

REFINITIV

# DELTA REPORT

## 10-K

CVLG - COVENANT LOGISTICS GROUP,  
10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	3103
CHANGES	439
DELETIONS	1039
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

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


For the fiscal year ended **December 31, 2022** **December 31, 2023**

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**

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COVENANT LOGISTICS GROUP, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State / other jurisdiction of incorporation or organization)

400 Birmingham Hwy.  
Chattanooga, TN  
(Address of principal executive offices)

88-0320154  
(I.R.S. Employer Identification No.)

37419  
(Zip Code)

Registrant's telephone number, including area code:

423 -  
821-  
1212

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
\$0.01 Par Value Class A common stock	CVLG	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

☐ Yes ☒ No

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

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

☒ Yes ☐ No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extending transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by checkmark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

☐ Yes ☒ No

The aggregate market value of the common equity held by non-affiliates of the registrant as of **June 30, 2022** **June 30, 2023**, the last business day of the registrant's most recently completed second fiscal quarter, was approximately **\$255.7 million** **\$369.1 million** (based upon the **\$25.09** **\$43.83** per share closing price on that date as reported by NASDAQ). In making this calculation the registrant has assumed, without admitting for any purpose, that all executive officers, directors, and affiliated holders of more than 10% of a class of outstanding common stock, and no other persons, are affiliates.

As of **February 24, 2023** **February 26, 2024**, the registrant had **10,890,874** **10,721,517** shares of Class A common stock and 2,350,000 shares of Class B common stock outstanding.

Portions of the registrant's definitive proxy statement relating to its **2023** **2024** Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K, where indicated. The registrant's definitive proxy statement will be filed with the U.S. Securities and Exchange Commission within 120 days after **December 31, 2022** **December 31, 2023**.

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## PART I

### Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains certain statements that may be considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended and such statements are subject to the safe harbor created by those sections and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of earnings, revenues, or other financial items; any statement of plans, strategies, and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance, including future inflation, consumer spending, supply chain conditions, and gross domestic product changes; and any statements of belief and any statements of assumptions underlying any of the foregoing. In this Annual Report, statements relating to our ability to achieve our strategic plan and the anticipated impact of our strategic plan and other strategic initiatives, our ability to recruit and retain qualified independent contractors and qualified driver and non-driver employees, our ability to react to market conditions and gain market share, future demand for and supply of new and used tractors and trailers (including expected prices of such equipment), expected functioning and effectiveness of our information systems and other technology we implement and our ability to safeguard such systems and technology, our ability to leverage technology to gain efficiencies, expected sources and adequacy of working capital and liquidity (including our mix of debt, finance leases, and operating leases as means of financing revenue equipment), future relationships, use, classification, compensation, and availability with respect to third-party service providers, future driver market conditions, including future driver pay, and the expected impact of our cost-saving

measures, expected improvements to financial and operational measures, **expected future cash flows**, future allocation of capital, including equipment purchases and upgrades and the allocation of capital among our reportable segments, future insurance and claims levels and expenses, **including the erosion of available limits in our aggregate insurance policies**, future impact of pending litigation, future tax rates, tax expense, and allowable deductions, future fuel management, expense, and the future effectiveness of fuel surcharge programs, future interest rates and effectiveness of interest rate swaps, future **inflation**, future investments in and the growth of individual reportable segments and services, expected capital expenditures, **(including the future mix of lease and purchase obligations)**, future asset dispositions, future asset utilization and efficiency, future fleet size, age, management, and upgrades, future trucking capacity, expected freight demand and volumes, future rates, future pricing and terms from our vendors and suppliers, future depreciation and amortization, future compliance with and impact of existing and proposed federal and state laws and regulations, future salaries, wages, and related expenses, future earnings from and value of our investments, including our equity investment in Transport Enterprise Leasing, LLC ("TEL"), any future indemnification obligations related to the Transport Financial Services ("TFS") Portfolio, future customer relationships, potential results of a default and testing of our fixed charge covenant under the Credit Facility or other debt agreements, future payment of financing and operating lease liabilities, future unforeseen events such as strikes, work stoppages, and weather catastrophes, future acquisitions, **the expected impact of recent acquisitions, including the contingent consideration related to such acquisitions**, future credit availability, future repurchases and dividends, if any, future stock prices, future goodwill impairment, future indebtedness, expected transition to and effect of new accounting standards, expected effect of deferred tax assets, our mix of single and team operations, the effect of safety ratings and hours-of-service expectations, future operating and maintenance expenses, and the future impact of the COVID-19 outbreak or other similar outbreaks, **and related mandates, lockdowns, or health orders on our business and results of operations**, among others, are forward-looking statements. Such statements may be identified by the use of terms or phrases such as "believe," "may," "could," "would," "will," "expects," "estimates," "projects," "mission," "anticipates," "plans," "outlook," "focus," "seek," "potential," "continue," "goal," "target," "objective," **"intends," "optimistic," "intends,"** derivations thereof, and similar terms and phrases. Forward-looking statements are based on currently available operating, financial, and competitive information. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled "Item 1A. Risk Factors," set forth below. Readers should review and consider the factors discussed in "Item 1A. Risk Factors," along with various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission ("SEC").

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

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

## ITEM 1. BUSINESS

### GENERAL

#### Background and Strategy

We were founded in 1986 as a provider of expedited freight transportation, primarily using two-person driver teams in transcontinental lanes. Since that time, we have grown from 25 tractors to approximately 2,100 tractors and expanded our services to include a wide array of transportation and logistics services for our customers. We are strategically focused on continuing to integrate into the supply chain of our customers and reducing our seasonal and cyclical volatility. Our 2018 acquisition of Landair Holdings, Inc., Landair Transport, Inc., Landair Logistics, Inc., and Landair Leasing, Inc. (collectively, "Landair") **and**, our 2022 acquisition of AAT Carriers, Inc. ("AAT"), and our 2023 acquisitions of **Lew Thompson & Son Trucking, Inc., Lew Thompson & Son Leasing Inc., Lew Thompson & Son Dedicated Leasing, Inc., Josh Thompson Trucking, Inc. (collectively "LTST") and Sims Transport Services LLC ("Sims")** are examples of that commitment. Landair is a leading dedicated truckload carrier and supplier of transportation management, warehousing, and logistics inventory management systems. AAT specializes in highly regulated, time-sensitive loads for the U.S. government. **LTST specializes in poultry feed and live haul transportation. Sims is a specialized brokerage company.**

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

We are proud of the operational improvements we have made in recent years, especially in light of headwinds we faced around the COVID-19 pandemic, rising casualty insurance costs and the challenging supply shortage of professional drivers. We believe we have made significant progress in achieving our strategic plan, but remain focused on seven

initiatives that fall under the following key tenets:

- **Organizational Excellence and Entrepreneurial Spirit.** In 2022, we initiated changes to our senior leadership team as part of our long term succession plan and continued to focus on metrics, accountability, and ownership.
- **Focus on the Driver.** Drivers are the lifeblood of our company and our industry. We employ a broad range of safety, lifestyle, compensation, equipment technology, and personal recognition methods to convey our respect and appreciation for our drivers and to improve their careers. A portion of these techniques involve analytics to identify likely candidates, match teams, evaluate recruiting spending, deliver training content to drivers, and design tractor specifications.
- **Focus on the Customer Experience.** We offer premium service in sectors where we can make a difference, and we use our brokerage services to cover loads that cannot be as efficiently serviced through our asset based transportation services. With each interaction, we seek to enhance the value we bring to the customer relationship.
- **Rigorous Capital Allocation Process.** Our senior management evaluates capital investment opportunities against available capital and acceptable leverage levels, and material investments must pass return on investment and capital investment committee approval processes. Our leverage ratio increased slightly in 2022 2023 as compared to the prior year, as we remain focused on investing capital when we can obtain acceptable returns while maintaining lower leverage than we have historically. During 2023 we completed our revenue equipment replacement plan to bring our trade cycle back to normalized levels. We believe our disciplined investment review has contributed to our improved results by allocating capital to more profitable business units and downsizing other units into greater profitability. During In January 2022, due to our improved results, we implemented a quarterly cash dividend program and during the third quarter increased from the original \$0.0625 per share to \$0.08 per share, subject to quarterly approval by our Board of Directors (the "Board"), approved a quarterly cash dividend program of \$0.0625 per share, which was increased to \$0.08 per share in August 2022 and repurchased 3.4 million shares, resulting \$0.11 per share in a reduction of approximately 20% of the shares outstanding compared to a year ago. February 2023.
- **Risk Management—Assess and Mitigate.** We evaluate risk areas with significant volatility, as well as the costs and benefits associated with mitigating the volatility. In 2022, the Board established a Risk Committee focused on identification, evaluation, and mitigation of operational, strategic, and environment risks, as well as monitoring and approving risk policies and associated practices for the Company. The Board believes an actively engaged Risk Committee is vital in recognizing and managing key risks facing the Company. Diesel fuel prices, interest rates, safety, driver retention, insurance and claims cost, and used equipment prices are all areas where we identified significant risk and volatility for our business. To manage these risks, we have at times employed fuel hedging contracts on a portion of our fuel usage not covered by customer fuel surcharges, maintain lower self-insured accident liability retention when economically feasible, and expanded our ability to sell our used equipment to increase bargaining power with the tractor and trailer manufacturers.
- **Technology.** We purchase and deploy technology that we believe will allow us to operate more safely, securely, and efficiently. Our operational information systems are tailored to the needs of our various service offerings, utilizing software developed internally and purchased off-the-shelf depending on the operational needs. We will continue to seek out technology to improve efficiencies and expand our resources while still providing enterprise wide visibility for critical operating functions.
- **Safety.** The Company experienced another record setting year, as measured by accident rates. The DOT accident rate per million miles, as defined by the Federal Motor Carrier Safety Administration ("FMCSA"), decreased 6% 7% year over year and was the lowest in the Company's history. We believe that the key to the improved safety results is a combination of continual training, consistent and proactive coaching, utilizing proven safety technologies, and consistent collaboration between all of our business units. Also, the expansion of our safety training program is expected to allow us to further increase new driver training, provide specific training, and sustain consistent messaging around the culture of safety. We are looking forward in the coming year to the implementation of During 2023, we implemented several safety related technologies, including Platform Science as our new telematics provider and Idelic a safety platform that leverages predictive analytics to identify drivers in need of additional coaching and training program, as well as the opening of our new dorm and training center. We also have developed a robust 2023 Additionally, we implemented an enterprise safety tactical plan that will continue to drive sustainability across our enterprise.

We believe the ongoing execution of our strategic plan has contributed to the substantial improvement in operating results and profitability we have generated over the past several years. Some of the significant successes resulting from our strategic planning efforts include the Landair Acquisition in 2018; consolidation of our back-office operations; enhancements to recruiting, retention, and business intelligence; upgraded information technology; focus on service and on time delivery; sale of TFS, and TFS; the acquisition of AAT in 2022, 2022; and the acquisition of LTST and Sims in 2023. Each of these accomplishments positively impacted the success of the key initiatives identified above, our overarching financial goals, and ultimately, the Company. However, we still have significant work ahead to achieve our goals, deliver a strong and stable product for our customers, provide a bright future for our employees and independent contractors, and create meaningful value for our stockholders.

#### The Company

We operate a relatively new tractor fleet and employ sophisticated tractor technology that enhances our operational efficiencies and our drivers' safety. Our company-owned tractor fleet has an average age of approximately 2.1 1.6 years, compared to an average U.S. Class 8 tractor age of approximately 6.7 6.4 years in 2021, 2023. Some of the technologies we employ include the following: (1) freight optimization software that can perform sophisticated analyses of profitability and other measures on each customer, route, and load; (2) routing software that selects the best route, identifies fuel stops, and warns of deviations from routing instructions; (3) a tracking and communications system that permits direct communication between drivers and fleet managers, as well as constant location and delivery updates; (4) electronic logging devices ("ELDs") in all of our tractors; (5) aerodynamics

and other fuel efficiency systems that have significantly improved fuel mileage; and (6) safety technology, including rollover stability control, collision mitigation, adaptive cruise control, and lane-change warning. We believe our modern fleet lowers maintenance costs, improves fuel mileage, improves safety, contributes to better customer service, and assists with driver retention.

Reportable Segments and Service Offerings

Our asset based transportation services include two separate reportable segments: (i) Expedited and (ii) Dedicated, both of which transport full trailer loads of freight from origin to destination with minimal intermediate stops or handling. We provide truckload transportation services primarily throughout the continental United States utilizing equipment we own or lease or equipment owned by independent contractors. Our Expedited reportable segment transports freight over nonroutine routes. Our Dedicated reportable segment provides similar transportation services, but does so pursuant to agreements whereby we make our equipment available to a specific customer for shipments over particular routes at specified times.

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

Lastly, to further our goal of becoming more critical throughout the supply chain, we offer day-to-day warehouse management services through our Warehousing reportable segment. At this point we own no Warehouse facilities but either lease space coterminous with the underlying customer contract or manage the customer's facility.

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

- **Expedited:** In our Expedited business, we operate approximately 900 tractors substantially all of which are driven by two-person driver teams. The Expedited reportable segment primarily provides truckload services to customers with high service freight and delivery standards, such as 1,000 miles in 22 hours, or 15-minute delivery windows. Expedited services generally require two-person driver teams on equipment either owned or leased by the Company.
- **Dedicated:** In our Dedicated business, we operate approximately 1,400 1,200 tractors, substantially all of which are driven by a solo driver. The Dedicated reportable segment provides customers with committed truckload capacity over contracted periods with the goal of three to five years in length. Equipment is either owned or leased by the Company.
- **Managed Freight:** Our Managed Freight reportable segment, includes our brokerage services and TMS. Brokerage services provide logistics capacity by outsourcing the carriage of customers' freight to third parties. third-parties. TMS provides comprehensive logistics services on a contractual basis to customers who prefer to outsource their logistics needs.
- **Warehousing:** The Warehousing reportable segment provides day-to-day warehouse management services to customers who have chosen to outsource this function. We also provide shuttle and switching services related to shuttling containers and trailers in or around freight yards and to/from warehouses.

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

The following table reflects the size of each of our reportable segments measured by 2022 2023 total revenue, net of fuel surcharge revenue, which we refer to as "freight revenue":

Distribution of Freight Revenue Among Service Offerings		
Expedited		33 35 %
Dedicated		28 %
Managed Freight		31 27 %
Warehousing		8 10 %
Total		100 %

In our Expedited and Dedicated reportable segments, we generate revenue by transporting freight for our customers. Generally, we are paid a predetermined rate per mile for our truckload services. We enhance our truckload revenue by charging for tractor and trailer detention, loading and unloading activities, and other specialized services, as well as through the collection of fuel surcharges to mitigate the impact of increases in the cost of fuel. The main factors that could affect our Expedited and Dedicated 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 truck capacity in the trucking industry, and driver availability.

The main expenses that impact the profitability of our Expedited and Dedicated reportable segments are the variable costs of transporting freight for our customers. These costs include fuel expenses, driver-related expenses, such as wages, benefits, training, and recruitment, and purchased transportation expenses, which primarily include compensating independent contractors. Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, self-insured retention versus insurance premiums, fleet age, efficiency, and other factors. Historically, our main fixed costs include rentals and depreciation of long-term assets, such as revenue equipment and terminal facilities, and the compensation of non-driver personnel.

We measure the productivity of our Expedited reportable segment with three key performance metrics: average freight revenue per total mile, average miles per tractor and average freight revenue per tractor per week. We primarily measure the productivity of our Dedicated reportable segment with the average freight revenue per tractor per week metric. A description of each follows:

**Average Freight Revenue Per Total Mile.** Our average freight revenue per total mile is primarily a function of 1) the allocation of assets among our subsidiaries, 2) the macro U.S. economic environment including supply/demand of freight and carriers, and 3) individual negotiations with customers.

**Average Miles Per Tractor.** Average miles per tractor reflect 1) economic demand, 2) driver availability, 3) regulatory constraints, and 4) the allocation of tractors among the service offerings.

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

A summary of these metrics for our Expedited reportable segment for 2022 2023 and 2021 2022 is as follows:

	2022	2021	2023	2022
Average freight revenue per total mile	\$ 2.32	\$ 1.97	\$ 2.13	\$ 2.32
Average miles per tractor	170,925	172,080	183,717	170,925
Average freight revenue per tractor per week	\$ 7,604	\$ 6,498	\$ 7,501	\$ 7,604

A summary of the key performance metrics for our Dedicated reportable segment for 2022 2023 and 2021 2022 is as follows:

	2022	2021	2023	2022
Average freight revenue per total mile	\$ 2.63	\$ 2.19	\$ 2.67	\$ 2.63
Average miles per tractor	78,728	81,284	81,387	78,728
Average freight revenue per tractor per week	\$ 3,975	\$ 3,417	\$ 4,162	\$ 3,975

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

Within our Warehousing reportable segment we empower customers to outsource warehousing management including moving containers and trailers in or around freight yards. The main factors that impact profitability in terms of expenses are managing fixed costs, including salaries, facility warehousing costs, and selling, general, and administrative expenses.



In May 2011, we acquired a 49.0% interest in TEL. TEL is a tractor and trailer equipment leasing company and used equipment reseller. We have accounted for our investment in TEL using the equity method of accounting and thus our financial results include our proportionate share of TEL's net income since May 2011, or \$21.4 million in 2023 and \$25.2 million in 2022 and \$14.8 million in 2021, 2022.

Refer to Note 15, 17, "Segment Information," of the accompanying consolidated financial statements for further information about our reportable segments' operating and financial results.

#### Customers and Operations

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

We had no customers one customer, serviced by our Expedited and Managed Freight reportable segments, that accounted for more than 10% of our consolidated revenue in 2022 or 2021, respectively, 2023 and none in 2022. Our top ten customers accounted for approximately 43% 44% and 53% 43% of our total revenue in 2022 2023 and 2021, 2022, respectively.

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

Our reportable segments operate on a variety of operating systems to maximize the effectiveness of the unique attributes associated with each service offering. We have one primary financial system and continue to focus on cloud based solutions for data storage versus storing on local servers when possible. We continue to evaluate where we can leverage technology to add further efficiencies across the Company and for our customers.

#### Drivers and Other Personnel

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

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

Our average number of teams as a percentage of our seated fleet increased for 2022 2023 as compared to 2021, 2022. Our average open tractors, including wrecked tractors, decreased to 4.8% for the year ended December 31, 2023, from approximately 6.7% for the year ended December 31, 2022, from approximately 7.3% for the year ended December 31, 2021.

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

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

We continue to educate our drivers and non-driver personnel regarding the FMCSA Compliance Safety Accountability program ("CSA"). We believe CSA, in conjunction with other U.S. Department of Transportation ("DOT") regulations, including those related to hours-of-service and ELDs, has reduced and will likely continue to impact effective capacity in our

industry as well as negatively impact equipment utilization. Nevertheless, for carriers that are able to successfully manage this regulation-laden environment with driver-friendly equipment, compensation, and operations, we believe opportunities to increase market share may be available. Driver pay may increase as a result of regulation and economic expansion, which could provide more alternative employment opportunities. In periods of economic growth, however, the supply/demand environment may be favorable enough for us to offset expected compensation increases with better freight pricing.

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

We are not a party to any collective bargaining agreement. At **December 31, 2022** **December 31, 2023**, we employed approximately **3,007** **2,900** drivers and approximately **1,600** **1,700** non-driver personnel. At **December 31, 2022** **December 31, 2023**, we engaged **146** **130** independent contractor drivers.

## Revenue Equipment

At **December 31, 2022** **December 31, 2023**, we operated **2,138** **2,139** tractors and **5,367** **5,880** trailers. Of such tractors, **1,482** **1,961** tractors were owned, **510** **48** tractors were financed under operating or finance leases, and **146** **130** tractors were provided by independent contractors, who own and drive their own tractors. Of such trailers, **5,038** **5,665** trailers were owned, **121** **215** trailers were financed held under an operating lease or as short-term rentals, and 208 trailers were financed under finance leases. Furthermore, at **December 31, 2022** **December 31, 2023**, approximately **84%** **86%** of our trailers were dry vans, **11%** of our trailers were refrigerated vans, and the remaining trailers were refrigerated vans. specialty trailers related to our poultry business.

We believe that operating high quality, late-model equipment contributes to operating efficiency, helps us recruit and retain drivers, and is an important part of providing excellent service to customers. We operate a modern fleet of tractors, with the majority of tractors under warranty, to minimize repair and maintenance costs and reduce service interruptions caused by breakdowns. We also order most of our equipment with uniform specifications to reduce our parts inventory and facilitate maintenance. At **December 31, 2022** **December 31, 2023**, our tractor fleet had an average age of approximately **2.1** **1.6** years, and our trailer fleet had an average age of approximately **6.2** **5.9** years. We equip our tractors with a satellite-based tracking and communications system that permits direct communication between drivers and fleet managers. We believe that this system enhances our operating efficiency and improves customer service and fleet management. This system also updates the tractor's position approximately every fifteen minutes, which allows us and our customers to locate freight and accurately estimate pick-up and delivery times. We also use the system to monitor engine idling time, speed, performance, and other factors that affect operating efficiency. At **December 31, 2022** **December 31, 2023**, all of our tractors were equipped with ELDs, which electronically monitor tractor miles and facilitate enforcement of hours-of-service regulations.

Over the past decade, the price of new tractors has risen dramatically and there has been significant volatility in the used equipment market. This has substantially increased our costs of operation. Currently, tractor and trailer manufacturers are still experiencing have recently experienced periodic shortages of certain component parts and supplies, including semi-conductor chips, forcing many such manufacturers to curtail or suspend their production, which could lead to a lower supply of tractors and trailers, higher prices, and lengthened trade cycles, and which could lead to, among other things, higher maintenance expense and driver retention.

In an effort to improve our driver experience, service and operating cost, we made the decision in 2022 to aggressively reduce the average age of our equipment. We did this through the combination of acquiring additional unbudgeted trucks in the fourth quarter of 2022 and increasing our original tractor order for 2023. During the fourth quarter of 2022 we made significant progress on the plan but incurred unusual expense from two items: (i) an early lease abandonment and disposal charge and (ii) excess equipment due to delivery of a large number of new tractors combined with delays in removing existing leased tractors from operations. Overall, During 2023 we are pleased continued executing our revenue equipment replacement plan and reduced the average age of our tractors to be taking delivery of new units and exiting older, less efficient units, which will reduce our average fleet age and improve operating efficiency. Nevertheless, the fourth quarter of 2022 cost was significant. The early lease abandonment and disposal charge relates 1.6 years from 2.1 years in 2023. For 2024, we expect to tractors pulled from operations during the fourth quarter of 2022, which have been the source of significant operational headwinds throughout the year due to poor fuel economy, unusually high maintenance costs and elevated down time. Because we have no intended future use for these units, we have abandoned the right of use asset associated a more normalized revenue equipment trade cycle with the leases, which extend through potential for growth if we successfully execute our growth plan for the fourth quarter new poultry business that is part of 2023. the Dedicated business.

## Industry and Competition

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

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

Our industry is subject to dynamic factors that significantly affect our operating results. These factors include the availability of qualified truck drivers, the volume of freight in the sectors we serve, the price of diesel fuel, and government regulations that impact productivity and costs. Recently, our industry has experienced decreased freight demand, volatile fuel costs, tight new and used equipment market, scarcity of qualified truck drivers, and regulations that limit productivity. As we look toward 2023, 2024, we anticipate a very difficult freight environment for at least do not see anything in the first half of the year which could compress rates that would indicate a near-term recovery of the freight market. We anticipate a continuation of difficult conditions where capacity continues to exit the market at a rate that yields steady but modest improvement. In the first quarter, we expect our revenue and margins when compared earnings to 2022. However, decline, reflecting normal seasonality and the temporary headwinds of severe inclement weather conditions, year over year rate reductions in our Expedited segment and incremental costs associated with a large new customer startup within our Dedicated segment. Despite these short-term headwinds, we believe our more resilient operating model, together with the steps we are taking have taken to reduce costs and inefficiencies, will mitigate a portion of our historical volatility throughout economic and freight market cycles, have positioned us well for another successful year.

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

## Regulation

### Transportation Regulations

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

The DOT, through the FMCSA, imposes safety and fitness regulations on us and our drivers, including rules that restrict driver hours-of-service. Changes to such hours-of-service rules can negatively impact our productivity and affect our operations and profitability by reducing the number of hours per day or week our drivers may operate and/or disrupting our network. However, in August 2019, in recent years, the FMCSA issued a proposal to make has made changes to its the hours-of-service rules that would allow to provide greater flexibility to truck drivers more flexibility with regarding their 30-minute rest break and with dividing their time in breaks, an extension of the sleeper berth. It also would extend shorthaul exemption by an additional two hours, the and an extension of duty time for drivers encountering adverse weather and extend the shorthaul exemption by lengthening the drivers' maximum on-duty period from 12 hours up to 14 two hours. In June 2020, the FMCSA adopted a final rule substantially as proposed, which became effective in September 2020. Certain industry groups have challenged these hours-of-service rules in court, and while the FMCSA's final rule has been upheld, it remains unclear if industry or other groups will bring additional challenges against the FMCSA's final rule. Any future changes to hours-of-service rules could materially and adversely affect our operations and profitability.

The DOT DOT uses two methods of evaluating the safety and fitness of carriers. The first method is the application of a safety rating that is based on an onsite investigation and affects a carrier's ability to operate in interstate commerce. All of our subsidiaries with operating authority currently have a satisfactory DOT safety rating under this method, which is the highest available rating under the current safety rating scale. If we received a conditional or unsatisfactory DOT safety rating, it could adversely affect our business, as some of our existing customer contracts require a satisfactory DOT safety rating. In January 2016, the FMCSA published a Notice notice of Proposed Rulemaking proposed rulemaking outlining a revised safety rating measurement system which would replace the current methodology. Under the proposed rule, the current three safety ratings of "satisfactory," "conditional," and "unsatisfactory" would be replaced with a single safety rating of "unfit." Thus, a carrier with no rating would be deemed fit. Moreover, data from roadside inspections and the results of all investigations would be used to determine a carrier's fitness on a monthly basis. This would replace the current methodology of determining a carrier's fitness based solely on infrequent comprehensive onsite reviews. The proposed rule underwent a public comment period that ended in June 2016 and several industry groups and lawmakers expressed their disagreement with the proposed rule, arguing that it violates the requirements of the FAST Act (as defined below) and that the FMCSA must first finalize its review of the CSA scoring system, described in further detail below, whether carriers are fit to operate commercial motor vehicles. Based on this feedback and other concerns raised by industry stakeholders during the public comment period in March 2017, the FMCSA withdrew the Notice notice of Proposed Rulemaking proposed rulemaking related to the new safety rating system. In its notice of withdrawal, the FMCSA noted that a new rulemaking related to a similar process may be initiated in the future. Therefore, it is uncertain if, when, or under what form any such rule could be implemented. Additionally, the FMCSA is conducting a study on the causation of large-truck crashes, which is

expected to gather data through 2024. Although it remains unclear whether such study will ultimately be completed, the results of such study could spur further proposed and/or final rules in regards to safety and fitness.

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

Under the CSA, these scores were initially made available to the public in five of the seven categories. However, pursuant to the Fixing America's Surface Transportation Act (the "FAST Act"), which was signed into law in December 2015, the FMCSA was required to remove from public view the previously available CSA scores while it reviews the reliability of the scoring system. During this period of review by the FMCSA, we will continue to have access to our own scores and will still be subject to intervention by the FMCSA when such scores are above the intervention thresholds. A study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate, and reliable. In June 2018, the FMCSA provided a report to Congress outlining the changes it may make to the CSA program in response to the study. Such changes include the testing and possible adoption of a revised risk modeling theory, potential collection and dissemination of additional carrier data and revised measures for intervention thresholds. The adoption of such changes is contingent on the results of the new modeling theory and additional public feedback. Therefore, it is unclear if, when and to what extent such changes to the CSA program will occur. However,

In February 2023, the FMCSA published a notice of proposed changes to its Safety Measurement System ("SMS") methodology, including the BASIC categories. In August 2023, the FMCSA announced in an advanced notice of proposed rulemaking and request for comments that it was interested in developing a new methodology to determine whether a carrier is fit to operate commercial motor vehicles. Additionally, the U.S. Government Accountability Office made a suggestion in 2023 to the FMCSA to make complaint data public. Currently, it is uncertain what changes, if any, the FMCSA will make to the CSA rating system or the SMS methodology; however, any change which would result in the Company or its subsidiaries receiving less favorable scores, or an increased visibility of less favorable scores or of complaints against the Company may have an adverse effect on our operations and financial position. Moreover, in September 2023, the FMCSA announced a proposal that would allow carriers to undergo an appeal process for requests of data review, which are in relation to such requests through the agency's DataQs system. The proposal, if adopted, may provide an opportunity for the Company to appeal in certain scenarios which could result in more favorable outcomes. Another source of potential changes may be from the FMCSA's study on the causation of crashes, known as the Crash Causal Factors Program ("CCFP") which builds upon the FMCSA's previous Large Truck Crash Causation Study. Phase 1 of the CCFP is designed to study crashes of heavy-duty trucks and a report from Phase 1 of the CCFP is expected in 2029. Any changes that increase the likelihood of us receiving unfavorable scores could adversely affect our results of operations and profitability.

In May 2020, the FMCSA announced that effective immediately it is making permanent a pilot program that will not count a crash in which a motor carrier was not at fault when calculating the carrier's safety measurement profile, called the Crash Preventability Demonstration Program ("CPDP"). The CPDP will expand the types of eligible crashes, modify the Safety Measurement System SMS to exclude crashes with not preventable determinations from the prioritization algorithm and note the not preventable determinations in the Pre-Employment Screening Program. Under the program, carriers with eligible crashes that occurred on or after August 2019 may submit a Request for Data Review with the required police accident report and other supporting documents, photos or videos through the FMCSA's DataQs website. If the FMCSA determines the crash was not preventable, it will be listed on the Safety Measurement System SMS but not included when calculating a carrier's Crash Indicator Behavior Analysis and Safety Improvement Category BASICS measure for the crash indicator category in SMS. Additionally, any determinations of not preventable crashes will be noted on a driver's Pre-Employment Screening Program report.

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

The FMCSA published a final rule in December 2015 that required the use of ELDs or automatic on board recording devices ("AOBRs") by nearly all carriers by December 2017 (the "2015 ELD Rule"). Use of AOBRs was permitted until December 2019, at which time use of ELDs became required. We ultimately had ELDs (not AOBRs) installed on 100% of our fleet by the December 2019 deadline. We believe that more effective hours-of-service enforcement under the 2015 ELD Rule may improve our competitive position by causing all carriers to adhere more closely to hours-of-service requirements and may further reduce industry capacity.

In December 2016, the FMCSA issued a final rule establishing a national clearinghouse for drug and alcohol testing results and requiring motor carriers and medical review officers to provide records of violations by commercial drivers of FMCSA drug and alcohol testing requirements. Motor carriers are required to query the clearinghouse to ensure drivers and driver applicants do not have violations of federal drug and alcohol testing regulations that prohibit them from operating commercial motor vehicles. The final rule became effective in January 2017, with a compliance date in January 2020. In December 2019, however, the FMCSA announced a final rule extending by three years the date for state driver's licensing agencies to comply with certain Drug and Alcohol Clearinghouse requirements. The December 2016 commercial driver's license rule required states to request information from the Clearinghouse about individuals prior to issuing, renewing, upgrading, or transferring to a CDL. This new action allowed states' compliance with the requirement, which was set to

begin January 2020, to be delayed until January 2023. That being said, the FMCSA indicated it would allow states the option to voluntarily query Clearinghouse information beginning January 2020. The an initial compliance date of January 2020 remained in place and certain compliance dates extended until January 2023. Currently, the Company is required to (i) report drug and alcohol violations to the clearinghouse; (ii) query the clearinghouse regarding drug and alcohol violations for all other requirements set forth in current and prospective employees prior to permitting such employees to operate a commercial motor vehicle; and (iii) query the Clearinghouse final rule, however. Upon implementation, the rule may reduce the number of available drivers in an already constrained clearinghouse for each currently employed driver market. Pursuant to a new rule finalized by the FMCSA, beginning in annually. Beginning November 2024, states will be required to query the Clearinghouse when issuing, renewing, transferring, or upgrading a commercial driver's license and must revoke a driver's commercial driving privileges if such driver is prohibited from driving a motor vehicle for one or more drug or alcohol violations. It is expected that the rule may further impair the availability of an already weak driver pool.

In September 2020, the Department of Health and Human Services ("DHHS") announced proposed mandatory guidelines to allow employers to drug test truck drivers and other federal workers for pre-employment and random testing using hair specimens. However, the proposal also requires a second sample using either urine or an oral fluid test if a hair test is positive, if a donor is unable to provide a sufficient amount of hair for faith-based or medical reasons, or due to an insufficient amount or length of hair. The proposal specifically requires that the second test be done simultaneously at the collection event or when directed by the medical review officer after review and verification of laboratory-reported results for the hair specimen. DHHS indicated the two-test approach is intended to protect federal workers from issues that have been identified as limitations of hair testing, and related legal deficiencies identified in two prior court cases. In 2022, an industry group known as the Trucking Alliance sought an exemption from the FMCSA that would allow positive hair specimen tests to be uploaded into the FMCSA Drug and Alcohol Clearinghouse. This request was denied by the FMCSA, however, noting they cannot act until the DHHS finalizes these guidelines. Additionally, in February 2022 the DOT issued a Notice notice of Proposed Rulemaking proposed rulemaking that would include oral fluid testing as an alternative to urine testing for purposes of the DOT's drug testing program, with a goal of improving the integrity and effectiveness of the drug testing program, along with potential cost savings to regulated parties. Public comment on the proposed rule closed in April 2022, with industry participants generally being in favor. It is unclear if, and when, in May 2023, a final rule may be put in place, however, was published amending DOT's drug testing program to include oral fluid testing, and became effective June 2023; however, implementation cannot take effect until DHHS approves at least two laboratories to conduct oral fluid testing. Currently, DHHS has not approved any laboratories. Any final rule may reduce the number of available drivers. We currently perform urine testing and will continue to monitor any developments in this area to ensure compliance. Finally, federal drug regulators have announced a proposal to add fentanyl to a drug testing panel that would detect the use of such drug among safety-sensitive federal employees, which would include truck drivers if adopted by the DOT. If the proposal is accepted, DHHS expects to add fentanyl to the testing panel as early as the first quarter of 2023, at some point in 2024.

Other rules have been recently proposed or made final by the FMCSA, including: (i) a rule requiring the use of speed limiting devices on heavy duty tractors to restrict maximum speeds, which was proposed in 2016, and (ii) including a rule setting forth minimum driver training standards for new drivers applying for commercial driver's licenses for the first time and to experienced drivers upgrading their licenses or seeking a hazardous materials endorsement, known as Entry-Level Driver Training regulations (the "ELDT Regulations"), which was made final in December 2016, with a compliance date in February 2020. However, in May 2020, the FMCSA approved an interim rule delaying implementation of the ELDT Regulations by two years, which extended the compliance date until February 2022. Now that the rule is effective, training schools and other programs are required to implement the prescribed curriculum and register with the FMCSA's Training Provider Registry to certify that their program meets the classroom and driving standards. The ELDT Regulations may reduce the number effects of available drivers these rules could result in a decrease in fleet production and driver availability, and/or an increase in recruitment and training costs, with respect to new drivers. either of which could adversely affect our business, operations or profitability.

In February 2023, the FMCSA issued a supplemental Notice notice of Proposed Rulemaking proposed rulemaking requesting additional information on automated driving systems ("ADS") and seeking comment on regulatory approaches that would enable it to obtain relevant safety information and the current and anticipated size of the population of carriers operating ADS-equipped commercial motor vehicles. Public comment on the supplemental notice will remain open until closed in March 2023, and it remains to be seen, what, if any, final rules will stem therefrom. Additionally, the In June 2023, FMCSA in conjunction with and the National Highway Traffic Safety Administration ("NHTSA"), have announced their intention to propose issued a joint proposed rule for performance standards and maintenance requirements for automatic that would require automated emergency braking on heavy all new heavy-duty trucks. Such proposal is anticipated as early as March Additionally, in April 2023, but it NHTSA issued an advance notice of proposed rulemaking that would require side underride guards to be installed on all new heavy-duty trucks. It remains uncertain to be seen, what, exactly it may require and whether a if any, final rule rules will ultimately be put into place. stem from such proposals.

Our industry is also subject to a number of recently proposed rules which mandate the use of speed-limiting devices in certain commercial motor vehicles. In July 2017, the DOT announced that it would no longer pursue a speed limiter rule but left open the possibility that it could resume such a pursuit in the future. In May 2021, however, the Cullum Owings Large Truck Safe Operating Speed Act was reintroduced into the U.S. House of Representatives and would require commercial motor vehicles with a gross weight of more than 26,000 pounds to be equipped with a speed limiter that would limit the vehicle's speed to no more than 65 M.P.H. Furthermore, in April 2022, the FMCSA issued a notice of intent to propose a rule during 2023 that will require certain commercial vehicles to be equipped with speed limiters, limiters; however, no final rule was proposed. It is now expected that the DOT will issue a rule sometime in 2024. The effect of these rules, to the extent they become effective, could result in a decrease in driver availability, which could adversely affect our business or operations.

Among other things, the Infrastructure Investment and Jobs Act ("IIJA"), signed into law by President Biden in November 2021, created an apprenticeship program for drivers aged 18 to 20 years old to eventually qualify to drive commercial trucks in interstate commerce. The provision drew certain mechanics from the bills introduced in Congress in 2019 related to lowering the age requirements for interstate commercial driving. The FMCSA announced the establishment of this apprenticeship program in January 2022 in an effort to begin to help the industry's ongoing driver shortage. This program, known as the Safe Driver Apprenticeship Pilot Program ("SDAP"), is open to 18 to 20-year-old drivers who



already hold intrastate commercial driver's licenses and sets a strict training regimen for participating drivers and carriers to comply with. Motor carriers interested in participating must complete an application for participation and submit monthly data on an apprentice's driver activity, safety outcomes, and additional supporting information. The **Safe Driver Pilot Apprenticeship Program SDAP** is limited to 3,000 driver-apprentices at any given time, with new driver-apprentices allowed into the program to replace those that leave or age out. In May 2023, the **DRIVE Safe Integrity Act of 2023** was introduced, which supports participation in the SDAP and would permit 18- to 20-year-olds to operate across state lines if data from the SDAP does not indicate such drivers are less safe than current commercial motor vehicle drivers. Whether this legislation will ultimately become law is uncertain. It remains unclear whether any regulatory changes will stem from the apprenticeship program.

The IJIA also required that the FMCSA clarify the differences between brokers, bona fide agents, and dispatch services, and to further specify its interpretation of the definitions of "broker" and "bona fide agents." As such, and in an attempt to rein in companies engaging in brokerage services without proper FMCSA authority, the In June 2023, FMCSA issued interim guidelines final guidance on the definitions of "broker" and "bona fide agents," in November 2022, which among other things, (i) contained a multitude of factors relevant to determining whether a dispatch service actually requires brokerage authority, (ii) clarified that operating as an unauthorized broker carries civil penalties of up to \$10,000 per violation, the distinction between the two largely hinges upon control and (iii) clarified that the handling of funds in shipper-motor carrier transactions is an important consideration (pointing towards a broker designation) in the determination of whether someone is a broker or simply an agent. The FMCSA also clarified, however, that any determination will be highly fact specific and will entail determining whether the person or company is engaged in the allocation of traffic between motor carriers. Several of the Company's subsidiaries currently hold FMCSA brokerage authority, so while the impact of this guidance remains to be seen, the Company does not currently anticipate an adverse impact on its operations. Additionally, in In a January November 2023 Notice of Proposed Rulemaking, final rule, the FMCSA proposed implemented more oversight of truck brokers, freight forwarders, and the surety bond and trust companies that back them. The Notice of Proposed Rulemaking considers regulatory modifications final rule, which became effective in January 2024, modified regulations in five areas: (i) assets readily available, (ii) immediate suspension of broker/freight forwarder operating authority, (iii) surety or trust responsibilities, (iv) enforcement authority, and (v) entities eligible to serve as BMC-85 trustees. Among other changes, the proposal would allow rule allows brokers or freight forwarders to meet regulatory requirements to have "assets readily available" by maintaining trusts that meet certain criteria, including that they can be liquidated within seven calendar days of an event that triggers a payment from the trust. The proposal rule also stipulates that "available financial security" falls below \$75,000 when there is a drawdown on the broker or freight forwarder's surety bond or trust fund. Adoption of Implementation and compliance with these changes could may negatively impact our business by increasing our compliance obligations, operating costs, and related expenses.

Recently, federal courts have reached different decisions on the issue of whether preemption applies to broker liability. In June 2022, the United States Supreme Court (the "Supreme Court") declined to review a Ninth Circuit Court of Appeals decision involving a personal injury suit alleging that a freight broker had liability for an accident because it breached its duty to select a competent contractor to transport the load in question. In its petition to the Supreme Court, the broker unsuccessfully argued that the Ninth Circuit's decision improperly disallowed federal pre-emption, preemption and would expose freight brokers to a patchwork of state regulations across the United States. This development potentially calls into question In April 2023, the Eleventh Circuit Court held that the Federal Aviation Administration Authorization Act ("FAAAA") expressly preempted such personal liability claims against a broker. Additionally, in July 2023, the Seventh Circuit Court of Appeals affirmed the holding of a lower court that the FAAAA's preemption provision applied and that a certain safety exception within the FAAAA did not save the plaintiff's claim from preemption. In January 2024, the U.S. Supreme Court declined to review the case from the Seventh Circuit Court of Appeals. It is uncertain how long the current circuit split will continue and whether the U.S. Supreme Court will decide to review similar cases in the future. If additional circuit courts, or the U.S. Supreme Court, adopt the Ninth Circuit view, freight brokers' ability to rely on federal agency standards in selecting motor carriers given the carrier involved in the accident was allegedly in good standing with the FMCSA when it was chosen to transport the load, would be called into question. It could also lead to primary (as opposed to contingent) liability being imposed upon freight brokers, and increased insurance premiums for brokerage operations generally. Although we are committed to selecting safe and secure motor carriers in carrying out our brokerage activities, if we are found to be negligent in the motor carrier selection process it could lead to significant liabilities in the event of an accident, which could have a materially adverse effect on our business and operating results.

In September 2022, the FMCSA issued an advance Notice notice of Proposed Rulemaking proposed rulemaking that would require fleets and owner-operators independent contractors to equip their trucks with unique electronic identification systems designed to streamline roadside inspections and provide transparency and accountability in day-to-day trucking operations. The petition was generally disfavored by transportation industry participants, citing, among other things, the petition's failure to address privacy and data security risks. It remains to be seen what rules, if any, may stem from this notice. However, in February 2023, the FMCSA announced a new operational test for monitoring and enforcing driver and motor carrier safety compliance standards.

In November 2022 Senate lawmakers introduced legislation that would set aside grant funds over four years to expand truck parking across the United States. Such legislation would allow for the creation of new parking areas, the expansion of existing facilities, and the approval of commercial parking at existing weigh stations, rest areas, and park-and-ride facilities. It would also allow for truck parking expansion at commercial truck stops and travel plazas. Industry groups are generally in favor of the bill, as a lack of available parking has negatively impacted the industry as a whole, including the Company and its subsidiaries.

In December 2018, the FMCSA granted a petition filed by the ATA and in doing so determined that federal law does preempt California's wage and hour laws, and interstate truck drivers are not subject to such laws. The FMCSA's decision has been appealed by labor groups and multiple lawsuits have been filed in federal courts seeking to overturn the decision. In January 2021, the Ninth Circuit Court of Appeals upheld the FMCSA's determination that federal law does preempt California's meal and rest break laws, as applied to drivers of property-carrying commercial motor vehicles. Other current and future state and local laws, including laws related to employee meal breaks and rest periods, may also vary significantly from federal law. Further, driver piece rate compensation, which is an industry standard, has been attacked as non-compliant with state minimum wage laws and lawsuits have recently been filed and/or adjudicated against carriers demanding compensation for sleeper berth time, layovers, rest breaks and pre-trip and post-trip inspections, the

outcome of which could have major implications for the treatment of time that drivers spend off-duty (whether in a truck's sleeper berth or otherwise) under applicable wage laws. Both of these issues are adversely impacting the Company and the industry as a whole, with respect to the practical application of the laws, thereby resulting in additional cost. As a result, we, along with other companies in the industry, could become subject to an uneven patchwork of laws throughout the United States. In the past, certain legislators have proposed federal legislation to preempt certain state and local laws; however, passage of such legislation is uncertain. If federal legislation is not passed, we will either need to comply with the most restrictive state and local laws across our entire network or overhaul our management systems to comply with varying state and local laws. Either solution could result in increased compliance and labor costs, driver turnover, decreased efficiency, and amplified legal exposure.

In a 2023 case involving the Fair Labor Standards Act, the First Circuit Court of Appeals affirmed a decision that would require additional payment to team drivers to be paid while in their sleeper berth. It is unclear if other jurisdictions will adopt this view, or if any legislation will result from this holding. If so, this could have a material adverse effect on our business, financial condition, and results of operations.

In November 2023, a bill was introduced to Congress that would eliminate an exclusion of truck drivers from receiving overtime pay. If enacted, this could have a material adverse effect on our business, financial condition, and results of operations.

