 3,528,424 | $ 15.99 |

A summary of the restricted stock unit award activity under our equity compensation plan as of June 30, 2012, and changes during the six-month period is presented below:

| | Number of Restricted Stock Unit Awards | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested as of December 31, 2011 | 1,325,817 | $ 16.01 |
| Granted | 41,000 | 16.76 |
| Vested | (102,205 ) | 16.11 |
| Forfeited | (13,300 ) | 16.00 |
| Outstanding as of June 30, 2012 | 1,251,312 | $ 16.02 |

The fair value of each restricted stock unit is based on the closing market price on the date of grant.

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Note 3. Earnings Per Share

A reconciliation of the basic and diluted earnings per share computations for the three months and six months ended June 30, 2012 and 2011, respectively, is as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (in thousands, except per share data) | | | |
| Weighted average common shares outstanding – basic | 79,686 | 82,785 | 79,609 | 83,275 |
| Dilutive effect of stock options and unvested restricted stock units | 390 | 522 | 436 | 607 |
| Weighted average common shares outstanding – diluted | 80,076 | 83,307 | 80,045 | 83,882 |
| | | | | |
| Net income attributable to Knight Transportation | $19,289 | $16,358 | $29,835 | $26,214 |
| Earnings per common share | | | | |
| Basic | $0.24 | $0.20 | $0.37 | $0.31 |
| Diluted | $0.24 | $0.20 | $0.37 | $0.31 |

Certain shares of common stock were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares, and therefore, the effect would be anti-dilutive. A summary of those options are as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Number of anti-dilutive shares | 1,855,415 | 2,412,556 | 1,989,864 | 2,088,856 |

Note 4. Segment Information

We are a provider of multiple truckload transportation services with a nationwide network of service centers through which we operate one of the country's largest tractor fleets. In addition to our own fleet, we also partner with third-party equipment providers to provide truckload capacity and a broad range of solutions to truckload shippers. We have five operating segments comprised of three asset-based operating segments (dry van truckload, temperature-controlled truckload, and port services) and two non-asset-based operating segments (brokerage and intermodal services). Through our asset-based and non-asset-based capabilities we are able to transport, or can arrange for the transportation of, general commodities for customers throughout the United States and parts of Canada and Mexico.

Based on the guidance set forth in Accounting Standards Codification ("ASC") Sub-Topic 280-10, Segment Reporting, we have determined we have one reportable segment. All five operating segments meet all of the aggregation criteria set forth in the guidance. Based on our evaluation, we also concluded that all operating segments exhibit similar long-term economic characteristics, have similar performance indicators, and are exposed to the same competitive, operating, financial, and other risk factors.

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Note 5. Joint Venture

In 2010, we partnered with a non-related investor to form an Arizona limited liability company for the purpose of sourcing commercial vehicle parts. We contributed $26,000 to acquire 52% ownership of this entity. In accordance with ASC 810-10-15-8, Consolidation, we consolidate the financial activities of this entity into our consolidated financial statements.

Note 6. Commitments and Contingencies

We are a party to certain claims and pending litigation arising in the normal course of business. These proceedings primarily involve claims for personal injury or property damage incurred in the transportation of freight or for personnel matters. We maintain insurance to cover liabilities arising from the transportation of freight in amounts in excess of self-insurance retentions. Our self-insurance retention ("SIR") for auto liability ranges from $1.0 million to $2.0 million per occurrence depending the applicable policy year. We are also responsible for "aggregate" losses up to $1.5 million. For the policy year February 1, 2011 to January 31, 2012, our SIR was $2.0 million with no responsibility for additional "aggregate" losses. For the policy period February 1, 2012 to January 31, 2013, our SIR is $2.0 million with an additional $1.0 million responsibility for "aggregate" losses. We are also self-insured for workers' compensation coverage, with a self-retention level of a maximum $500,000 per occurrence. We establish reserves to cover these self-insured liabilities and maintain insurance to cover liabilities in excess of those amounts. Our insurance policies provide for excess personal injury and property damage liability up to a total of $55.0 million per occurrence, which also includes a separate $2.5 million dollar aggregate deductible. Based on our present knowledge of the facts and, in certain cases, advice of outside counsel, management believes the resolution of claims and pending litigation, taking into account existing reserves, will not have a materially adverse effect on us.

We also are involved in certain class action litigation in which the plaintiffs allege claims for failure to provide meal and rest breaks, unpaid wages, unauthorized deductions, and other items. Based on its knowledge of the facts and advice of outside counsel, management does not believe the outcome of this litigation is likely to have a materially adverse effect on us. However, the final disposition of these matters and the impact of such final dispositions cannot be determined at this time.

Note 7. Dividends

On May 17, 2012, we declared a cash dividend of $0.06 per share of our common stock. The dividend was payable to shareholders of record on June 1, 2012, and was paid on June 29, 2012. Future payment of cash dividends, and the amount of any such dividends, will depend upon our financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, as well as other factors deemed relevant by our Board of Directors.

Note 8. Goodwill

Goodwill represents the excess of the purchase price of our acquisitions over the fair value of the net assets acquired. The tax benefit from the recognition on the tax return of the amortization of the excess tax goodwill over book goodwill is treated as a reduction in the book basis of goodwill. The changes in the carrying amount of goodwill for the six months ended June 30, 2012 is as follows:

| Goodwill: | In Thousands |
|---|---|
| Balance at December 31, 2011 | $ 10,295 |
| Amortization relating to deferred tax assets | (10 ) |
| Balance at June 30, 2012 | $ 10,285 |

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Note 9. Investments and Related Commitments

In 2003, we signed a partnership agreement with Transportation Resource Partners (TRP), a company that makes privately negotiated equity investments. Per the original partnership agreement, we committed to invest $5.0 million to TRP. In 2006, we increased the commitment amount to $5.5 million. Our investment in TRP is accounted for using the cost method, as our level of influence over the operations of TRP is minor. At June 30, 2012, the carrying value of our investment in TRP was $2.2 million, and our ownership interest was approximately 1.9%. This balance is included within "Other long-term assets and restricted cash" on our consolidated balance sheets.