Tax and other regulatory authorities, as well as independent contractors themselves, have increasingly asserted that independent contractors in the trucking industry are employees rather than independent contractors, for a variety of purposes, including income tax withholding, workers' compensation, wage and hour compensation, unemployment, and other issues. Federal legislators have introduced legislation in the past to make it easier for tax and other authorities to reclassify independent contractors as employees, including legislation to increase the recordkeeping requirements for those that engage independent contractors and to heighten the penalties of companies who misclassify their employees and are found to have violated employees' overtime and/or wage requirements. The most recent example being the Protecting the Rights to Organize ("PRO") Act which was passed by the U.S. House of Representatives and received by the Senate in March 2021, and remains with which was further sent to the Senate's Committee on Health, Education, Labor, and Pensions. The PRO Act proposes In 2023, a substantially similar bill was introduced to the U.S. House of Representatives and referred to the House Committee on Education and Workforce. These bills propose to apply the "ABC Test" for classifying workers under Federal Fair Labor Standards Act claims. Additionally, in October 2022, In January 2024, the Department of Labor proposed published a new final rule regarding independent contractor classification, which if adopted, would evaluate an employer's is set to take effect on March 11, 2024. The final rule rescinded the Independent Contractor Status Under the Fair Labor Standards Act. Under the 2024 rule, workers' relationship with workers a principal will be classified under six categories factors, including: (i) opportunity for profit and loss depending on managerial skill; (ii) investments by the worker and the principal; (iii) degree of permanence of the relationship; (iv) nature and degree of control; (v) extent to which worker in integral to the principal's business; and (vi) skill and initiative, together with a provision for unspecified other factors, to determine whether if such worker should be classified as an independent contractor based on a totality of the circumstances and the economic realities of such relationship. It is unknown whether any of the proposed legislation will become law or whether any industry-based exemptions from any resulting law will be granted. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice, extend the Fair Labor Standards Act to independent contractors, and impose notice requirements based upon employment or independent contractor status and fines for failure to comply. Some states have put initiatives in place to increase their revenues from items such as unemployment, workers' compensation, and income taxes, and a reclassification of independent contractors as employees would help states with these initiatives.

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

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

How AB5 will be enforced is still to be determined. In January 2021, however, the California Supreme Court ruled that the ABC Test could apply retroactively to all cases not yet final as of the date the original decision was rendered, April 2018. While AB5 was set to go into effect in January 2020, a federal judge in California issued a preliminary injunction barring the enforcement of AB5 on the trucking industry while the California Trucking Association ("CTA") went forward with its suit seeking to invalidate AB5. The Ninth Circuit Court of Appeals rejected the reasoning behind the injunction in April 2021, ruling that AB5 is not pre-empted by federal law, but granted a stay of the AB5 mandate in June 2021 (preventing its application and temporarily continuing the injunction) while the CTA petitioned the Supreme Court to review the decision. In November 2021, the Supreme Court requested that the U.S. solicitor general weigh in on the case. The injunction remained in place until the Supreme Court declined to hear the matter. As a result, the injunction was lifted and retroactively placed AB5 into law as of January 2020. While litigation surrounding the stay of matter continues, and the Ninth Circuit is currently scheduled to hear arguments on a case concerning AB5 mandate provided temporary relief to the enforcement of AB5, the CTA and other industry groups are continuing to bring challenges against AB5 and in March 2024; however, it remains unclear whether the CTA or other industry groups such challenges will ultimately be successful in receiving future injunctions or in invalidating the law. It is also possible AB5 will spur similar legislation in states other than California, which could adversely affect our results of operations and profitability.

Further, class actions and other lawsuits have been filed against certain members of our industry seeking to reclassify independent contractors as employees for a variety of purposes, including workers' compensation and health care coverage. In addition, companies that utilize lease-purchase independent contractor programs, such as us, have been

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

#### *Environmental Regulations*

We are subject to various environmental laws and regulations dealing with the hauling and handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, engine idling, and discharge and retention of storm water. Our tractor terminals often are located in industrial areas where groundwater or other forms of environmental contamination could occur. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. Certain of our facilities have waste oil or fuel storage tanks and fueling islands. A certain portion of our freight consists of low-grade hazardous substances, which subjects us to a wide array of regulations, and another portion consists of high security cargo such as arms, ammunition, and explosives, which subjects us to a myriad of regulatory requirements concerning the storage, handling and transportation of hazardous materials, chemicals, and explosives. Accidents or malfeasance involving these services or cargo, or a failure of a product (including as a result of cyberattack), could cause personal injury, loss of life, damage or destruction of property, equipment or the environment, or suspension of operations, any of which could materially and adversely affect our operations and profitability. Additionally, increasing efforts to control emissions of greenhouse gases may have an adverse effect on us. Although we have instituted programs to monitor and control environmental risks and promote compliance with applicable environmental laws and regulations, if we are involved in a spill or other accident involving hazardous substances, if there are releases of hazardous substances we transport, if soil or groundwater contamination is found at our facilities or results from our operations, or if we are found to be in violation of applicable laws or regulations, we could be subject to cleanup costs and liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business and operating results.

In August 2011, the NHTSA and the EPA adopted final rules that established the first-ever fuel economy and greenhouse gas standards for medium-and heavy-duty vehicles, including the tractors we employ (the "Phase 1 Standards"). The Phase 1 Standards apply to tractor model years 2014 to 2018 and require the achievement of an approximate 20 percent reduction in fuel consumption by the 2018 model year, which equates to approximately four gallons of fuel for every 100 miles traveled. In addition, in February 2014, President Obama announced that his administration would begin developing the next phase of tighter fuel efficiency and greenhouse gas standards for medium-and heavy-duty tractors and trailers (the "Phase 2 Standards"). In October 2016, the EPA and NHTSA published the final rule mandating that the Phase 2 Standards will apply to trailers beginning with model year 2018 and tractors beginning with model year 2021. The Phase 2 Standards require nine percent and 25 percent reductions in emissions and fuel consumption for trailers and tractors, respectively, by 2027. The final rule was effective in December 2016, but has since faced challenges and delays. In October 2017, the EPA announced a proposal to repeal the Phase 2 Standards as they relate to gliders (which mix refurbished older components, including transmissions and pre-emission-rule engines, with a new frame, cab, steer axle, wheels, and other standard equipment). The outcome of such proposal is still undetermined. Additionally, implementation of the Phase 2 Standards as they relate to trailers has been challenged in the U.S. Court of Appeals for the District of Columbia. In November 2021, a panel for the U.S. Court of Appeals for the District of Columbia ruled in favor of the association challenging the standards and vacated all portions of the Phase 2 Standards that applied to trailers, and consequently, the Phase 2 Standards will only require reductions in emissions and fuel consumption for tractors. The Company's (or its subsidiaries', as applicable) new tractor purchases in 2022-2023 complied with the emission and fuel consumption reductions required by the Phase 2 Standards. Even though the trailer provisions of the Phase 2 standards have been removed, we will still need to ensure the majority of our fleet is compliant with the California Phase 2 standards (described in further detail below).

In January 2020, the EPA announced it is seeking input on reducing emissions of nitrogen oxides and other pollutants from heavy-duty trucks. In March 2022, the EPA issued a proposed rule that included nitrogen oxide emission standards which are more stringent than the Phase 2 Standards for certain heavy-duty motor vehicles. In December 2022, the EPA adopted a final rule that reflected a compromise of the options previously proposed, with new emissions standards of nitrogen oxides for heavy-duty motor vehicles beginning with model year 2027 being more than 80% stronger than current emission standards, with the intent to reduce heavy duty emissions by almost 50% from today's levels by 2045. The EPA has indicated that the December 2022 rule is the first part of a multi-part three-part plan focusing on greenhouse gas emissions, which is commonly referred to as the "Cleaner Trucks Initiative," or the "Clean Trucks Plan." The In April 2023, the EPA has indicated that it plans released the second and third parts to release proposals for the remaining steps in the Clean Trucks Plan, by including a proposed rule relating to GHG standards for heavy-duty vehicles known as "Phase 3" to the end of March 2023 and EPA's GHG program. A final rule with respect to these regulations is targeting 2027 for these new standards to take effect. The EPA has also previously indicated it is working on enacting additional, more stringent, greenhouse gas emission standards (beginning with model year 2030 vehicles) expected by the end of 2024. Compliance with these regulations could increase the cost of new tractors and trailers, impair equipment productivity, and increase operating expenses. These effects, combined with the uncertainty as to the operating results that will be produced by the newly designed diesel engines and the residual values of these vehicles, could increase our costs or otherwise adversely affect our business or operations.

The California Air Resources Board ("CARB") also adopted emission control regulations that will be applicable to all heavy-duty tractors that pull 53-foot or longer box-type trailers within the state of California. The tractors and trailers subject to these CARB regulations must be either EPA SmartWay certified or equipped with low-rolling, resistance tires and retrofitted with SmartWay-approved aerodynamic technologies. Enforcement of these CARB regulations for model year 2011 equipment began in January 2010 and have has been phased in over several years for older equipment. We currently purchase Smart Way certified equipment in our new tractor and trailer acquisitions. In addition, in February 2017



CARB proposed California Phase 2 standards that generally align with the federal Phase 2 Standards, with some minor additional requirements, and as proposed would stay in place even if the federal Phase 2 Standards are affected. In February 2019, the California Phase 2 standards became final. Thus, even though the trailer provisions of the Phase 2 Standards were removed, we will still need to must ensure the majority of our fleet is compliant with the California Phase 2 standards, which may result in increased equipment costs and could adversely affect our operating results and profitability.

In the past, CARB has also recently announced its intentions to adopt regulations ensuring that 100% of tractors operating in California are operating with battery or fuel cell-electric engines in the future. Whether these regulations will ultimately be adopted remains unclear. Federal and state lawmakers also have proposed a variety of other regulatory limits on carbon emissions and fuel consumption. Compliance with these regulations could increase the cost of new tractors and trailers, impair equipment productivity, and increase operating expenses. These effects, combined with the uncertainty as to the operating results that will be produced by the newly designed diesel engines and the residual values of these vehicles, could increase our costs or otherwise adversely affect our business or operations.

In June 2020 CARB also passed the Advanced Clean Trucks ("ACT") regulation, which became effective in March 2021 and generally requires original equipment manufacturers to begin shifting towards greater production and sales of zero-emission heavy duty tractors starting in 2024. Under ACT, by 2045, every new tractor sold in California will need to be zero-emission. The most aggressive ACT standards apply to Class 4-8 trucks, which range from 14,000-33,000 pounds, by requiring that 9% of such trucks be zero emission beginning in 2024 and increasing to 75% by 2035. Similar (albeit lower) increasing zero emission requirements apply to Class 2b-3 trucks, and Class 7-8 trucks between 2024 and 2035. Among other impacts, ACT could affect the cost and/or supply of traditional diesel tractors. It has also led to similar legislation in other several states with Oregon, Washington, New York, New Jersey, and Massachusetts already adopting ACT, and a number of other states either considering adoption of ACT or affirmatively conducting a preliminary rulemaking process to that effect. In 2023, CARB is also in the process of considering and finalizing finalized what is known as the Advanced Clean Fleets ("ACF") regulation, also aimed at transitioning to zero emission vehicles, beginning which became effective in January 2024. ACF is a purchase requirement for medium and heavy-duty fleets to adopt an increasing percentage of zero emission trucks, designed to complement the sell-side obligations of ACT. The proposed ACF regulations generally set to begin in January 2024, apply to three categories of fleet operators: (1) (i) high priority fleets who meet certain thresholds of trucks or revenue (including fleets that operate 50 or more trucks, or generate \$50 million or more in gross annual revenue), (2) (ii) drayage fleets, and (3) (iii) state and local government public fleets. For high priority fleets who meet the applicable thresholds, compliance can be achieved by either (i) (a) ensuring that all new vehicles added to the fleet be zero emission, and commencing in 2025, removing older vehicles once their statutory useful life is reached, or (ii) (b) meeting certain fleet composition requirements (e.g., percentage of zero emission vehicles in the fleet) by certain dates, with the percentage of zero emission vehicles increasing over time, and resulting in 100% zero emission fleets by 2042 (or earlier for certain classes of vehicles). As with ACT, adoption and implementation of ACF could materially and negatively impact our business by increasing our compliance obligations, operating costs, and related expenses.

The periodic testing portion of California's Clean Truck Check (as a part of CARB's Clean Truck program), known as Phase 3 of the Clean Truck Check, is set to begin in July 2024. Once Phase 3 commences, heavy duty vehicles will be subject to periodic emissions testing.

Additionally, in October 2023, the California State Senate and State Assembly approved two bills, Senate Bill 253 ("SB 253") and Senate Bill 261 ("SB 261"), that could require thousands of companies doing business in California to disclose greenhouse gas ("GHG") emissions and climate-related financial risks, with reporting beginning in 2026. If signed into law, SB 253 would require CARB to adopt regulations before January 2025 requiring public and private companies that exceed \$1 billion in annual revenue and that do business in California to begin publicly disclosing their GHG emissions, and SB 261 would require companies doing business in California and earning revenue exceeding \$500 million to report on their climate-related financial risks and measures taken to mitigate such risks on or before January 2026.

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

Complying with these environmental regulations and any future GHG regulations enacted by CARB, the EPA, the NHTSA and/or any other state or federal governing body has increased and will likely continue to increase the cost of our new tractors, may increase the cost of new trailers, may require us to retrofit certain of our trailers, may increase our maintenance costs, and could impair equipment productivity and increase our operating costs, particularly if such costs are not offset by potential fuel savings. These adverse effects, combined with the uncertainty as to the reliability of the newly designed diesel engines and the residual values of our equipment, could materially increase our costs or otherwise adversely affect our business or operations. We cannot predict, however, the extent to which our operations and productivity will be impacted. We will continue monitoring our compliance with federal and state GHG and other material environmental regulations.

#### Food Safety Regulations

In April 2016, the Food and Drug Administration ("FDA") published a final rule establishing requirements for shippers, loaders, carriers by motor vehicle and rail vehicle, and receivers engaged in the transportation of food, to use sanitary transportation practices to ensure the safety of the food they transport as part of the Food Safety Modernization Act of 2011 (the "FSMA"). This rule sets forth requirements related to (i) the design and maintenance of equipment used to transport food, (ii) the measures taken during food transportation to ensure food safety, (iii) the training of carrier personnel in sanitary food transportation practices, and (iv) maintenance and retention of records of written procedures, agreements, and training related to the foregoing items. These requirements took effect for larger carriers such as us in April 2017 and are applicable when we perform as a carrier or as a broker. We believe we have been in compliance with these requirements since that time. However, if we are found to be in violation of applicable laws or regulations related to the FSMA or if we transport food or goods that are contaminated or are found to cause illness and/or death, we could be subject to substantial fines, lawsuits, penalties and/or criminal and civil liability, any of which could have a material adverse effect on our business, financial condition, and results of operations. Moreover, expenses associated with compliance with these laws and regulations may increase given our 2023 acquisition of LTST, a company primarily involved in poultry-related freight movement.

As the FDA continues its efforts to modernize food safety, it is likely additional food safety regulations will take effect in the future. In July 2020, the FDA released its "New Era of Smarter Food Safety" blueprint, which creates a ten year ten-year roadmap to create a more digital, traceable and safer food system. The Food Traceability Rule is one aspect of the

blueprint and has a compliance date for all parties subject to its recordkeeping requirements of January 20, 2026. In the event the Company becomes subject to any such recordkeeping requirements, compliance costs may increase. This blueprint builds on the work done under the FSMA, and while it is still unclear what, if any, changes to the current governing framework may ultimately take effect, further regulation in this area could negatively affect our business by increasing our compliance obligations and related expenses going forward.

#### Executive and Legislative Climate

In August 2022, the Inflation Reduction Act of 2022 was signed into law by President Biden. Amongst other considerations, the Inflation Reduction Act contains provisions relating to energy, climate change, and tax reform. In particular, the Inflation Reduction Act shifts timing for certain tax payments, imposes an excise tax on certain corporate stock buybacks, and creates a 15% corporate alternative minimum tax, which is generally applicable to corporations that reported over \$1 billion in profits in each of the three preceding tax years. Tax changes in the Inflation Reduction Act, together with changes to any other U.S. tax laws may have an adverse impact on our business and profitability. It is unclear what other legislative initiatives will be signed into law and what changes they may undergo. However, adoption and implementation could negatively impact our business by increasing our compliance obligations and related expenses.

The United States Mexico Canada Agreement ("USMCA") was entered into effect in July 2020. The USMCA is designed to modernize food and agriculture trade, advance rules. In February 2023, the Secretary of origin for automobiles and trucks, and enhance intellectual property protections, among other matters, according to Transportation announced the Office of U.S. Trade Representative. It is difficult to predict at this stage what could be the impact creation of the USMCA on the economy, including the transportation industry. However, given the amount of North American trade that moves by truck, it could have Truck Leasing Task Force ("TLTF"). The TLTF is a significant impact on supply and demand committee tasked with evaluating lease agreements in the transportation industry and their effects on industry participants, including independent contractors. Any future laws or regulations stemming from the TLTF could adversely impact disrupt the amount, movement, Company's leasing practices and patterns of freight we transport cause materially adverse effects on our operations and financial position.

The IIJA was signed into law by President Biden in November 2021. The roughly \$1.2 trillion bill contains an estimated \$550 billion in new spending, which will impact transportation. In particular, it dedicates more than \$100 billion for surface transportation networks and roughly \$66 billion for freight and passenger rail operations. Provisions in the law specific to trucking are discussed above. It otherwise remains unclear how the IIJA will be implemented into and effect affect our industry in the long-term. long term. The IIJA may result in increased compliance and implementation related implementation-related expenses, which could have a negative impact on our operations.

In January 2023, the Safer Highways and Increased Performance for Interstate Trucking Act (the "SHIP IT Act") was introduced into the U.S. House of Representatives. As proposed, the SHIP IT Act would allow states to issue special permits for overweight vehicles and loads during emergencies, allow drivers to apply for Workforce Innovation and Opportunity Act grants, attempt to recruit truck drivers to the industry through targeted and temporary tax credits, streamline the CDL process in certain respects, and expand access to truck parking and rest areas for commercial drivers. It remains unclear whether the SHIP IT Act will ultimately become law, however, and what changes it may undergo prior to finalization.

Given COVID-19's considerable effect on our nation and industry, the FMCSA previously issued and/or extended various temporary responsive measures in response to the COVID-19 pandemic. However, as additional tools, protective equipment, policies, practices, and medicines have been developed in response to COVID-19, in October 2022, the FMCSA ended the hours of service hours-of-service waiver previously issued with respect to certain types of shipments, such as, livestock, medical supplies, vaccines, groceries, and diesel fuel. Although to date these response measures have largely been enacted in order to assist industry participants in operating under adverse circumstances, any further responsive measures or the lapsing of temporary measures previously enacted, remain unclear and could have a negative impact on our operations.

In November 2021 the U.S. Department of Labor's Occupational Safety and Health Administration ("OSHA") published an emergency temporary standard (the "Emergency Rule") requiring all employers with at least 100 employees to ensure that their employees are fully vaccinated. Any similar future outbreak or require any employees who remain unvaccinated to produce a negative COVID-19 test result on at least a weekly basis before coming to work. The Emergency Rule has been blocked by the Supreme Court. This Emergency Rule was subsequently withdrawn by OSHA in January 2022. However, any future vaccination, testing or mask mandates that are allowed to go into effect, could, among other things, (i) cause our unvaccinated employees to go to smaller employers, if such employers are not subject to future mandates, or leave us or the trucking industry, especially our unvaccinated drivers, (ii) result in logistical issues, increased expenses, and operational issues from arranging for weekly tests of our unvaccinated employees, especially our unvaccinated drivers, (iii) result in increased costs for recruiting recruitment and retention of drivers, as well as the cost of weekly testing, and (iv) result in decreased revenue if we are unable to recruit and retain drivers. Any vaccination, testing or mask mandates that apply to drivers would significantly reduce the pool of drivers available to us and our industry, which could further impact the ongoing extreme shortage of available drivers. Accordingly, any vaccination, testing or mask mandates, if allowed to go into effect, could have a material adverse effect on our business, financial condition, and results of operations.

#### Fuel Availability and Cost

The cost of fuel trended higher lower in 2022 2023 as compared to 2021, 2022, as demonstrated by an increase a decrease in the Department of Energy ("DOE") national average for diesel to approximately \$4.21 per gallon for 2023, compared to \$4.99 per gallon for 2022, compared to \$3.29 per gallon for 2021, 2022. There were no fuel hedging gains in 2022, compared to \$0.4 million of gains in 2021, 2023 or 2022.

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

To reduce the variability of the ultimate cash flows associated with fluctuations in diesel fuel prices, we have periodically entered into various derivative instruments, including forward futures swap contracts. We have historically entered into hedging contracts with respect to ultra-low sulfur diesel ("ULSD"). Under these contracts, we would pay a fixed rate per gallon of ULSD and receive the monthly average price of Gulf Coast ULSD. Because the fixed price is determined based on market prices at the time we enter into the hedge, in times of increasing fuel prices the hedge contracts become more valuable, whereas in times of decreasing fuel prices the opposite is true. We had no fuel hedging contracts at **December 31, 2022** **December 31, 2023** or **December 31, 2021** **December 31, 2022**.

#### Seasonality

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

#### Additional Information

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

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

#### ITEM 1A. RISK FACTORS

Our future results may be affected by a number of factors over which we have little or no control. The following discussion of risk factors contains forward-looking statements as discussed in Item 1 above. The following issues, uncertainties, and risks, among others, should be considered in evaluating our business and growth outlook.

#### **STRATEGIC RISKS**

Our business is subject to economic, credit, business, and regulatory factors affecting the truckload industry that are largely beyond our control, any of which could have a materially adverse effect on our operating results.

The truckload industry is highly cyclical, and our business is dependent on a number of factors that may have a materially adverse effect on our results of operations, many of which are beyond our control. We believe that some of the most significant of these factors include (i) recessionary economic cycles; (ii) changes in customers' inventory levels and practices, including shrinking product/package sizes, and in the availability of funding for their working capital; (iii) changes in the way our customers choose to utilize our services; (iv) downturns in our customers' business cycles, including declines in consumer spending, (v) excess trucking capacity in comparison with shipping demand, (vi) driver shortages and increases in driver's compensation, (vii) industry compliance with ongoing regulatory requirements, (viii) the availability and price of new revenue equipment and/or declines in the resale value of used revenue equipment; (ix) the impact of the COVID-19 outbreak; public health crises, epidemics, pandemics or similar events, such as COVID-19; (x) compliance with ongoing regulatory requirements; (xi) strikes, work stoppages or work slowdowns at our facilities, or at customer, port, border crossing or other shipping-related facilities; facilities, including related reductions in demand; (xii) increases in interest rates, inflation, fuel taxes, insurance, tolls, and license and registration fees; and (xiii) rising costs of healthcare.

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

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

We are also subject to potential increases in various costs and other events that are outside our control that could materially reduce our profitability if we are unable to increase our rates sufficiently. Further, we may not be able to appropriately adjust our costs and staffing levels to changing market demands.

In addition, events outside our control, such as deterioration of U.S. transportation infrastructure and reduced investment in such infrastructure, further developments in the public health crises, epidemics, pandemics, or similar event, such as COVID-19, outbreak, strikes or other work stoppages at our facilities or at customer, port, border or other shipping locations, armed conflicts, including the conflict conflicts in Ukraine and the Middle East, terrorist attacks, efforts to combat terrorism, military action against a foreign state or group located in a foreign state or heightened security requirements could lead to wear, tear and damage to our equipment, driver dissatisfaction, reduced economic demand and freight volumes, reduced availability of credit, increased prices for fuel, or temporary closing of the shipping locations or U.S. borders. Such events or enhanced security measures in connection with such events could impair our operating efficiency and productivity and result in higher operating costs.

We may not be successful in achieving our strategic plan.

Our initiatives include continuing to improve the durability of contracts in our Expedited and Dedicated reportable segments, growing our Warehousing Dedicated reportable segment, including investments in capacity within the Warehousing reportable segment, with new poultry related business, delivering more consistent returns for our stockholders, increasing operating income and margins in each of our segments, improving profitability, and reducing costs and inefficiencies. Such initiatives will require time, management and financial resources, changes in our operations and sales functions, and monitoring and implementation of technology. We may be unable to effectively and successfully implement, or achieve sustainable improvement from, our strategic plan and initiatives or achieve these objectives. In addition, our operating margins could be adversely affected by future changes in and expansion of our business. Further, our operating results may be negatively affected by a failure to further penetrate our existing customer base, cross-sell our services, pursue new customer opportunities, or manage the operations and expenses. There is no assurance that we will be successful in achieving our strategic plan and initiatives. Even if we are successful in achieving our strategic plan and initiatives, we still may not achieve our goals. If we are unsuccessful in implementing our strategic plan and initiatives, our financial condition, results of operations, and cash flows could be adversely affected.

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

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

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

While we review and monitor the financial condition of our key customers on an ongoing basis to determine whether to provide services on credit, our customers' financial difficulties could nevertheless negatively impact our results of operations and financial condition, especially if these customers were to delay or default on payments to us.

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

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

- we compete with many other truckload carriers of varying sizes and, to a lesser extent, with (i) less-than-truckload carriers, (ii) railroads, intermodal companies, and (iii) other transportation and logistics companies, many of which have access to more equipment and greater capital resources than we do;
- many of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth in the economy, which may limit our ability to maintain or increase freight rates or to maintain or expand our business or may require us to reduce our freight rates in order to maintain business and keep our equipment productive;
- many of our customers, including several in our top ten, are other transportation companies or also operate their own private trucking fleets, and they may decide to transport more of their own freight;
- we may increase the size of our fleet during periods of high freight demand during which our competitors also increase their capacity, and we may experience losses in greater amounts than such competitors during subsequent cycles of softened freight demand if we are required to dispose of assets at a loss to match reduced customer demand;
- a significant portion of our business is in the retail industry, which continues to undergo a shift away from the traditional brick and mortar model towards e-commerce, and this shift could impact the manner in which our customers source or utilize our services;
- many customers reduce the number of carriers they use by selecting so-called "core carriers" as approved service providers or by engaging dedicated providers, and we may not be selected;
- the trend toward consolidation in the trucking industry may create large carriers with greater financial resources and other competitive advantages relating to their size, and we may have difficulty competing with these larger carriers;
- the market for qualified drivers is increasingly competitive, and our inability to attract and retain drivers could reduce our equipment utilization or cause us to increase compensation to our drivers and independent contractors we engage, both of which would adversely affect our profitability;
- competition from freight logistics and freight brokerage companies may adversely affect our customer relationships and freight rates;
- the Covenant brand name is a valuable asset that is subject to the risk of adverse publicity (whether or not justified), which could result in the loss of value attributable to our brand and reduced demand for our services; and
- advances in technology may require us to increase investments in order to remain competitive, and our customers may not be willing to accept higher freight rates to cover the cost of these investments.

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

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

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

changes in and expansion of our business.

Should the growth in our operations stagnate or decline, our results of operations could be adversely affected. We may encounter operating conditions in new markets, as well as our current markets, that differ substantially from our current operations, and customer relationships and appropriate freight rates in new markets could be challenging to attain.

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

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

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

The conflict between Russia conflicts in Ukraine and Ukraine, the Middle East, expansion of such conflict conflicts to other areas or countries or similar conflicts could adversely impact our business and financial results.

Although we do not have any direct operations in Russia, Belarus, Ukraine, or Ukraine, the Middle East, we may be affected by the broader consequences of the Russia and conflicts in Ukraine conflict or the Middle East or expansion of such conflict conflicts to other areas or countries or similar conflicts elsewhere, such as, increased inflation, supply chain issues, including access to parts for our revenue equipment, embargoes, geopolitical shift, access to diesel fuel, higher energy prices, potential retaliatory action by the Russian or other governments, including cyber-attacks, and the extent of the conflict's effect on the global economy. The magnitude of these risks cannot be predicted, including the extent to which the conflict may heighten other risks disclosed herein. Ultimately, these or other factors could materially and adversely affect our results of operations.

## **COMPLIANCE RISKS**

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

Our business is subject to the risk of litigation by employees, independent contractors, customers, vendors, government agencies, stockholders, and other parties through private actions, class actions, administrative proceedings, regulatory actions, and other processes. Recently, trucking companies, including us, have been and currently are subject to lawsuits, including class action lawsuits, alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal breaks, rest periods, overtime eligibility, and failure to pay for all hours worked. A number of these lawsuits have resulted in the payment of substantial settlements or damages by the defendants. We operate a business that hauls arms, ammunitions, and explosives that could increase our exposure if there were an accident involving this freight.

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

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

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

Our business results in a substantial number of claims and litigation related to personal injuries, property damage, workers' compensation, employment issues, health care, and other issues. We self-insure a significant portion of our claims exposure, which could increase the volatility of, and decrease the amount of, our earnings, and could have a



materially adverse effect on our results of operations. See Note 1, "Summary of Significant Accounting Policies," of the accompanying consolidated financial statements for more information regarding our self-insured retention amounts. Our future insurance and claims expenses may exceed historical levels, which could reduce our earnings. We currently accrue amounts for liabilities based on our assessment of claims that arise and our insurance coverage for the periods in which the claims arise, and we evaluate and revise these accruals from time to time based on additional information. Actual settlement of such liabilities could differ from our estimates due to a number of uncertainties, including evaluation of severity, legal costs, and claims that have been incurred but not reported. Due to our significant self-insured amounts, we have significant exposure to fluctuations in the number and severity of claims and the risk of being required to accrue or pay additional amounts if our estimates are revised or the claims ultimately prove to be more severe than originally assessed. Historically, we have had to significantly adjust our reserves on several occasions, and future significant adjustments may occur. Further, our self-insured retention levels could change and result in more volatility than in recent years. If we are required to accrue or pay additional amounts because our estimates are revised or the claims ultimately prove to be more severe than originally assessed or if our self-insured retention levels change, our financial condition and results of operations may be materially adversely affected. We maintain insurance for most risks above the amounts for which we self-insure with licensed insurance carriers. If any claim were to exceed our coverage, or fall outside the aggregate coverage limit, we would bear the excess or uncovered amount, in addition to our other self-insured amounts. Insurance carriers have recently raised premiums for our industry, and premiums in the near term are expected to continue to increase. Our insurance and claims expense could increase if we have a similar experience at renewal, or we could find it necessary to raise our self-insured retention or decrease our aggregate coverage limits when our policies are renewed or replaced. Additionally, with respect to our insurance carriers, the industry is experiencing a decline in the number of carriers and underwriters that offer certain insurance policies or that are willing to provide insurance for trucking companies, and the necessity to go off-shore for insurance needs has increased. This may materially adversely affect our insurance costs or make insurance in excess of our self-insured retention more difficult to find, as well as increase our collateral requirements for policies that require security. Should these expenses increase, we become unable to find excess coverage in amounts we deem sufficient, we experience a claim in excess of our coverage limits, we experience a claim for which we do not have coverage, or we have to increase our reserves or collateral, there could be a materially adverse effect on our results of operations and financial condition.

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

**Our self-insurance for auto liability claims and our use of captive insurance companies could adversely impact our operations.**

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

Our captive insurance companies are regulated by state authorities. State regulations generally provide protection to policy holders, rather than stockholders. Such regulations may increase our costs, limit our ability to change premiums, restrict our ability to access cash held by these subsidiaries, and otherwise impede our ability to take actions we deem advisable.

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

We have experienced, and may experience additional, erosion of available limits in our aggregate insurance policies. Furthermore, we may experience additional expense to reinstate insurance policies due to liability claims.

Our insurance program includes multi-year policies with specific insurance limits that may be eroded over the course of the policy term. If that occurs, we will be operating with less liability coverage insurance at various levels of our insurance tower. For discussion regarding the erosion of the \$9.0 million in excess of \$1.0 million coverage layer for the policy period that ran from April 1, 2018 to March 31, 2021, please see "Insurance and claims" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Also, we may face mandatory reinstatement charges for expired policies due to liability claims. In the event of such developments, we may experience additional expense accruals, increased insurance and claims expenses, and greater volatility in our insurance and claims expenses, which could have a material adverse effect on our business, financial condition, and results of operations.

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

We, our drivers, and our equipment are regulated by the DOT, the EPA, the DHS, the U.S. Department of Defense, and other agencies in states in which we operate. The sections of Environmental and Other Regulation included in "Regulation" under "Item 1. Business" discuss several proposed, pending, suspended, and final regulations that could materially impact our business and operations. Our 2022 acquisition of an arms, ammunitions, and explosives carrier requires us to meet stringent rules relating to those operations and failure to comply could result in loss of all business purchased and our related investment. Future laws and regulations may be more stringent, require changes in our operating practices, influence the demand for transportation services or require us to incur significant additional costs. Higher costs incurred by us, or by our suppliers who pass the costs onto us through higher supplies and materials pricing, or liabilities we may incur related to our failure to comply with existing or future regulations could adversely affect our results of operations.

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

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

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

We face the risk that Congress, federal agencies or one or more states could approve legislation or regulations significantly affecting our businesses and our relationship with our employees which would have substantially liberalized the procedures for union organization. None of our domestic employees are currently covered by a collective bargaining agreement, but any attempt by our employees to organize a labor union could result in increased legal and other associated costs. Additionally, given the National Labor Relations Board's "speedy election" rule, our ability to timely and effectively address any unionizing efforts would be difficult. If we entered into a collective bargaining agreement with our domestic employees, the terms could materially adversely affect our costs, efficiency, and ability to generate acceptable returns on the affected operations. Failure to comply with existing or future labor and employment laws could have a materially adverse effect on our business and operating results. For further discussion of the labor and employment laws, please see "Regulation" under "Item 1, Business."

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

Under CSA, fleets are evaluated and ranked against their peers based on certain safety-related standards. As a result, our fleet could be ranked poorly as compared to peer carriers, which could have an adverse effect on our business, financial condition, and results of operations. We recruit and retain first-time drivers to be part of our fleet, and these drivers may have a higher likelihood of creating adverse safety events under CSA. The occurrence of future deficiencies could affect driver recruitment by causing high-quality drivers to seek employment with other carriers, limit the pool of available drivers, or could cause our customers to direct their business away from us and to carriers with higher fleet safety rankings, either of which would adversely affect our results of operations. Further, we may incur greater than expected expenses in our attempts to improve unfavorable scores.

Certain of our subsidiaries are currently exceeding the established intervention thresholds in a number of the seven CSA safety-related categories. Based on these unfavorable ratings, we may be prioritized for an intervention action or roadside inspection, either of which could adversely affect our results of operations. In addition, customers may be less likely to assign loads to us. For further discussion of the CSA program, please see "Regulation" under "Item 1, Business.". Insofar as any changes in the CSA Program increase the likelihood of us receiving unfavorable scores or mandate FMCSA to restore public access to scores, it could adversely affect our results of operation and profitability.

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

All of our motor carriers currently have a satisfactory DOT safety rating, which is the highest available rating under the current safety rating scale. If any of our motor carriers receive a conditional or unsatisfactory rating, certain provisions in customer contracts could allow the customer to reduce or terminate their relationship, it could affect our insurance costs and our ability to self-insure for personal injury and property damage relating to the transportation of freight, and it could materially adversely affect our business, financial condition, and results of operations. For further discussion of the DOT safety rating, please see "Regulation" under "Item 1, Business."

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

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



Governmental agencies continue to enact more stringent laws and regulations to reduce engine emissions. These laws and regulations are applicable to engines used in our revenue equipment. We have incurred and continue to incur costs related to the implementation of these more rigorous laws and regulations. Additionally, in certain locations governments have banned or may in the future ban internal combustion engines for some types of vehicles. To the extent these bans affect our revenue equipment, we may be forced to incur substantial expense to retrofit existing engines or make capital expenditures to update our fleet. As a result, our business, results of operations, and financial condition could be negatively affected.

For further discussion of environmental laws and regulations, please see "Regulation" under "Item 1. Business."

Changes to trade regulation, quotas, duties, or tariffs, caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs and materially adversely affect our business.

The imposition of additional tariffs or quotas or changes to certain trade agreements, including tariffs applied to goods traded between the United States and China, could, among other things, increase the costs of the materials used by our suppliers to produce new revenue equipment or increase the price of fuel. Such cost increases for our revenue equipment suppliers would likely be passed on to us, and to the extent fuel prices increase, we may not be able to fully recover such increases through rate increases or our fuel surcharge program, either of which could have a material adverse effect on our business.

Regulatory changes related to climate change could increase our costs significantly.

To the extent regulatory changes continue related to climate change, we could incur significant costs to our operation, mainly centered around our revenue producing equipment and our warehousing operations. We are not able to accurately predict the materiality of any potential losses or costs. Concern over climate change, including the impact of global warming, has led to significant legislative and regulatory efforts to limit carbon and other greenhouse gas emissions. Emission-related regulatory actions have historically resulted in increased costs related to revenue equipment, diesel fuel, equipment maintenance, and environmental monitoring or reporting requirements, and future legislation, if any, could impose substantial costs that may adversely affect our results of operations. In addition, any such legislation may require changes in our operating practices, impair equipment productivity, or require additional reporting disclosures, and compliance with any such legislation may increase our risk of litigation or governmental investigations or proceedings.

**Increasing attention on environmental, social and governance ("ESG") matters may have a negative impact on our business, impose additional costs on us, and expose us to additional risks.**

Companies are facing increasing attention from stakeholders relating to ESG matters, including environmental stewardship, social responsibility, and diversity and inclusion. Organizations that provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their approach to ESG matters. Such ratings are used by some investors to inform their investment and voting decisions. Unfavorable ESG ratings may lead to negative investor sentiment toward the Company, which could have a negative impact on our stock price.

In 2022, we published our Corporate Social Responsibility Report. This report reflects some of our initiatives and is not a guarantee that we will be able to achieve them. Our ability to successfully execute these initiatives and accurately report our progress presents numerous operational, financial, legal, reputational and other risks, many of which are outside our control, and all of which could have a material negative impact on our business. Additionally, the implementation of these initiatives imposes additional costs on us. If our ESG initiatives fail to satisfy our stakeholders, then our reputation, our ability to attract or retain employees, and our attractiveness as an investment and business partner could be negatively impacted. Similarly, our failure, or perceived failure, to pursue or fulfill our goals, targets and objectives or to satisfy various reporting standards within the timelines we announce, or at all, could also have similar negative impacts and expose us to government enforcement actions and private litigation.

#### **OPERATIONAL COMPLIANCE RISKS**

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

Our business is subject to the risk of litigation by employees, independent contractors, customers, vendors, government agencies, stockholders, and other parties through private actions, class actions, administrative proceedings, regulatory actions, and other processes. Recently, trucking companies, including us, have been and currently are subject to lawsuits, including class action lawsuits, alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal breaks, rest periods, overtime eligibility, and failure to pay for all hours worked. A number of these lawsuits have resulted in **driver compensation** the payment of substantial settlements or **difficulties attracting** damages by the defendants. We operate a business that hauls arms, ammunitions, and **retaining qualified drivers** explosives that could increase our exposure if there were an accident involving this freight.

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

Like many truckload carriers, we experience substantial difficulty in attracting and retaining sufficient numbers of qualified drivers, which includes the engagement of independent contractors. The truckload industry periodically experiences a shortage of qualified drivers, particularly during periods of economic expansion, in which alternative employment opportunities, including in the construction and manufacturing industries, are more plentiful and freight demand increases, or during periods of economic downturns, in which unemployment benefits might be extended and financing is limited for independent contractors who seek to purchase equipment or for students who seek financial aid for driving school. Furthermore, capacity at driving schools may be limited by future outbreaks of COVID-19 or other similar outbreaks. Regulatory requirements, including those related to safety ratings, ELDs, hours-of-service changes, government imposed measures related to future outbreaks of COVID-19 or other similar outbreaks, and an improved economy could further reduce the number of eligible drivers or force us to increase driver compensation to attract and retain drivers. We have seen evidence that stricter hours-of-service regulations adopted by the DOT in the past have tightened, and, to the extent new regulations are enacted, may continue to tighten, the market for eligible drivers. The lack of adequate tractor parking along some U.S. highways and congestion caused by inadequate highway funding may make it more difficult for drivers to comply with hours-of-service

regulations and cause added stress for drivers, further reducing the pool of eligible drivers. Further, the compensation we offer our drivers and independent contractor expenses are subject to market conditions, and we may find it necessary to increase driver and independent contractor compensation in future periods.

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

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

As independent business owners, independent contractors may make business or personal decisions that may conflict with our best interests. For example, if a load is unprofitable, route distance is too far from home, personal scheduling conflicts arise, or for other reasons, independent contractors may deny loads of freight from time to time. Additionally, independent contractors may be unable to obtain or retain equipment financing, which could affect their ability to continue to act as a third-party service provider for the Company. In these circumstances, we must be able to deliver the freight timely in order to maintain relationships with customers, and if we fail to meet certain customer needs or incur increased expenses to do so, this could materially adversely affect our relationship with customers and our results of operations, insurance costs.

We provide financing to certain qualified independent contractors. If we are unable to provide such financing in the future, due to liquidity constraints or other restrictions, we may experience a decrease in the number of independent contractors we are able to engage. Further, if independent contractors we engage default under or otherwise terminate the financing arrangement and we are unable to find a replacement independent contractor or seat the tractor with a company driver, we may incur losses on amounts owed to us with respect to the tractor.

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

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

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

A significant portion We maintain insurance for most risks above the amounts for which we self-insure with licensed insurance carriers. If any claim were to exceed our coverage, or fall outside the aggregate coverage limit, we would bear the excess or uncovered amount, in addition to our other self-insured amounts. Insurance carriers have recently raised premiums for our industry, and premiums in the near term are expected to continue to increase. Our insurance and claims expense could increase if we have a similar experience at renewal, or we could find it necessary to raise our self-insured retention or decrease our aggregate coverage limits when our policies are renewed or replaced. Additionally, with respect to our insurance carriers, the industry is experiencing a decline in the number of carriers and underwriters that offer certain insurance policies or that are willing to provide insurance for trucking companies, and the necessity to go off-shore for insurance needs has increased. This may materially adversely affect our insurance costs or make insurance in excess of our revenues is generated from self-insured retention more difficult to find, as well as increase our collateral requirements for policies that require security. Should these expenses increase, we become unable to find excess coverage in amounts we deem sufficient, we experience a small number of major customers. A substantial portion claim in excess of our freight is from customers in the retail industry. As such, our volumes are largely dependent on consumer spending and retail sales, and our results may be more susceptible to trends in unemployment and retail sales than carriers that coverage limits, we experience a claim for which we do not have this concentration, coverage, or we have to increase our reserves or collateral, there could be a materially adverse effect on our results of operations and financial condition.

Our auto liability insurance policy contains a provision under which we have the option, on a retroactive basis, to assume responsibility for the entire cost of covered claims during the policy period in exchange for a refund of a portion of the premiums we paid for the policy. This is referred to as "commuting" the policy. We have elected to commute policies on

several occasions in the past. In addition, our major customers engage in bid processes exchange, we have assumed the risk for all claims during the years for the policies commuted. Our subsequent payouts for the claims assumed have been less than the refunds. We expect the total refunds to exceed the total payouts; however, not all of the claims have been finally resolved and other activities periodically (including currently) in an attempt to lower their costs we cannot assure you of transportation, the result. We may not choose continue to participate commute policies for certain years in these bids the future. To the extent we do so, and one or if we participate, may not be awarded the freight, either of which could more claims result in a reduction of large payouts, we will not have insurance, and our freight volumes with these customers. In this event, we could be required to replace the volumes elsewhere at uncertain rates and volumes, suffer reduced equipment utilization, or reduce the size of our fleet. Failure to retain our existing customers, or enter into relationships with new customers, each on acceptable terms, could materially impact our business, financial condition, results of operations, operation, and liquidity could be materially and adversely affected.

**Our self-insurance for auto liability claims and our use of captive insurance companies could adversely impact our operations.**

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

Our captive insurance companies are regulated by state authorities. State regulations generally provide protection to policy holders, rather than stockholders. Such regulations may increase our costs, limit our ability to meet change premiums, restrict our current ability to access cash held by these subsidiaries, and long-term financial forecasts, otherwise impede our ability to take actions we deem advisable.

Generally, we do not have contractual relationships that guarantee any minimum volumes To comply with certain state insurance regulatory requirements, cash and cash equivalents must be paid to our customers, captive insurance subsidiary as capital investments and there can be no assurance that our customer relationships will continue as presently in effect. Our business with the Department of Defense is not subject to a contract, requires significant compliance work, and insurance premiums, which could be terminated at any time. Our Dedicated reportable segment is typically subject to longer term written contracts than our other reportable segments. However, certain restricted as collateral for anticipated losses. Significant future increases in the amount of these contracts contain cancellation clauses, including our "evergreen" contracts, which automatically renew for one year terms but that can be terminated more easily. There is no assurance any of our customers, including our Dedicated customers, will continue to utilize our services, renew our existing contracts, or continue at the same volume levels. For our multi-year collateral required by third-party insurance carriers and Dedicated contracts, the rates we charge may not remain advantageous. Further, despite the existence of contractual arrangements, certain of our customers may nonetheless engage in competitive bidding processes that could negatively impact our contractual relationship. In addition, certain of our major customers may increasingly use their own truckload and delivery fleets, which regulators would reduce our freight volumes. A reduction liquidity and could adversely affect our results of operations and capital resources.

We have experienced, and may experience additional, erosion of available limits in or termination our aggregate insurance policies. Furthermore, we may experience additional expense to reinstate insurance policies due to liability claims.

Our insurance program includes multi-year policies with specific insurance limits that may be eroded over the course of the policy term. If that occurs, we will be operating with less liability coverage insurance at various levels of our services by one or more insurance tower. For discussion regarding the erosion of the \$9.0 million in excess of \$1.0 million coverage layer for the policy period that ran from April 1, 2018 to March 31, 2021, please see "Insurance and claims" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Also, we may face mandatory reinstatement charges for expired policies due to liability claims. In the event of such developments, we may experience additional expense accruals, increased insurance and claims expenses, and greater volatility in our major customers, including our Dedicated customers, insurance and claims expenses, which could have a material adverse effect on our business, financial condition, and results of operations.

While we review We operate in a highly regulated industry, and monitor the financial condition changes in existing regulations or violations of our key customers on an ongoing basis to determine whether to provide services on credit, our customers' financial difficulties could nevertheless negatively impact our results of operations and financial condition, especially if these customers were to delay existing or default on payments to us.

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

Fuel is one We, our drivers, and our equipment are regulated by the DOT, the EPA, the DHS, the U.S. Department of our largest operating expenses. Diesel fuel prices fluctuate greatly due to factors beyond our control, such as political events, terrorist activities, armed conflicts, commodity futures trading, devaluation of the dollar against other currencies, weather events Defense, and other natural disasters, agencies in states in which we operate. The sections of Environmental and Other Regulation included in "Regulation" under "Item 1. Business" discuss several proposed, pending, suspended, and final regulations that could increase materially impact our business and operations. Our 2022 acquisition of an arms, ammunitions, and explosives carrier requires us to meet stringent rules relating to those operations and failure to comply could result in frequency loss of all business purchased and severity due to climate change, as well as other man-made disasters, each of which our related investment. Future laws and regulations may lead to an increase be more stringent, require changes in our operating practices, influence the cost of fuel. Fuel prices also are affected by the rising demand for fuel in developing countries transportation services or require us to incur significant additional costs. Higher costs incurred by us, or by our suppliers who pass the costs onto us through higher supplies and could be materially adversely affected by the use of crude oil and oil reserves for purposes other than fuel production and by diminished drilling activity. Such events materials pricing, or liabilities we may lead not only incur related to increases in fuel prices, but also our failure to fuel shortages and disruptions in the fuel supply chain. In 2022, certain regions of the United States experienced short-term shortages of diesel fuel. Because our operations are dependent upon diesel fuel, significant diesel fuel cost increases, as well as

widespread comply with existing or long-term shortages, rationings, or supply disruptions of diesel fuel, would materially and future regulations could adversely affect our business, financial condition, and results of operations.

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

From time to time, we use hedging contracts and volume purchase arrangements to attempt to limit the effect of price fluctuations. In times of falling diesel fuel prices, such arrangements could cause costs to not be reduced to the same extent as they would be reduced in the absence of such arrangements and such arrangements may require significant cash payments.

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

Our Managed Freight reportable segment is dependent upon the services of third-party capacity providers, including other truckload carriers. For this business, we do not own or control the transportation assets that deliver our customers' freight, and we do not employ the people directly involved in delivering the freight. This reliance could also cause delays in reporting certain events, including recognizing revenue and claims. These third-party providers may seek other freight opportunities and may require increased compensation in times of improved freight demand or tight truckload capacity. If we are unable to secure the services of these third parties or if we become subject to increases in the prices we must pay to secure such services, employees, our business, financial condition, and results of operations may could be materially adversely affected, affected.

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

Developments in labor and employment law and any unionizing efforts by many risks beyond our control, including equipment shortages increased equipment prices, interruptions in service due to labor disputes, driver shortages, changes in regulations impacting transportation, and changes in transportation rates.

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

We depend heavily on face the proper functioning, availability, risk that Congress, federal agencies or one or more states could approve legislation or regulations significantly affecting our businesses and security our relationship with our employees which would have substantially liberalized the procedures for union organization. None of our management information and communication systems and other information technology assets, including financial reporting and operating systems and the data contained in such systems and assets, in operating domestic employees are currently covered by a collective bargaining agreement, but any attempt by our business. Our operating system is critical employees to

understanding customer demands, accepting and planning loads, dispatching equipment and drivers, and billing and collecting for our services. Our financial reporting system is critical to producing accurate and timely financial statements and analyzing business information to help us manage effectively. Furthermore, data privacy laws, which provide data privacy rights for consumers and operational requirements for companies, may organize a labor union could result in increased liability legal and amplified compliance other associated costs. Additionally, given the National Labor Relations Board's "speedy election" rule, our ability to timely and monitoring effectively address any unionizing efforts would be difficult. If we entered into a collective bargaining agreement with our domestic employees, the terms could materially adversely affect our costs, any of which efficiency, and ability to generate acceptable returns on the affected operations. Failure to comply with existing or future labor and employment laws could have a material materially adverse effect on our financial performance business and business operations, operating results. For further discussion of the labor and employment laws, please see "Regulation" under "Item 1. Business."

**Our** The CSA program adopted by the FMCSA could adversely affect our profitability and operations, our ability to maintain or grow our fleet, and our customer relationships. Under CSA, fleets are evaluated and ranked against their peers based on certain safety-related standards. As a result, our fleet could be ranked poorly as compared to peer carriers, which could have an adverse effect on our business, financial condition, and results of operations. We recruit and retain first-time drivers to be part of our fleet, and these drivers may have a higher likelihood of creating adverse safety events under CSA. The occurrence of future deficiencies could affect driver recruitment by causing high-quality drivers to seek employment with other carriers, limit the pool of available drivers, or could cause our customers to direct their business away from us and to carriers with higher fleet safety rankings, either of which would adversely affect our results of operations. Further, we may incur greater than expected expenses in our attempts to improve unfavorable scores.

Certain of our subsidiaries are currently exceeding the established intervention thresholds in a number of the seven CSA safety-related categories. Based on these unfavorable ratings, we may be prioritized for an intervention action or roadside inspection, either of which could adversely affect our results of operations. In addition, customers may be less likely to assign loads to us. For further discussion of the CSA program, please see "Regulation" under "Item 1. Business.". Insofar as any changes in the CSA Program increase the likelihood of us receiving unfavorable scores or mandate FMCSA to restore public access to scores, it could adversely affect our results of operation and profitability.

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

All of our technology and communications service providers are vulnerable to interruption by natural disasters, such as fires, storms, and floods, motor carriers currently have a satisfactory DOT safety rating, which may increase in frequency and severity due to climate change, as well as, power loss, telecommunications failure, cyberattacks, terrorist attacks, Internet failures, computer viruses, and other events beyond our control. More sophisticated and frequent cyberattacks in recent years have also increased security risks associated with information technology systems. We also maintain information security policies to protect our systems, networks, and other information technology assets (and is the data contained therein) from cybersecurity breaches and threats, such as hackers, malware, and viruses; however, such policies cannot ensure highest available rating under the protection of our systems, networks, and other information technology assets (and the data contained therein). In addition, remote or flexible work options for our employees could create increased demand for information technology resources and increase the avenues for unauthorized access to sensitive information, phishing, and other cyberattacks. current safety rating scale. If any of our critical information systems fail motor carriers receive a conditional or become otherwise unavailable, whether as a result of a system upgrade project unsatisfactory rating, certain provisions in customer contracts could allow the customer to reduce or otherwise, we would have to perform the functions manually, which terminate their relationship, it could temporarily impact affect our insurance costs and our ability to manage self-insure for personal injury and property damage relating to the transportation of freight, and it could materially adversely affect our fleet efficiently, business, financial condition, and results of operations. For further discussion of the DOT safety rating, please see "Regulation" under "Item 1. Business."

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

In addition to respond direct regulation under the DOT and related agencies, we are subject to customers' requests effectively, various environmental laws and regulations dealing with the hauling and handling of hazardous materials, fuel storage tanks, air emissions from our vehicles and facilities, and discharge and retention of storm water. Our tractor terminals often are located in industrial areas where groundwater or other forms of environmental contamination may have occurred or could occur. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. We also maintain above-ground bulk fuel storage tanks and fueling islands at several of our facilities. A small percentage of our freight consists of low-grade hazardous substances, which subjects us to maintain billing a wide array of regulations. Although we have instituted programs to monitor and other records reliably, control environmental risks and to bill for services promote compliance with applicable environmental laws and prepare financial statements accurately or regulations, if we are involved in a timely manner. Our business interruption insurance may be inadequate to protect us in the event of an unforeseeable and extreme catastrophe. Any significant system failure, upgrade complication, security breach (including cyberattacks), spill or other system disruption could interrupt accident involving hazardous substances, if there are releases of hazardous substances we transport, if soil or delay groundwater contamination is found at our facilities or results from our operations, damage our reputation, cause us or if we are found to lose customers, be in violation of applicable laws or impact our ability regulations, we could be subject to manage our operations cleanup costs and report our financial performance, liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business. In addition, business and operating results.

Governmental agencies continue to enact more stringent laws and regulations to reduce engine emissions. These laws and regulations are applicable to engines used in our revenue equipment. We have incurred and continue to incur costs related to the implementation of these more rigorous laws and regulations. Additionally, in certain locations governments have banned or may in the future ban internal combustion engines for some types of vehicles. To the extent these bans affect our revenue equipment, we are currently dependent on a single vendor to support several information technology functions. If the stability or capability of such vendor became compromised and we were may be forced to migrate such functions incur substantial expense to retrofit existing engines or make capital expenditures to update our fleet. As a new platform, it could adversely affect result, our business, financial condition, and results of operations.

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

**We are dependent upon** For further discussion of environmental laws and regulations, please see "Regulation" under "Item 1. Business."



Changes to trade regulation, quotas, duties, or tariffs, caused by the services of our executive management team changing U.S. and other key personnel. Turnover, planned geopolitical environments or otherwise, in these or other key leadership positions may increase our costs and materially adversely affect our ability business. The imposition of additional tariffs or quotas or changes to manage certain trade agreements, including tariffs applied to goods traded between the United States and China, could, among other things, increase the costs of the materials used by our business efficiently suppliers to produce new revenue equipment or increase the price of fuel. Such cost increases for our revenue equipment suppliers would likely be passed on to us, and effectively, and to the extent fuel prices increase, we may not be able to fully recover such turnover can be disruptive and distracting to management, may lead to additional departures increases through rate increases or our fuel surcharge program, either of existing personnel, and which could have a material adverse effect on our operations and future profitability. We must continue to develop and retain a core group of managers and attract, develop, and retain sufficient additional managers if we are to continue to improve our profitability and have appropriate succession planning for key management personnel. business.

**Seasonality** Regulatory changes related to climate change could increase our costs significantly.

To the extent regulatory changes continue related to climate change, we could incur significant costs to our operation, mainly centered around our revenue producing equipment and our warehousing operations. We are not able to accurately predict the materiality of any potential losses or costs. Concern over climate change, including the impact of weather global warming, has led to significant legislative and regulatory efforts to limit carbon and other catastrophic events greenhouse gas emissions. Emission-related regulatory actions have historically resulted in increased costs related to revenue equipment, diesel fuel, equipment maintenance, and environmental monitoring or reporting requirements, and future legislation, if any, could impose substantial costs that may adversely affect our operations results of operations. In addition, any such legislation may require changes in our operating practices, impair equipment productivity, or require additional reporting disclosures, and profitability, compliance with any such legislation may increase our risk of litigation or governmental investigations or proceedings.

Our tractor productivity decreases during the winter season because inclement weather impedes operations. Increasing attention on environmental, social and some shippers reduce their shipments after the winter holiday season. Our Expedited reportable segment has historically experienced a greater reduction in first quarter demand than our other operations, however, this trend has lessened following the growth of AAT, which is part of the Expedited reportable segment, and our work with long-term customers to improve the stability of contracted capacity in our Expedited fleet. Revenue also can be affected by bad weather, holidays and the number of business days that occur during a given period, since revenue is directly related to available working days of shippers. At the same time, operating expenses increase and fuel efficiency declines because of engine idling and harsh weather creating higher accident frequency, increased claims, and more equipment repairs. In addition, many of our customers, particularly those in the retail industry where we governance ("ESG") matters may have a large presence, demand negative impact on our business, impose additional capacity during costs on us, and expose us to additional risks.

Companies are facing increasing attention from stakeholders relating to ESG matters, including environmental stewardship, social responsibility, and diversity and inclusion. Organizations that provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their approach to ESG matters. Such ratings are used by some investors to inform their investment and voting decisions. Unfavorable ESG ratings may lead to negative investor sentiment toward the fourth quarter, which limits our ability to take advantage of more attractive spot market rates that generally exist during such periods. Further, despite our efforts to meet such demands, we may fail to do so, which may result in lost future business opportunities with such customers, Company, which could have a materially adverse effect negative impact on our operations. We may also suffer from natural disasters and weather-related events, such as tornadoes, hurricanes, blizzards, ice storms, floods, and fires, which may increase in frequency and severity due to climate change, as well as other man-made disasters. These events may disrupt fuel supplies, increase fuel costs, disrupt freight shipments or routes, affect regional economies, destroy stock price.

In 2022, we published our assets, or adversely affect the business or financial condition Corporate Social Responsibility Report. This report reflects some of our customers, any initiatives and is not a guarantee that we will be able to achieve them. Our ability to successfully execute these initiatives and accurately report our progress presents numerous operational, financial, legal, reputational and other risks, many of which are outside our control, and all of which could have a materially adverse effect material negative impact on our results business. Additionally, the implementation of operations these initiatives imposes additional costs on us. If our ESG initiatives fail to satisfy our stakeholders, then our reputation, our ability to attract or make retain employees, and our results of operations more volatile. Weather attractiveness as an investment and other seasonal events business partner could adversely affect be negatively impacted. Similarly, our operating results, failure, or perceived failure, to pursue or fulfill our goals, targets and objectives or to satisfy various reporting standards within the timelines we announce, or at all, could also have similar negative impacts and expose us to government enforcement actions and private litigation.

## COMPLIANCE RISKS

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

Our business is subject to the risk of litigation by employees, independent contractors, customers, vendors, government agencies, stockholders, and other parties through private actions, class actions, administrative proceedings, regulatory actions, and other processes. Recently, trucking companies, including us, have been and currently are subject to lawsuits, including class action lawsuits, alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal breaks, rest periods, overtime eligibility, and failure to pay for all hours worked. A number of these lawsuits have resulted in the payment of substantial settlements or damages by the defendants. We operate a business that hauls arms, ammunitions, and explosives that could increase our exposure if there were an accident involving this freight.

The outcome of litigation, particularly class action lawsuits and regulatory actions, is difficult to assess or quantify, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. The cost to defend litigation may also be significant. Not all claims are covered by our insurance, and there can be no

assurance that our coverage limits will be adequate to cover all amounts in dispute. To the extent we experience claims that are uninsured, exceed our coverage limits, involve significant aggregate use of our self-insured retention amounts, or cause increases in future premiums, the resulting expenses could have a materially adverse effect on our business, results of operations, financial condition, or cash flows.

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

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

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

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

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

#### **Our self-insurance for auto liability claims and our use of captive insurance companies could adversely impact our operations.**

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

Our captive insurance companies are regulated by state authorities. State regulations generally provide protection to policy holders, rather than stockholders. Such regulations may increase our costs, limit our ability to change premiums, restrict our ability to access cash held by these subsidiaries, and otherwise impede our ability to take actions we deem advisable.

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

We have experienced, and may experience additional, erosion of available limits in our aggregate insurance policies. Furthermore, we may experience additional expense to reinstate insurance policies due to liability claims.

Our insurance program includes multi-year policies with specific insurance limits that may be eroded over the course of the policy term. If that occurs, we will be operating with less liability coverage insurance at various levels of our insurance tower. For discussion regarding the erosion of the \$9.0 million in excess of \$1.0 million coverage layer for the policy period that ran from April 1, 2018 to March 31, 2021, please see "Insurance and **Claims**" under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Also, we may face mandatory reinstatement charges for expired policies due to liability claims. In the event of such developments, we may experience additional expense accruals, increased insurance and claims expenses, and greater volatility in our insurance and claims expenses, which could have a material adverse effect on our business, financial condition, and results of operations.

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

We, our drivers, and our equipment are regulated by the DOT, the EPA, the DHS, the U.S. Department of Defense, and other agencies in states in which we operate. The sections of Environmental and Other Regulation included in "Regulation" under "Item 1. Business" discuss several proposed, pending, suspended, and final regulations that could materially impact our business and operations. Our 2022 acquisition of an arms, ammunitions, and explosives carrier requires us to meet stringent rules relating to those operations and failure to comply could result in loss of all business purchased and our related investment. Future laws and regulations may be more stringent, require changes in our operating practices, influence the demand for transportation services or require us to incur significant additional costs. Higher costs incurred by us, or by our suppliers who pass the costs onto us through higher supplies and materials pricing, or liabilities we may incur related to our failure to comply with existing or future regulations could adversely affect our results of operations.

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

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

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

We face the risk that Congress, federal agencies or one or more states could approve legislation or regulations significantly affecting our businesses and our relationship with our employees which would have substantially liberalized the procedures for union organization. None of our domestic employees are currently covered by a collective bargaining agreement, but any attempt by our employees to organize a labor union could result in increased legal and other associated costs. Additionally, given the National Labor Relations Board's "speedy election" rule, our ability to timely and effectively address any unionizing efforts would be difficult. If we entered into a collective bargaining agreement with our domestic employees, the terms could materially adversely affect our costs, efficiency, and ability to generate acceptable returns on the affected operations. Failure to comply with existing or future labor and employment laws could have a materially adverse effect on our business and operating results. For further discussion of the labor and employment laws, please see "Regulation" under "Item 1. Business."

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



Under CSA, fleets are evaluated and ranked against their peers based on certain safety-related standards. As a result, our fleet could be ranked poorly as compared to peer carriers, which could have an adverse effect on our business, financial condition, and results of operations. We recruit and retain first-time drivers to be part of our fleet, and these drivers may have a higher likelihood of creating adverse safety events under CSA. The occurrence of future deficiencies could affect driver recruitment by causing high-quality drivers to seek employment with other carriers, limit the pool of available drivers, or could cause our customers to direct their business away from us and to carriers with higher fleet safety rankings, either of which would adversely affect our results of operations. Further, we may incur greater than expected expenses in our attempts to improve unfavorable scores.

Certain of our subsidiaries are currently exceeding the established intervention thresholds in a number of the seven CSA safety-related categories. Based on these unfavorable ratings, we may be prioritized for an intervention action or roadside inspection, either of which could adversely affect our results of operations. In addition, customers may be less likely to assign loads to us. For further discussion of the CSA program, please see "Regulation" under "Item 1. Business.". Insofar as any changes in the CSA Program increase the likelihood of us receiving unfavorable scores or mandate FMCSA to restore public access to scores, it could adversely affect our results of operation and profitability.

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

All of our motor carriers currently have a satisfactory DOT safety rating, which is the highest available rating under the current safety rating scale. If any of our motor carriers receive a conditional or unsatisfactory rating, certain provisions in customer contracts could allow the customer to reduce or terminate their relationship, it could affect our insurance costs and our ability to self-insure for personal injury and property damage relating to the transportation of freight, and it could materially adversely affect our business, financial condition, and results of operations. For further discussion of the DOT safety rating, please see "Regulation" under "Item 1. Business."

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

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

Governmental agencies continue to enact more stringent laws and regulations to reduce engine emissions. These laws and regulations are applicable to engines used in our revenue equipment. We have incurred and continue to incur costs related to the implementation of these more rigorous laws and regulations. Additionally, in certain locations governments have banned or may in the future ban internal combustion engines for some types of vehicles. To the extent these bans affect our revenue equipment, we may be forced to incur substantial expense to retrofit existing engines or make capital expenditures to update our fleet. As a result, our business, results of operations, and financial condition could be negatively affected.

For further discussion of environmental laws and regulations, please see "Regulation" under "Item 1. Business."

Changes to trade regulation, quotas, duties, or tariffs, caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs and materially adversely affect our business.

The imposition of additional tariffs or quotas or changes to certain trade agreements, including tariffs applied to goods traded between the United States and China, could, among other things, increase the costs of the materials used by our suppliers to produce new revenue equipment or increase the price of fuel. Such cost increases for our revenue equipment suppliers would likely be passed on to us, and to the extent fuel prices increase, we may not be able to fully recover such increases through rate increases or our fuel surcharge program, either of which could have a material adverse effect on our business.

**Litigation**

**Regulatory changes related to climate change could increase our costs significantly.**

**To the extent regulatory changes continue related to climate change, we could incur significant costs to our operation, mainly centered around our revenue producing equipment and our warehousing operations. We are not able to accurately predict the materiality of any potential losses or costs. Concern over climate change, including the impact of global warming, has led to significant legislative and regulatory efforts to limit carbon and other greenhouse gas emissions. Emission-related regulatory actions have historically resulted in**

increased costs related to revenue equipment, diesel fuel, equipment maintenance, and environmental monitoring or reporting requirements, and future legislation, if any, could impose substantial costs that may adversely affect our business, financial condition, and results of operations.

Our business is subject to the In addition, any such legislation may require changes in our operating practices, impair equipment productivity, or require additional reporting disclosures, and compliance with any such legislation may increase our risk of litigation by employees, independent contractors, customers, vendors, government agencies, stockholders, and other parties through private actions, class actions, administrative proceedings, regulatory actions, and other processes. Recently, trucking companies, including us, have been and currently are subject to lawsuits, including class action lawsuits, alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal breaks, rest periods, overtime eligibility, and failure to pay for all hours worked. A number of these lawsuits have resulted in the payment of substantial settlements or damages by the defendants. In 2022 we acquired a business that hauls arms, ammunitions, and explosives that could increase our exposure if there were an accident involving this freight.

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

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

**Increasing attention on environmental, social and governance ("ESG") matters may have a negative impact on our business, impose additional costs on us, and expose us to additional risks.**

Companies are facing increasing attention from stakeholders relating to ESG matters, including environmental stewardship, social responsibility, and diversity and inclusion. Organizations that provide information to investors on corporate governance and related matters have developed ratings processes for evaluating companies on their approach to ESG matters. Such ratings are used by some investors to inform their investment and voting decisions. Unfavorable ESG ratings may lead to negative investor sentiment toward the Company, which could have a negative impact on our stock price.

In 2021, 2022, we published our Corporate Social Responsibility Report. This report reflects some of our initiatives and is not a guarantee that we will be able to achieve them. Our ability to successfully execute these initiatives and accurately report our progress presents numerous operational, financial, legal, reputational and other risks, many of which are outside our control, and all of which could have a material negative impact on our business. Additionally, the implementation of these initiatives imposes additional costs on us. If our ESG initiatives fail to satisfy our stakeholders, then our reputation, our ability to attract or retain employees, and our attractiveness as an investment and business partner could be negatively impacted. Similarly, our failure, or perceived failure, to pursue or fulfill our goals, targets and objectives or to satisfy various reporting standards within the timelines we announce, or at all, could also have similar negative impacts and expose us to government enforcement actions and private litigation.

#### **OPERATIONAL RISKS**

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

Like many truckload carriers, we experience substantial difficulty in attracting and retaining sufficient numbers of qualified drivers, which includes the engagement of independent contractors. The truckload industry periodically experiences a shortage of qualified drivers, particularly during periods of economic expansion, in which alternative employment opportunities, including in the construction and manufacturing industries, are more plentiful and freight demand increases, or during periods of economic downturns, in which unemployment benefits might be extended and financing is limited for independent contractors who seek to purchase equipment or for students who seek financial aid for driving school. Furthermore, capacity at driving schools may be limited by future outbreaks of COVID-19 or other contagious diseases. Regulatory requirements, including those related to safety ratings, ELDs, hours-of-service changes, government imposed measures related to future outbreaks of COVID-19 or other contagious diseases, and an improved economy could further reduce the number of eligible drivers or force us to increase driver compensation to attract and retain drivers. We have seen evidence that stricter hours-of-service regulations adopted by the DOT in the past have tightened, and, to the extent new regulations are enacted, may continue to tighten, the market for eligible drivers. The lack of adequate tractor parking along some U.S. highways and congestion caused by inadequate highway funding may make it more difficult for drivers to comply with hours-of-service regulations and cause added stress for drivers, further reducing the pool of eligible drivers. Further, the compensation we offer our drivers and independent contractor expenses are subject to market conditions, and we may find it necessary to increase driver and independent contractor compensation in future periods.

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

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

As independent business owners, independent contractors may make business or personal decisions that may conflict with our best interests. For example, if a load is unprofitable, route distance is too far from home, personal scheduling conflicts arise, or for other reasons, independent contractors may deny loads of freight from time to time. Additionally, independent contractors may be unable to obtain or retain equipment financing, which could affect their ability to continue to act as a third-party service provider for the Company. In these circumstances, we must be able to deliver the freight timely in order to maintain relationships with customers, and if we fail to meet certain customer needs or incur increased expenses to do so, this could materially adversely affect our relationship with customers and our results of operations.

We provide financing to certain qualified independent contractors. If we are unable to provide such financing in the future, due to liquidity constraints or other restrictions, we may experience a decrease in the number of independent contractors we are able to engage. Further, if independent contractors we engage default under or otherwise terminate the financing arrangement and we are unable to find a replacement independent contractor or seat the tractor with a company driver, we may incur losses on amounts owed to us with respect to the tractor.

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

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

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

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

From time to time, we use hedging contracts and volume purchase arrangements to attempt to limit the effect of price fluctuations. In times of falling diesel fuel prices, such arrangements could cause costs to not be reduced to the same extent as they would be reduced in the absence of such arrangements and such arrangements may require significant cash payments.

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

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

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

We depend heavily on the proper functioning, availability, and security of our management information and communication systems and other information technology assets, including financial reporting and operating systems and the data contained in such systems and assets, in operating our business. Our operating system is critical to understanding customer demands, accepting and planning loads, dispatching equipment and drivers, and billing and collecting for our services. Our financial reporting system is critical to producing accurate and timely financial statements and analyzing business information to help us manage effectively. Furthermore, data privacy laws, which provide data privacy rights for consumers and operational requirements for companies, may result in increased liability and amplified compliance and monitoring costs, any of which could have a material adverse effect on our financial performance and business operations.

Our operations and those of our technology and communications service providers are vulnerable to interruption by natural disasters, such as fires, storms, and floods, which may increase in frequency and severity due to climate change, as well as, power loss, telecommunications failure, cyberattacks, terrorist attacks, Internet failures, computer viruses, and other events beyond our control. More sophisticated and frequent cyberattacks in recent years have also increased security risks associated with information technology systems. We also maintain information security policies to protect our systems, networks, and other information technology assets (and the data contained therein) from cybersecurity breaches and threats, such as hackers, malware, and viruses; however, such policies cannot ensure the protection of our systems, networks, and other information technology assets (and the data contained therein). In addition, remote or flexible work options for our employees could create increased demand for information technology resources and increase the avenues for unauthorized access to sensitive information, phishing, and other cyberattacks. If any of our critical information systems fail or become otherwise unavailable, whether as a result of a system upgrade project or otherwise, we would have to perform the functions manually, which could temporarily impact our ability to dispatch and manage our fleet efficiently, to respond to customers' requests effectively, to maintain billing and other records reliably, and to bill for services and prepare financial statements accurately or in a timely manner. Our business interruption insurance may be inadequate to protect us in the event of an unforeseeable and extreme catastrophe. Any significant system failure, upgrade complication, security breach (including cyberattacks), or other system disruption could interrupt or delay our operations, damage our reputation, cause us to lose customers, or impact our ability to dispatch and manage our operations and report our financial performance, any of which could have a materially adverse effect on our business. Such risks related to system failure, upgrade complication, security breach (including cyberattacks), or other system disruption may also impact our customers, vendors, third-party capacity providers, and other counterparties, which could result in declines and volatility in customer demand and unavailability of products and services from vendors and third-party capacity providers, any of which would have a material adverse effect on our business. In addition, we are currently dependent on a single vendor to support several information technology functions. If the stability or capability of such vendor became compromised and we were forced to migrate such functions to a new platform, it could adversely affect our business, financial condition, and results of operations.

In addition, the adoption of artificial intelligence ("AI") and other emerging technologies may become significant to operating results in the future. While AI and other technologies may offer substantial benefits, they may also introduce additional risk. If we are unable to successfully implement and utilize such emerging technologies as effectively as competitors, our results of operation may be negatively affected.

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

We are dependent upon the services of our executive management team and other key personnel. Turnover, planned or otherwise, in these or other key leadership positions may materially adversely affect our ability to manage our business efficiently and effectively, and such turnover can be disruptive and distracting to management, may lead to additional departures of existing personnel, and could have a material adverse effect on our operations and future profitability. We must continue to develop and retain a core group of managers and attract, develop, and retain sufficient additional managers if we are to continue to improve our profitability and have appropriate succession planning for key management personnel.

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

We may suffer from natural disasters and weather-related events, such as tornadoes, hurricanes, blizzards, ice storms, floods, and fires, which may increase in frequency and severity due to climate change, as well as other man-made disasters. These events may disrupt fuel supplies, increase fuel costs, disrupt freight shipments or routes, affect regional economies, destroy our assets, or adversely affect the business or financial condition of our customers, any of which could have a materially adverse effect on our results of operations or make our results of operations more volatile.

Our tractor productivity decreases during the winter season because inclement weather impedes operations, and some shippers reduce their shipments after the winter holiday season. Our Expedited reportable segment has historically experienced a greater reduction in first quarter demand than our other operations, however, this trend has lessened following the growth of AAT, which is part of the Expedited reportable segment, and our work with long-term customers to improve the stability of contracted capacity in our Expedited fleet. Revenue also can be affected by bad weather, holidays and the number of business days that occur during a given period, since revenue is directly related to available working days of shippers. At the same time, operating expenses increase and fuel efficiency decline because of engine idling and harsh weather creating higher accident frequency, increased claims, and more equipment repairs. In addition, many of our customers, particularly those in the retail industry where we have a large presence, demand additional capacity during the fourth quarter, which limits our ability to take advantage of more attractive spot market rates that generally exist during such periods. Further, despite our efforts to meet such demands, we may fail to do so, which may result in lost future business opportunities with such customers, which could have a materially adverse effect on our operations.

The effects of a widespread outbreak of an illness or disease, or any other public health crisis, as well as regulatory measures implemented in response to such events, could negatively impact the health and safety of our workforce and/or adversely impact our business, results of operations, financial condition, and cash flows.

We face a wide variety of risks related to public health crises, epidemics, pandemics, or similar events, such as COVID-19. If a new health epidemic or outbreak were to occur, we could experience broad and varied impacts similar to the impact of COVID-19, including adverse impacts to our workforce, our operations, and financial results, such as increased costs, tightening of credit markets, market volatility and a weakened freight environment. If any of these were to occur, our operations, financial condition, liquidity, results of operations, and cash flows could be adversely impacted.

## **FINANCIAL RISKS**

Our Third Amended and Restated Credit Agreement (our "Credit Facility") and other financing arrangements contain certain covenants, restrictions, and requirements, and we may be unable to comply with such covenants, restrictions, and requirements.

We have a \$110.0 million Credit Facility and numerous other financing arrangements. Our 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, affiliate transactions, and a fixed charge coverage ratio, if availability is below a certain threshold. We have had difficulty meeting budgeted results and have had to request amendments or waivers in the past. If we are unable to meet budgeted results or otherwise comply with our Credit Facility, we may be unable to obtain amendments or waivers under our Credit Facility, or we may incur fees in doing so.

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

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

We may need to raise additional funds in order to:

- finance working capital requirements, capital investments, or refinance existing indebtedness;
- develop or enhance our technological infrastructure and our existing products and services;
- fund strategic relationships;
- respond to competitive pressures; and
- acquire complementary businesses, technologies, products, or services.

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

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

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

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

- our vulnerability to adverse economic and industry conditions and competitive pressures is heightened;
- we will continue to be required to dedicate a substantial portion of our cash flows from operations to lease payments and repayment of debt, limiting the availability of cash for our operations, capital expenditures, and future business opportunities;
- our flexibility in planning for, or reacting to, changes in our business and industry will be limited;
- our results of operations and cash flows are sensitive to fluctuations in interest rates because some of our debt obligations are subject to variable interest rates, and future borrowings and lease financing arrangements will be affected by any such fluctuations;
- our ability to obtain additional financing in the future for working capital, capital expenditures, debt service requirements, acquisitions, or other purposes may be limited;
- it may be difficult for us to comply with the multitude of financial covenants, borrowing conditions, or other obligations contained in our debt agreements, thereby increasing the risk that we trigger certain cross-default provisions;
- we may be required to issue additional equity securities to raise funds, which would dilute the ownership position of our stockholders; and
- we may be placed at a competitive disadvantage relative to some of our competitors that have less, or less restrictive, debt than us.

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

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

Our operations require significant capital investments. The amount and timing of such investments depend on various factors, including anticipated freight demand and the price and availability of assets. If anticipated demand differs materially from actual usage, we may have too many or too few assets. Moreover, resource requirements vary based on customer demand, which may be subject to seasonal or general economic conditions. Our ability to select profitable freight and adapt to changes in customer transportation requirements is important to efficiently deploy resources and make capital investments in tractors and trailers (with respect to our asset based operations) or obtain qualified third-party capacity at a reasonable price (with respect to our Managed Freight reportable segment). Our customers' financial failures or loss of customer business may also affect us.

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

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

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

**Furthermore, a** decrease in vendor output may have a materially adverse effect on our ability to purchase **or take possession of** a quantity of new revenue equipment that is sufficient to sustain our desired growth rate and to maintain a late-model fleet. Tractor and trailer vendors may reduce their manufacturing output in response to lower demand for their products in economic downturns or shortages of component parts. Some tractor and trailer manufacturers **are still experiencing** **have recently experienced periodic** shortages of certain component parts and supplies, including semi-conductor chips, forcing such manufacturers to curtail or suspend their production, which could lead to a lower supply of tractors and trailers, higher prices, and lengthened trade cycles, which could have a material adverse effect on our business, financial condition, and results of operations, particularly our maintenance expense and driver retention.

A depressed market for used equipment could require us to trade our revenue equipment at depressed values or to record losses on disposal or impairments of the carrying values of our revenue equipment that is not protected by residual value arrangements. Used equipment prices are subject to substantial fluctuations based on freight demand, the supply of new and used equipment, the availability and terms of financing, the presence of buyers for export to foreign countries, the desirability of specific models of used equipment, and commodity prices for scrap metal. If there is a deterioration of resale prices, it could have a material adverse effect on our business, financial condition, and results of operations. **We have seen** **During 2022 and 2023, we experienced a** **softening of the** **softened** used equipment **market recently, market.**

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

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

**In May 2011, we acquired** **We hold** a 49% interest in TEL, a used equipment leasing company and reseller. We account for our investment in TEL using the equity method of accounting. TEL faces several risks similar to those we face and additional risks particular to its business and operations. TEL has significant ongoing capital requirements and carries significant debt. The ability to secure financing and market fluctuations in interest rates could impact TEL's ability to grow its leasing business and its margins on leases. Adverse economic activity may restrict the number of used equipment buyers and their ability to pay prices for used equipment that we find acceptable. In addition, TEL's leasing customers are typically small trucking companies without substantial financial resources, and TEL is subject to risk of loss should those customers be unable to make their lease payments. **In 2019, TEL had a significant customer that declared** **payments or declare** bankruptcy, which **resulted has happened in a reduction in TEL's profitability into 2020, the** **past.** A portion of TEL's business includes leasing equipment to individual independent contractors who are generally not required to provide significant amounts to secure their obligations under the lease agreements with TEL. Such independent contractors generally have few assets and are at a heightened risk of defaulting under such lease agreements, which may cause TEL to incur unreimbursed costs related to the recovery of equipment, equipment maintenance and repair, missed lease payments, and the reletting of the equipment. In addition, the shrinking independent contractor market may decrease the number of drivers available to utilize such portion of TEL's business and could decrease TEL's revenues. Further, we believe the used equipment market will significantly impact TEL's results of operations and such market has been volatile in the past and declined recently. There can be no assurance that TEL will experience gains on sale similar to those it has experienced in the past and it may incur losses on sale. As regulations change,



the market for used equipment may be impacted as such regulatory changes may make used equipment costly to upgrade to comply with such regulations or we may be forced to scrap equipment if such regulations eliminate the market for particular used equipment. Further, there is an overlap in providers of equipment financing to TEL and our wholly owned operations and those providers may consider the combined exposure and limit the amount of credit available to us.

TEL's majority owners are generally restricted from transferring their interests in TEL, other than to certain permitted transferees, without our consent. There is no assurance that we will be able to agree on any proposed sale or transfer of interests in TEL, whether by us or the other owners.

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

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

As of December 31, 2022 December 31, 2023, we had goodwill of \$58.2 million \$75.7 million and other intangible assets of \$48.2 million \$99.6 million. We evaluate our goodwill and other intangible assets for impairment. We could recognize impairments in the future, and we may never realize the full value of our intangible assets. If these events occur, our profitability and financial condition will suffer.

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

Our Chairman of the Board and Chief Executive Officer, David Parker, and his wife, Jacqueline Parker, beneficially own or have sole voting and dispositive power over approximately 14% 15% of our outstanding Class A common stock and 100% of our Class B common stock. On all matters with respect to which our stockholders have a right to vote, including the election of directors, each share of Class A common stock is entitled to one vote, while each share of Class B common stock is entitled to two votes. All outstanding shares of Class B common stock are owned by the Parkers and are convertible to Class A common stock on a share-for-share basis at the election of the Parkers or automatically upon transfer to someone outside of the Parker family. This voting structure gives the Parkers approximately 39% 41% of the voting power of all of our outstanding stock. As such, the Parkers are able to substantially influence decisions requiring stockholder approval, including the election of our entire Board, the adoption or extension of anti-takeover provisions, mergers, and other business combinations. This concentration of ownership could limit the price that some investors might be willing to pay for the Class A common stock, and could allow the Parkers to prevent or could discourage or delay a change of control, which other stockholders may favor. The interests of the Parkers may conflict with the interests of other holders of Class A common stock, and they may take actions affecting us with which other stockholders disagree.

Provisions in our charter documents or Nevada law may inhibit a takeover, which could limit the price investors might be willing to pay for our Class A common stock.

Our Third Amended and Restated Articles of Incorporation ("Articles of Incorporation"), our Sixth Amended and Restated Bylaws ("Bylaws"), and Nevada corporate law contain provisions that could delay, discourage or prevent a change of control or changes in our Board or management that a stockholder might consider favorable. For example, our Articles of Incorporation authorize our Board to issue preferred stock without stockholder approval and to set the rights, preferences and other terms thereof, including voting rights of those shares; our Articles of Incorporation do not provide for cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of stock to elect some directors; our Class B common stock possesses disproportionate voting rights; and our Bylaws provide that a stockholder must provide advance notice of business to be brought before an annual meeting or to nominate candidates for election as directors at an annual meeting of stockholders. These provisions will apply even if the change may be considered beneficial by some of our stockholders, and thereby negatively affect the price that investors might be willing to pay in the future for our Class A common stock. Furthermore, pursuant to the "Acquisition of Controlling Interest" statutes set forth in Sections 78.378 to 78.3793, inclusive, of the Nevada Revised Statutes (the "Control Statutes"), if a person acquires a controlling interest in the Company (defined in Nevada Statutes Section 78.3785 as ownership of voting securities to exercise voting power in the election of directors in excess of 1/5, 1/3, or a majority thereof), the voting rights of such person in excess of the applicable threshold would be nullified, unless the acquirer obtains approval of the disinterested stockholders or unless the Company amends its Articles of Incorporation or Bylaws within ten days of the acquisition to provide that the Control Statutes do not apply to the Company or to types of existing or future stockholders. Our Bylaws provide that the Control Statutes do not apply to an acquisition of a controlling interest in the Company by the Parkers or their affiliates. In addition, to the extent that these provisions discourage an acquisition of our company or other change in control transaction, they could deprive stockholders of opportunities to realize takeover premiums for their shares of our Class A common stock.

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

The price of our Class A common stock may fluctuate widely, depending upon a number of factors, many of which are beyond our control. In addition, stock markets generally experience significant price and volume volatility from time to time which may adversely affect the market price of our Class A common stock for reasons unrelated to our performance.

We cannot guarantee the timing or amount of repurchases of our Class A common stock, or the declaration of future dividends, if any.

The timing and amount of future repurchases of our Class A common stock, including repurchases under our current stock repurchase program authorizing the purchase of up to \$55 million of our Class A common stock, as well as the declaration of future dividends, is at the discretion of our Board and will depend on many factors such as our financial condition, earnings, cash flows, capital requirements, any future debt service obligations, covenants under our existing or future debt agreements, industry practice, legal requirements, regulatory constraints, and other factors our Board deems relevant. While it is expected that we will continue to pay a quarterly dividend under the dividend program initiated in January 2022, there is no assurance that we will declare or pay any future dividends or as to the amount or timing of those dividends, if any.

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

Our internal controls over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, failure or interruption of information technology systems, the circumvention or overriding of controls, or fraud. Even effective internal controls can provide only reasonably assurance with respect to the preparation and fair presentation of financial statements. If we fail to maintain effective internal controls in the future, including any future acquisitions, failure to implement required new or improved controls, or if we experience difficulties in their implementation, including with the implementation of our internal controls in acquired companies, it could result in a material misstatement of our financial statements, which could cause investors to lose confidence in our financial statements or cause our stock price to decline.

#### COVID-19 RISKS

We could be negatively impacted by the COVID-19 outbreak or other similar outbreaks.

Our operations, particularly in areas of increased COVID-19 infections could be disrupted. Furthermore, government vaccine, testing, and mask mandates could increase our turnover and make recruiting more difficult, particularly among our driver, warehouse, and maintenance personnel. See "Other Regulation" in Part I, Item 1 of this Annual Report, for additional details regarding COVID-19 vaccine, testing, and mask mandates.

Negative financial results, operational disruptions and a tightening of credit markets, caused by COVID-19, other similar outbreaks, or a recession, could have a material adverse effect on our liquidity, reduce credit options available to us, adversely impact the ability of our customers to pay for our services, make it more difficult to obtain amendments, extensions, and waivers, and adversely impact our ability to effectively meet our short- and long-term obligations.

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

Short-term and long-term developments related to COVID-19 have been unpredictable and the extent to which further developments could impact our operations, financial condition, liquidity, results of operations, and cash flows is highly uncertain. Such developments may include the duration of the outbreak, variants of the virus, the distribution and availability of vaccines, and treatments for the virus, the severity of the disease, and the actions that may be taken by various governmental authorities and other third parties in response to the outbreak.

We continue to diligently monitor the impact of COVID-19 on all aspects of our business, including the impact on our customers, teammates, suppliers and communities.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

#### ITEM 1C. CYBERSECURITY

##### Cybersecurity Risk Management and Strategy

We recognize the importance of assessing, identifying, and managing material risks associated with cybersecurity threats, as such term is defined in Item 106(a) of Regulation S-K. These risks include, among other things: operational risks, intellectual property theft, fraud, extortion, harm to employees or customers and violation of data privacy or security laws. Identifying and assessing cybersecurity risk is integrated into our overall risk management systems and processes. Cybersecurity risks related to our business, technical operations, privacy and compliance issues are identified and addressed through a multi-faceted approach including third-party assessments, internal information technology audit, information technology security, governance, and risk and compliance reviews. To defend, detect, and respond to cybersecurity incidents, we, among other things: conduct proactive privacy and cybersecurity reviews of systems and applications, audit applicable data policies, perform penetration testing using external third-party tools and techniques to test security controls, conduct employee training, and monitor emerging laws and regulations related to data protection and information security and implement appropriate changes.

We have implemented incident response and breach management processes which have four overarching and interconnected stages: 1) preparation for a cybersecurity incident, 2) detection and analysis of a security incident, 3) containment, eradication and recovery, and 4) post-incident analysis. Such incident responses are overseen by leaders from our Information Technology, Compliance, and Legal teams regarding matters of cybersecurity.

Security events and data incidents are evaluated, ranked by severity and prioritized for response and remediation. Incidents are evaluated to determine materiality as well as operational and business impact, and reviewed for privacy impact.

We also conduct tabletop exercises to simulate responses to cybersecurity incidents. Our team of cybersecurity professionals then collaborate with technical and business stakeholders across our business units to further analyze the risk to the company, and form detection, mitigation, and remediation strategies.



As part of the above processes, we regularly engage external auditors and consultants to assess our internal cybersecurity programs and compliance with applicable practices and standards.

Our risk management program also assesses third-party risks, and we perform third-party risk management to identify and mitigate risks from third-parties such as vendors, suppliers, and other business partners associated with our use of third-party service providers. Cybersecurity risks are evaluated when determining the selection and oversight of applicable third-party service providers and potential fourth-party risks when handling and/or processing our employee, business, or customer data. In addition to new vendor onboarding, we perform risk management during third-party cybersecurity incidents to identify and mitigate risks to us from third-party incidents. We also carry business interruption insurance that provides protection against potential losses arising from certain cybersecurity incidents as part of our cybersecurity risk mitigation strategy.

As of the date of this report, we have not identified any cybersecurity threats that have materially affected or are reasonably anticipated to have a material effect on us. Although we have not experienced cybersecurity incidents that are individually, or in the aggregate, material, we have experienced cyberattacks in the past, which we believe have thus far been mitigated by cybersecurity strategies we have put in place. Despite the capabilities, processes, and other security measures we employ that we believe are designed to detect, mitigate, and remediate the risk of cybersecurity incidents, we may not be aware of all vulnerabilities or might not accurately assess the risks of incidents, and such preventative measures cannot provide absolute security and may not be sufficient in all circumstances or mitigate all potential risks. For more information about the cybersecurity risks we face, see the risk factor entitled "We depend on the proper functioning and availability of our management information and communication systems and other information technology assets (including the data contained therein) and a system failure or unavailability, including those caused by cybersecurity breaches internally or with third-parties, or an inability to effectively upgrade such systems and assets could cause a significant disruption to our business and have a materially adverse effect on our results of operations" included as part of our risk factor disclosures at Item 1A of this Annual Report on Form 10-K.