In the fourth quarter of 2008, we formed Knight Capital Growth, LLC and committed $15.0 million to invest in a new partnership managed and operated by the managers and principals of TRP. The new partnership, Transportation Resource Partners III, LP ("TRP III"), focuses on similar investment opportunities as TRP. As of June 30, 2012, we have contributed approximately $7.1 million to TRP III, leaving an outstanding commitment of $7.9 million as of June 30, 2012. In accordance with ASC 323, Investments-Equity Method and Joint Ventures, our investment in TRP III is accounted for using the equity method. At June 30, 2012, our investment balance in TRP III was $6.8 million, and our ownership interest was approximately 6.1%. This balance is included in "Other long-term assets and restricted cash" of our consolidated balance sheets.

Note 10. Marketable Equity Securities

We have certain marketable equity securities classified as available-for-sale securities, which are recorded at fair value with unrealized gains and losses as a component of "Accumulated other comprehensive income" in shareholders' equity. Realized gains and losses on available-for-sale securities are included in the determination of net income. As of June 30, 2012, our available-for-sale equity investment included in "Other long-term assets and restricted cash" was approximately $4.2 million, including unrealized losses of approximately $641,000.

Note 11. Assets Held for Sale

Revenue equipment that is not utilized in continuing operations and is held for sale is classified as "Assets held for sale" on the accompanying consolidated balance sheets. Assets held for sale at June 30, 2012 and December 31, 2011, totaled $18.2 million and $19.4 million, respectively. Assets held for sale are no longer subject to depreciation, and are recorded at the lower of depreciated carrying value or fair market value less selling costs. We expect to sell these assets and replace them with new assets within twelve months.

Note 12. Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. For interim reporting purposes, our income tax provisions are recorded based on the estimated annual effective tax rate. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies, and recent financial operations. A valuation allowance for deferred tax assets has not been deemed necessary due to our profitable operations.

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We recognize a tax benefit from an uncertain tax position when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. We file U.S. and state income tax returns with varying statutes of limitations. The 2008 through 2011 tax years generally remain subject to examination by federal authority, and the 2007 through 2011 tax years generally remain subject to examination by state tax authorities. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our consolidated financial position, results of operations and cash flows. Our policy is to recognize interest and penalties related to unrecognized tax benefits as income tax expense. We have not recorded any unrecognized tax benefits at June 30, 2012 or December 31, 2011.

Note 13. Company Share Repurchase Programs

On November 13, 2008, our Board of Directors unanimously authorized the repurchase of up to 3.0 million shares of our common stock. As of December 31, 2010, there were 2,020,956 shares remaining under the 2008 authorization. On May 19, 2011, our Board of Directors unanimously authorized the repurchase of an additional 10.0 million shares of the Company's common stock. The repurchase authorization is intended to afford flexibility to acquire shares opportunistically in future periods and does not indicate an intention to repurchase any particular number of shares within a definite timeframe. Any repurchases would be effected based upon share price and market conditions.

Under our share repurchase programs, we repurchased 4,582,400 shares of our common stock in the open market for approximately $76.6 million in 2011. The shares acquired have been retired and are available for future issuance. The purchases were made in accordance with Securities and Exchange Commission Rule 10b-18, which limits the amount and timing of repurchases.

We did not purchase any shares in the six months ended June 30, 2012, and as of June 30, 2012, there were 7,438,556 shares remaining for future purchases under our repurchase program. The repurchase authorization will remain in effect until the share limit is reached or the programs are terminated.

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Note 14. Fair Value Measurements

Our assets and liabilities measured at fair value are based on principles set forth in ASC 820-10, Fair Value Measurements and Disclosure, for non-recurring fair value measurements of non-financial assets and liabilities. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This standard establishes a three-level hierarchy for fair value measurements based upon the significant inputs used to determine fair value. Observable inputs are those, which are obtained from market participants external to the Company while unobservable inputs are generally developed internally, utilizing management's estimates, assumptions, and specific knowledge of the nature of the assets or liabilities and related markets. The three levels are defined as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market is defined as a market in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data correlation or other means (market corroborated inputs).

Level 3 – Unobservable inputs, only used to the extent that observable inputs are not available, reflect the Company's assumptions about the pricing of an asset or liability.

In accordance with the fair value hierarchy described above, the following table shows the fair value of our financial assets and liabilities that are required to be measured at fair value as of June 30, 2012 and December 31, 2011.

| | | | Level One | | Level Two | | Level Three | |
|---|---|---|---|---|---|---|---|---|
| | Balance at June 30, 2012 | Balance at December 31, 2011 | Balance at June 30, 2012 | Balance at December 31, 2011 | Balance at June 30, 2012 | Balance at December 31, 2011 | Balance at June 30, 2012 | Balance at December 31, 2011 |
| | | | (in thousands) | | | | | |
| Assets: | | | | | | | | |
| Available-for-sale Securities: | | | | | | | | |
| Equity securities - common shares | $ 4,234 | $ 4,154 | $ 4,234 | $ 4,154 | - | - | - | - |