#### Cybersecurity Governance

Cybersecurity is an important part of our risk management processes and an area of focus for our Board and management. Our Audit Committee is responsible for the oversight of risks from cybersecurity threats. Members of the Audit Committee receive updates on a quarterly basis from senior management, including leaders from our Information Technology, Compliance, and Legal teams regarding matters of cybersecurity. This includes existing and new cybersecurity risks, status on how management is addressing and/or mitigating those risks, cybersecurity and data privacy incidents (if any), and status on key information security initiatives. Our Board members also engage in ad hoc conversations with management on cybersecurity-related news events and discuss any updates to our cybersecurity risk management and strategy programs.

Our cybersecurity risk management and strategy processes are overseen by leaders from our Information Technology, Compliance, and Legal teams. Such individuals have an average of over 15 years of prior work experience in various roles involving information technology, including security, auditing, compliance, systems, and programming. These individuals are informed about, and monitor the prevention, mitigation, detection, and remediation of cybersecurity incidents through their management of, and participation in, the cybersecurity risk management and strategy processes described above, including the operation of our incident response plan, and report to the Audit Committee on any appropriate items.

## ITEM 2. PROPERTIES

Our corporate headquarters and main terminal are located on approximately 180 acres of property in Chattanooga, Tennessee. Also, we own or lease administrative offices and truck terminals (which provide a transfer location for trailer relays on transcontinental routes, parking space for equipment dispatch, facilities for recruiting and orientation, sales offices, and warehouses) throughout the continental United States, none of which are individually material.

## ITEM 3. LEGAL PROCEEDINGS

Information about our legal proceedings is included in Note 14, 16, "Commitments and Contingencies" of the accompanying consolidated financial statements and is incorporated by reference herein.

## ITEM 4. MINE SAFETY DISCLOSURES

None.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

### Price Range of Common Stock

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

As of February 24, 2023 February 26, 2024, we had approximately 57 60 stockholders of record of our Class A common stock; however, we estimate our actual number of stockholders is much higher because a substantial number of our shares are held of record by brokers or dealers for their customers in street names. As of February 24, 2023 February 26, 2024, Mr. Parker, together with certain of his family members, owned all of the outstanding Class B common stock.

#### Dividend Policy

In January 2022, our Board approved a quarterly cash dividend program of \$0.0625 per share, which was increased to \$0.08 per share in August 2022 and \$0.11 per share in February 2023. Dividends under the quarterly cash dividend program are subject to quarterly approval by our Board. It is the current intention of our Board to continue to pay a quarterly dividend under the dividend program, however, there is no assurance that we will declare or pay any future dividends or as to the amount or timing of those dividends, if any. The payment of cash dividends is currently limited by our financing arrangements. Future payments of cash dividends will depend upon our financial condition, earnings, cash flows, capital requirements, any future debt service obligations, covenants under our existing or future debt agreements, industry practice, legal requirements, regulatory constraints, and other factors our Board deems relevant.

See "Equity Compensation Plan Information" under Item 12 in Part III of this Annual Report on Form 10-K for certain information concerning shares of our Class A common stock authorized for issuance under our equity compensation plans.

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#### ITEM 6. [RESERVED]

Not applicable.

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with "Business" in Part I, Item 1 of this Annual Report on Form 10-K, as well as the consolidated financial statements and notes thereto in Part II, Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements as a result of many factors, including those set forth under Part I, Item 1A. "Risk Factors" and Part I "Cautionary Note Regarding Forward-Looking Statements" of this Annual Report on Form 10-K, and elsewhere in this report. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those discussed.

#### EXECUTIVE OVERVIEW

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

Our four reportable segments are Expedited, Dedicated, Managed Freight, and Warehousing, each as described under "Reportable Segments and Service Offerings" in Part I, Item 1 of this Annual Report on Form 10-K. For 2022, 2023, despite the challenges that came with a soft freight market, we generated over \$1.0 billion in freight revenue, the achieved our second highest adjusted annual earnings per diluted share in our history while improving the durability and a 15.3% return on average invested capital. diversification of our business through the acquisitions of LTST and Sims. We also acquired AAT, increased our quarterly dividend and repurchased 3.4 million shares, resulting in a reduction of approximately 20% 5% of the shares of our outstanding compared to Class A common stock at a year ago, and, for the first time in Company history, distributed four quarterly dividend payments, all while maintaining moderately low debt. weighted average share price of approximately \$34 per share. Within our Expedited and Dedicated reportable segments, we improved segment, both total revenue and margins declined year over year and we are continuing to work to improve the durability of contracts in these reportable segments to lower volatility across economic and freight cycles. Managed Freight continued to exceed our expectations primarily as a result of strong execution rate pressure, however, these headwinds were partially offset by an almost 8% improvement in utilization year-over-year. Within our Dedicated reportable segment, we have worked hard over the last three years to improve the profitability within this segment by exiting unprofitable business and effective coordination adding profitable business and we are pleased with our the improvement to adjusted operating income compared to 2022. Managed Freight experienced significant reductions in both revenue and operating income with reduced volumes of high-margin overflow freight from both Expedited and Dedicated reportable segments. truckload operations and little to no project related freight during the year given changes in the freight market. The brokerage environment remains highly competitive with numerous brokers aggressively competing for volumes at the expense of margin. We anticipate continued margin pressure in this environment. Warehousing was able to grow revenue through new customer startups but had diminished and improve margins primarily due with contractual pricing increases put into place during the year. We are continuing to incremental work to increase the operating income and related margins in each of these segments

by executing on our pipeline of new business, focused cost headwinds associated savings initiatives and additional proposed customer rate increases with new customer startups and investments in capacity for future growth in this existing customers within our Warehousing reportable segment.

This has been a remarkable year for Covenant. Our results were in part the product of an exceptional freight market in the first half of the year and in part the result of an intentional, multi-year effort to evolve toward a less cyclical business model. We cannot eliminate the impact of economic and freight market cycles, but we view our 2022 results as incremental progress toward delivering solid, more consistent returns for our stockholders.

The table below reflects the total revenue trends in each of these reportable segments:

(in thousands)	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Revenues:				
Expedited	\$ 452,713	\$ 337,063	\$ 423,820	\$ 452,713
Dedicated	362,997	324,541	320,287	362,997
Managed Freight	320,985	321,236	258,903	320,985
Warehousing	80,163	63,163	100,563	80,163
Total revenues	\$ 1,216,858	\$ 1,046,003	\$ 1,103,573	\$ 1,216,858

Our consolidated financial results are summarized as follows:

- Total revenue was \$1,216.9 million \$1,103.6 million, compared with \$1,046.0 million \$1,216.9 million for 2021, 2022, and freight revenue (which excludes revenue from fuel surcharges) was \$1,046.4 million \$970.5 million, compared with \$949.9 million \$1,046.4 million for 2021, 2022;
- Operating income from continuing operations was \$120.7 million \$58.8 million, compared with operating income from continuing operations of \$67.2 million \$120.7 million for 2021, 2022;
- Net income was \$108.7 million \$55.2 million, or \$7.00 \$3.99 per diluted share, compared with net income of \$60.7 million \$108.7 million, or \$3.57 \$7.00 per diluted share, for 2021, 2022; Net income from continuing operations was \$142.8 million \$54.6 million, or \$3.95 per diluted share, for 2023, compared to \$107.9 million or \$6.95 per diluted share for 2022, compared to \$79.2 million or \$3.42 per diluted share in 2021, 2022. Net income from discontinued operations of \$0.6 million, or \$0.04 per diluted share, for 2023, compared to \$0.8 million, or \$0.05 per diluted share for 2022, compared to \$2.5 million, or \$0.15 per diluted share in 2021, 2022;
- With available borrowing capacity of \$86.1 million \$76.6 million under our Credit Facility as of December 31, 2022 December 31, 2023, we do not expect to be required to test our fixed charge covenant in the foreseeable future;
- Our equity investment in TEL provided \$25.2 million \$21.4 million of pre-tax earnings in 2022, 2023, compared to \$14.8 million \$25.2 million for 2021, 2022;
- Since December 31, 2021 December 31, 2022, total indebtedness, comprised of total debt and finance leases, net of cash, increased by \$17.9 million \$202.0 million to \$46.4 million \$248.3 million;
- Leverage ratio (average total indebtedness, net of cash, divided by the sum of operating income (loss, depreciation and amortization, gain on disposition of property and equipment, net, and impairment of long lived property and equipment) was 0.34 2.14 at December 31, 2022 December 31, 2023, compared to 0.24 0.34 at December 31, 2021 December 31, 2022;
- Stockholders' equity at December 31, 2022 December 31, 2023 was \$377.1 million \$403.4 million, compared to \$349.7 million \$377.1 million at December 31, 2021 December 31, 2022; and
- Tangible book value per end-of-quarter basic share at December 31, 2022 December 31, 2023 was \$19.97, \$17.45, compared to \$17.10 \$19.97 at December 31, 2021 December 31, 2022.

## Outlook

We remain focused The Company's consistently good performance in a weak freight market is evidence that our strategic plan is working. Over the past two years, we reallocated a significant amount of fixed assets away from underperforming and highly cyclical legacy operations toward acquiring three high-performing, more steady businesses. The result has been better margins, more stable earnings, and improved returns on continued forward progress on capital compared with our long-term strategic plan. We legacy operations during previous downturns. While we are pleased with our results, we are also focused on aggressive optimistic about our ability to make incremental improvements by continuing to invest in our operating cost profile. With our equipment replacement plan team, identifying and strong safety results, we see opportunities to improve costs in mitigating risk, providing customers with superior service, and rigorously allocating capital across the short term through improved fuel economy, and reduced operations and maintenance and insurance

costs in a freight environment that will pressure both rates and margins. There's a lot of work for us to be ready for. We expect market headwinds from a softer market during contract renewals as well as continued inflationary pressures. However, based on company specific factors – the investments we have made in the sales team, the acquisition of AAT, share repurchases, the equipment upgrade plan and reduced insurance casualty costs resulting from our improved safety results, we expect less earnings volatility than in prior periods of economic weakness. Over the last 5 years, our customer base has been strategically shifted to less cyclical industries through our full-service logistics focus. Even with a heavy equipment investment year in 2023, we expect our cash generation, low leverage, and available liquidity to provide the full range of capital allocation opportunities to benefit our stockholders. enterprise.

With continued diligence and accountability, we expect to grow our market share organically and through acquisitions, continue to improve our operations, and be a stronger, more profitable, and more predictable business with the opportunity for significant and sustained value creation. Based on our anticipated cash flow generation profile, we will expect to be able to continue our cash dividend program and evaluate a full range of capital allocation alternatives, including maintaining a lower leveraged balance sheet compared to 2020, organic growth, acquisition and disposition opportunities, and stock repurchases.

As we look toward 2023, to 2024, we anticipate a very difficult freight environment for at least do not see anything in the first half of the year which could compress rates that would indicate a near-term recovery of the freight market. We anticipate a continuation of difficult conditions where capacity continues to exit the market at a rate that yields steady but modest improvement. In the first quarter, we expect our revenue and margins when compared earnings to 2022. However, decline, reflecting normal seasonality and the temporary headwinds of severe inclement weather conditions, year over year rate reductions in our Expedited reportable segment and incremental costs associated with a large new customer startup within our Dedicated reportable segment. Despite these short-term headwinds, we believe our more resilient operating model, together with the steps we are taking have taken to reduce costs and inefficiencies, will mitigate a portion of our historical volatility throughout economic and freight market cycles. Overall, we are pleased with our current position, which features a de-leveraged balance sheet, strong liquidity and a reduction of approximately 20% of the shares outstanding compared to a year ago. We will remain focused on growing our market share, continuing to improve our operations, and becoming a stronger, more profitable, and more predictable business with the opportunity have positioned us well for significant and sustained value creation. another successful year.

## RESULTS OF CONSOLIDATED OPERATIONS

Our Management's Discussion and Analysis of Financial Condition and Results of Operations included in this document generally discusses 2023 and 2022 items and year-to-year comparisons between 2023 and 2022. Discussions of 2021 items and year-to-year comparisons between 2022 and 2021. Discussions of 2020 items and year-to-year comparisons between 2021 and 2020 that are not included in this document can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 December 31, 2022.

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

### Revenue

(in thousands)	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Revenue:				
Freight revenue	\$ 1,046,396	\$ 949,913	\$ 970,509	\$ 1,046,396
Fuel surcharge revenue	170,462	96,090	133,064	170,462
Total revenue	\$ 1,216,858	\$ 1,046,003	\$ 1,103,573	\$ 1,216,858

The increase/decrease in total revenue resulted from a \$66.0 million/\$62.1 million, \$16.4 million/\$22.7 million, and \$14.3 million increase/\$11.6 million decrease in Expedited, Warehousing, Managed Freight, Dedicated, and Dedicated Expedited freight revenue, respectively, partially offset by a \$0.3 million decrease/\$20.5 million increase in freight revenue from our Managed Freight Warehousing reportable segment.

See results of reportable segment operations section for discussion of fluctuations.

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.

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.

### Salaries, wages, and related expenses

(dollars in thousands)

Salaries, wages, and related expenses

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 402,276	\$ 350,246	\$ 400,491	\$ 402,276
33.1 %	33.5 %	36.3 %	33.1 %
38.4 %	36.9 %	41.3 %	38.4 %

The **increase** **decrease** in salaries, wages, and related expenses on a dollars basis is primarily the result of **averaging fewer drivers and tractors resulting in lower driver salaries, wages, and benefits, partially offset by** driver and non-driver, including shop technicians, pay and benefits increases, **as well as increased group health costs and executive retirement costs since 2021, 2022.**

We believe **salaries, wages, driver** and **related expenses non-driver, including shop technicians, pay and benefits** will **continue to increase going forward as a result of driver pay changes put in place in tight freight and driver markets.** Additionally, we expect salaries, wages, and related expenses to continue to increase as the result of wage inflation, higher healthcare costs, and, in certain periods, increased incentive compensation due to better performance. **Driver pay may also fluctuate based on the number of miles driven.** While driver pay remains stable at the present time, we have historically put driver pay increases in place as necessary to address driver market pressure and will continue to do so in the future as necessary. If freight market rates increase, **further,** we would expect to, as we have historically, pass a portion of those rate increases on to our professional drivers. Salaries, wages, and related expenses will fluctuate to some extent based on the percentage of revenue generated by independent contractors and our Managed Freight reportable segment, for which payments are reflected in the purchased transportation line item.

### Fuel expense

(dollars in thousands)

Fuel expense

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 166,410	\$ 103,641	\$ 133,291	\$ 166,410
13.7 %	9.9 %	12.1 %	13.7 %
15.9 %	10.9 %	13.7 %	15.9 %

The **changes** **decreases** in total fuel expense are primarily related to **higher** **lower** fuel prices in **2022 2023** and **the** poor fuel economy **on abandoned of** leased tractors **partially offset by abandoned during 2022,** as well as a **3.5%** **0.6%** decrease in total miles.

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

The rate of fuel price changes also can have an impact on results. Most fuel surcharges are based on the average fuel price as published by the DOE for the week prior to the shipment, meaning we typically bill customers in the current week based on the previous week's applicable index. Therefore, in times of increasing fuel prices, we do not recover as much as we are currently paying for fuel. In periods of declining prices, the opposite is true. Fuel prices as measured by the DOE averaged approximately **\$4.99** **\$0.78** per gallon, or **51.7%** **15.6%,** **higher** **lower** in **2022 2023** than **2021, 2022.**

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, third-parties,** which is included in purchased transportation) from our fuel expense. The result is referred to as net fuel expense. Our net fuel expense as a percentage of freight revenue is affected by the cost of diesel fuel net of fuel surcharge revenue, the percentage of miles driven by company tractors, our fuel economy, and our percentage of deadhead miles, for which we do not receive material fuel surcharge revenues. Net fuel expense is shown below:

(dollars in thousands)

Total fuel surcharge

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 170,462	\$ 96,090	\$ 133,064	\$ 170,462

Less: Fuel surcharge revenue reimbursed to independent contractors and other third parties	11,156	7,683		
Less: Fuel surcharge revenue reimbursed to independent contractors and other third-parties			9,752	11,156
Company fuel surcharge revenue	\$ 159,306	\$ 88,407	\$ 123,312	\$ 159,306
Total fuel expense	\$ 166,410	\$ 103,641	\$ 133,291	\$ 166,410
Less: Company fuel surcharge revenue	159,306	88,407	123,312	159,306
Net fuel expense	\$ 7,104	\$ 15,234	\$ 9,979	\$ 7,104
% of freight revenue	0.7 %	1.6 %	1.0 %	0.7 %

Net fuel expense decreased \$8.1 million increased \$2.9 million, or 53.4% 40.5%, for the year ended December 31, 2022 December 31, 2023, compared to 2021 2022. As a percentage of freight revenue, net fuel expense decreased 0.9% increased 0.3% for the year ended December 31, 2022 December 31, 2023, compared to 2021. These decreases 2022, primarily resulted from increased due to decreased fuel surcharge revenue and fewer total miles, recovery partially offset by higher lower fuel costs. Additionally, none and \$0.4 million of prices. There were no diesel fuel hedge gains were reclassified from accumulated other comprehensive income to our results of operations or loss for the years ended December 31, 2022, and 2021, respectively, as changes to fuel expense related to the fuel hedge contracts that expired December 31, 2023 or 2022. As of December 31, 2022 December 31, 2023, we have had no remaining fuel hedge contracts.

We expect to continue managing our idle time and tractor speeds, investing in more fuel-efficient tractors and auxiliary power units to improve our miles per gallon, locking in fuel hedges when deemed appropriate, partnering with customers to adjust fuel surcharge programs that are inadequate to recover a fair portion of fuel costs, and testing the latest technologies that reduce fuel consumption. 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 from independent contractors, and the success of fuel efficiency initiatives.

#### Operations and maintenance

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
(dollars in thousands)				
Operations and maintenance	\$ 79,051	\$ 59,269	\$ 63,753	\$ 79,051
% of total revenue	6.5 %	5.7 %	5.8 %	6.5 %
% of freight revenue	7.6 %	6.2 %	6.6 %	7.6 %

The increase decrease in operations and maintenance expense on a dollars basis was primarily related to the increased reduced maintenance costs as a result of an increase a decrease in the average age of equipment through the replacement of older tractors that experienced higher operating costs as well as having fewer new drivers and a smaller average fleet as compared to 2022. Additionally, 2022 included unusually high maintenance costs on abandoned leased tractors, inflationary increases in the costs of parts and labor, as well as increased overage, shortage, and damage expense, as compared to 2021. These increases are partially offset by having a smaller fleet in 2022. tractors.

Going forward, we believe this category will fluctuate based on several factors, including the condition of the driver market and our ability to hire and retain drivers, our continued ability to maintain a relatively young fleet, accident severity and frequency, weather, the reliability of new and untested revenue equipment models, and the global disruption of the supply chain, however, such increases may be offset by reductions in the age of our fleet due to our replacement plan for 2023, as well as the removal of the abandoned leased tractors that were requiring unusually high maintenance costs. For 2023, due to the relatively new age of our tractor fleet and remaining unexpired warranty coverage for most of our tractors, we do not expect the percentage of our equipment being operated outside of warranty coverage to increase in any material respect even if delays occur; however, chain. Additionally, operations and maintenance costs may increase regardless due to if we experience wage and parts inflation.

#### Revenue equipment rentals and purchased transportation

	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
(dollars in thousands)				
Revenue equipment rentals and purchased transportation	\$ 325,624	\$ 331,685	\$ 271,893	\$ 325,624
% of total revenue	26.8 %	31.7 %	24.6 %	26.8 %
% of freight revenue	31.1 %	34.9 %	28.0 %	31.1 %

The decrease in revenue equipment rentals and purchased transportation was primarily the result of a reduction in purchased transportation costs in our Managed Freight reportable segment as a result of the softening freight market, partially offset by a the reduction in leased revenue equipment as the percentage result of the total miles run by independent



contractors largely transitioning from 8.2% for 2021 tractors held under operating leases to 6.6% for owned tractors in 2022, and the recognition of \$7.5 million of expense related to the early lease abandonment and disposal charges for tractors pulled from operations during the fourth quarter of 2022. These decreases were partially offset by an increase in the percentage of the total miles run by independent contractors from 6.6% for 2022 which have been the source of significant operational headwinds throughout the year due to poor fuel economy, unusually high maintenance costs, and elevated down time. 7.5% for 2023.

We expect revenue equipment rentals to decrease going forward as we largely transitioned from tractors held under operating leases to owned equipment during 2022. However, we expect purchased transportation to fluctuate as volumes in our Managed Freight reportable segment may be volatile. In addition, if fuel prices increase, it would result in a further increase in what we pay third party third-party carriers and independent contractors. However, this expense category will fluctuate with the number and percentage of loads hauled by independent contractors, loads handled by Managed Freight, and tractors, trailers, and other assets financed with operating leases. In addition, factors such as the cost to obtain third party third-party transportation services and the amount of fuel surcharge revenue passed through to the third party third-party carriers and independent contractors will affect this expense category. If industry-wide trucking capacity tightens in relation to freight demand, we may need to increase the amounts we pay to third-party transportation providers and independent contractors, which could increase this expense category on an absolute basis and as a percentage of freight revenue absent an offsetting increase in revenue. If we were to recruit more independent contractors we would expect this line item to increase as a percentage of revenue.

#### Operating taxes and licenses

(dollars in thousands)

Operating taxes and licenses

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 11,931	\$ 10,899	\$ 13,409	\$ 11,931
1.0 %	1.0 %	1.2 %	1.0 %
1.1 %	1.1 %	1.4 %	1.1 %

For the period presented, the change in operating taxes and licenses is insignificant both as a percentage of total revenue and freight revenue.

#### Insurance and claims

(dollars in thousands)

Insurance and claims

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 50,547	\$ 38,788	\$ 50,099	\$ 50,547
4.2 %	3.7 %	4.5 %	4.2 %
4.8 %	4.1 %	5.2 %	4.8 %

Insurance and claims per mile cost increased decreased slightly to 19.1 cents per mile for 2023 from 19.2 cents per mile for 2022 from 14.2 cents per mile in 2021 2022. The increase decrease is primarily the result of unfavorable development of a small number of prior period reduction in outside claims as well as claims experienced during 2022, partially offset by lower accident rates, an increase in insurance premiums compared to 2022.

Our insurance program includes multi-year policies with specific insurance limits that may be eroded over the course of the policy term. If that occurs, we will be operating with less liability coverage insurance at various levels of our insurance tower. For the policy period that ran from April 1, 2018 to March 31, 2021, the aggregate limits available in the coverage layer \$9.0 million in excess of \$1.0 million were estimated to be fully eroded based on claims expense accruals. expense. We replaced our \$9.0 million in excess of \$1.0 million layer with a new \$7.0 million in excess of \$3.0 million policy that runs from January 28, 2021 to April 1, 2024. Due to the erosion of the \$9.0 million in excess of \$1.0 million layer, any adverse developments in claims filed between April 1, 2018 and March 31, 2021, could result in additional expense accruals. We have maintained our retention and limits set in place during the prior renewal cycle. Due to these developments, we may experience additional expense accruals, increased insurance and claims expenses, and greater volatility in our insurance and claims expenses, which could have a material adverse effect on our business, financial condition, and results of operations.

We expect insurance and claims expense to continue to be volatile over the long-term. Recently the trucking industry has experienced a decline in the number of carriers and underwriters that write insurance policies or that are willing to provide insurance for trucking companies.

#### Communications and utilities

Year ended December 31,	Year ended December 31,
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(dollars in thousands)

Communications and utilities

% of total revenue

% of freight revenue

2022		2021		2023	2022
\$	5,385	\$	4,558	\$ 5,012	\$ 5,385
	0.4 %		0.4 %	0.5 %	0.4 %
	0.5 %		0.5 %	0.5 %	0.5 %

For the period presented, the change in communications and utilities are insignificant both as a percentage of total revenue and freight revenue.

#### General supplies and expenses

(dollars in thousands)

General supplies and expenses

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$	37,762	\$	29,673
	3.1 %		2.8 %
	3.6 %		3.1 %

The increase in general supplies and expenses was primarily the result of an increase of \$4.6 million for new leased spaces for our Warehousing reportable segment increased travel expenses, from 2022 to 2023 and the \$3.0 million increase in the contingent consideration liability since the 2021 2022 period related to the acquisition of AAT.

#### Depreciation and amortization

(dollars in thousands)

Depreciation and amortization

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$	57,512	\$	53,881
	4.7 %		5.2 %
	5.5 %		5.7 %

Depreciation and amortization consists primarily of depreciation of tractors, trailers and other capital assets (including those under finance leases), as well as amortization of intangible assets.

Depreciation increased \$3.4 million \$9.2 million in 2022 2023 to \$53.2 million \$62.4 million compared to 2021, 2022, primarily as a result of increased costs on new equipment and a higher percentage of owned tractors as we transitioned a large portion of tractors from operating leases to owned during 2022. These increases were partially offset by reduced average total tractor count. Amortization of intangible assets increased \$0.3 million \$3.2 million in 2022, 2023 to \$7.5 million compared to 2021, to \$4.3 million. This increase is 2022, primarily due to the amortization of the intangible asset assets related to the AAT acquisition partially offset by the completion of the amortization of the Landair trade name to the \$0.5 million residual value during the third quarter of 2021. LTST and Sims acquisitions.

We expect depreciation and amortization to increase going forward as the cost of new equipment increases and we implement see the full year effect of our 2023 revenue equipment replacement plan, and we transition from revenue equipment held under operating leases to a greater proportion of owned revenue equipment. plan. Additionally, changes in the used tractor market could cause us to adjust residual values, increase depreciation, hold assets longer than planned, or experience increased losses on sale. Successfully executing our 2024 growth plan could also increase depreciation and amortization going forward.

#### (Gain) loss Gain on disposition of property and equipment, net

(dollars in thousands)

Gain on disposition of property and equipment, net

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$	(40,322)	\$	(3,799)
	(3.3 %)		(0.4 %)
	(3.9 %)		(0.4 %)

The **increase decrease** in gain on disposition of property and equipment, net **are is** primarily the result of the \$38.5 million gain on sale of a California terminal in the third quarter of **2022**, **2022** partially offset by an increase in the sale of used equipment compared to **2022** and the \$7.6 million gain on sale of a Tennessee terminal in the first quarter of **2023**.

For **2023 2024** we **expected reduced expect** gains on disposition of property and equipment **as compared to 2022 be less than those of 2023** as a result of having no large real estate property sales planned **however, we expect this decrease to be partially offset by an increase in used tractor sales as we and having executed our 2023 equipment replacement plan which has helped return us** to a more normalized equipment replacement cycle.

#### **Interest expense, net**

(dollars in thousands)

Interest expense, net

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 3,083	\$ 2,791	\$ 7,967	\$ 3,083
0.3 %	0.3 %	0.7 %	0.3 %
0.3 %	0.3 %	0.8 %	0.3 %

For the period presented, the **change increase** in interest expense, net is **insignificant both** primarily the result of an increase in revenue equipment installment notes as a **percentage of total we implemented our 2023 revenue and freight revenue**, **equipment replacement plan**.

This line item will fluctuate based on our decision with respect to purchasing revenue equipment with balance sheet debt versus operating leases, **the implementation of** our revenue equipment replacement plan, **between now and the end of 2023, increasing changing** interest **rates, and our ability to continue to generate profitable results and maintain lower leverage than we have historically. rates.**

#### **Income from equity method investment**

(in thousands)

Income from equity method investment

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 25,193	\$ 14,782	\$ 21,384	\$ 25,193

We have accounted for our investment in TEL using the equity method of accounting and thus our financial results include our proportionate share of TEL's net income. For the year ended **December 31, 2022 December 31, 2023**, our earnings resulting from our investment in TEL **increased decreased to \$25.2 million \$21.4 million**. The **increase decrease in 2022 2023** as compared to **2021 2022** is the result of a **combination reduction of a rapidly growing business and gains gain on sale of used equipment that resulted from a constricted used equipment capacity in the transportation market that increased income from both equipment sales and leasing. revenue equipment**. Due to TEL's business model, gains and losses on sale of equipment is a normal part of the business and can cause earnings to fluctuate from **quarter period to quarter period** and therefore our income from investment to similarly fluctuate. We expect TEL's results for **2023 2024** to remain similar to those of **2022. 2023**.

#### **Income tax expense**

(dollars in thousands)

Income tax expense

% of total revenue

% of freight revenue

Year ended December 31,		Year ended December 31,	
2022	2021	2023	2022
\$ 34,860	\$ 20,962	\$ 17,611	\$ 34,860
2.9 %	2.0 %	1.6 %	2.9 %
3.3 %	2.2 %	1.8 %	3.3 %

The **increase decrease** in tax expense primarily relates to the **increase decrease** in operating income and earnings on investment in TEL as described above.

The effective tax rate is different from the expected combined tax rate due primarily to state tax expense and permanent differences, such as executive compensation disallowance in **2021. 2022**. The nondeductible effect of the per diem payments was temporarily suspended for **2021 and 2022** in accordance with IRS guidance issued during the quarter ended December 31, 2021. The rate impact of these items will fluctuate in future periods as income fluctuates.

## RESULTS OF SEGMENT OPERATIONS

We have four reportable segments, Expedited, Dedicated, Managed Freight, and Warehousing each as described under "Reportable Segments and Service Offerings" in Part I, Item 1 of this Annual Report on Form 10-K.

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

(in thousands)	Year ended December 31,		Year ended December 31,	
	2022	2021	2023	2022
Revenues:				
Expedited	\$ 452,713	\$ 337,063	\$ 423,820	\$ 452,713
Dedicated	362,997	324,541	320,287	362,997
Managed Freight	320,985	321,236	258,903	320,985
Warehousing	80,163	63,163	100,563	80,163
Total revenues	\$ 1,216,858	\$ 1,046,003	\$ 1,103,573	\$ 1,216,858
Operating Income (Loss):				
Operating Income:				
Expedited	\$ 60,552	\$ 33,064	\$ 28,861	\$ 60,552
Dedicated	21,087	(1,357)	17,712	21,087
Managed Freight	36,858	32,461	9,388	36,858
Warehousing	2,185	2,994	2,862	2,185
Total operating income	\$ 120,682	\$ 67,162	\$ 58,823	\$ 120,682

### Comparison of Year Ended December 31, 2022 December 31, 2023 to Year Ended December 31, 2021 December 31, 2022

Our Expedited total revenue increased \$115.7 million decreased \$28.9 million, as freight revenue increased \$66.0 million decreased \$11.6 million and fuel surcharge revenue increased \$49.6 million decreased \$17.3 million. The increase decrease in Expedited freight revenue relates to a decrease in average freight revenue per tractor per week of 1.4% compared to 2022 as well as a 17 (or 1.9%) average tractor decrease. The decrease in average freight revenue per tractor per week is the result of an 8.2%, or 19.1 cents per mile, decrease in average rate per total mile partially offset by an approximately 7.5% increase in average miles per tractor when compared to 2022. Seated team driven tractors increased approximately 5.0% to an average of 815 teams in 2023 from 776 teams in 2022.

Our Dedicated total revenue decreased \$42.7 million, as freight revenue decreased \$22.7 million and fuel surcharge revenue decreased \$20.0 million. The decrease in Dedicated freight revenue relates to a 168 (or 12.0%) average tractor decrease partially offset by an increase in average freight revenue per tractor per week of 17.0% 4.7%, compared to 2021 as well as a 42 (or 5.0%) average tractor increase. 2022. The increase in average freight revenue per tractor per week is the result of a 17.8% 1.3%, or 35.1 3.4 cents per mile, increase in average rate per total mile, partially offset by an approximately 0.7% decrease in average miles per tractor when compared to 2021. Seated team driven tractors increased approximately 9.1% to an average of 776 teams in 2022 from 711 teams in 2021.

Our Dedicated total revenue increased \$38.5 million, as freight revenue increased \$14.3 million and fuel surcharge revenue increased \$24.1 million. The increase in Dedicated freight revenue relates to an increase in average freight revenue per tractor per week of 16.3%, partially offset by a 149 (or 9.6%) average tractor decrease, compared to 2021. The increase in average freight revenue per tractor per week is the result of a 20.1%, or 44.1 cents per mile increase in average rate per total mile, partially offset by 3.1% fewer well as 3.4% more miles per tractor.

Managed Freight total revenue decreased \$0.3 million \$62.1 million in 2022, 2023, compared to 2021, 2022 as a result of reduced volumes of high-margin overflow freight from both Expedited and Dedicated truckload operations. With Revenue in this reportable segment is expected to fluctuate with changes in the softening freight market we anticipate the revenue attributable to overflow freight to continue to decline, and our percentage of contracted versus non-contracted freight.

The \$17.0 million \$20.4 million increase in Warehousing total revenue as is a result of period-over-period new customer business as well as rate increases with existing customers, customers since the third quarter of 2023.

Total operating income was \$120.7 million \$58.8 million in 2022, 2023, compared to operating income of \$67.2 million \$120.7 million in 2021, 2022. In addition to the changes in revenue described above, the change was impacted by an \$88.2 million, \$17.8 million, a \$39.3 million and \$16.0 million increase \$34.6 million decrease in Expedited, Warehousing, Dedicated and Dedicated Managed Freight operating expenses, respectively, partially offset by a \$4.6 million decrease \$19.7 million and \$2.8 million increase in Managed Freight Warehousing and Expedited operating expenses, expenses, respectively.

The increase in Expedited and Dedicated operating expenses was primarily due to the Expedited portion of the gain sale of a California terminal during the third quarter of 2022 (which resulted in lower operating expenses during 2022), increases in depreciation expense as a result of our equipment trade cycle, driver and non-driver pay increases, since 2021, and increased maintenance costs as a result of an increase in the average age of equipment and increases in the costs of parts and labor. Additionally, we've experienced increased overage, shortage, and damage expenses and insurance contingent consideration liability related expense when compared to 2021. The increased insurance expense is the result of unfavorable developments on a small number of prior period claims, as well as claims experience during 2022, partially offset by lower accident rates. The early lease abandonment and disposal charges for tractors pulled from operations during the fourth quarter of 2022, have also been the source of significant operational headwinds throughout the year due to poor fuel economy, unusually high maintenance costs, and elevated down time and also unfavorably impacted Expedited and Dedicated operating expenses as compared to 2021. AAT since 2022. These increases were partially offset by decreased fuel and maintenance and parts costs as well as averaging fewer drivers and tractors compared to 2022. The decrease in Dedicated operating expenses was primarily the \$38.5 million gain on result of averaging fewer drivers and tractors, resulting in lower driver salaries, wages, and benefits, reduced use of third-party purchased transportation, decreased fuel costs, and decreased maintenance and parts costs. Additionally, Expedited and Dedicated operating expenses were reduced as a result of the sale of a California Tennessee terminal in the third quarter of 2022, during 2023.

The decrease in Managed Freight operating expenses is the result of the changes in revenue driving changes in variable expenses, primarily purchased transportation. The increase in Warehousing operating expenses is a result of non-recurring temporary incremental costs associated with additional leased space and equipment for new startup business and the costs of securing additional unoccupied leased space pay increases, partially offset by a reduction in key locations, consistent with our longer-term growth strategy. We expect the startup and lease costs to normalize in 2023, improving margins, outsourced labor since 2022. In our asset-light reportable segments, we are prioritizing long-term growth, focusing on talent acquisition, and technology enhancements.

## LIQUIDITY AND CAPITAL RESOURCES

Our business requires significant capital investments over the short-term and the long-term. Historically, we have financed our capital requirements with borrowings under our Credit Facility, cash flows from operations, long-term operating leases, finance leases, secured installment notes with finance companies, and proceeds from the sale of our used revenue equipment. Going forward, we expect revenue equipment acquisitions to primarily be through purchases and finance leases to increase as a percentage of our fleet as we decrease our use of operating leases for revenue equipment. leases. Further, we expect to increase our capital allocation toward our Dedicated, Managed Freight, and Warehousing reportable segments to become the go-to partner for our customers' most critical transportation and logistics needs. We had working capital (total current assets less total current liabilities) of \$15.7 million and \$66.5 million at December 31, 2023 and \$45.8 million at December 31, 2022 and 2021, 2022, respectively. Our working capital on any particular day can vary significantly due to the timing of collections and cash disbursements. Based on our expected financial condition, net capital expenditures, results of operations, related net cash flows, installment notes, and other sources of financing, we believe our working capital and sources of liquidity will be adequate to meet our current and projected needs and we do not expect to experience material liquidity constraints in the foreseeable future.

With an average tractor fleet age of 2.1 1.6 years, we believe we have flexibility to manage our fleet, and we plan to regularly evaluate our tractor replacement cycle, new tractor purchase requirements, and purchase options. If we were to grow our independent contractor fleet, our capital requirements would be reduced.

As of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022 we had \$179.6 million \$293.5 million and \$74.3 million \$179.6 million in debt and lease obligations, respectively, consisting of the following:

- No \$11.6 million and no outstanding borrowings under the Credit Facility, respectively;
- No outstanding borrowings under the Draw Note, respectively; Note;
- \$88.9 \$213.9 million and \$4.5 million \$88.9 million in revenue equipment installment notes, respectively;
- \$20.3 \$19.1 million and \$21.5 million \$20.3 million in real estate notes, respectively;
- \$5.8 \$6.1 million and \$10.8 million \$5.8 million of the principal portion of financing lease obligations, respectively, and;
- \$64.6 \$42.8 million and \$37.4 million \$64.6 million of the operating lease obligations, respectively.

The increase in our revenue equipment installment notes was primarily due to replacing our older revenue equipment with new equipment as part of our trade cycle, equipment. The increase decrease in operating lease obligations was primarily due to additional facilities for new Warehousing customers largely having transitioned from tractors held under operating leases to owned tractors in 2022 as well as new operating leases for revenue equipment as part of our trade cycle, partially offset by amortization of the operating lease liability. While During the third quarter of 2023, we entered into a small number repaid \$40.1 million in borrowings under the Credit Facility that we had incurred during 2023 to help

fund the acquisition of operating leases for revenue equipment during 2022, as LTST and repurchases of December 31, 2022, 510 tractors and 121 trailers were financed our Class A Common Stock under operating leases or short term rentals, compared to 665 tractors and 103 trailers that were financed under operating leases or short term rentals as of December 31, 2021. the stock repurchase program.

As of December 31, 2022 December 31, 2023, we had no \$11.6 million of borrowings outstanding, undrawn letters of credit outstanding of approximately \$23.9 million \$21.8 million, and available borrowing capacity of \$86.1 million \$76.6 million under the Credit Facility. Additionally, we had availability of a \$45.0 million line of credit from Triumph Bank ("Triumph") which is available solely to fund any indemnification owed to Triumph in relation to the sale of TFS. See Note 1, "Summary of Significant Accounting Policies," of the accompanying consolidated financial statements for more information regarding our indemnification obligation to Triumph. Fluctuations in the outstanding balance and related availability under our Credit Facility are driven primarily by cash flows from operations and the timing and nature of property and equipment additions that are not funded through notes payable and leases, as well as the nature and timing of collection of accounts receivable, payments of accrued expenses, and receipt of proceeds from disposals of property and equipment. Refer to Note 8, 10, "Debt" of the accompanying consolidated financial statements for further information about material debt agreements.

Our net capital expenditures for the year ended December 31, 2022 December 31, 2023 totaled \$47.5 million \$125.8 million of expenditures as compared to \$8.9 million \$47.5 million of proceeds expenditures for the prior year. Our 2023 net capital investment included approximately \$91 million invested in the fourth quarter to acquire new tractors and trailers, of which approximately \$30 million was originally planned to be acquired in 2024. However, due to early availability and the ability to take advantage of certain tax incentives not available to us in 2024, we opportunistically elected to bring these purchases forward. For 2023, 2024, we are planning for a sizable increase in net capital expenditures as we return to a more normalized equipment replacement cycle. This replacement effort will occur against a backdrop of substantial price increases cycle with the potential for new equipment. The timing, cost, and projected fleet net capital expenditures will depend some growth if we're able to successfully execute on how these factors play out, our growth plan for our Dedicated reportable segment. Our baseline expectation for 2023 2024 fleet net capital expenditures is a range of \$75 million \$55 million to \$85 \$65 million, assuming scheduled deliveries and strong but moderating sale prices for used equipment. with the majority taking place during the second half of the year. These assumptions are subject to risk. For example, global supply chain disruptions similar to 2021 and 2022 could impact the availability of tractors and trailers and lead to increased pricing on new and used equipment. Net gains on disposal of equipment and real estate for 2022 December 31, 2023 were \$40.3 million \$12.6 million compared to \$3.8 million \$40.3 million in 2021 2022 primarily due to the \$38.5 million gain on a California terminal during 2022. 2022 and a \$7.6 million gain on the sale of a Tennessee terminal during 2023.

We had commitments outstanding at December 31, 2022 December 31, 2023, to acquire revenue equipment totaling approximately \$156.6 million in 2023 versus commitments at December 31, 2022 December 31, 2023 of approximately \$73.8 million \$156.6 million. These commitments are cancelable, subject to certain adjustments in the underlying obligations and benefits.

We distributed a total of \$4.3 million \$5.8 million to stockholders during 2022 December 31, 2023 through dividends, dividends compared to \$4.3 million during 2022.

We believe we have sufficient liquidity to satisfy our cash needs, however we continue to evaluate and act, as necessary, to maintain sufficient liquidity to ensure our ability to operate during these unprecedented times. We will continue to evaluate the nature and extent of the potential short-term and long-term impacts to our business.

## Cash Flows

Net cash flows provided by operating activities increased decreased to \$84.8 million in 2023, compared with \$159.2 million in 2022, compared with \$73.2 million in 2021, primarily due to an increase in receivables and driver advances as a \$108.7 million result of an increase in our average receivable days outstanding and a \$53.5 million decrease of net income, including which is partially the result of the \$38.5 million gain on sale of a California terminal during 2022, and a decrease in receivables and driver advances as a result of a decrease in our average receivable days outstanding. These increases were partially offset by decreases to non-cash expenses compared to the prior year. \$1.7 million indemnification payment during 2023.

Net cash flows used by investing activities were \$86.2 million \$235.9 million in 2022, 2023, compared with \$10.3 million provided \$86.2 million used in 2021, 2022. The change increase in net cash flows related to used by investing activities was primarily the result of the February 2022 acquisition of AAT partially offset by the sale of a California terminal during the third quarter of 2022. The change is also due to the timing of our trade cycle whereby we took delivery of approximately 458 1,242 new company tractors and disposed of approximately 223 1,235 used tractors in 2022, 2023, compared to delivery of 247 458 new company tractors and disposal of 362 223 used company tractors in 2021, 2022, the April 2023 acquisition of LTST, and the August 2023 acquisition of Sims. The 2022 period includes the February 2022 acquisition of AAT as well as the sale of a California terminal.

Net cash flows used in provided by financing activities were approximately \$12.8 million \$84.7 million in 2022, 2023, compared to \$83.6 million \$12.8 million used in 2021, 2022. The decrease change in net cash flows used in from financing activities was primarily the result of net proceeds relating to notes payable the Draw Note, and our Credit Facility of \$129.7 million in 2023, compared to net proceeds of \$77.7 million in 2022, compared to net repayments of \$70.7 million in 2021, partially offset by the repurchase of \$84.7 million \$25.4 million of shares of our Class A common stock during 2022, 2023 compared to \$10.3 million \$84.7 million during 2021, 2022, as well as the payment of approximately \$4.3 million \$5.8 million in dividends during 2023 compared to \$4.3 million during 2022.



On January 25, 2021 Net cash flows provided by operating activities and financing activities in the 2023 period also included payment of \$0.8 million and \$9.2 million, our Board approved respectively, of contingent consideration liabilities related to the repurchase acquisition of up to \$40.0 million of our outstanding Class A common stock. Under such authorization, we repurchased 0.5 million shares of our Class A common stock for \$8.1 million during the three months ended March 31, 2021. On August 5, 2021, our Board increased such authorization to \$40.0 million. As of January 1, 2022, there was approximately \$38.0 million remaining under such authorization. On February 10, 2022, our Board adopted a 10b5-1 plan for the purchase of up to \$30.0 million in shares subject to defined trading parameters, under our then current stock repurchase program. Under such authorization, we repurchased 1.4 million shares of our Class A common stock for \$30.0 million completing the program in May 2022. AAT.

On May 18, 2022, our Board approved a new stock repurchase authorization of up to \$75.0 million of our Class A common stock, with any remaining amount available under prior authorizations being excluded and no longer available. Under such authorization, we repurchased 2.0 million shares of our Class A common stock for \$54.7 million during 2022. On January 30, 2023, the Board approved an amendment to the Company's stock repurchase program authorizing the purchase of up to an aggregate \$55 million \$55.0 million of our Class A common stock. The amendment added an incremental approximately \$37.5 million to the approximately \$17.5 million that was then-remaining under the program.

We Between May 2022 and April 2023, we repurchased an additional 0.3 million a total of 2.7 million shares of our Class A common stock through February 24, 2023, for a total of 3.7 million stock. No additional shares have been repurchased since February 2022. April 2023 (through February 26, 2024).

Our cash flows may fluctuate depending on capital expenditures, future stock repurchases, dividends, strategic investments or divestitures, any indemnification calls related to the TFS settlement, and the extent of future income tax obligations and refunds.

#### Non-GAAP Financial Measures

##### Operating Ratio

Operating Ratio ("OR") For 2022 2023 and 2021: 2022:

(dollars in thousands)		For the twelve months ended December 31, 2022					For the twelve months ended December 31, 2023				
GAAP	Operating Ratio:	Combined	Expedited	Dedicated	Managed Freight	Warehousing	Combined	Expedited	Dedicated	Managed Freight	Warehousing
Total revenue		\$ 1,216,858	\$ 452,713	\$ 362,997	\$ 320,985	\$ 80,163	\$ 1,103,573	\$ 423,820	\$ 320,287	\$ 258,903	\$ 100,563
Total operating expenses		1,096,176	392,161	341,910	284,127	77,978	1,044,750	394,959	302,575	249,515	97,701
Operating income (loss)		\$ 120,682	\$ 60,552	\$ 21,087	\$ 36,858	\$ 2,185	\$ 58,823	\$ 28,861	\$ 17,712	\$ 9,388	\$ 2,862
Operating ratio		90.1 %	86.6 %	94.2 %	88.5 %	97.3 %	94.7 %	93.2 %	94.5 %	96.4 %	97.2 %

(dollars in thousands)		For the twelve months ended December 31, 2022					For the twelve months ended December 31, 2023				
Adjusted	Operating Ratio:	Combined	Expedited	Dedicated	Managed Freight	Warehousing	Combined	Expedited	Dedicated	Managed Freight	Warehousing
Total revenue		\$ 1,216,858	\$ 452,713	\$ 362,997	\$ 320,985	\$ 80,163	\$ 1,103,573	\$ 423,820	\$ 320,287	\$ 258,903	\$ 100,563
Fuel surcharge revenue		(170,462)	(97,353)	(71,798)	-	(1,311)	(133,064)	(80,041)	(51,822)	-	(1,201)
Freight revenue (total revenue, excluding fuel surcharge)		1,046,396	355,360	291,199	320,985	78,852	970,509	343,779	268,465	258,903	99,362
Total operating expenses		1,096,176	392,161	341,910	284,127	77,978	1,044,750	394,959	302,575	249,515	97,701
Adjusted for:											
Fuel surcharge revenue		(170,462)	(97,353)	(71,798)	-	(1,311)	(133,064)	(80,041)	(51,822)	-	(1,201)
Amortization of intangibles (1)		(4,306)	(1,956)	(1,173)	(141)	(1,036)	(7,515)	(2,133)	(3,900)	(446)	(1,036)
Gain on sale of terminals, net		38,542	21,223	17,319	-	-	7,627	3,928	3,699	-	-

Contingent consideration liability adjustment	(813)	(813)	-	-	-	(2,977)	(2,977)	-	-	-
Abandonment of revenue equipment	(9,985)	(3,829)	(6,156)	-	-					
Transaction and executive retirement						(2,158)	(1,113)	(876)	(90)	(79)
Adjusted operating expenses	949,152	309,433	280,102	283,986	75,631	906,663	312,623	249,676	248,979	95,385
Adjusted operating income	\$ 97,244	\$ 45,927	\$ 11,097	\$ 36,999	\$ 3,221	\$ 63,846	\$ 31,156	\$ 18,789	\$ 9,924	\$ 3,977
Adjusted operating ratio	90.7 %	87.1 %	96.2 %	88.5 %	95.9 %	93.4 %	90.9 %	93.0 %	96.2 %	96.0 %

(1) "Amortization of intangibles" reflects the non-cash amortization expense relating to intangible assets.

(dollars in thousands)		For the twelve months ended December 31, 2021					For the twelve months ended December 31, 2022				
GAAP Operating Ratio:		Combined	Expedited	Dedicated	Managed Freight	Warehousing	Combined	Expedited	Dedicated	Managed Freight	Warehousing
Total revenue		\$ 1,046,003	\$ 337,063	\$ 324,541	\$ 321,236	\$ 63,163	\$ 1,216,858	\$ 452,713	\$ 362,997	\$ 320,985	\$ 80,163
Total operating expenses		978,841	303,999	325,898	288,775	60,169	1,096,176	392,161	341,910	284,127	77,978
Operating income (loss)		\$ 67,162	\$ 33,064	\$ (1,357)	\$ 32,461	\$ 2,994	\$ 120,682	\$ 60,552	\$ 21,087	\$ 36,858	\$ 2,185
Operating ratio		93.6 %	90.2 %	100.4 %	89.9 %	95.3 %	90.1 %	86.6 %	94.2 %	88.5 %	97.3 %

(dollars in thousands)		For the twelve months ended December 31, 2021					For the twelve months ended December 31, 2022				
Adjusted Operating Ratio:		Combined	Expedited	Dedicated	Managed Freight	Warehousing	Combined	Expedited	Dedicated	Managed Freight	Warehousing
Total revenue		\$ 1,046,003	\$ 337,063	\$ 324,541	\$ 321,236	\$ 63,163	\$ 1,216,858	\$ 452,713	\$ 362,997	\$ 320,985	\$ 80,163
Fuel surcharge revenue		(96,090)	(47,713)	(47,678)	-	(699)	(170,462)	(97,353)	(71,798)	-	(1,311)
Freight revenue (total revenue, excluding fuel surcharge)		949,913	289,350	276,863	321,236	62,464	1,046,396	355,360	291,199	320,985	78,852
Total operating expenses		978,841	303,999	325,898	288,775	60,169	1,096,176	392,161	341,910	284,127	77,978
Adjusted for:											
Fuel surcharge revenue		(96,090)	(47,713)	(47,678)	-	(699)	(170,462)	(97,353)	(71,798)	-	(1,311)
Amortization of intangibles (1) (2)		(4,043)	-	(2,097)	(525)	(1,421)	(4,306)	(1,956)	(1,173)	(141)	(1,036)
Gain on disposal of terminals, net							38,542	21,223	17,319	-	-
Impairment of real estate and related tangible assets							(813)	(813)	-	-	-
Impairment of revenue equipment and related charges							(9,985)	(3,829)	(6,156)	-	-

Adjusted operating expenses	878,708	256,286	276,123	288,250	58,049	949,152	309,433	280,102	283,986	75,631
Adjusted operating income	\$ 71,205	\$ 33,064	\$ 740	\$ 32,986	\$ 4,415	\$ 97,244	\$ 45,927	\$ 11,097	\$ 36,999	\$ 3,221
Adjusted operating ratio	92.5%	88.6%	99.7%	89.7%	92.9%	90.7%	87.1%	96.2%	88.5%	95.9%

(1) "Amortization of intangibles" reflects the non-cash amortization expense relating to intangible assets.

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

## CRITICAL ACCOUNTING ESTIMATES

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

### Revenue Equipment

Management estimates the useful lives and salvage value of revenue equipment based upon, among other things, the expected use, our experience with similar assets, conditions in the used revenue equipment market, and prevailing industry practice. We generally depreciate new tractors over five years to salvage values that range from 10% 0% to 35% of cost, depending on the reportable segment profile of the equipment. We generally depreciate new trailers over seven years for refrigerated trailers and ten years for dry van trailers to salvage values of approximately 28% and 29% 25% of their cost, respectively. Historically, changes in estimated useful life or salvage values have typically resulted from us transferring tractors to different reportable segments with different operating profiles. Significant fluctuations in the used equipment market could have a material effect on our results of operations.

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

### Business Combination Estimates

Acquisitions are accounted for using the purchase method. Consideration is typically paid in the form of cash paid at closing while contingent consideration is paid upon the satisfaction of a future obligation. If contingent consideration is included in the purchase price, then the consideration is valued as of the acquisition date. The purchase price of an acquired businesses is allocated to the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition. The assets acquired and liabilities assumed are determined by understanding the operations, interviewing management and reviewing the financial and contractual information of the acquired business. The calculations used to determine the fair value of the long-lived assets acquired, including intangible assets, revenue equipment and properties can be complex and require significant judgment. For the valuation of long-lived assets we weigh many factors when completing these estimates. We may also engage independent valuation specialists to assist in the fair value calculations. During 2023 we engaged valuation specialists to assist us in determining the fair value of intangible assets and revenue equipment acquired through our acquisitions of LTST and Sims. Goodwill is not amortized, but is subject to impairment testing on at least an annual basis and its valuation is directly impacted by the valuation estimates of the other acquired long-lived assets. We are also required to determine if an intangible asset has a finite or indefinite life. For intangible assets determined to have a finite life, we estimate the useful lives of the acquired intangible assets, which determines the amount of acquisition-related amortization expense we will record in future periods. While we use our best estimates and assumptions, our fair value estimates are inherently uncertain. During the measurement period, which may be up to one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Any adjustments required after the one year

measurement period would be recorded in the consolidated statements of operations. The judgments required in determining the estimated fair values and expected useful lives assigned to each class of assets can significantly affect net income.

#### Goodwill and Other Intangible Assets

We classify intangible assets into two categories: (i) goodwill and (ii) intangible assets with finite lives subject to amortization.

We test goodwill for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. We may elect to perform an assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, including goodwill. When performing the qualitative assessment, the Company considers the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If, based on the qualitative assessments, the Company believes it more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, or periodically as deemed appropriate by management, we will prepare an estimation of the respective reporting unit's fair value utilizing a quantitative approach. When using a quantitative approach, the fair value of our reporting units is based on a blend of estimated discounted cash flows and publicly traded company multiples. The results of these models are then weighted and combined into a single estimate of fair value for our reporting units. Estimated discounted cash flows are based on projected sales and related cost of sales. Publicly traded company multiples and acquisitions are derived from information on traded shares and analysis of recent acquisitions in the marketplace, respectively, for companies with operations similar to ours. The primary assumptions used in these various models include earnings multiples of acquisitions in a comparable industry, future cash flow estimates of each of the reporting units, weighted average cost of capital, working capital and capital expenditure requirements.

We completed our annual goodwill impairment test, using the qualitative test, as of October 1, 2022 October 1, 2023, for each of our reporting units. As a result of the most recent goodwill impairment analysis performed (October 1, 2022 2023), no impairment was indicated.

We test intangible assets with finite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. Such conditions may include an economic downturn in a geographic market or a change in the assessment of future operations. We record an impairment charge when the carrying value of the finite lived intangible asset is not recoverable by the cash flows generated from the use of the asset. We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement, the history of the asset, our long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have finite lives are amortized, generally on a straight-line basis, over their useful lives, ranging from 3 to 15 17 years.

#### Self-Insurance Accruals

We record a liability for the estimated cost of the uninsured portion of pending claims and the estimated allocated loss adjustment expenses including legal and other direct costs associated with a claim. Estimates require, among other things, judgments concerning the nature and severity of the claim, historical trends, advice from third-party administrators and insurers, the size of any potential damage award based on factors such as the specific facts of individual cases, the jurisdictions involved, the prospect of punitive damages, future medical costs, and inflation estimates of future claims development, and the legal and other costs to settle or defend the claims.

Self-insured liabilities represent management's best estimate of our ultimate obligations.

#### INFLATION, NEW EMISSIONS CONTROL REGULATIONS, AND FUEL COSTS

Most of our operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. In recent years, the most significant effects of inflation have been on revenue equipment prices and the related depreciation, litigation and claims, and driver and non-driver wages. New emissions control regulations and increases in wages of manufacturing workers and other items have resulted in higher tractor prices, while the market value of used equipment fluctuated significantly. The cost of fuel has been volatile over the last several years, with costs increasing in 2019, 2021 and 2022 but decreasing in 2020, 2023. Health care prices have increased faster than general inflation, primarily due to the rapid increase in prescription drug costs and more people on our health plan. The nationwide shortage of qualified drivers has caused us to raise driver wages per mile at a rate faster than general inflation for the past four years, and this trend may continue as additional government regulations constrain industry capacity. Additionally, competition and the related cost to employ non-drivers have increased, especially for the more skilled or technical positions, including mechanics, those with information technology related skills, and degreed professionals.

#### Geographic Areas

We operate throughout the U.S. and all of our tractors are domiciled in the U.S. All of our revenue generated was generated within the U.S. in 2021 2022 and 2022, 2023. We do not separately track domestic and foreign revenue from customers, and providing such information would not be meaningful. Excluding a de minimis number of trailers, all of our long-

lived assets are, and have been for the last two fiscal years, located within the United States.

## SEASONALITY

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

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### COMMODITY PRICE RISK

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

In an effort to seek to reduce the variability of the ultimate cash flows associated with fluctuations in diesel fuel prices, we have periodically entered into various derivative instruments, including forward futures swap contracts. We have historically entered into hedging contracts with respect to ULSD. Under these contracts, we paid a fixed rate per gallon of ULSD and received the monthly average price of Gulf Coast ULSD. The retrospective and prospective regression analyses provided that changes in the prices of diesel fuel and ULSD were deemed to be highly effective based on the relevant authoritative guidance. As of **December 31, 2022** **December 31, 2023**, we have no remaining fuel hedge contracts in our consolidated balance sheet. We do not engage in speculative transactions, nor do we hold or issue financial instruments for trading purposes.

A one dollar increase in the price of diesel per gallon would **increase** **decrease** our net income by **\$0.3** **less than \$0.1** million. This sensitivity analysis considers that we expect to purchase approximately **17.8 million** **12.6 million** gallons of diesel annually, with an assumed fuel surcharge recovery rate of **102.4%** **99.8%** of the cost (which was our fuel surcharge recovery rate during the year ended **December 31, 2022** **December 31, 2023**).

### INTEREST RATE RISK

In August 2015, we entered into an interest rate swap agreement with a notional amount of \$28.0 million, which was designated as a hedge against the variability in future interest payments due on the debt associated with the purchase of our corporate headquarters. The terms of the swap agreement effectively convert the variable rate interest payments on this note to a fixed rate of 4.2% through maturity on August 1, 2035. In 2016, we also entered into several interest rate swaps all of which fully matured during 2022, which were designated to hedge against the variability in future interest rate payments due on rent associated with the purchase of certain trailers. Because the critical terms of the swap and hedged item coincide, in accordance with the requirements of ASC 815, the change in the fair value of the derivative is expected to exactly offset changes in the expected cash flows due to fluctuations in the **LIBOR** **SOFR** rate over the term of the debt instrument, and therefore no ongoing assessment of effectiveness is required. For the years ended **December 31, 2022** **December 31, 2023** and **2021** **2022**, the fair value of the swap agreements, amounts reclassified from accumulated other comprehensive loss into our results of operations, and amounts expected to be reclassified from accumulated other comprehensive income into our results of operations during the next twelve months due to interest rate changes, are approximately **\$0.3 million** **\$0.4 million**. **Cash settlements are presented in operating activities on the Consolidated Statements of Cash Flows.** The amounts actually realized will depend on the fair values as of the date of settlement.

Our market risk is also affected by changes in interest rates. Historically, we have used a combination of fixed-rate and variable-rate obligations to manage our interest rate exposure. Fixed-rate obligations expose us to the risk that interest rates might fall. Variable-rate obligations expose us to the risk that interest rates might rise. Of our total \$179.6 million \$293.5 million of debt including operating and finance leases, we had \$20.3 million \$30.7 million of variable rate debt outstanding at December 31, 2022 December 31, 2023, of which consisted of \$19.1 million related to a real-estate note which is hedged with the interest rate swap agreement noted above at 4.2%. Our earnings would be affected by changes in these short-term interest rates, if we were to borrow under our Credit Facility or otherwise incur variable-rate obligations. Risk can be quantified by measuring the financial impact of a near-term adverse increase in short-term interest rates. At our December 31, 2022 December 31, 2023 level of borrowing on our non-hedged variable rate debt, a 1% increase in our applicable rate would have an immaterial impact to our consolidated results of operations. Our remaining debt is fixed rate debt, and therefore changes in market interest rates do not directly impact our interest expense.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements of Covenant Logistics Group, Inc. and subsidiaries, including the consolidated balance sheets as of December 31, 2022 December 31, 2023 and 2021, 2022, and the related statements of operations, statements of comprehensive income, statements of stockholders' equity, and statements of cash flows for each of the years in the two-year three-year period ended December 31, 2022 December 31, 2023, together with the related notes, and the report of Grant Thornton LLP, our independent registered public accounting firm as of December 31, 2022 December 31, 2023, and for each of the years in the two three year period ended December 31, 2022 December 31, 2023, are set forth starting at pages 52 through 53 elsewhere page 51 in this report.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There has been no change in or disagreement with accountants on accounting or financial disclosure during our two most recent fiscal years. None.

#### ITEM 9A. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operations of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2022 December 31, 2023.

During the third quarter of 2023, we identified a deficiency in our disclosure controls and procedures related to our review of the calculation of the significance of our acquisition of LTST. We did not identify that an incorrect input was used within the significance determination. As a result of this incorrect input, we did not identify the need to provide certain audited financial statements and related pro forma information for LTST on Form 8-K. This did not impact our current financial reporting or the Company's current or historical financial statements. On April 27, 2023, we filed a Form 8-K disclosing our acquisition of LTST (the "Original Form 8-K"). On August 3, 2023, we filed an amendment to the Original Form 8-K, confirming that such financial statements, to the extent required, would be filed as an amendment to the Original Form 8-K as soon as they were available. On November 15, 2023, we filed a second amendment to the Original Form 8-K to present required combined financial statements of Lew Thompson & Son and to present required unaudited pro forma consolidated financial statements in connection with our acquisition of Lew Thompson & Son. We have implemented processes to properly identify the significance of acquisitions and believe that the controls deficiency was remediated as of December 31, 2023.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving its control objectives.

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 control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. As a result of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all our control issues and instances of fraud, if any, have been detected.

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



Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act). Management, including our Chief Executive Officer and Chief Financial Officer under the oversight of our Board, assessed the effectiveness of our internal control over financial reporting as of **December 31, 2022** **December 31, 2023**. In making this assessment, our management used the criteria for effective internal control over financial reporting described in "Internal Control-Integrated Framework (2013)," issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on its assessment, management believes that, as of **December 31, 2022** **December 31, 2023**, our internal control over financial reporting is effective based on those criteria.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving its control objectives.

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

We acquired **AAT** **LTST** on **February 9, 2022** **April 26, 2023**, and we acquired **Sims** on **August 18, 2023**, and management excluded from its assessment of the effectiveness of internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, **AAT's** **LTST's** and **Sims'** internal control over financial reporting associated with total assets representing approximately of **1.1%** and **1.3%**, respectively, and total revenues representing approximately **7.2%** **3.8%** and **2.7%** **0.5%**, respectively, of the consolidated financial statements as of and for the year ended **December 31, 2022** **December 31, 2023**.

The Company's internal control over financial reporting as of **December 31, 2022** **December 31, 2023**, has been audited by Grant Thornton, LLP, an independent registered public accounting firm as stated in its report which is included herein.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) that occurred during the fourth quarter of fiscal year **2022, 2023**, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial **reporting, reporting, except for the remediation of the controls deficiency related to the significance of our acquisition of LTST as discussed above.**

#### ITEM 9B. OTHER INFORMATION

None.

#### ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

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### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this Item will be included in the Company's definitive proxy statement to be filed with the SEC within 120 days after **December 31, 2022** **December 31, 2023**, in connection with the solicitation of proxies for the Company's **2023** **2024** Annual Meeting of Stockholders (the "**2023** **2024** Proxy Statement"), and is incorporated herein by reference.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item will be included in the **2023** **2024** Proxy Statement, and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table provides certain information, as of **December 31, 2022** **December 31, 2023**, with respect to our compensation plans and other arrangements under which shares of our Class A common stock are authorized for issuance.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining eligible for future issuance under equity compensation plans (excluding securities reflected in column (a))	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining eligible for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,575,667 (1)	\$ 18.04	872,509	1,305,447 (1)	\$ 18.07	1,271,739
Equity compensation plans not approved by security holders	-	-	-	-	-	-
Total	1,575,667	\$ 18.04	872,509	1,305,447	\$ 18.07	1,271,739

(1) Represents unvested restricted shares and unvested stock options granted under the 2006 Omnibus Incentive Plan, as amended. The weighted average stock price on the date of grant for outstanding restricted stock awards was **\$19.12**, **\$29.20**, which is not reflected in column (b), because restricted stock awards do not have an exercise price. The amount in column (b) represents the weighted average exercise price of the outstanding unvested stock options.

The information required by this Item will be included in the **2023** **2024** Proxy Statement, and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item will be included in the **2023** **2024** Proxy Statement, and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The remaining information required by this Item will be included in the **2023** **2024** Proxy Statement, and is incorporated herein by reference.

PART IV

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements.

Our audited consolidated financial statements are set forth at the following pages of this report:

<a href="#">Report of Independent Registered Public Accounting Firm - Opinion on the Consolidated Financial Statements (PCAOB ID Number 248)</a>	52 51
<a href="#">Report of Independent Registered Public Accounting Firm - Opinion on Internal Control Over Financial Reporting</a>	52
<a href="#">Report of Independent Registered Public Accounting Firm - Opinion on the Consolidated Financial Statements (PCAOB ID Number 430)</a>	53
<a href="#">Consolidated Balance Sheets</a>	54
<a href="#">Consolidated Statements of Operations</a>	55
<a href="#">Consolidated Statements of Comprehensive Income</a>	56
<a href="#">Consolidated Statements of Stockholders' Equity</a>	57
<a href="#">Consolidated Statements of Cash Flows</a>	58
<a href="#">Notes to Consolidated Financial Statements</a>	59

2. Financial Statement Schedules.

Financial statement schedules are not required because all required information is included in the financial statements or is not applicable.

3. Exhibits.

The exhibits required to be filed by Item 601 of Regulation S-K are listed under paragraph (b) below and on the Exhibit Index appearing at the end of this report. Management contracts and compensatory plans or arrangements are indicated by an asterisk.

(b) Exhibits.

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

Exhibit Number	Reference	Description
<a href="#">2.1</a>		Accounts Receivable Purchase Agreement by and between Covenant Transport Solutions, LLC and Advance Business Capital LLC, dated as of July 8, 2020 (Incorporated by reference to Exhibit 2.1 to the Company's Form 10-Q, filed November 3, 2020)
<a href="#">3.1</a>		Third Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K, filed July 2, 2020)
<a href="#">3.2</a>		Sixth Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.2 to the Company's Report on Form 8-K, filed August 9, 2021)
<a href="#">4.1</a>		Third Amended and Restated Articles of Incorporation (Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K, filed July 2, 2020)
<a href="#">4.2</a>		Sixth Amended and Restated Bylaws (Incorporated by reference to Exhibit 3.2 to the Company's Report on Form 8-K, filed August 9, 2021)
<a href="#">4.3</a>	#	Description of the Registrant's Securities (Incorporated by reference to Exhibit 4.3 to the Company's Form 10-K, filed February 28, 2023)
<a href="#">10.1</a>	*	Form of Indemnification Agreement for Executive Officers and Directors (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed August 5, 2021)
<a href="#">10.2</a>	*	Form of Restricted Stock Award Notice under the 2006 Omnibus Incentive Plan (Incorporated by reference to Exhibit 10.22 to the Company's Form 10-Q, filed August 9, 2006)
<a href="#">10.3</a>	*	Form of Restricted Stock Special Award Notice under the 2006 Omnibus Incentive Plan (Incorporated by reference to Exhibit 10.23 to the Company's Form 10-Q, filed August 9, 2006)
<a href="#">10.4</a>		Third Amended and Restated Credit Agreement, dated September 23, 2008, 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., Bank of America, N.A., JPMorgan Chase Bank, N.A., and Textron Financial Corporation (Incorporated by reference to Exhibit 10.14 to the Company's Form 10-K, filed March 30, 2010)
<a href="#">10.5</a>	*	Covenant Transportation Group, Inc. Third Amended and Restated 2006 Omnibus Incentive Plan (Incorporated by reference to Appendix A to the Company's Schedule 14A, filed April 19, 2013)
<a href="#">10.6</a>		Amendment No. 1 to Third Amended and Restated Credit Agreement, dated March 27, 2009, 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., Bank of America, N.A., JPMorgan Chase Bank, N.A., and Textron Financial Corporation (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed May 15, 2009)

<a href="#">10.7</a>	Second Amendment to Third Amended and Restated Credit Agreement, dated February 25, 2010, 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., Bank of America, N.A., JPMorgan Chase Bank, N.A., and Textron Financial Corporation (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed May 17, 2010)
<a href="#">10.8</a>	Third Amendment to Third Amended and Restated Credit Agreement, dated July 30, 2010, 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., Bank of America, N.A., and JP Morgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed November 9, 2010)
<a href="#">10.9</a>	Fourth Amendment to Third Amended and Restated Credit Agreement, dated August 31, 2010, 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., Bank of America, N.A., and JP Morgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed November 9, 2010)
<a href="#">10.10</a>	Fifth Amendment to Third Amended and Restated Credit Agreement, dated September 1, 2011, 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., Bank of America, N.A., and JP Morgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K, filed October 28, 2011)
<a href="#">10.11</a>	Sixth Amendment to Third Amended and Restated Credit Agreement, dated effective as of October 24, 2011, 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., Bank of America, N.A., and JP Morgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K, filed October 28, 2011)
<a href="#">10.12</a>	Seventh Amendment to Third Amended and Restated Credit Agreement, dated effective as of March 29, 2012, 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., Bank of America, N.A., and JP Morgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K, filed April 2, 2012)
<a href="#">10.13</a>	Eighth Amendment to Third Amended and Restated Credit Agreement, dated effective as of December 31, 2012, 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., Bank of America, N.A., and JP Morgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K, filed January 31, 2013)
<a href="#">10.14</a>	Ninth Amendment to Third Amended and Restated Credit Agreement and Related Security Documents, dated effective as of August 6, 2014, 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., Bank of America, N.A., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed November 13, 2014)
<a href="#">10.15</a>	Tenth Amendment to Third Amended and Restated Credit Agreement and Related Security Documents, dated effective as of September 8, 2014, 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., Bank of America, N.A., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed November 13, 2014)
<a href="#">10.16</a>	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, LLC, 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. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed November 9, 2015)
<a href="#">10.17</a>	Twelfth Amendment to Third Amended and Restated Credit Agreement, dated effective as of February 25, 2016, among Covenant Transportation Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, 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. (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed May 10, 2016)
<a href="#">10.18</a>	Thirteenth Amendment to Third Amended and Restated Credit Agreement, dated effective as of December 16, 2016, among Covenant Transportation Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, Southern Refrigerated Transport, Inc., Covenant Transport Solutions, Inc., Star Transportation, Inc., Driven Analytic Solutions, LLC, Bank of America, N.A., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.26 to the Company's Form 10-K, filed March 14, 2017)
<a href="#">10.19</a>	Fourteenth Amendment to Third Amended and Restated Credit Agreement, dated effective as of November 28, 2017, among Covenant Transportation Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, Southern Refrigerated Transport, Inc., Covenant Transport Solutions, Inc., Star Transportation, Inc., Driven Analytic Solutions, LLC, Transport Management Services, LLC, Bank of America, N.A., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.27 to the Company's Form 10-K, filed February 28, 2018)

<a href="#">10.20</a>		Fifteenth Amendment to Third Amended and Restated Credit Agreement, dated effective as of June 19, 2018, among Covenant Transportation Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, Southern Refrigerated Transport, Inc., Covenant Transport Solutions, LLC, Star Transportation, Inc., Covenant Logistics, Inc., Driven Analytic Solutions, LLC, Transport Management Services, LLC, Bank of America, N.A., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed August 8, 2018)
<a href="#">10.21</a>		Sixteenth Amendment to Third Amended and Restated Credit Agreement, dated effective as of July 3, 2018, among Covenant Transportation Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, Southern Refrigerated Transport, Inc., Covenant Transport Solutions, LLC, Star Transportation, Inc., Covenant Logistics, Inc., Driven Analytic Solutions, LLC, Transport Management Services, LLC, Landair Holdings, Inc., Landair Transport, Inc., Landair Logistics, Inc., Landair Leasing, Inc., Bank of America, N.A., and JPMorgan Chase Bank, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed November 9, 2018)
<a href="#">10.22</a>		Seventeenth Amendment to Third Amended and Restated Credit Agreement, dated as of September 23, 2020, among Covenant Logistics Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, Southern Refrigerated Transport, Inc., Covenant Transport Solutions, LLC, Star Transportation, Inc., Covenant Logistics, Inc., Transport Management Services, LLC, Landair Holdings, Inc., Landair Transport, Inc., Landair Logistics, Inc., Landair Leasing, Inc., and Bank of America, N.A. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q, filed November 3, 2020)
<a href="#">10.23</a>		Eighteenth Amendment to Third Amended and Restated Credit Agreement, dated as of October 23, 2020, among Covenant Logistics Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, Southern Refrigerated Transport, Inc., Covenant Transport Solutions, LLC, Star Transportation, Inc., Covenant Logistics, Inc., Transport Management Services, LLC, Landair Holdings, Inc., Landair Transport, Inc., Landair Logistics, Inc., Landair Leasing, Inc., and Bank of America, N.A. (Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K, filed March 5, 2021)
<a href="#">10.24</a>	*	First Amendment to the Covenant Transportation Group, Inc. Third Amended and Restated 2006 Omnibus Incentive Plan (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the SEC on April 8, 2019 in connection with the 2019 Annual Meeting of Stockholders)
<a href="#">10.25</a>	*	Second Amendment to the Company's Third Amended and Restated 2006 Omnibus Incentive Plan (Incorporated by reference to Appendix A to the Company's Schedule 14A, filed June 8, 2020)
<a href="#">10.26</a>	*	Form of Restricted Stock Award Notice under the Third Amended and Restated 2006 Omnibus Incentive Plan, as amended (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed August 9, 2019)
<a href="#">10.27</a>	*	Form of Restricted Stock Award Notice under the Third Amended and Restated 2006 Omnibus Incentive Plan, as amended (Double Trigger Change in Control) (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed August 10, 2020)
<a href="#">10.28</a>	*	Form of Restricted Stock Award Notice under the Third Amended and Restated 2006 Omnibus Incentive Plan, as amended (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed August 5, 2021)
<a href="#">10.29</a>	*	Form of Option Award Notice under the Third Amended and Restated 2006 Omnibus Incentive Plan, as amended (Incorporated by reference to Exhibit 10.28 to the Company's Form 10-K, filed March 5, 2021)
<a href="#">10.30</a>	*	Form of Executive Severance Agreement (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q, filed November 3, 2020)
<a href="#">10.31</a>		Account Management Agreement, Amendment to Purchase Agreement and Mutual Release, by and among Covenant Transport Solutions, LLC, Covenant Logistics Group, Inc., Triumph Bancorp, Inc., and Advance Business Capital LLC, dated as of September 23, 2020 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed November 3, 2020)
<a href="#">10.32</a>		Draw Note in the face amount of \$45.0 million by Covenant Logistics Group, Inc. and Covenant Transport Solutions, LLC with TBK Bank, SSB as Lender and Agent, dated as of September 23, 2020 (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q, filed November 3, 2020)
<a href="#">10.33</a>		Nineteenth Amendment to Third Amended and Restated Credit Agreement, dated as of May 4, 2022, among Covenant Logistics Group, Inc., Covenant Transport, Inc., CTG Leasing Company, Covenant Asset Management, LLC, Southern Refrigerated Transport, LLC, Covenant Transport Solutions, LLC, Star Transportation, LLC, Covenant Logistics, Inc., Transport Management Services, LLC, Landair Holdings, Inc., Landair Transport, Inc., Landair Logistics, Inc., Landair Leasing, Inc., AAT Carriers, Inc., and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed August 5, 2022)
<a href="#">10.34</a>	*	Covenant Logistics Group Supplemental Savings Plan, effective July 1, 2022 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed August 5, 2022)
<a href="#">10.35</a>	*	Third Amendment to the Covenant Transportation Group, Inc. Third Amended and Restated 2006 Omnibus Incentive Plan (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement filed with the SEC on April 14, 2023 in connection with the 2023 Annual Meeting of Shareholders)
<a href="#">10.36</a>	*	Retirement Agreement, by and between Joey B. Hogan and Transport Management Services, LLC, dated as of May 22, 2023 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q, filed August 9, 2023)
<a href="#">10.37</a>	*	Amended and Restated Covenant Logistics Group Supplemental Savings Plan, dated as of May 17, 2023 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q, filed August 9, 2023)
<a href="#">10.38</a>	**	Stock Purchase Agreement, dated April 26, 2023, by and among Landair Holdings, Inc., Covenant Logistics Group, Inc., Lew Thompson & Son Trucking, Inc. and related entities, and the stockholders of Lew Thompson & Son Trucking, Inc. and related entities (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K/A, filed August 3, 2023)
<a href="#">10.39</a>	*	Amended and Restated Covenant Logistics Group Supplemental Savings Plan, dated as of August 15, 2023 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed November 9, 2023)
<a href="#">21</a>	#	List of Subsidiaries
<a href="#">23.1</a>	#	Consent of Independent Registered Public Accounting Firm – Grant Thornton LLP
<a href="#">23.2</a>	#	Consent of Independent Registered Public Accounting Firm – Coulter & Justus, P.C.
<a href="#">31.1</a>	##	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
<a href="#">31.2</a>	##	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 James S. Grant, the Company's Principal Financial Officer

<a href="#">32.1</a>	##	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
<a href="#">32.2</a>	##	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by James S. Grant, the Company's Chief Financial Officer
<a href="#">97</a>	#	Covenant Logistics Group, Inc. Clawback Policy
101.INS		Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH		Inline XBRL Taxonomy Extension Schema Document
101.CAL		Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF		Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB		Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE		Inline XBRL Taxonomy Extension Presentation Linkbase Document
104		Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

References:

#	Filed herewith.
##	Furnished herewith.
*	Management contract or compensatory plan or arrangement.
**	Pursuant to Item 601(a)(5) of Regulation S-K, certain schedules and similar attachments to the exhibit have been omitted.

ITEM 16. FORM 10-K SUMMARY

None.

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SIGNATURES

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

COVENANT LOGISTICS GROUP, INC.

Date: February 28, 2023February 28, 2024

By: /s/ James S. Grant

James S. Grant

Executive Vice President and Chief Financial Officer in his capacity as such and as duly authorized on behalf of the issuer.

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

Signature and Title	Date
<div>/s/ David R. Parker</div> <div>David R. Parker</div> <div>Chairman of the Board and Chief Executive Officer</div> <div>(principal executive officer)</div>	February 28, 20232024
<div>/s/ James S. Grant</div> <div>James S. Grant</div>	February 28, 20232024



Executive Vice President and Chief Financial Officer  
(principal financial officer and officer)

/s/ W. Matisse Long  
W. Matisse Long  
Chief Accounting Officer  
(principal accounting officer)

February 28, 2024

/s/ Bradley A. Moline  
Bradley A. Moline  
Director

February 28, 2023 2024

/s/ Rachel Parker-Hatchett  
Rachel Parker-Hatchett  
Director

February 28, 2023 2024

/s/ Robert E. Bosworth Tracy L. Rosser  
Robert E. Bosworth Tracy L. Rosser  
Director

February 28, 2023 2024

/s/ Herbert J. Schmidt  
Herbert J. Schmidt  
Director

February 28, 2023 2024

/s/ W. Miller Welborn  
W. Miller Welborn  
Director

February 28, 2023 2024

/s/ D. Michael Kramer  
D. Michael Kramer  
Director

February 28, 2023 2024

/s/ Benjamin Carson Sr.  
Benjamin Carson Sr.  
Director

February 28, 2023 2024

/s/ Joey B. Hogan  
Joey B. Hogan  
Director

February 28, 2024

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Covenant Logistics Group, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of Covenant Logistics Group, Inc. (a Nevada holding company) and subsidiaries (the "Company") as of December 31, 2022 December 31, 2023 and 2021, 2022, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years then in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, based on our audits and the report of the other auditors, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and

2021, 2022, and the results of its operations and its cash flows for each of the three years then in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 28, 2023 February 28, 2024 expressed an unqualified opinion.

We did not audit the financial statements of Transport Enterprise Leasing, LLC for the year ended December 31, 2023, the investment in which is accounted for by the equity method of accounting. The investment in Transport Enterprise Leasing, LLC was \$66.327 million as of December 31, 2023, and the equity in its net income was \$21.202 million for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Transport Enterprise Leasing, LLC, is based solely on the report of the other auditors.

#### Basis for opinion

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

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

#### Critical audit matter

The critical audit matter matters communicated below is a matter are matters arising from the current period audit of the financial statements that is were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter matters or on the accounts or disclosures to which it relates, they relate.

#### Auto Liability Self-Insurance Reserves

As described further in Note 1 to the consolidated financial statements, the Company has significant self-insured amounts related to its auto liability and has exposure to fluctuations in the number and severity of claims and to variations between estimated and actual ultimate payouts. The Company records a liability for the uninsured portion of pending claims and claims related expenses including legal and other direct costs associated with the claim. Estimates require judgment concerning the nature and severity of the claim, historical trends, and other relevant information based on specific facts and circumstances for individual claims. We identified the estimation of the Company's auto liability accrual subject to self-insured insurance retention amounts as a critical audit matter. Incurred auto claim liabilities are determined by projecting the estimated ultimate loss related to a claim, less actual costs paid to date, based upon the nature and severity of the claim and historical trends.

The principal considerations for assessing auto liability claims as a critical audit matter are the high level of estimation uncertainty related to determining the severity of these types of claims, as well as the inherent subjectivity in management's judgment in estimating the total costs to settle or dispose of these claims.

Our audit procedures related to this critical audit matter included the following, among others:

- We tested the design and operating effectiveness of key controls over the accrued auto liability, including, but not limited to, controls to validate that claims were reported and recorded accurately and controls related to the review and approval of initial claim reserves, subsequent changes to claim reserves, and projected claim liabilities.
- We tested a sample of underlying claims through analysis of accident reports and insurance and legal records to validate information utilized by management in determining the accrual was complete and accurate.
- We reconciled claims data to the actuarial software used to determine loss development factors and used in management's estimation methodology.
- We utilized a specialist in evaluating management's calculated loss development factors to test that the factors provide a reasonable basis for determining estimated loss reserves.
- We performed a retrospective review of prior year and current year reserves to validate those changes in estimated losses were appropriate and supported by current year claim development.

#### Customer Relationships Acquired with the LTST Acquisition

As described further in Note 7 to the consolidated financial statements, on April 26, 2023, the Company acquired Lew Thompson & Son Trucking, Inc. and related entities (collectively "LTST"). The total purchase price consideration was \$109.9 million, which was allocated \$52.9 million to separately identified intangible assets, including customer relationships of \$46.1 million. The determination of the fair value of the customer relationships requires management to make significant estimates and assumptions related to forecasts of future revenues and EBITDA growth rates as well as discount rates applied. Changes in these assumptions could materially affect the determination of the fair value of the customer relationships. We identified the fair value assigned to the customer relationships included on the opening balance sheet as a critical audit matter.

The principal considerations for our determination that the acquired customer relationships are a critical audit matter is that management utilized significant judgement when estimating the fair value assigned to the customer relationships. In turn, auditing management's judgements regarding the assigned fair value involved a high degree of subjectivity due to the estimation uncertainty of management's significant judgements.

Our audit procedures related to this critical audit matter included the following, among others:

- We tested the operating effectiveness of controls relating to the identification of the acquired customer relationships, including the determination of the fair value.
- We tested management's process for determining the fair value of the acquired customer relationships. This included evaluating the appropriateness of the valuation method and testing the completeness and accuracy of historical and forecasted revenue and EBITDA used by management.
- We evaluated the reasonableness of management's significant assumptions, which included forecasted revenues and EBITDA. We tested whether these forecasts were reasonable and consistent with historical performance and third-party market data.
- We tested the reasonableness of the Company's discount rate applied to the present value of the estimated future cash flows model with the assistance of valuation specialists.

/s/ Grant Thornton LLP

We have served as the Company's auditor since 2020.

Charlotte, North Carolina

February 28, 2023 2024

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

Covenant Logistics Group, Inc.

### Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of Covenant Logistics Group, Inc. (a Nevada holding company) and subsidiaries (the "Company") as of December 31, 2022 December 31, 2023, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 December 31, 2023, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of and for the year ended December 31, 2022 December 31, 2023, and our report dated February 28, 2023 February 28, 2024 expressed an unqualified opinion on those financial statements.

### Basis for opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting, Reporting ("Management's Report"). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Our audit of, and opinion on, the Company's internal control over financial reporting does not include the internal control over financial reporting of AAT Carriers, Sims Transport Services LLC and Lew Thompson & Son Trucking, Inc., a wholly-owned subsidiary, subsidiaries, whose financial statements reflect total assets and revenues constituting 7.2% 15 and 2.7%, 4 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2022 December 31, 2023. As indicated in

Management's Report, AAT Carriers, Sims Transport Services LLC and Lew Thompson & Son Trucking, Inc. was were acquired during 2022, 2023. Management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of AAT Carriers, Sims Transport Services LLC and Lew Thompson & Son Trucking, Inc.

#### Definition and limitations of internal control over financial reporting

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

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

/s/ Grant Thornton LLP

Charlotte, North Carolina

February 28, 2023 2024

### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

#### The Members

Transport Enterprise Leasing, LLC

#### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Transport Enterprise Leasing, LLC (the "Company") as of December 31, 2023 and 2022, and the related consolidated statements of income and changes in members' equity and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Transport Enterprise Leasing, LLC as of December 31, 2023 and 2022, and the consolidated results of its operations and cash flows for the years then ended in conformity with the accounting principles generally accepted in the United States of America (GAAP).

#### Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to those charged with governance and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

#### Revenue Recognition – Refer to Note 2 to the Consolidated Financial Statements

The Company recognized revenue from lease and rental agreements, which totaled \$130,216,584 in 2023, based on the classification of the arrangement, as either an operating or sales-type lease. Substantially all the Company's revenue from lease and rental agreements was derived from rental payments received on operating leases, which were recognized on a straight-line basis over the term of the lease.

The Company recognized revenue from equipment sales, which totaled \$11,131,928 in 2023, when performance obligations under the terms of a contract with the customer are satisfied. Generally, this occurred when control of the equipment was transferred to the customer. Revenue was measured as the amount of consideration the Company expected to be entitled to receive in exchange for transferring equipment.

The Company recognized shop revenue, which totaled \$9,643,940 in 2023, when performance obligations under the terms of a contract with the customer were satisfied. Generally, this occurred over time as work was completed on the equipment being serviced. Revenue was measured as the amount of consideration the Company expected to be entitled to receive in exchange for its servicing of the equipment.

Due to the volume and different types of transactions related to the Company's revenues, we evaluated the different types of revenue, individual revenue transactions, and assertions related to the Company's revenue recognition. Due to the volume of revenue transactions, the audit effort in evaluating the Company's revenue recognition was extensive and required a high degree of auditor effort.

Our principal audit procedures related to the Company's revenue recognition included the following:

- We evaluated the Company's significant accounting policies related to revenue recognition for reasonableness.
- We performed substantive tests of details using audit sampling to test whether revenue was recognized in conformity with GAAP and whether the revenue was recognized in the correct period.
- For operating lease revenues, we selected a sample of lease agreements from 2023 and performed certain procedures to support revenue recognition, including the following procedures:
  - Obtained and reviewed signed lease agreements and related source documents to support the contractual terms of the lease agreements.
  - Tested the Company's identification and treatment of lease terms.
  - Recalculated 2023 revenues recorded based on the terms of the signed lease agreements and related source documents.
  - Assessed the terms of the signed lease agreements and related source documents and evaluated the appropriateness of the Company's application of its accounting policies, along with its use of estimates, in the determination of revenue recognition.
- For equipment sales revenues, we selected a sample of revenues recorded during 2023 and performed certain procedures to support revenue recognition, including the following procedures:
  - Obtained and reviewed sales invoices and related source documents for each unit sold to support recorded revenue amounts.
  - Tested the Company's identification and treatment of sales terms.
  - Assessed the terms of the sales invoices and related source documents and evaluated the appropriateness of the Company's application of its accounting policies, along with its use of estimates, in the determination of revenue recognition.
  - Obtained and reviewed purchase invoices and related source documents for each unit sold to support cost of sales amounts.
- For shop revenues, we selected a sample of revenues recorded during 2023 and performed certain procedures to support revenue recognition, including the following procedures:
  - Obtained and reviewed service agreements and related source documents for each unit serviced to support recorded revenue amounts.
  - Assessed the terms of the service agreements and related source documents and evaluated the appropriateness of the Company's application of its accounting policies, along with its use of estimates, in the determination of revenue recognition.
- We tested the mathematical accuracy of the Company's calculations of revenue and the associated timing of revenue recognized in the consolidated financial statements.

/s/ Coulter & Justus, P.C.

We have served as Transport Enterprise Leasing, LLC's auditor since 2018.  
Knoxville, Tennessee  
February 16, 2024

COVENANT LOGISTICS GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2022 2023 AND 2021 2022  
(In thousands, except share data)

Current assets:

ASSETS

2022	2021	2023	2022

Cash and cash equivalents	\$ 68,665	\$ 8,412	\$ 2,294	\$ 68,665
Accounts receivable, net of allowance of \$2,934 in 2022 and \$4,112 in 2021	119,770	142,362		
Drivers' advances and other receivables, net of allowance of \$585 in 2022 and \$542 in 2021	3,798	8,792		
Accounts receivable, net of allowance of \$2,449 in 2023 and \$2,934 in 2022			142,504	119,770
Drivers' advances and other receivables, net of allowance of \$591 in 2023 and \$585 in 2022			4,367	3,798
Inventory and supplies	3,516	3,323	4,848	3,516
Prepaid expenses	15,746	12,536	17,880	15,746
Assets held for sale	5,956	2,925	6,782	5,956
Income taxes receivable	4,838	10,177	6,739	4,838
Other short-term assets	367	-	531	367
Total current assets	222,656	188,527	185,945	222,656
Property and equipment, at cost	619,686	518,406	692,532	619,686
Less: accumulated depreciation and amortization	(211,951)	(171,923)	(177,877)	(211,951)
Net property and equipment	407,735	346,483	514,655	407,735
Goodwill	58,217	42,518	75,747	58,217
Other intangibles, net	48,169	20,475	99,615	48,169
Other assets	58,843	52,384	78,067	58,843
Noncurrent assets from discontinued operations	1,025	1,275	409	1,025
Total assets	\$ 796,645	\$ 651,662	\$ 954,438	\$ 796,645
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	33,896	29,907	33,155	33,896
Accrued expenses	50,984	38,001	59,067	58,763
Accrued purchased transportation	7,779	24,689		
Current maturities of long-term debt	18,897	5,722	47,651	18,897
Current portion of finance lease obligations	5,326	6,848	781	5,326
Current portion of operating lease obligations	18,179	15,811	11,950	18,179
Current portion of insurance and claims accrual	21,060	21,210	17,687	21,060
Other short-term liabilities	-	557		
Total current liabilities	156,121	142,745	170,291	156,121
Long-term debt	90,367	20,347	196,894	90,367
Long-term portion of finance lease obligations	432	3,969	5,296	432
Long-term portion of operating lease obligations	46,428	21,554	30,892	46,428
Insurance and claims accrual	15,859	21,438	15,746	15,859
Deferred income taxes	98,716	84,661	116,095	98,716
Other long-term liabilities	7,494	2,149	14,169	7,494
Other long-term liabilities of discontinued operations	4,100	5,100	1,635	4,100
Total liabilities	419,517	301,963	551,018	419,517
Commitments and contingencies	-	-	-	-
Stockholders' equity:				
Class A common stock, \$.01 par value; 40,000,000 shares authorized; 16,125,786 shares issued and 11,207,570 outstanding as of December 31, 2022; and 40,000,000 authorized; 16,125,786 shares issued and 14,414,159 shares outstanding as of December 31, 2021	161	161		
Class A common stock, \$.01 par value; 40,000,000 shares authorized; 16,125,786 shares issued and 10,721,517 outstanding as of December 31, 2023; and 40,000,000 authorized; 16,125,786 shares issued and 11,207,570 shares outstanding as of December 31, 2022			161	161
Class B common stock, \$.01 par value; 5,000,000 shares authorized; 2,350,000 shares issued and outstanding	24	24	24	24



Additional paid-in-capital	152,886	149,406	155,846	152,886
Treasury stock at cost; 4,918,216 and 1,711,627 shares as of December 31, 2022 and December 31, 2021, respectively	(106,500)	(23,662)		
Accumulated other comprehensive loss	1,086	(1,306)		
Treasury stock at cost; 5,404,269 and 4,918,216 shares as of December 31, 2023 and December 31, 2022, respectively			(132,346)	(106,500)
Accumulated other comprehensive income			816	1,086
Retained earnings	329,471	225,076	378,919	329,471
Total stockholders' equity	377,128	349,699	403,420	377,128
Total liabilities and stockholders' equity	\$ 796,645	\$ 651,662	\$ 954,438	\$ 796,645

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

**COVENANT LOGISTICS GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2023, 2022, and 2021**  
*(In thousands, except per share data)*

	2022	2021	2023	2022	2021
<b>Revenues</b>					
Freight revenue	\$ 1,046,396	\$ 949,913	\$ 970,509	\$ 1,046,396	\$ 949,913
Fuel surcharge revenue	170,462	96,090	133,064	170,462	96,090
<b>Total revenue</b>	<b>\$ 1,216,858</b>	<b>\$ 1,046,003</b>	<b>\$ 1,103,573</b>	<b>\$ 1,216,858</b>	<b>\$ 1,046,003</b>
<b>Operating expenses:</b>					
Salaries, wages, and related expenses	402,276	350,246	400,491	402,276	350,246
Fuel expense	166,410	103,641	133,291	166,410	103,641
Operations and maintenance	79,051	59,269	63,753	79,051	59,269
Revenue equipment rentals and purchased transportation	325,624	331,685	271,893	325,624	331,685
Operating taxes and licenses	11,931	10,899	13,409	11,931	10,899
Insurance and claims	50,547	38,788	50,099	50,547	38,788
Communications and utilities	5,385	4,558	5,012	5,385	4,558
General supplies and expenses	37,762	29,673	49,444	37,762	29,673
Depreciation and amortization	57,512	53,881	69,943	57,512	53,881
Gain on disposition of property and equipment, net	(40,322)	(3,799)	(12,585)	(40,322)	(3,799)
<b>Total operating expenses</b>	<b>1,096,176</b>	<b>978,841</b>	<b>1,044,750</b>	<b>1,096,176</b>	<b>978,841</b>
<b>Operating income</b>	<b>120,682</b>	<b>67,162</b>	<b>58,823</b>	<b>120,682</b>	<b>67,162</b>
Interest expense, net	3,083	2,791	7,967	3,083	2,791
Income from equity method investment	(25,193)	(14,782)	(21,384)	(25,193)	(14,782)
Income from continuing operations	142,792	79,153	72,240	142,792	79,153
Income tax expense	34,860	20,962	17,611	34,860	20,962
Income from continuing operations	107,932	58,191	54,629	107,932	58,191
Income from discontinued operations, net of tax	750	2,540	600	750	2,540
<b>Net income</b>	<b>\$ 108,682</b>	<b>\$ 60,731</b>	<b>\$ 55,229</b>	<b>\$ 108,682</b>	<b>\$ 60,731</b>
<b>Basic income per share:</b>					
Income from continuing operations	\$ 7.19	\$ 3.46	\$ 4.19	\$ 7.19	\$ 3.46
Income from discontinued operations	\$ 0.05	\$ 0.15	\$ 0.05	\$ 0.05	\$ 0.15

Net income	\$	7.24	\$	3.61		
Net income per basic share(1)				\$	4.23	\$ 7.24 \$ 3.61
Diluted income per share:						
Income from continuing operations	\$	6.95	\$	3.42	\$ 3.95	\$ 6.95 \$ 3.42
Income from discontinued operations	\$	0.05	\$	0.15	\$ 0.04	\$ 0.05 \$ 0.15
Net income	\$	7.00	\$	3.57		
Net income per diluted share				\$	3.99	\$ 7.00 \$ 3.57
Basic weighted average shares outstanding		15,006	16,803	13,048	15,006	16,803
Diluted weighted average shares outstanding		15,524	17,020	13,834	15,524	17,020

(1) Total may not sum due to rounding.

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

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**COVENANT LOGISTICS GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022, and 2021**  
*(In thousands)*

	2022	2021	2023	2022	2021
Net income	\$ 108,682	\$ 60,731	\$ 55,229	\$ 108,682	\$ 60,731
Other comprehensive income:					
Unrealized gain on effective portion of cash flow hedges, net of tax of (\$776) and (\$263) in 2022 and 2021, respectively	2,254	817			
Unrealized gain on effective portion of cash flow hedges, net of tax of (\$36), (\$776), and (\$263) in 2023, 2022, and 2021, respectively			103	2,254	817
Reclassification of cash flow hedge losses into statement of operations, net of tax of (\$47), and (\$78) in 2022 and 2021, respectively	138	191			
Reclassification of cash flow hedge losses into statement of operations, net of tax of \$130, (\$47), and (\$78) in 2023, 2022, and 2021, respectively			(373)	138	191
Unrealized holding gain on investments classified as available-for-sale	-	(63)	-	-	(63)
Total other comprehensive income	2,392	945	(270)	2,392	945
Comprehensive income	\$ 111,074	\$ 61,676	\$ 54,959	\$ 111,074	\$ 61,676

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

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**COVENANT LOGISTICS GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022, AND 2021**  
*(In thousands)*

	Accumulated							Accumulated					
	Common Stock		Additional	Treasury Stock	Other	Retained Earnings	Total	Common Stock		Additional	Treasury Stock	Other	Retained Earnings
	Class A	Class B	Paid-In Capital		Comprehensive (Loss) Income		Stockholders Equity	Class A	Class B	Paid-In Capital		Comprehensive (Loss) Income	
Balances at December 31, 2020	\$ 173	\$ 24	\$ 143,438	\$ (17,067)	\$ (2,251)	\$ 166,325	\$ 290,642	\$ 173	\$ 24	\$ 143,438	\$ (17,067)	\$ (2,251)	\$ 166,325
Net income	-	-	-	-	-	60,731	60,731	-	-	-	-	-	60,731
Share repurchase	(1)	-	-	(8,367)	-	(1,980)	(10,348)	(1)	-	-	(8,367)	-	(1,980)
Other comprehensive income	-	-	-	-	945	-	945						
Other comprehensive loss								-	-	-	-	945	-
Stock-based employee compensation expense	-	-	9,059	-	-	-	9,059	-	-	9,059	-	-	-
Issuance of restricted shares, net	(11)	-	(3,091)	1,772	-	-	(1,330)	(11)	-	(3,091)	1,772	-	-
Balances at December 31, 2021	\$ 161	\$ 24	\$ 149,406	\$ (23,662)	\$ (1,306)	\$ 225,076	\$ 349,699	\$ 161	\$ 24	\$ 149,406	\$ (23,662)	\$ (1,306)	\$ 225,076
Net income	-	-	-	-	-	108,682	108,682	-	-	-	-	-	108,682
Cash dividend	-	-	-	-	-	(4,287)	(4,287)	-	-	-	-	-	(4,287)
Share repurchase	-	-	-	(84,723)	-	-	(84,723)	-	-	-	(84,723)	-	-
Other comprehensive income	-	-	-	-	2,392	-	2,392	-	-	-	-	2,392	-
Stock-based employee compensation expense	-	-	6,587	-	-	-	6,587	-	-	6,587	-	-	-
Exercise of stock options	-	-	50	334	-	-	384	-	-	50	334	-	-
Issuance of restricted shares, net	-	-	(3,157)	1,551	-	-	(1,606)	-	-	(3,157)	1,551	-	-
Balances at December 31, 2022	\$ 161	\$ 24	\$ 152,886	\$ (106,500)	\$ 1,086	\$ 329,471	\$ 377,128	\$ 161	\$ 24	\$ 152,886	\$ (106,500)	\$ 1,086	\$ 329,471
Net income								-	-	-	-	-	55,229
Cash dividend								-	-	-	-	-	(5,781)
Share repurchase								-	-	-	(25,430)	-	-
Other comprehensive income								-	-	-	-	(270)	-

Stock-based employee compensation expense	-	-	7,100	-	-	-
Exercise of stock options	-	-	42	194	-	-
Issuance of restricted shares, net	-	-	(4,182)	(610)	-	-
Balances at December 31, 2023	\$ 161	\$ 24	\$ 155,846	\$ (132,346)	\$ 816	\$ 378,919

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

**COVENANT LOGISTICS GROUP, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023, 2022, and 2021**  
*(In thousands)*

	2022	2021	2023	2022	2021
Cash flows from operating activities:					
Net income	\$ 108,682	\$ 60,731	\$ 55,229	\$ 108,682	\$ 60,731
Adjustments to reconcile net income to net cash provided by operating activities:					
Provision for losses on accounts receivable	367	1,338			
(Reversal of) provision for losses on accounts receivable			(258)	367	1,338
(Reversal) deferral of gain on sales to equity method investee, net	(39)	52	(16)	(39)	52
Depreciation and amortization	57,512	53,881	69,943	57,512	53,881
Deferred income tax benefit	13,968	18,413	18,701	13,968	18,413
Income tax expense arising from restricted share vesting and stock options exercised	(526)	(334)	(2,226)	(526)	(334)
Stock-based compensation expense	6,587	9,059	7,100	6,587	9,059
Equity in income of affiliate	(25,193)	(14,782)	(21,384)	(25,193)	(14,782)
Return on investment in affiliated company	14,700	4,900	9,800	14,700	4,900
Gain on disposition of property and equipment	(40,322)	(3,799)	(12,585)	(40,322)	(3,799)
Return on investment in available-for-sale securities	-	(63)	-	-	(63)
Changes in operating assets and liabilities:					
Receivables and advances	39,465	(36,544)	(22,416)	39,465	(36,544)
Prepaid expenses and other assets	(3,832)	(710)	(3,997)	(3,832)	(710)
Inventory and supplies	(193)	(204)	(317)	(193)	(204)
Insurance and claims accrual	(5,729)	(31,653)	(3,542)	(5,729)	(31,653)
Accounts payable and accrued expenses	(6,217)	12,933	(9,191)	(6,217)	12,933
Net cash flows provided by operating activities	159,230	73,218	84,841	159,230	73,218
Cash flows from investing activities:					
Acquisition of AAT Carriers, Inc., net of cash acquired	(38,501)	-			
Acquisitions, net of cash acquired			(107,934)	(38,501)	-
Other investments	(241)	(13)	(2,204)	(241)	(13)
Redemption of available-for-sale securities	-	1,508	-	-	1,508
Acquisition of property and equipment	(100,468)	(35,285)	(217,607)	(100,468)	(35,285)

Proceeds from disposition of property and equipment	53,002	44,134	91,824	53,002	44,134
Net cash flows (used) provided by investing activities	(86,208)	10,344	(235,921)	(86,208)	10,344
Cash flows from financing activities:					
Change in checks outstanding in excess of bank balances	(216)	(1,215)	-	(216)	(1,215)
Cash dividend	(4,287)	-	(5,781)	(4,287)	-
Proceeds from issuance of notes payable	95,151	-	154,093	95,151	-
Proceeds from exercise of stock options	384	-	236	384	-
Repayments of notes payable	(11,956)	(14,397)	(30,390)	(11,956)	(14,397)
Repayments of finance lease obligations	(5,516)	(5,626)	(5,619)	(5,516)	(5,626)
Proceeds under revolving credit facility	60,226	644,874	139,837	60,226	644,874
Repayments under revolving credit facility	(60,226)	(695,513)	(128,258)	(60,226)	(695,513)
Payment of minimum tax withholdings on stock compensation	(1,606)	(1,332)	(4,792)	(1,606)	(1,332)
Payment of contingent liability			(9,187)	-	-
Common stock repurchased	(84,723)	(10,348)	(25,430)	(84,723)	(10,348)
Net cash flows used in financing activities	(12,769)	(83,557)			
Net cash flows provided by (used in) financing activities			84,709	(12,769)	(83,557)
Net change in cash and cash equivalents	60,253	5	(66,371)	60,253	5
Cash and cash equivalents at beginning of year	8,412	8,407	68,665	8,412	8,407
Cash and cash equivalents at end of year	\$ 68,665	\$ 8,412	\$ 2,294	\$ 68,665	\$ 8,412
Supplemental disclosure of cash flow information:					
Cash paid (received) during the year for:					
Interest, net of capitalized interest	\$ 3,306	\$ 2,762	\$ 5,319	\$ 3,306	\$ 2,762
Income taxes	\$ 16,653	\$ 10,236	\$ 4,186	\$ 16,653	\$ 10,236
Non-cash transactions during the year for:					
Equipment acquired under finance leases	\$ 458	\$ -	\$ 5,938	\$ 458	\$ -
Contingent consideration associated with acquisition	\$ 16,210	\$ -			
Equipment acquired under operating leases			\$ 3,992	\$ 48,515	\$ 15,795
Contingent consideration associated with acquisitions			\$ 11,802	\$ 16,210	\$ -
Other contingent liabilities	\$ (1,000)	\$ (3,412)	\$ (800)	\$ (1,000)	\$ (3,412)

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

**COVENANT LOGISTICS GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 2023 AND 2021 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Business***

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

***Principles of Consolidation***

The consolidated financial statements include the accounts of Covenant Logistics Group, Inc., a holding company incorporated in the state of Nevada in 1994, and its wholly owned subsidiaries: Covenant Transport, Inc., a Tennessee corporation; Star Transportation, LLC, a Tennessee limited liability company, each d/b/a Covenant Transport Services and Covenant Logistics; Southern Refrigerated Transport, LLC, an Arkansas limited liability company; Covenant Transport Solutions, LLC, a Nevada limited liability company; Covenant Logistics, Inc., a Nevada corporation; Covenant Asset Management, LLC, a Nevada limited liability company; CTG Leasing Company, a Nevada corporation; IQS Insurance Risk Retention Group, Inc., a Vermont corporation; Heritage Insurance, Inc., a Tennessee corporation; Landair Holdings, Inc., a Tennessee corporation (collectively "Landair"); Landair Transport, Inc., a Tennessee corporation; Landair Logistics, Inc., a Tennessee corporation; Landair Leasing, Inc., a Tennessee corporation; AAT Carriers, Inc., a Tennessee corporation ("AAT"), **Lew Thompson & Son Trucking, Inc., an Arkansas corporation, Lew Thompson & Son Leasing, Inc., an Arkansas corporation, Lew Thompson & Son Dedicated Leasing Inc., an Arkansas corporation, Josh Thompson Trucking, Inc., an Arkansas corporation, Sims Transport Services LLC, a Georgia limited liability company, and Transport Management Services, LLC, a Tennessee limited liability company.**

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

**We have Our four reportable segments which include: are:**

- **Non-dedicated**  
**Expedited:** The Expedited reportable segment primarily provides truckload services ("Expedited"), which services to customers with high service freight and delivery standards, such as 1,000 miles in 22 hours, or 15-minute delivery windows. Expedited services generally require two-person driver teams on equipment either owned or leased by the Company.
- **Dedicated:** The Dedicated contract reportable segment provides customers with committed truckload services ("Dedicated"), which consists capacity over contracted periods with the goal of our truckload business that involves longer-term contracts that allocate a specified number of tractors and trailers three to a specific customer, with fixed and variable compensation. five years in length. Equipment is either owned or leased by the Company.
- **Managed Freight:** The Managed Freight services, which consists of reportable segment includes our brokerage and transportation transport management services ("TMS") and provides. Brokerage services provide logistics capacity by outsourcing the carriage of customers' freight to third parties, as well as, -parties. TMS provides comprehensive logistics services on a contractual basis to customers who prefer to outsource their logistics needs.
- **Warehousing:** The Warehousing services ("Warehousing"), reportable segment provides day-to-day warehouse management services to customers who have chosen to outsource this function. We also provide shuttle and switching services related to shuttling containers and trailers in or around freight yards and to/from warehouses.

The following table summarizes our revenue by our four reportable segments, at the service offering level, as used by our chief operating decision maker in making decisions regarding allocation of resources, etc., for the years ended December 31, 2023, 2022, and 2021:

(in thousands)	Year ended December 31,		Year ended December 31,		
	2022	2021	2023	2022	2021
Revenues:					
Expedited	\$ 452,713	\$ 337,063	\$ 423,820	\$ 452,713	\$ 337,063
Dedicated	362,997	324,541	320,287	362,997	324,541
Managed Freight	320,985	321,236	258,903	320,985	321,236
Warehousing	80,163	63,163	100,563	80,163	63,163
Total revenues	\$ 1,216,858	\$ 1,046,003	\$ 1,103,573	\$ 1,216,858	\$ 1,046,003

#### **Investment in Transport Enterprise Leasing, LLC**

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

On a periodic basis, we assess whether there are any indicators that the fair value of our investment in TEL may be impaired. The investment is impaired only if the estimate of the fair value of the investment is less than the carrying value of the investment, and such decline in value is deemed to be other than temporary. To the extent impairment has occurred, the loss would be measured as the excess of the carrying amount of the investment over the fair value of the investment. As a result of TEL's earnings, no impairment indicators were noted that would provide for impairment of our investment during the years ended December 31, 2023, 2022, and 2021 2021..



## Risks and Uncertainties

We are continuing to monitor the progression of the COVID-19 pandemic, further government response, including, vaccine, testing, and mask mandates, and development of treatments and vaccines and their potential effect on our short-term and long-term financial position, results of operations, cash flows and liquidity. These events could have an impact in future periods on certain estimates used in the preparation of our financial results, including, but not limited to impairment of goodwill, other intangible assets and other long-lived assets, income tax provision and recoverability of certain receivables. Local, state and national governments continue to emphasize the importance of transportation and have designated it as an essential service. Adverse developments in the pandemic could impact our operations and have a material adverse effect on our financial condition, results of operations, cash flows and liquidity.

Our insurance program includes multi-year policies with specific insurance limits that may be eroded over the course of the policy term. If that occurs, we will be operating with less liability coverage insurance at various levels of our insurance tower. For the policy period that ran from April 1, 2018 to March 31, 2021, the aggregate limits available in the coverage layer \$9.0 million in excess of \$1.0 million were **estimated to be** fully eroded based on claims expense accruals. We replaced our \$9.0 million in excess of \$1.0 million layer with a new \$7.0 million in excess of \$3.0 million policy that runs from January 28, 2021 to April 1, 2024. Due to the erosion of the \$9.0 million in excess of \$1.0 million layer, any adverse developments in claims filed between April 1, 2018 and March 31, 2021, could result in additional expense accruals. Due to these developments, we may experience additional expense accruals, increased insurance and claims expenses, and greater volatility in our insurance and claims expenses, which could have a material adverse effect on our business, financial condition, and results of operations.

On July 8, 2020, we sold a portfolio of accounts receivable, contract rights, and associated assets consisting of approximately \$103.3 million in net funds employed (the "Portfolio") previously held by Transport Financial Services ("TFS"), a division of Covenant Transport Solutions, LLC, an indirect wholly owned subsidiary of the Company, to a subsidiary of Triumph Bancorp, Inc. ("Triumph") for approximately \$122.3 million, consisting of \$108.4 million in cash and \$13.9 million in Triumph stock, plus an earn-out opportunity of up to \$9.9 million. After the transaction closed, the Company and Triumph became involved in a dispute over the nature of approximately \$66.0 million of the assets included in the Portfolio. The dispute was resolved on September 23, 2020 with an amendment of the purchase agreement and related funding arrangements that reduced the purchase price of the Portfolio to approximately \$108.4 million, representing the cash amount received by us at closing. Additionally, the earnout opportunity was terminated and we were required to sell, and subsequently sold, the Triumph stock we received at closing for \$28.1 million and remitted the proceeds to Triumph upon settlement.

The amended purchase agreement specifically identified approximately \$62.0 million of accounts within the Portfolio, which related to advances on services that had not yet been performed, that were placed in a loss sharing pool to be repaid with proceeds other than those generated from ordinary working capital factoring. To the extent losses on covered accounts are incurred, we will indemnify Triumph on a dollar for dollar basis for up to the first \$30.0 million of losses, and on a 50% basis for up to the next \$30.0 million of losses, for total indemnification exposure of up to \$45.0 million. The amended purchase agreement resulted in a gain on the sale of the Portfolio of \$3.7 million, net of related expenses. During the fourth quarter of 2020, the Company recorded \$44.2 million of contingent liabilities, reflected as other long-term liabilities from discontinued operations in our consolidated balance sheet, because as of December 31, 2020 it was probable and estimable that such amount would be due to Triumph under the amended purchase agreement. During the first quarter of 2021, we received an indemnification call from Triumph of \$35.6 million related to the TFS Settlement, all of which was reserved during the fourth quarter of 2020. Additionally, Triumph was able to collect some funds related to our fourth quarter 2020 accrual that allowed us the opportunity to reverse \$3.4 million of our accrual during the first quarter of 2021. During the second quarter of 2021 we repaid \$31.0 million of the borrowings under the Draw Note and during the third quarter of 2021 we repaid the remaining balance. As of December 31, 2022, there were no outstanding borrowings under the Draw Note and a remaining contingent liability of \$4.1 million. The payment of amounts with respect to the indemnification obligations could create volatility in our reported future financial results and could have an adverse effect on our cash flows, available liquidity, and total indebtedness.

## Revenue Recognition

Revenue, drivers' wages, and other direct operating expenses generated by our Expedited and Dedicated reportable segments are recognized proportionally as the transportation service is performed based on the percentage of miles completed as of the period end. Revenue is recognized on a gross basis at amounts charged to our customers because we control and are primarily responsible for the fulfillment of the promised service. Revenue includes transportation revenue, fuel surcharges, loading and unloading activities, equipment detention, and other accessorial services.

Revenue generated by our Managed Freight reportable segment is recognized **upon proportionally as the services are provided based on the percentage of completion method using the estimated time elapsed as of the services provided. period end.** Revenue is recorded on a gross basis, without deducting third party-purchased transportation costs, as we act as a principal with substantial risks as primary obligor. Revenue for the Warehousing reportable segment is generally recognized as the service is performed, based upon a weekly rate.

There are no assets or liabilities recorded in conjunction with revenue recognized, other than accounts receivable and allowance for **doubtful accounts. credit losses.** We recognized in-process revenue of **\$1.1 million, \$1.4 million, and \$0.4 million** for the years ended December 31, **2023, 2022, and 2021,** respectively. We had accounts receivable, net of allowance for **doubtful accounts, credit losses,** of **\$119.8 million \$142.5 million and \$142.4 million \$119.8 million** at December 31, **2022 2023 and 2021, 2022,** respectively.

## Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make decisions based upon estimates, assumptions, and factors we consider as relevant to the circumstances. Such decisions include the selection of applicable accounting principles and the use of judgment

in their application, the results of which impact reported amounts and disclosures. Changes in future economic conditions or other business circumstances may affect the outcomes of our estimates and assumptions. Accordingly, actual results could differ from those anticipated.

## Cash and Cash Equivalents

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

At December 31, 2023, we had \$1.5 million in excess of the Federal Deposit Insurance Corporation insured limits.

## Accounts Receivable and Concentration of Credit Risk

We extend credit to our customers in the normal course of business, which are generally due within 30-45 days of the services performed. performed, however, we have extended terms of up to 120 days with a small number of larger customers. We perform ongoing credit evaluations and generally do not require collateral. Trade accounts receivable are recorded at their invoiced amounts, net of allowance for doubtful accounts. credit losses. We evaluate the adequacy of our allowance for doubtful accounts credit losses quarterly. Accounts outstanding longer than contractual payment terms are considered past due and are reviewed individually for collectability. We maintain reserves for potential credit losses based upon loss history, and specific receivables aging analysis. analysis, and other factors, including those related to current market conditions and events. Receivable balances are written off when collection is deemed unlikely.

Accounts receivable are comprised of a diversified customer base that mitigates the level of concentration of credit risk. During 2023, 2022, and 2021, our top ten customers generated 44%, 43%, and 53% of total revenue, respectively. There was one customer in 2023, and No none customers in 2022 or 2021 that accounted for more than 10% of our consolidated revenue. The carrying amount reported in the consolidated balance sheet for accounts receivable approximates fair value based on the fact that the receivables collection averaged approximately 40 49 days and 44 40 days in 2022 2023 and 2021 2022, respectively.

The following table provides a summary (in thousands) of the activity in the allowance for doubtful accounts credit losses for 2023, 2022, and 2021:

Years ended December 31:	Beginning balance January 1,	Additional provisions to allowance	Write-offs and other adjustments	Ending balan December 3
2022	\$ 4,112	\$ 367	\$ (1,544 )	\$ 2,934
2021	\$ 2,992	\$ 1,338	\$ (218 )	\$ 4,112

Years ended December 31:	Beginning balance January 1,	(Reversal of) additional provisions to allowance	Write-offs and other adjustments	Ending balan December 3
2023	\$ 2,934	\$ (258 )	\$ (227 )	\$ 2,449
2022	\$ 4,112	\$ 367	\$ (1,545 )	\$ 2,934
2021	\$ 2,992	\$ 1,338	\$ (218 )	\$ 4,112

## Inventories and Supplies

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

## Assets Held for Sale

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

## Property and Equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation for book purposes is determined using the straight-line method over the estimated useful lives of the assets. Depreciation of revenue equipment is our largest item of depreciation. We generally depreciate new tractors over five years to salvage values that range from 10% 0% to 35% of their cost. cost, depending on the reportable segment profile of the equipment. We generally depreciate new trailers over seven years for refrigerated trailers and ten years for dry van trailers to salvage values of approximately 28% and 29% 25% of their cost, respectively. We annually review the reasonableness of our estimates regarding useful lives and salvage values of our revenue equipment and other long-lived assets based upon, among other things, our experience with similar assets, conditions in the used revenue equipment market, and prevailing industry practice. Changes in the useful life or salvage value estimates, or fluctuations in market values that are not reflected in our estimates, could have a material effect on our results of operations.

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

Pursuant to applicable accounting standards, revenue equipment and other long-lived assets are tested for impairment whenever an event occurs that indicates impairment may exist. Expected future cash flows are used to analyze whether an impairment has occurred. If the sum of expected undiscounted cash flows is less than the carrying value of the long-lived asset, then an impairment loss is recognized. We measure the impairment loss by comparing the fair value of the asset to its carrying value. Fair value is determined based on a discounted cash flow analysis or the appraised value of the assets, as appropriate. There were no impairment events during the twelve months ended December 31, 2022 or 2021.

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

### Goodwill and Other Intangible Assets

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

We determine the useful lives of our identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors we consider when determining useful lives include the contractual term of any agreement, the history of the asset, our long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have finite lives are amortized, generally on a straight-line basis, over their remaining useful lives, ranging from 3 to 15 17 years.

### Impairment of Long-Lived Assets

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

Pursuant to applicable accounting standards, revenue equipment and other long-lived assets are tested for impairment whenever an event occurs that indicates impairment may exist. Expected future cash flows are used to analyze whether an impairment has occurred. If the sum of expected undiscounted cash flows is less than the carrying value of the long-lived asset, then an impairment loss is recognized. We measure the impairment loss by comparing the fair value of the asset to its carrying value. Fair value is determined based on a discounted cash flow analysis or the appraised value of the assets, as appropriate. There were no impairment events during the twelve months ended December 31, 2023, 2022, and 2021.

### Accrued Expenses

Accrued expenses as of December 31, 2023, were \$59.1 million of which \$25.9 million related to accrued payroll and related items and \$8.4 million related to accrued purchased transportation. As of December 31, 2022, accrued expenses were \$59.1 million of which \$24.6 million related to accrued payroll and related items and \$7.8 million related to accrued purchased transportation.

### Insurance and Other Claims

The primary claims arising against us consist of auto liability (personal injury and property damage), workers' compensation, cargo, commercial liability, and employee medical expenses. At December 31, 2022 2023, our insurance program involves self-insurance with the following risk retention levels (before giving effect to any commutation of an auto liability policy):

- auto liability - \$7.0 million in excess of \$3.0 million policy that runs from January 28, 2021 to April 1, 2024
- workers' compensation - \$1.3 million \$1.5 million
- cargo - \$0.3 million
- employee medical - \$0.4 million
- physical damage - 100%

Due to our significant self-insured retention amounts, we have exposure to fluctuations in the number and severity of claims and to variations between our estimated and actual ultimate payouts. We record a liability for the estimated cost of the uninsured portion of pending claims and the estimated allocated loss adjustment expenses including legal and other direct costs associated with a claim. Estimates require judgments concerning the nature and severity of the claim, historical trends, advice from third-party administrators and insurers, the size of any potential damage award based on factors such as the specific facts of individual cases, the jurisdictions involved, the prospect of punitive damages, future medical costs, and inflation estimates of future claims development, and the legal and other costs to settle or defend the claims. We have significant exposure to fluctuations in the number and severity of claims. If there is an increase in the frequency or severity of claims, or we are required to accrue or pay additional amounts if the claims prove to be more severe than originally assessed, or any of the claims would exceed the limits of our insurance coverage, our profitability could be adversely affected.

In addition to estimates within our self-insured retention layers, we also must make judgments concerning claims where we have third party-party insurance and for claims outside our coverage limits. Upon settling claims and expenses associated with claims where we have third party-party coverage, we are generally required to initially fund payment to the claimant and seek reimbursement from the insurer. We had no \$0.8 million and \$0.0 million receivables from insurers for claims and expenses we paid on behalf of insurers at December 31, 2022 2023 and 2021 2022. When such receivables exist, they, respectively which are included in drivers' advances and other receivables on our consolidated balance sheet. Additionally, we accrue claims above our self-insured retention and record a corresponding receivable for amounts we expect to collect from insurers upon settlement of such claims. We have \$0.7 million \$0.0 million and \$0.9 million \$0.7 million as other short-term assets and a corresponding accrual in the short-term portion of insurance and claims accruals and \$0.0 million \$1.3 million and \$7.3 million \$0.0 million as other long-term assets and as a corresponding accrual in the long-term portion of insurance and claims accruals on our consolidated balance sheet for claims above our self-insured retention for which we believe it is reasonably assured that the insurers will provide their portion of such claims at December 31, 2022 2023 and 2021 2022, respectively. We evaluate collectability of the receivables based on the credit worthiness and surplus of the insurers, along with our prior experience and contractual terms with each. If any claim occurrence were to exceed our aggregate coverage limits, we would have to accrue for the excess amount. Our critical estimates include evaluating whether a claim may exceed such limits and, if so, by how much.

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

Our prior auto liability policies have sometimes included a release premium refund or commutation option that we have sometimes exercised. The most recent policy exercised, although we commuted ran from do October 1, 2014 notthrough March 31, 2018, and resulted have either of these options in a premium release of \$7.3 million.our current policies. Management cannot predict whether or not future claims or the development of existing claims will justify a commutation of other policy periods, and accordingly, no related amounts were recorded at December 31, 2023 or 2022. We carry excess policy layers above the primary auto liability policy described above.

## Interest

We capitalize interest on major projects during construction. Interest is capitalized based on the average interest rate on related debt. Capitalized interest was \$0.3 million in 2022, \$0.3 million, and less than \$0.1 million in 2023, 2022, and 2021, respectively.

## Fair Value of Financial Instruments

Our financial instruments consist primarily of cash and cash equivalents, accounts receivable, available-for-sale securities, accounts payable, debt, and interest rate swaps. The carrying amount of cash and cash equivalents, accounts receivable, accounts payable, and current debt approximates their fair value because of the short-term maturity of these instruments. Interest rates that are currently available to us for issuance of long-term debt with similar terms and remaining maturities are used to estimate the fair value of our long-term debt, which primarily consists of revenue equipment installment notes. The fair value of our revenue equipment installment notes approximated the carrying value at December 31, 2022 2023, as the weighted average interest rate on these notes approximates the market rate for similar debt. Borrowings under our revolving Credit Facility approximate fair value due to the variable interest rate on the facility. Additionally, certain investments intended to serve the purposes of capital preservation and to fund insurance losses are

designated as available-for-sale and are valued based on quoted prices in active markets. The fair value of our interest rate swap agreement is determined using the market-standard methodology of netting the discounted future fixed-cash payments and the discounted expected variable-cash receipts. The variable-cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. These analyses reflect the contractual terms of the swap, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The fair value calculation also includes an amount for risk of non-performance of our counterparties using "significant unobservable inputs" such as estimates of current credit spreads to evaluate the likelihood of default, which we have determined to be insignificant to the overall fair value of our interest rate swap agreements.

#### **Income Taxes**

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. We have reflected the net liability after offsetting our deferred tax assets and liabilities in the deferred income taxes line in the accompanying consolidated balance sheets. We believe the future tax deductions will be realized principally through future reversals of existing taxable temporary differences and future taxable income, except for when a valuation allowance has been provided as discussed in Note 10, 12.

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

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

#### **Lease Accounting**

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

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

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

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

#### **Capital Structure**

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

#### **Income Per Share**

Basic income per share excludes dilution and is computed by dividing earnings available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted income per share reflects the dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in our earnings. There were approximately 245,000 shares, 358,000 shares, and 217,000 shares issuable upon conversion of unvested restricted shares for the years ended December 31, 2023, 2022, and 2021, respectively. There were no unvested shares excluded from the calculation of diluted earnings per share as the effect of any assumed exercise of the related awards would not have been anti-dilutive for the years ended December 31, 2023, 2022, and 2021. There were approximately 541,000 shares, 161,000 shares, and no shares issuable upon conversion of unvested employee stock options for the years ended December 31, 2023, 2022, and 2021, respectively. There were no, 104, and 124,000 unvested options excluded from the calculation of diluted earnings per share since the effect of any assumed exercise of the related awards would be anti-dilutive for the years ended December 31, 2023, 2022, and 2021, respectively.

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

(in thousands except per share data)

	2022	2021	2023	2022	2021
<b>Numerators:</b>					
Income from continuing operations	\$ 107,932	\$ 58,191	\$ 54,629	\$ 107,932	\$ 58,191
Income from discontinued operations, net of tax	750	2,540	600	750	2,540
Net income	<u>\$ 108,682</u>	<u>\$ 60,731</u>	<u>\$ 55,229</u>	<u>\$ 108,682</u>	<u>\$ 60,731</u>
<b>Denominator:</b>					
Denominator for basic income per share – weighted-average shares	15,006	16,803	13,048	15,006	16,803
Effect of dilutive securities:					
Equivalent shares issuable upon conversion of unvested restricted shares	358	217	245	358	217
Equivalent shares issuable upon conversion of unvested employee stock options	160	-	541	160	-
Denominator for diluted income per share adjusted weighted-average shares and assumed conversions	<u>15,524</u>	<u>17,020</u>	<u>13,834</u>	<u>15,524</u>	<u>17,020</u>
<b>Basic income per share:</b>					
Income from continuing operations	\$ 7.19	\$ 3.46	\$ 4.19	\$ 7.19	\$ 3.46
Income from discontinued operations	\$ 0.05	\$ 0.15	\$ 0.05	\$ 0.05	\$ 0.15
Net income	<u>\$ 7.24</u>	<u>\$ 3.61</u>			
Net income per basic share(1)			\$ 4.23	\$ 7.24	\$ 3.61
<b>Diluted income per share:</b>					
Income from continuing operations	\$ 6.95	\$ 3.42	\$ 3.95	\$ 6.95	\$ 3.42
Income from discontinued operations	\$ 0.05	\$ 0.15	\$ 0.04	\$ 0.05	\$ 0.15
Net income	<u>\$ 7.00</u>	<u>\$ 3.57</u>			
Net income per diluted share			\$ 3.99	\$ 7.00	\$ 3.57

(1) Total may not sum due to rounding.

### Stock-Based Employee Compensation

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

### Reclassifications

An adjustment has been made to the consolidated statements of cash flows for the year ended December 31, 2021, to identify the non cash expense for the reduction of the contingent liability of \$3.4 million. This change in classification does not affect previously reported cash flows from operating activities in the Consolidated Statements of Cash Flows or our previously reported consolidated results of operations.



## Recent Accounting Pronouncements

### Accounting Standards not yet adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU No.2023-07, Improvements to Reportable Segment Disclosures (Topic 280). This ASU updates reportable segment disclosure requirements by requiring disclosures of significant reportable segment expenses that are regularly provided to the Chief Operating Decision Maker ("CODM") and included within each reported measure of a segment's profit or loss. This ASU also requires disclosure of the title and position of the individual identified as the CODM and an explanation of how the CODM uses the reported measures of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Adoption of the ASU should be applied retrospectively to all prior periods presented in the financial statements. Early adoption is also permitted. This ASU will likely result in us including the additional required disclosures when adopted. We are currently evaluating the provisions of this ASU and expect to adopt them for the year ending December 31, 2024.

In December 2023, the FASB issued ASU 2023-09, Improvements to Income Tax Disclosures. This new guidance is designed to enhance the transparency and decision usefulness of income tax disclosures. The amendments of this update are related to the rate reconciliation and income taxes paid, requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

### Accounting Standards adopted

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

There are no other new accounting pronouncements that are expected to have a significant impact on our consolidated financial statements.

## 2. DISCONTINUED OPERATIONS

As of June 30, 2020, our previously identified Factoring reportable segment was classified as discontinued operations as it: (i) was a component of the entity, (ii) met the criteria as held for sale, and (iii) had a material effect on the Company's operations and financial results. On July 8, 2020, we closed on the disposition of substantially all of the operations and assets of TFS, which included substantially all of the assets and operations of our Factoring reportable segment. The sale consisted primarily of \$103.3 million of net accounts receivable, which included \$108.7 million of gross accounts receivable, less advances and rebates of \$5.4 million.

We have reflected the former Factoring reportable segment as discontinued operations in the consolidated statements of operations for all periods presented. Prior periods have been adjusted to confirm to the current presentation.

The following table summarizes the results of our discontinued operations for the twelve months ended December 31, 2023, 2022, and 2021:

(in thousands)

	Twelve months ended December 31,		Twelve months ended December 31,		
	2022	2021	2023	2022	2021
Operating expenses	\$ -	\$ 25	\$ -	\$ -	\$ 25
(Reversal of) loss contingency	(1,000)	(3,412)	(800)	(1,000)	(3,412)
Operating income	1,000	3,387	800	1,000	3,387
Income before income taxes	1,000	3,387	800	1,000	3,387
Income tax expense	250	847	200	250	847
Net income from discontinued operations, net of tax	\$ 750	\$ 2,540	\$ 600	\$ 750	\$ 2,540

Operating income for the year years ended December 31, 2023, 2022, and 2021, relates to the gain on the reversal of our contingent loss liability in the amount of \$0.8 million, \$1.0 million, and \$3.4 million, respectively. Reversal of contingent loss liability relates to the reduced exposure of future indemnification by the Company to Triumph Bancorp, Inc. ("Triumph") as a result of the collection of covered receivables identified in the amended purchase agreement, as described in Note 1.agreement.

The following table summarizes the major classes of assets and liabilities included as discontinued operations as of December 31, 2022, 2023 and 2021:

(in thousands)

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Noncurrent deferred tax asset	1,025	1,275	409	1,025

Noncurrent assets from discontinued operations	1,025	1,275	409	1,025
Total assets from discontinued operations	<u>\$ 1,025</u>	<u>\$ 1,275</u>	<u>\$ 409</u>	<u>\$ 1,025</u>
Current liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Current liabilities of discontinued operations	-	-	-	-
Contingent liabilities	4,100	5,100	1,635	4,100
Total liabilities from discontinued operations	<u>\$ 4,100</u>	<u>\$ 5,100</u>	<u>\$ 1,635</u>	<u>\$ 4,100</u>

There were \$1.7 million of operating cash outflows related to the \$1.7 million payment on the indemnification obligation to Triumph for the year ended December 31, 2023 and no net cash flows related to discontinued operations for the years ended December 31, 2022 or 2021.

Refer to Note 1, "Significant Accounting Policies" of the accompanying consolidated financial statements for further information about the amended TFS purchase agreement.

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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 commodity contracts, including our former fuel hedges, is 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. There were no fuel hedge derivatives outstanding as of December 31, 2023 or 2022.

The fair value of our interest rate swap agreements is determined using the market-standard methodology of netting the discounted future fixed-cash payments and the discounted expected variable-cash receipts. The variable-cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. These analyses reflect the contractual terms of the swap, including the period to maturity, and use observable market-based inputs, including interest rate curves and implied volatilities. The fair value calculation also includes an amount for risk of non-performance of our counterparties using "significant unobservable inputs" such as estimates of current credit spreads to evaluate the likelihood of default, which we have determined to be insignificant to the overall fair value of our interest rate swap agreements. The fair value of available-for-sale securities is based upon quoted prices in active markets. There were no available-for-sale securities recorded as of December 31, 2023 or December 31, 2022.

The fair value of the contingent consideration arrangement is based on inputs that are not observable in the market and is estimated using a probability-weighted method. The significant unobservable inputs used in the fair value of the contingent consideration liability include the financial projections over the earn-out period, the volatility of the underlying financial metrics, and estimated discount rates. 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.

#### Financial Instruments Measured at Fair Value on a Recurring Basis

(in thousands)						
	December 31, 2022	December 31, 2021	Input Level	December 31, 2023	December 31, 2022	Input Level
Interest rate swaps	1,466	(1,808)	2	1,101	1,466	2
Contingent consideration	(17,023)	-	3	(21,802)	(17,023)	3

There were no available-for-sale securities recorded as of December 31, 2022 or December 31, 2021. Our financial instruments consist primarily of cash and cash equivalents, certificates of deposit, accounts receivable, commodity contracts, accounts payable, debt, and interest rate swaps. The carrying amount of cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable, and current debt approximates their fair value because of the short-term maturity of these instruments.

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 as of December 31, 2022, as the weighted average interest rate on these notes approximates the market rate for similar debt. Borrowings under our revolving Credit Facility (as defined herein) approximate fair value due to the variable interest rate on that facility. There were no fuel hedge derivatives outstanding as of December 31, 2022.

The contingent consideration arrangement requires us to pay up to \$20.0 million of additional consideration to AAT's former shareholders based on AAT's results during the first two post-acquisition years, up to \$30.0 million of additional consideration to Lew Thompson & Son Trucking, Inc.'s ("LTST's") former shareholders based on LTST's results during the two first post-acquisition years, three calendar years following closing, and up to \$12.0 million of additional consideration to Sims Transport Services LLC's ("Sims") former shareholders based on Sims' results during the first four calendar years following closing. Refer to Note 7, "Acquisition of Lew Thompson & Son

Trucking, Inc.", for additional information regarding the LTST acquisition and Note 6, "Acquisition of Sims Transport Services LLC", for additional information regarding the Sims acquisition.

The fair value of the contingent consideration is adjusted at each reporting period based on changes to the expected cash flows and related assumptions. During the year ended December 31, 2022, 2023, the fair value of the contingent consideration increased to \$17.0 million \$21.8 million from \$0.0 million \$17.0 million at December 31, 2021, 2022. Of the \$17.0 million \$4.8 million increase, \$16.2 million \$10.0 million and \$1.8 million relates to the initial valuation of the contingent consideration arrangement arrangements for LTST and the remaining increase of \$0.8 million Sims, respectively, and \$3.0 million is the result of the subsequent adjustment to fair market value. These increases were partially offset by \$10.0 million paid based on AAT's results for the first post-acquisition year. Of the \$10.0 million paid for the contingent consideration liability during 2023, \$9.2 million was classified as financing cash flows and \$0.8 million was classified as operating cash flows within our consolidated statement of cash flows. The adjustment to the fair value of the contingent consideration liability was recorded as a component of general supplies and expenses within the consolidated statements of operations. The contingent consideration liability is included in accrued expenses and other long-term liabilities in our consolidated balance sheets.

The following table provides a summary (in thousands) of the activity for the contingent consideration liability for 2022 2023:

(in thousands)

	December 31, 2021	Additions	Adjustments to fair market value	December 31, 2022	December 31, 2022	Additions	Adjustments to fair market value	Payments	December 31, 2023
Contingent consideration	\$ -	\$ (16,210)	\$ (813)	\$ (17,023)	\$ (17,023)	\$ (11,802)	\$ (2,977)	\$ 10,000	\$ (21,802)

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#### 4. STOCK-BASED COMPENSATION

Our Third Amended and Restated 2006 Omnibus Incentive Plan, as amended (the "Incentive Plan") governs the issuance of equity awards and other incentive compensation to management and members of the Board, Board of Directors (the "Board"). On July 1, 2020, May 17, 2023, the stockholders, upon recommendation of the Board, approved the Second Third Amendment (the "Second Third Amendment") to our Third Amended and Restated 2006 Omnibus Incentive Plan (the "Incentive Plan"). The Second Third Amendment (i) increased the number of shares of Class A common stock available for issuance under the Incentive Plan by an additional 1,900,000 575,000 shares, (ii) added re-set the term of the plan to expire on May 1, 2033, and (iii) made other miscellaneous, administrative and conforming changes as necessary. The Incentive Plan includes (i) a fungible share reserve feature, under which shares subject to stock options and stock appreciation rights will be counted as one share for every share granted and shares subject to all other awards will be counted as 1.80 shares for every share granted, (iii) added (ii) a double-trigger vesting requirement upon a change in control, (iv) eliminated the Compensation Committee's discretion to accelerate vesting, except in cases involving death or disability, (v) increased the and (iii) a maximum award granted or payable to any one participant under the Incentive Plan for a calendar year from 200,000 shares of Class A common stock or \$2,000,000, in the event the award is paid in cash, to 500,000 shares of Class A common stock or \$4,000,000, in the event the award is paid cash, (vi) re-set the date through which awards may be made under the Incentive Plan to June 1, 2030, and (vii) made other miscellaneous, administrative and conforming changes. in cash.

The Incentive Plan permits annual awards of shares of our Class A common stock to executives, other key employees, non-employee directors, and eligible participants under various types of options, restricted share awards, or other equity instruments. At December 31, 2022 2023, 872,509 1,271,739 of the 4,200,000 4,775,000 shares noted above were available for award under the Incentive Plan. No participant in awards may be made under the Incentive Plan after May 1, 2033. receive awards of any type of equity instruments in any calendar-year that relates to more than 500,000 shares of our Class A common stock or \$4,000,000. To the extent available, we have issued treasury stock to satisfy all share-based incentive plans.

Included in salaries, wages, and related expenses within the consolidated statements of operations is stock-based compensation expense of \$6.5 million, \$6.0 million, and \$7.5 million, in 2023, 2022, and 2021, respectively. Included in general supplies and expenses within the consolidated statements of operations is stock-based compensation expense for non-employee directors of \$0.6 million, \$0.6 million, and \$0.4 million in 2023, 2022, and 2021, respectively. All the stock compensation expense recorded in 2023, 2022, and 2021 relates to restricted shares granted, other than \$3.9 million, \$2.2 million, and \$2.4 million in 2023, 2022, and 2021, respectively, which relates to stock options. Associated with stock compensation expense was \$2.2 million and \$0.4 million, of income tax benefit in 2023, 2022, respectively, and \$0.3 million of income tax benefit in 2022 and expense in 2021, respectively, related to the exercise of restricted share vesting. We received \$0.4 million \$0.2 million, \$0.4 million, and \$0.0 million related to the exercise of stock options during 2023, 2022, and 2021. Associated with the exercise of stock options during 2023, 2022, and 2021 was \$0.1 million, \$0.1 million, and \$0.0 million of income tax benefit, respectively. Forfeitures are recognized as they're incurred.

The Incentive Plan allows participants to pay the federal and state minimum statutory tax withholding requirements related to awards that vest or allows the participant to deliver to us shares of Class A common stock having a fair market value equal to the minimum amount of such required withholding taxes. To satisfy withholding requirements for shares that vested, certain participants elected to deliver to us \$ 114,828, \$ 55,306, and \$ 60,752 Class A common stock shares, which were withheld at weighted average per share prices of

\$41.72, \$29.03, and \$21.87, respectively, based on the closing prices of our Class A common stock on the dates the shares vested in 2023, 2022, and 2021, respectively, in lieu of the federal and state minimum statutory tax withholding requirements. We remitted \$4.8 million, \$1.6 million, and \$0.5 million in 2023, 2022, and 2021, respectively, to the proper taxing authorities in satisfaction of the employees' minimum statutory withholding requirements. The payment of minimum tax withholdings on stock compensation are reflected within the issuances of restricted shares from treasury stock in the accompanying consolidated statement of stockholders' equity.

The following table summarizes our restricted share award activity for the fiscal years ended December 31, 2023, 2022, and 2021:

	Number of stock awards (in thousands)	Weighted average grant date fair value	Number of stock awards (in thousands)	Weighted average grant date fair value
Unvested at December 31, 2020	645	\$ 16.25	645	\$ 16.25
Granted	252	\$ 21.34	252	\$ 21.34
Vested	(218)	\$ 16.57	(218)	\$ 16.57
Forfeited	(117)	\$ 15.31	(117)	\$ 15.31
Unvested at December 31, 2021	562	\$ 18.12	562	\$ 18.12
Granted	155	\$ 22.08	155	\$ 22.08
Vested	(223)	\$ 18.79	(223)	\$ 18.79
Forfeited	(5)	\$ 13.94	(5)	\$ 13.94
Unvested at December 31, 2022	489	\$ 19.12	489	\$ 19.12
Granted			98	\$ 38.71
Vested			(353)	\$ 18.47
Forfeited			-	\$ -
Unvested at December 31, 2023			234	\$ 29.20

The unvested shares at December 31, 2022 2023 will vest based on when and if the related vesting criteria are met for each award. All awards require continued service to vest. Unrecognized compensation expense for outstanding shares was \$4.2 million \$4.7 million as of December 31, 2022 2023, which is probable to be recognized over a weighted average period of approximately 2.1 years. The fair value of restricted share awards that vested in 2023, 2022, and 2021 was approximately \$6.3 million, \$3.4 million, and \$4.9 million, respectively. All restricted shares awarded to executives and other key employees pursuant to the Incentive Plan provide the holder with voting and other stockholder-type rights, but will not be issued until the relevant restrictions are satisfied.

The following table summarizes our stock option activity for the fiscal year ended December 31, 2023, 2022, and 2021:

	Number of options (in thousands)	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term	Aggregate intrinsic value (in thousands)	Number of options (in thousands)	Weighted average exercise price	Weighted average grant date fair value	Weighted average remaining contractual term	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2020	721	\$ 15.77	\$ 7.26	9.8 years	\$ (692)	721	\$ 15.77	\$ 7.26	9.8 years	\$ (692)
Options granted	450	\$ 21.24	\$ 9.85			450	\$ 21.24	\$ 9.85		
Options exercised	-	\$ -				-	\$ -	\$ -		
Options forfeited	(60)	\$ 15.77	\$ 7.26			(60)	\$ 15.77	\$ 7.26		
Outstanding at December 31, 2021	1,111	\$ 17.99	\$ 8.31	9.0 years	\$ 9,382	1,111	\$ 17.99	\$ 8.31	9.0 years	\$ 9,382

Options granted	-	\$	-				-	\$	-	\$	-			
Options exercised	(24)	\$	15.77	\$	4.90		(24)	\$	15.77	\$	4.90			
Options forfeited	-	\$	-				-	\$	-	\$	-			
Outstanding at December 31, 2022	1,087	\$	18.04	\$	8.39	8.0 years	1,087	\$	18.04	\$	8.39	8.0 years	\$	17,968
Exercisable at December 31, 2022	141	\$	15.77	\$	4.90	7.9 years								
Options granted							-	\$	-	\$	-			
Options exercised							(15)	\$	15.77	\$	4.90			
Options forfeited							-	\$	-	\$	-			
Outstanding at December 31, 2023							1,072	\$	18.07	\$	8.43	7.0 years	\$	29,978
Exercisable at December 31, 2023							238	\$	18.35	\$	5.52	7.1 years	\$	6,600

Unrecognized compensation cost for outstanding options was \$4.5 million \$0.6 million at December 31, 2022 2023, which is probable to be recognized over a weighted average period of approximately 0.2 years.

## 5. PROPERTY AND EQUIPMENT

A summary of property and equipment, at cost, as of December 31, 2022 2023 and 2021 2022 is as follows:

(in thousands)	Estimated Useful Lives (Years)	2022	2021	Estimated Useful Lives (Years)	2023	2022
Revenue equipment	3 - 10	\$ 468,527	\$ 400,282	2 - 20	\$538,617	\$468,527
Communications equipment	5 - 10	4,470	4,257	5 - 10	5,847	4,470
Land and improvements	0 - 15	11,719	16,341	0 - 15	11,747	11,719
Buildings and leasehold improvements	7 - 40	96,550	72,180	7 - 40	104,358	96,550
Construction in-progress	-	16,077	866	-	2,968	16,077
Other	2 - 10	22,343	24,480	2 - 10	28,995	22,343
		\$ 619,686	\$ 518,406		\$692,532	\$619,686

Depreciation expense was \$62.4 million, \$53.2 million, and \$49.8 million in 2023, 2022, and 2021, respectively. This depreciation expense excludes net gains on the sale of property and equipment totaling \$12.6 million, \$40.3 million, and \$3.8 million in 2023, 2022, and 2021, respectively.

We lease certain revenue equipment under finance and operating leases with terms of approximately 48 to 84 months. At December 31, 2022 2023 and 2021 2022, property and equipment included finance and operating leases. Our finance leases had capitalized costs of \$12.7 million \$7.6 million and \$45.5 million \$12.7 million and accumulated amortization of \$7.4 million \$1.2 million and \$22.3 million \$7.4 million at December 31, 2022 2023 and 2021 2022, respectively. Amortization of these leased assets is included in depreciation and amortization expense in the consolidated statement of operations and totaled \$0.7 million, \$2.3 million, and \$3.6 million during 2023, 2022, and 2021, respectively. See Note 9.11, Leases "Leases" for additional information about our finance and operating leases.

## 6. ACQUISITION OF SIMS TRANSPORT SERVICES LLC

On August 18, 2023, we acquired 100% of the equity interests of Sims, a specialized brokerage company, headquartered in Maysville, GA. The acquisition date fair value of the consideration transferred was \$9.8 million. The Stock Purchase Agreement contains customary representations, warranties, covenants, and indemnification provisions. The Stock Purchase Agreement includes an earnout component of up to an aggregate of \$12.0 million based on Sims' adjusted earnings before interest, taxes, depreciation, and amortization reported for the first through fourth calendar years following closing. The total purchase price, including any earnout achieved, is expected to range from \$9.8 million to \$20.0 million depending on the results achieved by Sims.

Sims' results have been included in the consolidated financial statements since the date of acquisition and are reported within our Managed Freight reportable segment.

The preliminary acquisition date fair value of the consideration transferred consisted of the following:

August 18, 2023

(in thousands)	
Cash paid pursuant to Stock Purchase Agreement	\$ 8
Cash acquired included in historical book value of Sims' assets and liabilities	
Contingent consideration	2
Net purchase price	\$ 9

The contingent consideration arrangement requires us to pay a total of up to \$12.0 million of additional consideration to Sim's former equity-holders based on Sim's results during the first four calendar years following closing. We estimated the fair value of the contingent consideration using a probability-weighted model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. Refer to Note 3, "Fair Value of Financial Instruments" for information regarding changes in the contingent consideration arrangement.

Goodwill related to the acquisition is not tax deductible. A deferred tax liability of \$1.6 million was recorded arising from the intangible assets related to the acquisition.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the acquisition date.

(in thousands)	August 18, 2023
Accounts receivable	\$ 6
Other intangibles, net	6
Total identifiable assets acquired	6
Accounts payable	
Accrued expenses	
Deferred tax liability	(2)
Total liabilities assumed	(2)
Net identifiable assets acquired	4
Goodwill	5
Net assets acquired	\$ 9

The goodwill recognized is attributable primarily to expected cost synergies as a result of overhead support. Refer to Note 9, "Goodwill and Other Assets" for a summary of changes to goodwill during the period as well as information related to the identifiable intangible asset acquired.

The amounts of revenue and earnings of Sims included in the Company's consolidated results of operations from the acquisition date to the period ended December 31, 2023 are as follows:

(in thousands)	Year Ended December 31, 2023
Total revenue	\$ 2,924
Net income	\$ 555

## 6.7. ACQUISITION OF LEW THOMPSON & SON TRUCKING, INC.

On April 26, 2023, we acquired 100% of the outstanding stock of LTST and related entities, headquartered in Huntsville, AR. LTST is a dedicated contract carrier specializing in poultry feed and live haul transportation in Northwest Arkansas and surrounding areas and was acquired to expand the Dedicated reportable segment into this niche market. The acquisition date fair value of the consideration transferred was \$109.9 million. The Stock Purchase Agreement contains customary representations, warranties, covenants, and indemnification provisions. The Stock Purchase Agreement includes an earnout component of up to an aggregate of \$30.0 million based on LTST's adjusted earnings before interest, taxes, depreciation, and amortization reported for the first, second, and third calendar years following closing. The total purchase, including any earnout achieved, is expected to range from \$109.9 million to \$129.9 million depending on the results achieved by LTST.

LTST's results have been included in the condensed consolidated financial statements since the date of acquisition and are reported within our Dedicated reportable segment.

The preliminary acquisition date fair value of the consideration transferred consisted of the following:

(in thousands)	April 26, 2023
Cash paid pursuant to Stock Purchase Agreement	\$ 100
Cash acquired included in historical book value of LTST's assets and liabilities	
Contingent consideration	10
Net purchase price	\$ 109

The contingent consideration arrangement requires us to pay a total of up to \$30.0 million of additional consideration to LTST's former shareholders based on LTST's results during the first three calendar years following closing. We estimated the fair value of the contingent consideration using a probability-weighted model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement. Refer to Note 3, "Fair Value of Financial Instruments" for information regarding



changes in the contingent consideration arrangement. The allocation of the preliminary purchase price is subject to change based on finalization of the valuation of long-lived intangible assets and contingent consideration, as well as our ongoing evaluation of LTST's accounting policies for consistency with ours.

Because of our 338(h)10 election, all goodwill related to the acquisition is deductible for tax purposes, and there are no deferred income taxes arising from the acquisition.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the acquisition date.

(in thousands)	April 26, 2023
Accounts receivable	\$ 5,000
Driver advances and other receivables	1,000
Inventory and supplies	1,000
Prepaid expenses	1,000
Property and equipment	4,000
Other assets	1,000
Other intangibles	5,000
Total identifiable assets acquired	10,000
Accounts payable	1,000
Accrued expenses	(1,000)
Current portion of operating lease obligations	1,000
Current portion of insurance and claims accrual	1,000
Long-term portion of operating lease obligations	(2,000)
Total liabilities assumed	(4,000)
Net identifiable assets acquired	9,000
Goodwill	1,000
Net assets acquired	\$ 10,000

Since acquisition we recognized measurement period adjustments which increased goodwill recognized for LTST by \$1.7 million to \$12.4 million as of December 31, 2023. Goodwill and other intangible assets may change upon the finalization of the valuation of the contingent consideration liability and intangible assets as part of the purchase accounting for the LTST acquisition. The goodwill recognized is attributable primarily to expected cost synergies in the areas of fuel and purchases of revenue equipment, and may change as a result of our ongoing evaluation of LTST's accounting principles for consistency with ours. Refer to Note 9, "Goodwill and Other Assets" for a summary of changes to goodwill during the period as well as information related to the identifiable intangible asset acquired.

The amounts of revenue and earnings of LTST included in the Company's consolidated results of operations from the acquisition date to the period ended December 31, 2023 are as follows:

(in thousands)	Year Ended December 31, 2023
Total revenue	\$ 41,838
Net income	\$ 4,726

The following unaudited pro forma consolidated results of operations assume that the acquisition of LTST occurred as of January 1, 2022:

(in thousands)	Year Ended December 31, 2023	Year Ended December 31, 2022
Total revenue	\$ 1,124,492	\$ 1,280,000
Net income	\$ 57,592	\$ 12,000
Basic net income per share	\$ 4.41	\$ 0.90
Diluted net income per share	\$ 4.16	\$ 0.85

The pro forma financial information for all periods presented above has been calculated after adjusting the results of LTST to reflect the business combination accounting effects resulting from this acquisition, including the amortization expense from acquired intangible assets as though the acquisition occurred as of the beginning of the Company's fiscal year 2022. As noted above, the allocation is preliminary and changes to the value of the contingent consideration and finalization of our valuation could result in changes to the amount of amortization expense from acquired intangible assets included in the pro forma financial information presented above. The Company's historical consolidated financial statements have been adjusted in the pro forma combined financial statements to give effect to pro forma events that are directly attributable to the business combination and factually supportable. The pro forma financial information is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the Company's fiscal 2022.

## 8. ACQUISITION OF AAT CARRIERS, INC.

On February 9, 2022, we acquired 100% of the outstanding stock of AAT headquartered in Chattanooga, TN. AAT specializes in highly regulated, time-sensitive loads for the U.S. government. The acquisition date fair value of the consideration transferred was \$54.7 million. The Stock Purchase Agreement contains customary representations, warranties, covenants, and indemnification provisions. The Stock Purchase Agreement includes an earnout component of up to an aggregate of \$20.0 million based on AAT's adjusted earnings before interest, taxes, depreciation, and amortization reported for the first and second years following closing. The total purchase price, including any earnout achieved, is expected to range from \$38.5 million to \$57.0 million depending on the results achieved by AAT.

AAT's results have been included in the consolidated financial statements since the date of acquisition and are reported within our Expedited reportable segment.

The acquisition date fair value of the consideration transferred consisted of the following:

	February 9, 2022	
(in thousands)		
Cash paid pursuant to Stock Purchase Agreement	\$	40,347
Cash acquired included in historical book value of AAT's assets and liabilities		(1,846)
Contingent consideration		16,210
Net purchase price	\$	54,711

The contingent consideration arrangement requires us to pay up to \$20.0 million of additional consideration to AAT's former shareholders based on AAT's results during the first two post-acquisition years. We estimated the fair value of the contingent consideration using a probability-weighted model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement.

The following table provides a summary (in thousands) Refer to Note 3, "Fair Value of the activity Financial Instruments" for information regarding changes in the contingent consideration liability for 2022: arrangement.

(in thousands)	December 31, 2021	Additions	Adjustments to fair market value	December 31, 2022
Contingent consideration	\$ -	\$ (16,210)	\$ (813)	\$ (17,023)

Because of our 338(h)10 election, all goodwill related to the acquisition is deductible for tax purposes, and there are no deferred income taxes arising from the acquisition.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed at the acquisition date.

	February 9, 2022	
(in thousands)		February 9, 2022
Accounts receivable	\$ 842	\$ 842
Prepaid expenses	33	33
Other short-term assets	19	19
Net property and equipment	7,994	7,994
Credentialing intangible asset	32,000	32,000
Total identifiable assets acquired	40,888	40,888
Accounts payable	(19)	(19)
Accrued expenses	(1,396)	(1,396)
Finance lease obligations	(458)	(458)
Other long-term liabilities	(3)	(3)
Total liabilities assumed	(1,876)	(1,876)
Net identifiable assets acquired	39,012	39,012
Goodwill	15,699	15,699
Net assets acquired	\$ 54,711	\$ 54,711

The goodwill recognized is attributable primarily to expected cost synergies in the areas of fuel, purchases of revenue equipment. Refer to Note 7, "Goodwill and Other Assets" for a summary of changes to goodwill during the period as well as information related to the identifiable intangible asset acquired.

The amounts of revenue and earnings of AAT included in the Company's consolidated results of operations from the acquisition date to the period ended December 31, 2022 2023 are as follows:

(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2023	Year Ended December 31, 2022
Total revenue	\$ 33,061	\$ 37,621	\$ 33,061
Net income	\$ 13,263	\$ 10,679	\$ 13,263

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## 7.9. GOODWILL AND OTHER ASSETS

AAT's results have been included in the consolidated financial statements since the date of acquisition within our Expedited reportable segment.

The Landair trade name has a residual value of \$0.5 million.

Amortization expense of \$7.5 million, \$4.3 million, and \$4.0 million for the years ended December 31, 2023, 2022, and 2021, respectively, was included in depreciation and amortization in the consolidated statements of operations.

A summary of other intangible assets, by reportable segment as of December 31, 2022 2023 and 2021 2022 is as follows:

(in thousands)

	December 31, 2022				December 31, 2023			
	Gross intangible assets	Accumulated amortization	Net intangible assets	Remaining Life (months)	Gross intangible assets	Accumulated amortization	Net intangible assets	Remaining Life (months)
Trade name:								
Dedicated	\$ 2,402	\$ (2,130)	\$ 272		\$ 4,502	\$ (2,269)	\$ 2,233	
Managed Freight	999	(885)	114		1,089	(891)	198	
Warehousing	999	(885)	114		999	(885)	114	
Total trade name	4,400	(3,900)	500	-	6,590	(4,045)	2,545	110
Non-Compete agreement:								
Dedicated					4,670	(778)	3,892	
Managed Freight					380	(32)	348	
Total non-compete agreement					5,050	(810)	4,240	40
Customer relationships:								
Dedicated	14,072	(5,277)	8,795		60,172	(8,258)	51,914	
Managed Freight	1,692	(635)	1,057		7,312	(1,043)	6,269	
Warehousing	12,436	(4,663)	7,773		12,436	(5,700)	6,736	
Total customer relationships:	28,200	(10,575)	17,625	90	79,920	(15,001)	64,919	159
Credentialing:								
Expedited	32,000	(1,956)	30,044	169	32,000	(4,089)	27,911	157
Total credentialing	32,000	(1,956)	30,044		32,000	(4,089)	27,911	
Total other intangible assets	\$ 64,600	\$ (16,431)	\$ 48,169	138	\$ 123,560	\$ (23,945)	\$ 99,615	151

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(in thousands)

	December 31, 2021				December 31, 2022			
	Gross intangible assets	Accumulated amortization	Net intangible assets	Remaining Life (months)	Gross intangible assets	Accumulated amortization	Net intangible assets	Remaining Life (months)
Trade name:								

Dedicated	\$ 2,402	\$ (2,130)	\$ 272		\$ 2,402	\$ (2,130)	\$ 272	
Managed Freight	999	(885)	114		999	(885)	114	
Warehousing	999	(885)	114		999	(885)	114	
Total trade name	4,400	(3,900)	500	-	4,400	(3,900)	500	-
Customer relationships:								
Dedicated	14,072	(4,104)	9,968		14,072	(5,277)	8,795	
Managed Freight	1,692	(494)	1,198		1,692	(635)	1,057	
Warehousing	12,436	(3,627)	8,809		12,436	(4,663)	7,773	
Total customer relationships	28,200	(8,225)	19,975	102	28,200	(10,575)	17,625	90
Credentialing:								
Expedited					32,000	(1,956)	30,044	
Total credentialing					32,000	(1,956)	30,044	169
Total other intangible assets	\$ 32,600	\$ (12,125)	\$ 20,475		\$ 64,600	\$ (16,431)	\$ 48,169	138

The above finite-lived intangible assets have a weighted average remaining life of 138 151 months and 102 138 months as of December 31, 2022 2023 and 2021 2022, respectively.

The expected amortization expense of these assets for the next five years is as follows:

	(In thousands)	(In thousands)
2023	\$ 4,483	
2024	4,483	\$ 9,488
2025	4,483	9,488
2026	4,483	9,488
2027	4,483	8,678
2028		8,222
Thereafter	25,254	53,751

The assignment of goodwill and intangible assets to our reportable segments was not complete as of December 31, 2022. 2023. The carrying amount of goodwill was \$75.7 million at December 31, 2023, compared to \$58.2 million at December 31, 2022 compared to \$42.5 million at December 31, 2021, , as a result of the AAT acquisition, LTST and Sims acquisitions. A summary of the changes in carrying amount of goodwill by reportable segment is as follows:

(in thousands)	December 31, 2021			December 31, 2022
	Gross/net goodwill	Acquired goodwill for AAT	Accumulated impairment loss	Gross/net goodwill
Expedited	\$ -	\$ 15,699	\$ -	\$ 15,699
Dedicated	15,320	-	-	15,320
Managed Freight	5,448	-	-	5,448
Warehousing	21,750	-	-	21,750
Total goodwill	\$ 42,518	\$ 15,699	\$ -	\$ 58,217

(in thousands)	Expedited	Dedicated	Managed Freight	Warehousing
Balance at December 31, 2022	\$ 15,699	\$ 15,320	\$ 5,448	\$ 21,750
Acquired goodwill for LTST	-	10,729	-	-
Acquired goodwill for Sims	-	-	5,083	-
Post-acquisition goodwill adjustments	-	1,718	-	-
Balance at December 31, 2023	\$ 15,699	\$ 27,767	\$ 10,531	\$ 21,750

A summary of other assets as of December 31, 2022 2023 and 2021 2022 is as follows:

(in thousands)	2022	2021	2023	2022
----------------	------	------	------	------

Investment in TEL	\$ 54,727	\$ 44,196	\$ 66,327	\$ 54,727
Other long-term receivables	1,260	7,329	4,664	1,260
Other assets, net	2,856	859	7,076	2,856
Total other assets, net	<u>\$ 58,843</u>	<u>\$ 52,384</u>	<u>\$ 78,067</u>	<u>\$ 58,843</u>

Other long-term receivables primarily represents amounts related to extended warranties on our revenue equipment on our consolidated balance sheet as of December 31, 2023, and 2022, as well as amounts recorded as a receivable in other assets and as a corresponding accrual in the long-term portion of insurance and claims accruals on our consolidated balance sheet as of December 31, 2021, 2023, for claims above our self-insured retention for which we believe it is reasonably assured that the insurers will provide their portion of such claims.

The Company conducted its annual impairment assessments and tests of goodwill for each reporting unit as of October 1, 2022, 2023. The first step of the goodwill impairment test is the Company's assessment of qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, including goodwill. When performing the qualitative assessment, the Company considers the impact of factors including, but not limited to, macroeconomic and industry conditions, overall financial performance of each reporting unit, litigation and new legislation. If based on the qualitative assessments, the Company believes it more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount, or periodically as deemed appropriate by management, the Company will prepare an estimation of the respective reporting unit's fair value utilizing a quantitative approach.

If the estimation of fair value indicates that impairment potentially exists, the Company will then measure the amount of the impairment, if any. Goodwill impairment exists when the estimated implied fair value of goodwill is less than its carrying value. Changes in strategy or market conditions could significantly impact these fair value estimates and require adjustments to recorded asset balances. As a result of the most recent goodwill impairment analysis performed (October 1, 2022), October 1, 2023, the Company determined that it was not more likely than not that the fair value of a reporting unit is less than the reporting unit's carrying amount.

Additionally, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. Impairment is recognized on assets classified as held and used when the sum of undiscounted estimated cash flows expected to result from the use of the asset is less than the carrying value. If such measurement indicates a possible impairment, the estimated fair value of the asset is compared to its net book value to measure the impairment charge, if any. No such events were identified as of December 31, 2022, 2023.

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## 8.10. DEBT

Current and long-term debt and lease obligations consisted of the following at December 31, 2022, 2023 and 2021, 2022:

(in thousands)	December 31, 2022		December 31, 2021		December 31, 2023		December 31, 2022	
	Current	Long-Term	Current	Long-Term	Current	Long-Term	Current	Long-Term
Borrowings under Credit Facility	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,579	\$ -	\$ -
Borrowings under the Draw Note	-	-	-	-	-	-	-	-
Revenue equipment installment notes; weighted average interest rate of 4.7% at December 31, 2022, and 1.2% December 31, 2021, due in monthly installments with final maturities at various dates ranging from May 2025 to June 2027, secured by related revenue equipment	17,656	71,267	4,537	2				
Real estate notes; interest rate of 5.8% at December 31, 2022 and 1.8% at December 31, 2021 due in monthly installments with a fixed maturity at August 2035, secured by related real estate	1,241	19,100	1,185	20,345				
Revenue equipment installment notes; weighted average interest rate of 5.2% at December 31, 2023, and 4.7% December 31, 2022, due in monthly installments with final maturities at various dates ranging from April 2028 to December 2028, secured by related revenue equipment					46,357	167,509	17,656	71,267

Real estate notes; interest rate of 7.1% at December 31, 2023 and 5.8% at December 31, 2022 due in monthly installments with a fixed maturity at August 2035, secured by related real estate					1,294	17,806	1,241	19,100
Total debt	18,897	90,367	5,722	20,347	47,651	196,894	18,897	90,367
Principal portion of finance lease obligations, secured by related revenue equipment	5,326	432	6,848	3,969	781	5,296	5,326	432
Principal portion of operating lease obligations, secured by related equipment	18,179	46,428	15,811	21,554	11,950	30,892	18,179	46,428
Total debt and lease obligations	<u>\$ 42,402</u>	<u>\$ 137,227</u>	<u>\$ 28,381</u>	<u>\$ 45,870</u>	<u>\$ 60,382</u>	<u>\$ 233,082</u>	<u>\$ 42,402</u>	<u>\$ 137,227</u>

We and substantially all of our subsidiaries are parties to the Third Amended and Restated Credit Agreement (the "Credit Facility") with Bank of America, N.A., as agent (the "Agent") and JPMorgan Chase Bank, N.A. (together with the Agent, the "Lenders"). The Credit Facility is a \$110.0 million revolving credit facility, with an uncommitted accordion feature that, so long as no event of default exists, allows us to request an increase in the revolving credit facility of up to \$75.0 million subject to Lender acceptance of the additional funding commitment. The Credit Facility includes a letter of credit sub facility in an aggregate amount of \$105.0 million and a swing line sub facility in an aggregate amount equal to the greater of \$10.0 million or 10% of the Lenders' aggregate commitments under the Credit Facility from time-to-time. The Credit Facility matures in May 2027.

Borrowings under the Credit Facility are classified as either "base rate loans" or "SOFR loans." Base rate loans accrue interest at a base rate equal to the greater of the Agent's prime rate, the federal funds rate plus 0.5%, or SOFR for a one month period as of such day, plus an applicable margin ranging from 0.25% to 0.75%; while SOFR loans accrued interest at SOFR, plus an applicable margin ranging from 1.25% to 1.75%. The applicable rates are adjusted quarterly based on average pricing availability. The unused line fee is the product of 0.25% times the average daily amount by which the Lenders' aggregate revolving commitments under the Credit Facility exceed the outstanding principal amount of revolver loans and the aggregate undrawn amount of all outstanding letters of credit issued under the Credit Facility. The obligations under the Credit Facility are guaranteed by us and secured by a pledge of substantially all of our assets, with the notable exclusion of any real estate, revenue equipment pledged under other financing agreements, including revenue equipment installment notes and finance leases, and revenue equipment that we do not designate as being included in the borrowing base.

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Borrowings under the Credit Facility are subject to a borrowing base limited to the lesser of (A) \$110.0 million, minus the sum of the stated amount of all outstanding letters of credit; or (B) the sum of (i) 87.5% of eligible accounts receivable, plus (ii) the least of (a) 85% of the appraised net orderly liquidation value of eligible revenue equipment, (b) 100% of the net book value of eligible revenue equipment, (c) 60.0% of the Lenders' aggregate revolving commitments under the Credit Facility, or (d) \$65.0 million. We had **\$0.0 million** **\$11.6 million** borrowings outstanding under the Credit Facility as of December 31, **2022** **2023**, undrawn letters of credit outstanding of approximately **\$23.9 million** **\$21.8 million**, and available borrowing capacity of **\$86.1 million** **\$76.6 million**. Based on availability as of December 31, **2022** **2023** and **2021** **2022**, there was no fixed charge coverage requirement.

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

Pricing for the revenue equipment installment notes is quoted by the respective financial affiliates of our primary revenue equipment suppliers and other lenders at the funding of each group of equipment acquired and include fixed annual rates for new equipment under retail installment contracts. The notes included in the funding are due in monthly installments with final maturities at various dates ranging from **May 2025** **April 2028** to **June 2027** **December 2028**. 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 **\$83.4 million** **\$37.8 million** are cross-defaulted with the Credit Facility. Additional borrowings from the financial affiliates of our primary revenue equipment suppliers and other lenders are expected to be available to fund new tractors expected to be delivered in **2023** **2024**, while any other property and equipment purchases, including trailers, are expected to be funded with a combination of available cash, notes, operating leases, finance leases, and/or from the Credit Facility.

In August 2015, we financed a portion of the purchase of our corporate headquarters, a maintenance facility, and certain surrounding property in Chattanooga, Tennessee by entering into a \$28.0 million variable rate note with a third **party-party** lender. Concurrently with entering into the note, we entered into an interest rate swap to effectively fix the related interest rate to 4.2%. The note contains certain restrictions and covenants that are usual and customary for a note of this nature. Failure to comply with the covenants and restrictions set forth in the note could result in an event of default. We expect to be in compliance with our debt covenants for the next 12 months.

In connection with the **settlement of a dispute related to the sale of TFS Settlement** (the "TFS Settlement"), in September 2020, TBK Bank, SSB, as lender and agent for Triumph ("TBK Bank"), provided the Company with a \$45 million line of credit (the "Draw Note"), the proceeds of which are to be used solely to satisfy our indemnification obligations under the TFS Settlement. We may borrow pursuant to the Draw Note until September 23, 2025. **Any amount outstanding under the Draw Note will accrue interest at a per annum rate**



equal to one and one-half (1.5) percentage points over LIBOR, provided, however, that LIBOR shall be deemed to be at least 0.25%. Accrued interest is due monthly and the outstanding principal balance is due on September 23, 2026. To secure our obligations under the TFS Settlement and the Draw Note, we pledged certain unencumbered revenue equipment with an estimated net orderly liquidation value of \$60 million. The Draw Note includes usual and customary events of default for a facility of this nature and provides that, upon occurrence and continuation of an event of default, payment of all amounts payable under the Draw Note may be accelerated. During the first quarter of 2021, we received an indemnification call from Triumph of \$35.6 million related to the TFS Settlement, which was funded by drawing on the Draw Note. During the second quarter of 2021 we repaid \$31.0 million of the borrowings under the Draw Note and during the third quarter of 2021 we repaid the remaining balance. As of December 31, 2022, there were no outstanding borrowings under the Draw Note.

As of December 31, 2022 2023, the scheduled principal payments of debt, excluding finance leases for which future payments are discussed in Note 9.11 are as follows:

	(in thousands)	(in thousands)
2023	\$ 13,915	
2024	21,626	\$ 47,650
2025	23,117	62,358
2026	4,322	37,746
2027	3,377	43,690
2028		41,054
Thereafter	13,579	12,047

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## 9.11. LEASES

Finance lease obligations are utilized to finance a portion of our revenue equipment and are entered into with certain finance companies who are not parties to our Credit Facility. The leases in effect at December 31, 2022 2023 terminate in January 2023 June 2028 through November 2033 and contain guarantees of the residual value of the related equipment by us. As such, the residual guarantees are included in the related debt balance as a balloon payment at the end of the related term as well as included in the future minimum finance lease payments. These lease agreements require us to pay personal property taxes, maintenance, and operating expenses. Our operating lease obligations do not typically include residual value guarantees or material restrictive covenants.

A summary of our lease obligations for the twelve months ended December 31, 2023, 2022, and 2021 are as follows:

(dollars in thousands)	Twelve Months Ended December 31, 2022	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2023	Twelve Months Ended December 31, 2022	Twelve Months Ended December 31, 2021
Finance lease cost:					
Amortization of right-of-use assets	\$ 2,314	\$ 3,620	\$ 689	\$ 2,314	\$ 3,620
Interest on lease liabilities	377	637	510	377	637
Operating lease cost	20,538	19,583	18,296	20,538	19,583
Short-term lease cost	13,625	4,419	7,514	13,625	4,419
Variable lease cost	232	89	1,024	232	89
Total lease cost	\$ 37,086	\$ 28,348	\$ 28,033	\$ 37,086	\$ 28,348
Other information					
Cash paid for amounts included in the measurement of lease liabilities:					
Operating cash flows from finance leases	\$ 377	\$ 637	\$ 510	\$ 377	\$ 637
Operating cash flows from operating leases	\$ 17,114	\$ 17,188	\$ 13,965	\$ 17,114	\$ 17,188
Financing cash flows from finance leases	\$ 5,516	\$ 5,626	\$ 5,619	\$ 5,516	\$ 5,626

Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 458	\$ -	\$ 5,938	\$ 458	\$ -
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 48,515	\$ 15,795	\$ 3,992	\$ 48,515	\$ 15,795
Weighted-average remaining lease term—finance leases	5.7 years	1.0 years	3.8 years	5.7 years	1.0 years
Weighted-average remaining lease term—operating leases	4.6 years	4.9 years	4.6 years	4.6 years	4.9 years
Weighted-average discount rate—finance leases	5.1%	4.7%	13.2%	5.1%	4.7%
Weighted-average discount rate—operating leases	9.1%	6.4%	10.1%	9.1%	6.4%

During the year ended December 31, 2022, we recognized \$7.5 million of expense related to the early abandonment and disposal charges related to revenue equipment held under operating leases as the equipment was a source of significant operational headwinds throughout the year due to poor fuel economy, unusually high maintenance costs, and elevated downtime. At December 31, 2022 2023 and 2021, 2022, right-of-use assets of \$58.9 million \$41.2 million and \$35.7 million \$58.9 million for operating leases, respectively, and \$5.3 million \$6.4 million and \$23.2 million \$5.3 million for finance leases, are included in net property and equipment in our consolidated balance sheets. Operating lease right-of-use asset amortization is included in revenue equipment rentals and purchased transportation, communication and utilities, and general supplies and expenses, depending on the underlying asset, in the consolidated statement of operations. Amortization of finance leased assets is included in depreciation and amortization expense in the consolidated statement of operations.

Our future minimum lease payments as of December 31, 2022 2023, summarized as follows by lease category:

(in thousands)	Operating	Finance	Operating	Finance
2023	\$ 22,653	\$ 5,138		
2024	18,147	108	\$ 15,285	\$ 1,543
2025	11,719	108	11,158	1,543
2026	8,433	108	8,399	1,543
2027	7,730	108	7,530	1,543
2028			3,604	1,262
Thereafter	10,572	640	7,211	1,629
Total minimum lease payments	\$ 79,254	\$ 6,210	\$ 53,187	\$ 9,063
Less: amount representing interest	(14,647)	(452)	(10,345)	(2,986)
Present value of minimum lease payments	\$ 64,607	\$ 5,758	\$ 42,842	\$ 6,077
Less: current portion	(18,179)	(5,326)	(11,950)	(781)
Lease obligations, long-term	\$ 46,428	\$ 432	\$ 30,892	\$ 5,296

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

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

(in thousands)	2022	2021	2023	2022	2021
Revenue equipment rentals	\$ 26,478	\$ 20,114	\$ 12,735	\$ 26,478	\$ 20,114
Building and lot rentals	7,567	3,651	13,721	7,567	3,651
Other equipment rentals	350	326	378	350	326
Total rental expense	\$ 34,395	\$ 24,091	\$ 26,834	\$ 34,395	\$ 24,091

## 10, 12. INCOME TAXES

Income tax expense for the years ended December 31, 2023, 2022, and 2021 is comprised of:

(in thousands)	2022	2021	2023	2022	2021
Federal, current	\$ 16,123	\$ 9,875	\$ (1,132)	\$ 16,123	\$ 9,875
Federal, deferred	12,774	6,584	16,624	12,774	6,584

State, current	5,136	2,777	2,575	5,136	2,777
State, deferred	827	1,727	(456)	827	1,726
Income tax expense	<u>\$ 34,860</u>	<u>\$ 20,962</u>	<u>\$ 17,611</u>	<u>\$ 34,860</u>	<u>\$ 20,962</u>

Income tax expense for the years ended December 31, 2023, 2022, and 2021 is summarized below:

(in thousands)	2022	2021	2023	2022	2021
Computed "expected" income tax expense	\$ 29,986	\$ 16,643	\$ 15,170	\$ 29,986	\$ 16,643
State income taxes, net of federal income tax effect	4,711	3,787	1,674	4,711	3,787
831(b) election	(1)	(8)			
Per diem allowances			862	-	-
Tax contingency accruals	(230)	(295)	(287)	(230)	(295)
Valuation allowance, net	-	(242)	-	-	(242)
Tax credits	(379)	(295)	(329)	(379)	(295)
Excess tax benefits on share-based compensation	(446)	(259)	(1,811)	(446)	(259)
Change in prior year estimates	(145)	(86)	8	(145)	(86)
Executive compensation disallowance	1,778	1,705	2,370	1,778	1,705
Other, net	(414)	11	(46)	(415)	4
Income tax expense	<u>\$ 34,860</u>	<u>\$ 20,962</u>	<u>\$ 17,611</u>	<u>\$ 34,860</u>	<u>\$ 20,962</u>

The amount of income tax expense (benefit) allocated to discontinued operations for TFS is \$0.2 million expense and \$0.8 million benefit, for the years ended December 31, 2023 and 2021, 2022 respectively, respectively and \$0.8 million benefit for the year ended December 31, 2021.

Income tax expense varies from the amount computed by applying the applicable federal corporate income tax rate of 21% for 2023, 2022, and 2021, to income before income taxes primarily due to state income taxes, net of federal income tax effect, adjusted for permanent differences. The IRS has issued guidance that allows meals and entertainment differences, the most significant of which are the effects of the per diem pay structure for drivers, executive compensation disallowance, and excess tax benefits on share-based compensation. Drivers who meet the requirements to be 100% deductible for tax years 2021 and 2022. Accordingly, there is no adjustment in 2022 as our receive per diem plan qualifies for this treatment. 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 benefits are slightly lower and our effective income tax rate is higher than the statutory rate. Generally, as pre-tax income increases, the impact of the driver per diem program on effective tax rate decreases, because aggregate per diem pay becomes smaller in relation to pre-tax income, while in periods where earnings are at or near breakeven, the impact of the per diem program on our effective tax rate is significant. Due to the partially nondeductible effect of per diem pay, our tax rate will fluctuate in future periods based on fluctuations in earnings.

The temporary differences and the approximate tax effects that give rise to our net deferred tax liability at December 31, 2022 2023 and 2021 2022 are as follows:

(in thousands)	2022	2021	2023	2022
Deferred tax assets:				
Insurance and claims	\$ 9,320	\$ 9,453	\$ 7,958	\$ 9,320
Net operating loss carryovers	3,583	4,448	14,550	3,583
Tax credits	416	2,499	347	416
Leased liability	16,292	9,599	10,796	16,292
Finance lease obligation	1,360	2,800	1,416	1,360
State bonus	2,945	2,165	6,760	2,945
Accrued bonus			3,198	-
Other	5,206	2,361	4,922	5,206
Total deferred tax assets	<u>39,122</u>	<u>33,325</u>	<u>49,947</u>	<u>39,122</u>
Deferred tax liabilities:				
Property and equipment	(74,481)	(68,090)	(96,208)	(74,481)
Investment in partnership	(42,151)	(34,400)	(50,613)	(42,151)
ROU Asset- leases	(14,836)	(9,178)	(10,371)	(14,836)
Intangibles			(4,088)	(1,502)
Other	(2,396)	(783)	(563)	(894)

481(a) - finance leases	-	(2,177)		
Prepaid expenses	(3,974)	(3,358)	(4,199)	(3,974)
Total deferred tax liabilities	(137,838)	(117,986)	(166,042)	(137,838)
Net deferred tax liability	\$ (98,716)	\$ (84,661)	\$ (116,095)	\$ (98,716)

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The net deferred tax liability of \$98.8 million \$116.1 million primarily relates to differences in cumulative book versus tax depreciation of property and equipment, partially off-set offset by net operating loss carryovers and insurance claims that have been reserved but not paid. The carrying value of our deferred tax assets assumes that we will be able to generate, based on certain estimates and assumptions, sufficient future taxable income in certain tax jurisdictions to utilize these deferred tax benefits. If these estimates and related assumptions change in the future, we may be required to establish a valuation allowance against the carrying value of the deferred tax assets, which would result in additional income tax expense. On a periodic basis, we assess the need for adjustment of the valuation allowance. The Company has We determined that 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 was not necessary at December 31, 2022 2023 for our deferred tax assets since it is more likely than not they will be realized from future reversals of temporary differences. If these estimates and related assumptions change in the future, we may be required to modify our valuation allowance against the carrying value of the deferred tax assets.

As of December 31, 2022 2023, we had a \$0.4 million \$0.1 million liability recorded for unrecognized tax benefits, which includes interest and penalties of less than \$0.1 million. We recognize interest and penalties accrued related to unrecognized tax benefits in tax expense. As of December 31, 2021 2022, we had a \$0.6 million \$0.4 million liability recorded for unrecognized tax benefits, which included interest and penalties of less than \$0.1 million. Interest and penalties recognized for uncertain tax positions provided for de minimus expense in 2022 2023 and 2021, 2022.

The following tables summarize the annual activity related to our gross unrecognized tax benefits (in thousands) for the years ended December 31, 2023, 2022, and 2021:

	2022	2021	2023	2022	2021
Balance as of January 1,	\$ 596	\$ 887	\$ 392	\$ 596	\$ 887
Decreases related to lapsing of statute of limitations	(204)	(291)	(287)	(204)	(291)
Balance as of December 31,	\$ 392	\$ 596	\$ 105	\$ 392	\$ 596

If recognized, approximately \$0.1 million, \$0.4 million, and \$0.6 million of unrecognized tax benefits would impact our effective tax rate as of both December 31, 2023, 2022, and 2021, respectively. Any prospective adjustments to our reserves for income taxes will be recorded as an increase or decrease to our provision for income taxes and would impact our effective tax rate.

Our 2019 2020 through 2021 2022 tax years remain subject to examination by the IRS for U.S. federal tax purposes, our major taxing jurisdiction. In the normal course of business, we are also subject to audits by state and local tax authorities. We do not anticipate total unrecognized tax benefits to materially change in the next twelve months.

Our We generated a federal net operating loss ("NOL") was fully consumed of \$50.0 million in 2021, 2023 which can be carried forward indefinitely. We have \$1.0 million \$0.4 million of federal tax credits available to carry back and offset future tax, tax in 2022. Our state net operating loss carryforwards and state tax credits of \$68.9 million \$80.6 million and \$0.4 million, respectively, expire beginning in 2023 and 2029 based on jurisdiction.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law. The CARES Act, among other things, includes provisions for refundable payroll tax credits, deferral for employer-side social-security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, and technical corrections to tax depreciation methods for qualified improvement property. The Company considered the impacts of the legislation in the 2021 and 2020 financial statements.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (the "ARPA") into law. The new law includes several provisions meant to stimulate the U.S. economy. Of relevance to the Company, ARPA extended the reach of IRC Section 162(m) to include compensation paid to the eight highest-paid individuals other than the chief executive officer and chief financial officer (rather than the three highest), however, this change is not effective until 2027. There is no material impact to the financial statements at this time.

President Biden signed the Inflation Reduction Act (the "IRA") into law on August 16, 2022. We do not anticipate the IRA will have a significant impact on income tax expense or on other taxes. One of the most impactful provisions of the IRA includes the establishment of a Corporate Alternative Minimum Tax ("CAMT"). However, this tax only applies to corporations with three-year average earnings in excess of \$1.0 billion. We will continue to monitor the CAMT each year to determine if we will become an applicable corporation. Additionally, the IRA enacted an excise tax on stock buybacks, which imposes a 1% tax on stock buybacks, subject to netting provisions regarding stock awarded to employees as

part of their compensation. We do not believe this will have a material impact on our active buyback program, but will continue to monitor IRS guidance and regulations on how the buyback tax will be imposed and administered.

On May 11, 2023, the Tennessee Works Act was signed into law by Governor Lee. The most impactful change for the Company was the phase-in of a single-sales factor apportionment formula for the logistics and leasing companies that file in Tennessee. The motor carriers already apply a single-sales factor. This resulted in the Company recording a \$1.2 million benefit during 2023 related to revaluing our deferred tax balances for this change.

11, 13. EQUITY METHOD INVESTMENT

We own a 49.0% interest in TEL, a tractor and trailer equipment leasing company and used equipment reseller. There is no loss limitation on our 49.0% interest in TEL. We have not guaranteed any of TEL's debt and have no obligation to provide funding, services, or assets. There are no current put rights to purchase or sell with any owners. TEL's majority owners are generally restricted from transferring their interests in TEL, other than to certain permitted transferees, without our consent. There are no third party-party liquidity arrangements, guarantees, and/or other commitments that may affect the fair value or risk of our interest in TEL. For the years ended December 31, 2022 2023 and 2021 2022, we sold no tractors and trailers to TEL while for \$0.0 million 2021 we sold \$0.3 million of tractors and \$0.3 million trailers to TEL. We received \$0.9 million, respectively, and received \$0.8 million, and \$0.9 million, respectively, for providing various maintenance services, certain back-office functions, and for miscellaneous equipment. We did not purchase any purchased equipment from TEL for \$4.1 million in 2023 and none in 2022 or 2021, respectively. Additionally, we paid \$6.8 million, \$6.1 million, and \$0.8 million to TEL for leases of revenue equipment and maintenance in 2023, 2022, and 2021, respectively. We had operating lease liabilities with TEL of \$4.1 million and \$13.8 million at December 31, 2023 and 2021 2022, respectively, for revenue equipment leased from TEL. We recorded net reversal of gains of less than \$0.1 million for the year years ended December 31, 2023 and 2022 and deferral of gains of approximately \$0.1 million for the year ended December 31, 2021, representing 49% of the gains on tractors and trailers sold to TEL less any gains previously deferred and recognized when the equipment was sold to a third party-party. Deferred gains totaling \$0.2 million at December 31, 2022 2023 and 2021 2022, respectively, are being carried as a reduction in our investment in TEL.

We have accounted for our investment in TEL using the equity method of accounting and thus our financial results include our proportionate share of TEL's net income, which amounted to \$21.4 million in 2023, \$25.2 million in 2022, and \$14.8 million in 2021 2021. We received an equity distribution from TEL for \$14.7 million \$9.8 million, and \$4.9 million \$14.7 million in 2022 2023 and 2021 2022, which was distributed to each member based on its respective ownership percentage.

Our accounts receivable and payable from TEL and investment in TEL as of December 31, 2022 2023 and 2021 2022, are as follows:

Description:	Balance Sheet Line Item:	2022	2021	Balance Sheet Line Item:	2023	2022
Accounts receivable from TEL	Driver advances and other receivables	\$ 9	\$ 802	Driver advances and other receivables	\$ 37	\$ 9
Accounts payable to TEL	Accrued expenses	\$ 763	\$ -	Accrued expenses	\$ 460	\$ 763
Investment in TEL	Other assets	\$ 54,727	\$ 44,196	Other assets	\$ 66,327	\$ 54,727

Our accounts receivable from TEL related to cash disbursements made pursuant to our performance of certain back-office and maintenance functions on TEL's behalf. Our accounts payable to TEL related to operating lease payments owed to TEL. Our investment in TEL is comprised of \$4.9 million cash investment and our equity in TEL's earnings since our investment, partially offset by dividends received since our investment for minimum tax withholdings as noted above. Additionally, the abovementioned deferred gains on sales of equipment to TEL are carried as a reduction in our investment in TEL.

See TEL's summarized financial information below.

(in thousands)	As of the years ended December 31,		As of the years ended December 31,	
	2022	2021	2023	2022
Current Assets	\$ 62,064	\$ 32,948	\$ 74,154	\$ 62,064
Non-current Assets	418,660	313,270	518,870	418,661
Current Liabilities	83,326	63,330	119,620	83,326

Non-current Liabilities	294,222	201,618	347,121	294,222
Total Equity	\$ 103,177	\$ 81,270	\$ 126,283	\$ 103,177

(in thousands)

	As of the years ended December 31,		As of the years ended December 31,		
	2022	2021	2023	2022	2021
Revenue	\$ 149,347	\$ 104,873	\$ 151,207	\$ 149,347	\$ 104,873
Cost of Sales	28,815	8,876	14,768	28,815	8,876
Operating Expenses	60,861	58,627	79,596	60,861	58,627
Operating Income	59,671	37,370	56,843	59,671	37,370
Net Income	\$ 51,907	\$ 30,078	\$ 43,107	\$ 51,907	\$ 30,078

## 12, 14. EMPLOYEE BENEFIT PLANS

### Deferred Profit Sharing Employee Benefit Plan

We have a deferred profit sharing and savings plan under which all of our employees with at least six months of service are eligible to participate. Employees may contribute a percentage of their annual compensation up to the maximum amount allowed by the Internal Revenue Code. We may make discretionary contributions as determined by a committee of our Board. We made contributions of \$2.2 million, \$1.9 million, and \$1.9 million in 2023, 2022, and 2021, respectively, to the profit sharing and savings plan.

### Nonqualified Deferred Compensation Plan

The Supplemental Savings Plan (the "SSP") is our nonqualified deferred compensation plan started during 2022 for the benefit of eligible key managerial employees whose contributions to our deferred profit sharing and savings plan are limited because of IRS regulations affecting highly compensated employees. Under the terms of the SSP, participants may elect to defer compensation on a pre-tax basis within annual dollar limits we establish. At December 31, 2023 and 2022, there were 15 active participants in the SSP, respectively. We may make discretionary contributions as we so determine each year. Each participant is fully vested in all deferred compensation and earnings; however these amounts are subject to general creditor claims until distributed to the participant. Under current federal tax law, we are not allowed a current income tax deduction for the compensation deferred by participants, but we are allowed a tax deduction when a distribution payment is made to a participant from the SSP. The accumulated benefit obligation was \$2.4 million and \$0.2 million as of December 31, 2023 and 2022, respectively, and is included in accrued expenses and other long-term liabilities in the consolidated balance sheets. We purchased life insurance policies with the intent to fund the future liability. The aggregate market value of the life insurance policies was \$2.4 million and \$0.2 million as of December 31, 2023 and 2022, respectively, and was included in other non-current assets in the consolidated balance sheets.

The accumulated benefit obligation and aggregate market value of the life insurance policies were as follows (in thousands):

	December 31,	
	December 31, 2022	2023 2022
Accumulated benefit obligation	\$ 226	\$ 2,360 \$ 226
Aggregate market value	220	\$ 2,424 \$ 220

## 13, 15. RELATED PARTY TRANSACTIONS

Other than those associated with TEL, there are no material related party transactions. See Note 11 13 for discussions of the related party transactions associated with TEL.

## 14, 16. COMMITMENTS AND CONTINGENT LIABILITIES

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

On February 11, 2021, a lawsuit was filed against Covenant Transport on behalf of Wesley Maas (a California resident and former driver) who is seeking to have the lawsuit certified as a class action. The lawsuit was filed in the Superior Court of San Bernardino County, California. The Complaint alleges claims for failure to pay all lawful wages, failure to provide lawful meal and rest periods or compensation in lieu thereof, failure to timely pay wages, failure to comply with itemized wage statement provisions, failure to indemnify for



expenditures, and violations of California Labor Code and unfair competition laws. Based on our present knowledge of the facts and, in certain cases, advice of outside counsel, management believes that the recent resolution and dismissal of a prior class action lawsuit alleging similar claims, taking into account existing reserves, is not likely to have a materially adverse effect on our condensed consolidated financial statements, however, any future liability claims could impact this analysis. Covenant Transport intends to vigorously defend itself in this matter. We do not currently have enough information to make a reasonable estimate as to the likelihood, or amount of a loss, or a range of reasonably possible losses as a result of this claim, as such there have been no related accruals recorded as of December 31, 2022.

We maintain insurance to cover liabilities arising from the transportation of freight for amounts in excess of certain self-insured retentions. Refer to Note 1 "Significant Accounting Policies" of the accompanying consolidated financial statements for information about our insurance program.

We had \$23.9 million \$21.8 million and \$26.4 million \$23.9 million of outstanding and undrawn letters of credit as of December 31, 2022 2023 and 2021 2022, respectively. The letters of credit are maintained primarily to support our insurance programs. Additionally, we had \$45.0 million of availability on a line of credit from Triumph solely to fund any indemnification owed to Triumph in relation to the sale of TFS. As of December 31, 2023, the remaining contingent liability was \$1.6 million.

We had commitments outstanding at December 31, 2022 2023, to acquire revenue equipment totaling approximately \$156.6 million \$121.9 million versus commitments at December 31, 2021 2022 of approximately \$73.8 million \$156.6 million. These commitments are cancelable upon stated notice periods, subject to certain adjustments in the underlying obligations and benefits. These purchase commitments are expected to be financed by operating leases, finance leases, long-term debt, proceeds from sales of existing equipment, and/or cash flows from operations.

## 15.17. SEGMENT INFORMATION

Our four reportable segments are: (i) Expedited, (ii) Dedicated, (iii) Managed Freight, and (iv) Warehousing. Refer to Note 1, for a description of each of our reportable segments.

- **Expedited:** The Expedited reportable segment primarily provides truckload services to customers with high service freight and delivery standards, such as 1,000 miles in 22 hours, or 15-minute delivery windows. Expedited services generally require two-person driver teams on equipment either owned or leased by the Company.
- **Dedicated:** The Dedicated reportable segment provides customers with committed truckload capacity over contracted periods with the goal of three to five years in length. Equipment is either owned or leased by the Company.
- **Managed Freight:** The Managed Freight reportable segment includes our brokerage and transport management services ("TMS"). Brokerage services provide logistics capacity by outsourcing the carriage of customers' freight to third parties. TMS provides comprehensive logistics services on a contractual basis to customers who prefer to outsource their logistics needs.
- **Warehousing:** The Warehousing reportable segment provides day-to-day warehouse management services to customers who have chosen to outsource this function. We also provide shuttle and switching services related to shuttling containers and trailers in or around freight yards and to/from warehouses.

The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Substantially all intersegment sales prices are market based. We evaluate performance based on operating income of the respective business units.

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The following table summarizes our reportable segment information as used by our chief operating decision maker in making decisions regarding allocation of resources, etc., for 2023, 2022, and 2021:

(in thousands)										
Year Ended December 31, 2022	Expedited	Dedicated	Managed Freight	Warehousing	Consolidated					
Year Ended December 31, 2023						Expedited	Dedicated	Managed Freight	Warehousing	Consolidated
Total revenue from external customers	\$ 452,713	\$ 362,997	\$ 320,985	\$ 80,163	\$ 1,216,858	\$ 423,820	\$ 320,287	\$ 258,903	\$ 100,563	\$ 1,103,573
Intersegment revenue	5,505	-	-	-	5,505	10,859	-	-	-	10,859
Operating income	60,552	21,087	36,858	2,185	120,682	28,861	17,712	9,388	2,862	58,823
Depreciation and amortization	30,101	25,449	247	1,715	57,512	35,451	32,163	562	1,767	69,943

(in thousands)										
Year Ended December 31, 2021	Expedited	Dedicated	Managed Freight	Warehousing	Consolidated					

Year Ended December 31, 2022						Expedited	Dedicated	Managed Freight	Warehousing	Consolidated										
Total revenue from external customers	\$	337,063	\$	324,541	\$	321,236	\$	63,163	\$	1,046,003	\$	452,713	\$	362,997	\$	320,985	\$	80,163	\$	1,216,858
Intersegment revenue		7,429		-		-		-		7,429		5,505		-		-		-		5,505
Operating income (loss)		33,064		(1,357)		32,461		2,994		67,162		60,552		21,087		36,858		2,185		120,682
Depreciation and amortization		25,364		25,960		595		1,962		53,881		30,101		25,449		247		1,715		57,512

(in thousands)	For the years ended December 31,	
	2022	2021
Total external revenues for reportable segments	\$ 1,216,858	\$ 1,046,003
Intersegment revenues for reportable segments	5,505	7,429
Elimination of intersegment revenues	(5,505)	(7,429)
Total consolidated revenues	\$ 1,216,858	\$ 1,046,003

(in thousands)					
Year Ended December 31, 2021	Expedited	Dedicated	Managed Freight	Warehousing	Consolidated
Total revenue from external customers	\$ 337,063	\$ 324,541	\$ 321,236	\$ 63,163	\$ 1,046,003
Intersegment revenue	7,429	-	-	-	7,429
Operating income	33,064	(1,357)	32,461	2,994	67,162
Depreciation and amortization	25,364	25,960	595	1,962	53,881

(in thousands)	For the years ended December 31,		
	2023	2022	2021
Total external revenues for reportable segments	\$ 1,103,573	\$ 1,216,858	\$ 1,046,003
Intersegment revenues for reportable segments	10,859	5,505	7,429
Elimination of intersegment revenues	(10,859)	(5,505)	(7,429)
Total consolidated revenues	\$ 1,103,573	\$ 1,216,858	\$ 1,046,003

Balance sheet data by reportable segment is not maintained by the Company.

## 16, 18. EQUITY

On January 25, 2021, our Board approved the repurchase of up to \$40.0 million of our outstanding Class A common stock. Under such authorization, we repurchased 0.5 million shares of our Class A common stock for \$8.1 million during the three months ended March 31, 2021. On August 5, 2021, our Board increased such authorization to \$40.0 million. As of January 1, 2022, there was approximately \$38.0 million remaining under such authorization. On February 10, 2022, our Board of Directors adopted a 10b5-1 plan for the purchase of up to \$30.0 million in shares subject to defined trading parameters. Under such authorization, we repurchased 0.7 million shares of our Class common stock for \$15.2 million during the first quarter of 2022, completing the repurchase program in May 2022 with a total of 1.4 million shares of our Class A common stock repurchased for \$30.0 million.

On May 18, 2022, our Board approved a new stock repurchase authorization of up to \$75.0 million of our Class A common stock, with any remaining amount available under prior authorizations being excluded and no longer available. Under such authorization, we repurchased 2.0 million 2.0 million shares of our Class A common stock for \$54.7 million \$54.7 million during 2022. On January 30, 2023, the Board approved an amendment to the Company's stock repurchase program authorizing the purchase of up to an aggregate \$55.0 million of our Class A common stock. The amendment added an incremental approximately \$37.5 million to the approximately \$17.5 million that was then-remaining under the program. Between May 2022 and April 2023, we repurchased a total of 2.7 million shares of our Class A common stock. No additional shares have been repurchased since April 2023 (through December 31, 2022, February 26, 2024).

On January 26, 2022, our Board declared a cash dividend of \$0.0625 per share, which was paid on March 25, 2022, to stockholders of record on March 4, 2022. On May 18, 2022, our Board declared a cash dividend of \$0.0625 per share, which was paid on June 24, 2022, to stockholders of record on June 3, 2022. On August 17, 2022, our Board declared a cash dividend of \$0.08 per share which was paid on September 30, 2022, to stockholders of record on September 2, 2022. On November 16, 2022, February 15, 2023, our Board declared a cash dividend of \$0.08 \$0.11 per share, which was paid on March 31, 2023, to stockholders of record on March 3, 2023. On May 17, 2023, our Board declared a cash dividend of \$0.11 per share which was paid on June 30, 2023, to stockholders of record on June 2, 2023. On August 16, 2023, our Board declared a cash dividend of \$0.11 per share which was paid on September 29, 2023, to stockholders of record on September 1, 2023. On November 15, 2023, our Board declared a cash dividend of \$0.11 per share which was paid on December 29, 2023, 30, 2022, to stockholders of record on December 2, 2022, 1, 2023.

## 17, 19. SUBSEQUENT EVENTS

On January February 13, 2023, the Company sold a Tennessee based terminal property for approximately \$12 million in cash net of transaction costs and expects to record a pretax gain on sale of property of approximately \$8 million in the first quarter of 2023.

On February 15, 2023, 2024, our Board approved a quarterly cash dividend program of \$0.11 per share, subject to quarterly approval by our Board. Our Board has approved the dividend, which will be for stockholders of record as of March 3, 2023, 1, 2024, and payable on March 31, 2023.

On January 30, 2023, the Board approved an amendment to the Company's stock repurchase program authorizing the purchase of up to an aggregate \$55 million of our Class A common stock. The amendment added an incremental approximately \$37.5 million to the approximately \$17.5 million that was then-remaining under the program. We repurchased an additional 0.3 million shares of our Class A common stock for \$10.8 million from January 1, 2023 through February 24, 2023, 29, 2024.

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## Exhibit 4.3

### DESCRIPTION OF SECURITIES

Covenant Logistics Group, Inc. (the "Company," "we," "us" or "our") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), our Class A common stock, par value \$0.01, which are the only securities of the Company registered pursuant to Section 12 of the Exchange Act.

The summary of the general terms and provisions of the Class A common stock set forth below does not purport to be complete and is subject to and qualified by reference to the Company's Third Amended and Restated Articles of Incorporation (the "Articles of Incorporation") and Sixth Amended and Restated Bylaws (the "Bylaws"), each of which is filed as an exhibit to the Annual Report on Form 10-K. For additional information, please read the Articles of Incorporation and Bylaws and the applicable provisions of Chapters 78 and 92A of the Nevada Revised Statutes (the "Nevada Statutes").

#### Authorized Capital Stock

Under our Articles of Incorporation, our authorized capital stock consists of 40,000,000 shares of Class A common stock, par value \$0.01 per share, 5,000,000 shares of Class B common stock, par value \$0.01 per share, and 5,000,000 shares of preferred stock, par value \$0.01 per share, the rights and preferences of which may be designated by the Board of Directors.

#### Class A and Class B Common Stock

Our Class A common stock is listed on the NASDAQ Global Select Market, under the symbol "CVLG." Our Chairman of the Board and Chief Executive Officer, David Parker, and his wife, Jacqueline Parker, beneficially own 100% of our Class B common stock.

**Voting.** Holders of Class A common stock are entitled to one vote per share. Holders of Class B common stock are entitled to two votes per share. All actions submitted to a vote of stockholders are voted on by holders of Class A and Class B common stock voting together as a single class, except as otherwise required by law. Holders of our common stock are not entitled to cumulative voting in the election of directors. Because shares of Class B common stock are entitled to two votes per share, the holders of shares of Class B common stock are able to exert a greater degree of control over us (including, without limitation, with respect to the election of directors) than they otherwise would if such holders held an equivalent number of shares of Class A common stock. As a result, the double voting nature of our Class B common stock may have an effect of delaying, deferring, or preventing a change in control or other extraordinary corporate transaction involving us, including a merger, reorganization, tender offer, sale or transfer of substantially all of our assets, or a liquidation.

**Conversion.** Class A common stock has no conversion rights. A holder of Class B common stock may convert its Class B common stock into Class A common stock at any time at the ratio of one share of Class A common stock for each share of Class B common stock. Class B common stock immediately and automatically converts into an equal number of shares of Class A common stock if any person other than David Parker, Jacqueline Parker, or certain members of their family (or trusts for the benefit of any of them or entities wholly owned by any of them), obtains beneficial ownership of such shares.

**Dividends.** Holders of Class A common stock and Class B common stock are entitled to receive dividends payable in cash or property other than common stock on an equal basis, if and when such dividends are declared by the Board of Directors from funds legally available, subject to any preference in favor of outstanding preferred shares, if any. In the case of any dividend payable in common stock, the holders of Class B common stock may receive Class A or Class B common stock shares, as determined by the Board of Directors when declaring such dividend.

**Liquidation.** In the event of liquidation, dissolution, or winding up, holders of Class A and Class B common stock share with each other on a ratable basis as a single class in our assets, if any, available for distribution after payment of all creditors and the liquidation preferences on any outstanding shares on preferred stock, if any such stock is issued.

**Other Terms.** In any merger, consolidation, reorganization, or other business combination, the consideration to be received per share by holders of Class A and Class B common stock must be identical, except that if, after such business combination David Parker, Jacqueline Parker, or certain members of their family (or trusts for the benefit of any of them or entities wholly owned by any of them) jointly own, more than one third of the surviving entity, any securities received by them may differ to the extent that voting rights differ between Class A and Class B common stock. Holders of Class A and Class B common stock are not entitled to preemptive rights and neither the Class A nor the Class B common stock is subject to redemption.

The rights, preferences, and privileges of holders of both classes of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred shares, which we may designate and issue in the future.

#### Preferred Stock

The Board of Directors is authorized to issue shares of our preferred stock at any time, without stockholder approval. It has the authority to determine all aspects of those shares, including the following:

- the designation and number of shares;
- the dividend rate and preferences, if any, which dividends on that series of preferred stock will have compared to any other class or series of our capital stock;
- the voting rights, if any;
- the conversion or exchange privileges, if any, applicable to that series;
- the redemption price or prices and the other terms of redemption, if any, applicable to that series; and
- any purchase, retirement, or sinking fund provisions applicable to that series.

Any of these terms could have an adverse effect on the availability of earnings for distribution to the holders of Class A and Class B common stock or for other corporate purposes. We have no agreements or understandings for the issuance of any shares of preferred stock.

#### Provisions of our Articles of Incorporation and Bylaws with Anti-Takeover Implications

Certain provisions of the Articles of Incorporation and Bylaws deal with matters of corporate governance and the rights of stockholders.

Under the Articles of Incorporation, the Board of Directors may issue preferred shares and set the voting rights, preferences and other terms thereof, and the Class B common stock possesses disproportionate voting rights.

The Bylaws provide that a special meeting of stockholders may be called only by the Chairman of the Board, the President, or a majority of the directors. The Bylaws provide that stockholders seeking to nominate candidates for election as directors at an annual meeting of stockholders must provide timely notice thereof in writing. To be timely, a stockholder's notice generally must be delivered to and received at our principal executive offices not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. The Bylaws specify certain requirements as to the form and content of a stockholder's notice.

Such provisions, together with certain provisions of the Nevada Statutes (see "Nevada Anti-Takeover Statutes"), could be deemed to have an anti-takeover effect and discourage takeover attempts not first approved by the Board of Directors (including takeovers which certain stockholders may deem to be in their best interest). Any such discouraging effect upon takeover attempts could potentially depress the market price of our securities or inhibit temporary fluctuations in the market price of our securities that could result from actual or rumored takeover attempts.

#### Nevada Anti-Takeover Statutes

##### **Business Combinations Act**

We are subject to Nevada's anti-takeover law because we have not opted out of the provisions of Sections 78.411–78.444 of the Nevada Statutes under the terms of our Articles of Incorporation. This law provides that specified persons who, together with affiliates and associates, own, or within two years did own, 10% or more of the outstanding voting stock of a corporation cannot engage in specified business combinations with the corporation for a period of two years after the date on which the person became an interested stockholder. The law defines the term "business combination" to encompass a wide variety of transactions with or caused by an interested stockholder; including mergers, asset sales and other transactions in which the interested stockholder receives or could receive a benefit on other than a pro rata basis with other stockholders. This provision may have an anti-takeover effect for transactions not approved in advance by our Board of Directors, including discouraging takeover attempts that might result in a premium over the market price for the shares of our Class A common stock.

##### **Control Shares Act**

Nevada Statutes Sections 78.378–78.3793 provide that, in certain circumstances, a person who acquires a controlling interest in a corporation, defined in Nevada Statutes Section 78.3785 as ownership of voting securities to exercise voting power in the election of directors in excess of 1/5, 1/3, or a majority thereof, has no voting rights in the shares acquired that caused the stockholder to exceed any such threshold, unless the corporation's other stockholders, by majority vote, grant voting rights to such shares. We have opted out of these statutes with respect to acquisitions by David Parker or Jacqueline Parker or their children ("Family Members") or a trust, corporation, partnership, limited partnership, limited liability company, or other such entity, so long as at least eighty percent (80%) of the beneficial interests of the entity are held by David Parker or Jacqueline Parker and/or one or more Family Members.

#### No Cumulative Voting

The Nevada Statutes entitle companies' articles of incorporation to provide stockholders the right to cumulate votes in the election of directors. Our Articles of Incorporation expressly do not allow for cumulative voting for holders of either Class A common stock or Class B common stock.

#### Authorized but Unissued Capital Stock

The Nevada Statutes do not require stockholder approval for any issuance of authorized shares. However, the listing requirements of the NASDAQ Global Select Market, which would apply so long as our Class A common stock is listed on the NASDAQ Global Select Market, require stockholder approval of certain issuances. Authorized but unissued shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of unissued and unreserved Class A common stock may be to enable our Board of Directors to issue shares to persons friendly to current management, which issuance could render more difficult, or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest, or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholders of opportunities to sell their shares of Class A common stock at prices higher than prevailing market prices.

#### Proxy Access Provision of Our Bylaws

The Bylaws permit a stockholder, or a group of up to 20 stockholders, owning 3% or more of the Company's outstanding Class A common stock continuously for at least three years to nominate and include in the Company's proxy materials director nominees not to exceed the greater of (i) 20% of our Board of Directors or (ii) two directors, provided that the stockholder(s) and the nominee(s) satisfy the procedural and eligibility requirements specified in our Bylaws.

Exhibit 21

#### SUBSIDIARIES OF THE REGISTRANT

Covenant Transport, Inc., a Tennessee corporation, d/b/a Covenant Transport Services and Covenant Logistics

Southern Refrigerated Transport, LLC, an Arkansas limited liability company

Star Transportation, LLC, a Tennessee limited liability company, d/b/a Covenant Transport Services and Covenant Logistics

Covenant Transport Solutions, LLC, a Nevada limited liability company

Covenant Logistics, Inc., a Nevada corporation

Covenant Asset Management, LLC, a Nevada limited liability company

CTG Leasing Company, a Nevada corporation

IQS Insurance Risk Retention Group, Inc., a Vermont corporation

Heritage Insurance, Inc., a Tennessee corporation

Transport Management Services, LLC, a Tennessee limited liability company

Landair Holdings, Inc., a Tennessee corporation

Landair Transport, Inc., a Tennessee corporation

Landair Leasing, Inc., a Tennessee corporation

Landair Logistics, Inc., a Tennessee corporation

AAT Carriers, Inc., a Tennessee corporation

Josh Thompson Trucking, Inc., an Arkansas corporation

Lew Thompson & Son Dedicated Leasing, Inc., an Arkansas corporation

Lew Thompson & Son Leasing Inc., an Arkansas corporation

Lew Thompson & Son Trucking, Inc., an Arkansas corporation

Sims Transport Services LLC, a Georgia limited liability company

Transport Enterprise Leasing, LLC, a Georgia limited liability company (1)

(1) On May 31, 2011, we acquired a 49% interest in TEL. We account for our investment in TEL using the equity method of accounting.

Exhibit 23.1

#### CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated February 28, 2023 2024, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of Covenant Logistics Group, Inc. on Form 10-K for the year ended December 31, 2022 December 31, 2023. We consent to the incorporation by reference of said reports in

the Registration Statements of Covenant Logistics Group, Inc. on Forms S-8 (File No. 333-2654, File No. 033-88686, File No. 333-37356, File No. 333-134939, File No. 333-174582, File No. 333-189060, File No. 333-231390 and File No. 333-239724) and Form S-3 (File No. 333-266826).

/s/ Grant Thornton LLP

Charlotte, North Carolina

February 28, 2023 2024

Exhibit 23.2

### Consent of Independent Registered Public Accounting Firm

The Board of Directors

Covenant Logistics Group, Inc.

We hereby consent to the incorporation by reference in the registration statements (File No. 333-2654, File No. 033-88686, File No. 333-37356, File No. 333-134939, File No. 333-174582, File No. 333-189060, File No. 333-231390, and File No. 333-239724) on Form S-8 and in the registration statement (No. 333-266826) on Form S-3, of Covenant Logistics Group, Inc. of our report dated February 16, 2024, with respect to the consolidated financial statements of Transport Enterprise Leasing, LLC, included in this Form 10-K of Covenant Logistics Group, Inc.

/s/ Coulter & Justus, P.C.

Knoxville, Tennessee

February 28, 2024

Exhibit 31.1

### CERTIFICATIONS

I, David R. Parker, certify that:

1. I have reviewed this annual report on Form 10-K of Covenant Logistics Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):



- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2023 2024

/s/ David R. Parker

David R. Parker

Principal Executive Officer

Exhibit 31.2

#### CERTIFICATIONS

I, James S. Grant, certify that:

1. I have reviewed this annual report on Form 10-K of Covenant Logistics Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2023 2024

/s/ James S. Grant

James S. Grant

Principal Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Covenant Logistics Group, Inc. (the "Company") on Form 10-K for the year ending December 31, 2022 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David R. Parker, Chief Executive Officer of the Company, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2023 2024

/s/ David R. Parker

David R. Parker

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Covenant Logistics Group, Inc. and will be retained by Covenant Logistics Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Covenant Logistics Group, Inc. (the "Company") on Form 10-K for the year ending December 31, 2022 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James S. Grant, Executive Vice President, Chief Financial Officer, and Principal Financial Officer of the Company, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, hereby certify, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2023 2024

/s/ James S. Grant

A signed original of this written statement required by Section 906 has been provided to Covenant Logistics Group, Inc. and will be retained by Covenant Logistics Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 97

COVENANT LOGISTICS GROUP, INC.  
CLAWBACK POLICY  
Effective as of February 13, 2024

**1. Introduction and Purpose**

- 1.1 Introduction.** This document sets forth the Covenant Logistics Group, Inc. Clawback Policy (the "Policy"), effective November 15, 2023 (the "Effective Date"). As of the Effective Date, this Policy replaces and supersedes the Recoupment Policy of Covenant Logistics Group, Inc. (the "Company") adopted on February 15, 2023.
- 1.2 Purpose.** The Company has established this Policy to appropriately align the interests of the executives of the Company, who have been designated as Covered Executives, with those of the Company and to provide for the recovery of (i) Erroneously Awarded Compensation from Section 16 Officers, and (ii) Recoverable Amounts from Covered Executives. This Policy is designed to comply with the applicable Nasdaq Listing Rules (the "Nasdaq Rules") and with Section 10D and Rule 10D-1 of the Exchange Act ("Rule 10D-1"). All capitalized terms not defined herein shall have the meanings set forth in Section 4.3 of this Policy.

**2. Mandatory Recovery as Required by the SEC and Nasdaq**

**2.1 Recovery of Erroneously Awarded Compensation due to an Accounting Restatement.**

- (a) In the event of an Accounting Restatement, the Board will reasonably promptly recover the Erroneously Awarded Compensation in accordance with the Nasdaq Rules and Rule 10D-1 as follows:
- (i) Upon the occurrence of an Accounting Restatement, the Committee shall determine the amount of any Erroneously Awarded Compensation and shall promptly deliver a written notice to each Section 16 Officer containing the amount of any Erroneously Awarded Compensation and a demand for repayment or return of such compensation, as applicable. For the avoidance of doubt, recovery of Erroneously Awarded Compensation is on a "no fault" basis, meaning that it will occur regardless of whether the Section 16 Officer engaged in misconduct or was otherwise directly or indirectly responsible, in whole or in part, for the Accounting Restatement.
- A. To determine the amount of any Erroneously Awarded Compensation for Incentive-based Compensation that is based on a Financial Reporting Measure other than stock price or TSR, after an Accounting Restatement:
1. The Company shall recalculate the applicable Financial Reporting Measure and the amount of Incentive-based Compensation that would have been Received based on such Financial Reporting Measure; and
  2. The Company shall determine whether the Section 16 Officers Received a greater amount of Incentive-based Compensation than would have been Received applying the recalculated Financial Reporting Measure, based on: (i) the originally calculated Financial Reporting Measure, and (ii) taking into consideration any discretion that the Committee applied to reduce the amount originally received.
- B. To determine the amount of any Erroneously Awarded Compensation for Incentive-based Compensation that is based on stock price or TSR, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement:
1. The amount to be repaid or returned shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the Company's stock price or TSR upon which the Incentive-based Compensation was Received; and
  2. The Company shall maintain documentation of the determination of such reasonable estimate and provide the relevant documentation as required to Nasdaq.
- (ii) The Committee shall have discretion to determine the appropriate means of recouping Erroneously Awarded Compensation hereunder based on the particular facts and circumstances which may include, without limitation:
- A. requiring reimbursement of cash Incentive-based Compensation previously paid;
  - B. seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or other disposition of any equity-based awards;
  - C. offsetting the recouped amount from any compensation otherwise owed by the Company to the Section 16 Officer;
  - D. canceling outstanding vested or unvested equity awards; and/or
  - E. taking any other remedial and recovery action permitted by law, as determined by the Committee, in its sole discretion.
- (iii) Notwithstanding the foregoing in Section 2.1(a)(ii), except as set forth in Section 2.1(b) below, in no event may the Company accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of a Section 16 Officer's obligations hereunder.

- (iv) To the extent that a Section 16 Officer fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Section 16 Officer. The applicable Section 16 Officer shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence.
- (b) Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions contemplated by Section 2.1(a) above if the Committee determines that recovery would be impracticable and any of the following two conditions are met.
  - (i) The Committee has determined that the direct expenses, such as reasonable legal expenses and consulting fees, paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. In order for the Committee to make this determination, the Company must make a reasonable attempt to recover the Erroneously Awarded Compensation, document such attempt(s) to recover, and provide such documentation to Nasdaq; or
  - (ii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Code.
- 2.2 Mandatory Disclosure.** The Company shall file this Policy and, in the event of an Accounting Restatement, will disclose information related to such Accounting Restatement in accordance with applicable law, including, for the avoidance of doubt, Rule 10D-1 and the Nasdaq Rules.
- 2.3 Prohibition of Indemnification.** The Company shall not be permitted to insure or indemnify any Section 16 Officer against (i) the loss of any Erroneously Awarded Compensation that is repaid, returned, or recovered pursuant to the terms of this Policy, or (ii) any claims relating to the Company's enforcement of its rights under this Policy. While Section 16 Officers subject to this Policy may purchase insurance to cover their potential recovery obligations, the Company shall not be permitted to pay or reimburse the Section 16 Officer for premiums for such an insurance policy. Further, the Company shall not enter into any agreement that exempts any Incentive-based Compensation that is granted, paid, or awarded to a Section 16 Officer from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation, and this Policy shall supersede any such agreement (whether entered into before, on, or after the Effective Date of this Policy.)
- 2.4 Other Recoupment Rights.** This Policy shall be binding and enforceable against all Section 16 Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators, or other legal representatives. The Administrator intends that this Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan, or any other agreement or arrangement with a Section 16 Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Section 16 Officer to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation, or rule pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement, or other arrangement.

### **3. Recovery of Compensation at the Discretion of the Board**

- 3.1 Clawback Events.** If (i) the Company is required to undertake an accounting restatement due to the Company's material noncompliance, as a result of misconduct by a Covered Executive, with any financial reporting requirement under the U.S. federal securities laws, (ii) a Covered Executive engages in Misconduct, or (iii) a Covered Executive breaches in any material respect a restrictive covenant set forth in any agreement between the Covered Executive and the Company, including but not limited to, a breach in any material respect of a confidentiality provision (any such event under clause (i), (ii), or (iii), a "Clawback Event"), then the Board may, in its sole discretion, to the extent permitted by applicable law, seek to recover all or any portion of the Recoverable Amounts awarded to any such Covered Executive.
- 3.2 Determination by the Board.** In determining the appropriate action to take, the Board may consider such factors as it deems appropriate, including:
  - (a) the associated costs and benefits of seeking the Recoverable Amounts;
  - (b) the requirements of applicable law;
  - (c) the extent to which the Covered Executive participated or otherwise bore responsibility for the Clawback Event; and
  - (d) the extent to which the Covered Executive's current compensation may or may not have been impacted had the Board or the Committee known about the Clawback Event.

In addition, the Board may, in its sole discretion, determine whether and to what extent additional action is appropriate to address the circumstances surrounding the Clawback Event so as to minimize the likelihood of any recurrence and to impose such other discipline as it deems appropriate.

- 3.3 Application and Method of Recovery.** Nothing in this Policy will limit in any respect (i) the Company's right to take or not to take any action with respect to any Covered Executive's or any other person's employment or (ii) the obligation of the Chief Executive Officer or the Chief Financial Officer to reimburse the Company in accordance with Section 304 of the Sarbanes-Oxley Act of 2002, as amended. Any determination made pursuant to Section 3 of this Policy and any application and implementation thereof need not be uniform with respect to each Covered Executive, or payment recovered or forfeited under this Policy.

To the extent permitted by applicable law, the Board may seek to recoup Recoverable Amounts by all legal means available, including but not limited to, by requiring any affected Covered Executive to repay such amount to the Company, by set-off, by reducing future compensation of the affected Covered Executive, or by such other means or combination of means as the Board, in its sole discretion, determines to be appropriate.

- 3.4 Disclosure of Clawback Events.** If the Board determines that a Clawback Event has occurred that is subsequently disclosed by the Company in a public filing required under the Exchange Act (a "Disclosed Event"), the Company will disclose in the proxy statement relating to the year in which such determination is made (i) if any amount was clawed back from a Covered Executive and the aggregate amount clawed back or (ii) if no amount was clawed back from the Covered Executive as a result of the Disclosed Event, the fact that no amount was clawed back.

### **4. Miscellaneous and Definitions**

- 4.1 Administration and Interpretation.** This Policy shall be administered by the Committee or by the Board acting as the Committee (either of these, as applicable, the "Administrator"), which shall have authority to (i) exercise all of the powers granted to it under the Policy, (ii) construe, interpret, and implement this Policy, (iii) make all determinations necessary or advisable in administering this Policy and for the Company's compliance with the Nasdaq Rules, Section 10D and Rule 10D-1, and any other applicable law, regulation, rule, or interpretation of the SEC or Nasdaq promulgated or issued in connection therewith, and (iv) amend this Policy, including to reflect changes in applicable law or stock exchange regulation. Any determinations made by the Administrator shall be final and binding on all affected individuals.
- 4.2 Amendment; Termination.** The Administrator may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. Notwithstanding anything in this Section 4.2 to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, Rule 10D-1, or any Nasdaq Rules.
- 4.3 Definitions.** For purposes of this Policy, the following terms shall have the following meanings:
- (a) "Accounting Restatement" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that corrects an error that is not material to previously issued financial statements but would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.
  - (b) "Board" means the Board of Directors of the Company.
  - (c) "Clawback Eligible Incentive Compensation" means all Incentive-based Compensation Received by a Section 16 Officer (i) on or after October 2, 2023, (ii) after beginning service as a Section 16 Officer, (iii) who served as a Section 16 Officer at any time during the applicable performance period relating to any Incentive-based Compensation (whether or not such Section 16 Officer is serving at the time any Erroneously Awarded Compensation is required to be repaid to the Company), (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (v) during the applicable Clawback Period.
  - (d) "Clawback Period" means, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date and if the Company changes its fiscal year, any transition period of less than nine months within or immediately following those three completed fiscal years.
  - (e) "Code" means the Internal Revenue Code of 1986, as amended, and regulations thereunder.
  - (f) "Committee" means the Compensation Committee of the Board, which is required to be composed entirely of independent directors meeting the independence standards of the Nasdaq and the SEC for compensation committee members.
  - (g) "Covered Executive" means each Section 16 Officer, and any other senior executive as designated by the Committee or the Board.
  - (h) "Erroneously Awarded Compensation" means, with respect to each Section 16 Officer in connection with an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation Received that exceeds the amount of Incentive-based Compensation that would have been Received had it been determined based on the restated amounts in the Accounting Restatement, computed without regard to any taxes paid.
  - (i) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
  - (j) "Financial Reporting Measures" means measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and TSR (and any measures that are derived wholly or in part from stock price or TSR) shall, for purposes of this Policy, be considered Financial Reporting Measures. For the avoidance of doubt, a Financial Reporting Measure need not be presented in the Company's financial statements or included in a filing with the SEC.
  - (k) "Incentive-based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.
  - (l) "Misconduct" means, with respect to a Covered Executive, the occurrence of any of the following events, as reasonably determined by the Board in its discretion: (i) the Covered Executive's conviction of, or plea of nolo contendere to, any felony (other than a vehicular-related felony); (ii) the Covered Executive's commission of, or participation in, intentional acts of fraud or dishonesty that in either case results in material harm to the reputation or business of the Company; (iii) the Covered Executive's intentional, material violation of any term of the Covered Executive's employment agreement with the Company or any other contract or agreement between the Covered Executive and the Company or any statutory duty the Covered Executive owes to the Company that in either case results in material harm to the business of the Company; (iv) the Covered Executive's conduct that constitutes gross insubordination or habitual neglect of duties and that in either case results in material harm to the business of the Company; (v) the Covered Executive's intentional, material refusal to follow the lawful directions of the Board, the Company's Chief Executive Officer, or his or her direct manager (other than as a result of physical or mental illness); or (vi) the Covered Executive's intentional, material failure to follow, or intentional conduct that violates (or would have violated, if such conduct occurred within ten (10) years prior to the Effective Date and has not been previously disclosed to the Company), the Company's written policies that are generally applicable to all employees or all officers of the Company and that results in material harm to the reputation or business of the Company; provided, however, that willful bad faith disregard will be deemed to constitute intentionality for purposes of this definition.
  - (m) "Nasdaq" means the Nasdaq Stock Market.
  - (n) "Recoverable Amounts" means any (i) equity compensation (including stock options, restricted stock, time-based restricted stock units, performance-based restricted stock units, and any other equity awards), (ii) severance compensation, or (iii) cash incentive-based compensation (other than base salary), in any case to the extent permitted under applicable law. Recoverable Amounts shall not include Erroneously Awarded Compensation that has been recouped pursuant to Section 2 of this Policy.

- (o) "Received" means, with respect to any Incentive-based Compensation, actual or deemed receipt, and Incentive-based Compensation shall be deemed received in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-based Compensation award is attained even if the payment or grant of the Incentive-based Compensation to the Section 16 Officer occurs after the end of that period. For the avoidance of doubt, Incentive-based Compensation shall only be treated as Received during one (and only one) fiscal year, even if such Incentive-based Compensation is deemed received in one fiscal year and actually received in a later fiscal year. For example, if an amount is deemed received in 2024, but actually received in 2025, such amount shall be treated as Received under this definition only in 2024.
- (p) "Restatement Date" means the earlier to occur of (i) the date the Board, a committee of the Board, or officers of the Company authorized to take action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare an Accounting Restatement.
- (q) "SEC" means the U.S. Securities and Exchange Commission.
- (r) "Section 16 Officers" means each individual who is currently or was previously designated as an "officer" of the Company within the meaning of Rule 16a-1(f) of the Exchange Act.
- (s) "TSR" means total shareholder return.

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