COVENANT TRANSPORT INC
Form 10-Q/A
November 07, 2002

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)
(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 0-24960

Covenant Transport, Inc.
(Exact name of registrant as specified in its charter)

Nevada	88-0320154
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 Birmingham Hwy.
Chattanooga, TN 37419
(423) 821-1212
(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

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 X NO __

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date (October 28, 2002).

Class A Common Stock, $.01 par value: 12,024,733 shares
Class B Common Stock, $.01 par value: 2,350,000 shares

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EXPLANATORY NOTE

This amendment to Form 10-Q for the quarterly period ended June 30, 2002, is being filed to insert Exhibit 10.9 under Part II, Item 6, which exhibit was mistakenly omitted from the exhibit table, and to correct a typographical error under Note 6 to the Condensed Consolidated Financial Statements in the table containing the summary of comprehensive income for the six months ended June 30, 2001 and 2002. The Form 10-Q originally filed by EDGAR omitted the amount of unrealized gain on cash flow hedging derivatives, net of taxes, for the 2002 period, but the table correctly footed. This Form 10-Q/A is filed solely to correct these errors.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of December 31, 2001 and June 30, 2002 (Unaudited)

Condensed Consolidated Statements of Operations for the three months and six months ended June 30, 2001 and 2002 (Unaudited)

Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2001 and 2002 (Unaudited)

Notes to Condensed Consolidated Financial Statements (Unaudited)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures About Market Risk

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

Items 2 and 3. Not applicable

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

Item 5. Not applicable

Item 6. Exhibits and Reports on Form 8-K

ITEM 1. FINANCIAL STATEMENTS

COVENANT TRANSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands except share data)

	December 31, 2001
ASSETS	
Current assets:	
Cash and cash equivalents	$ 3
Accounts receivable, net of allowance of $1,623 in 2001 and $1,900 in 2002	62,5
Drivers' advances and other receivables	4,0
Inventory and supplies	3,4
Prepaid expenses	11,8
Deferred income taxes	6,6
Income taxes receivable	4,7
Total current assets	93,5
Property and equipment, at cost	369,0
Less accumulated depreciation and amortization	137,5
Net property and equipment	231,5
Other	24,6
Total assets	$ 349,7
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Checks written in excess of bank balances	$
Current maturities of long-term debt	20,1
Securitization facility	48,1
Accounts payable	7,2
Accrued expenses	17,8
Insurance and claims accrual	11,8
Total current liabilities	105,2
Long-term debt, less current maturities	29,0
Deferred income taxes	53,6
Total liabilities	187,8
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares issued and outstanding	
Class A common stock, $.01 par value; 20,000,000 shares authorized; 12,680,483 and 12,859,351 shares issued and 11,708,983 and 11,887,851 shares outstanding as of 2001 and 2002, respectively	1
Class B common stock, $.01 par value; 5,000,000 shares authorized; 2,350,000 shares issued and outstanding as of 2001 and 2002	
Additional paid-in-capital	79,8
Other comprehensive (loss) income	(74
Treasury stock, at cost; 971,500 shares as of 2001 and 2002	(7,93
Retained earnings	90,6
Total stockholders' equity	161,9

Total liabilities and stockholders' equity	$ 349,7

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

COVENANT TRANSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS ENDED JUNE 30, 2001 AND 2002
(In thousands except per share data)

	Three months ended June 30, (unaudited)		Six
	2001	2002	
Freight revenue	$ 141,683	$ 138,840	$
Fuel and accessorial surcharges	7,486	5,472	
Total revenue	$ 149,169	$ 144,312	$
Operating expenses:			
Salaries, wages, and related expenses	64,572	58,576	
Fuel expense	27,656	24,061	
Operations and maintenance	10,061	10,264	
Revenue equipment rentals and purchased transportation	17,323	14,855	
Operating taxes and licenses	3,839	3,915	
Insurance and claims	6,556	7,836	
Communications and utilities	1,881	1,690	
General supplies and expenses	3,671	3,637	
Depreciation, amortization and impairment charge, including gains (losses) on disposition of equipment (1)	10,543	11,915	
Total operating expenses	146,102	136,749	
Operating income	3,067	7,563	
Other (income) expenses:			
Interest expense	2,076	870	
Interest income	(81)	(11)	
Other	179	434	
Other (income) expenses, net	2,174	1,293	
Income before income taxes	893	6,270	
Income tax expense	339	3,288	
Income before extraordinary loss on early extinguishment of debt	554	2,982	
Extraordinary loss on early extinguishment of debt, net of income tax benefit	-	-	
Net income	$ 554	$ 2,982	$

Net income per share			
Basic and diluted:			
Income before extraordinary loss on early extinguishment of debt	$ 0.04	$ 0.21	$
Extraordinary loss, net of income tax benefit	-	-	
Total basic and diluted earnings per share:	$ 0.04	$ 0.21	$
Weighted average shares outstanding	13,967	14,108	
Adjusted weighted average shares and assumed conversions outstanding	14,257	14,399	

(1) Includes a $3.3 million pre-tax impairment charge in the first quarter of 2002, which is refl
ending June 30, 2002.

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

COVENANT TRANSPORT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2001 AND 2002
(In thousands)

	Six m
	2001
Cash flows from operating activities:	
Net income	$ 783
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for losses on accounts receivables	24
Extraordinary loss on early extinguishment of debt, net of tax	-
Depreciation, amortization and impairment of assets (1)	19,169
Provision for losses on guaranteed residuals	-
Deferred income tax expense	(1,604)
Equity in earnings of affiliate	860
(Gain)/loss on disposition of property and equipment	(101)
Changes in operating assets and liabilities:	
Receivables and advances	6,611
Prepaid expenses	2,422
Tire and parts inventory	(667)
Accounts payable and accrued expenses	7,645
Net cash flows provided by operating activities	35,142
Cash flows from investing activities:	
Acquisition of property and equipment	(44,059)
Proceeds from disposition of property and equipment	16,283
Net cash flows used in investing activities	(27,776)

Cash flows from financing activities:	
Checks in excess of bank balances	-
Deferred costs	(94)
Exercise of stock options	810
Proceeds from issuance of long-term debt	38,000
Repayments of long-term debt	(47,780)
Net cash flows used in financing activities	(9,064)
Net change in cash and cash equivalents	(1,698)
Cash and cash equivalents at beginning of period	2,287
Cash and cash equivalents at end of period	$ 589

(1) Includes a $3.3 million pre-tax impairment charge in 2002.

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

COVENANT TRANSPORT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The condensed consolidated financial statements include the accounts of Covenant Transport, Inc., a Nevada holding company, and its wholly-owned subsidiaries ("Covenant" or the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements have been prepared, without audit, in accordance with accounting principles generally accepted in the United States of America, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the accompanying financial statements include all adjustments which are necessary for a fair presentation of the results for the interim periods presented, such adjustments being of a normal recurring nature. Certain information and footnote disclosures have been condensed or omitted pursuant to such rules and regulations. The December 31, 2001 Condensed Consolidated Balance Sheet was derived from the audited balance sheet of the Company for the year then ended. It is suggested that these condensed consolidated financial statements and notes thereto be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2001. Results of operations in interim periods are not necessarily indicative of results to be expected for a full year. Certain prior period financial statement balances have been reclassified to conform with the current period's classification.

In the past, the Company has reported revenue net of fuel surcharges and accessorial revenue and has netted amounts against the related expense items. Effective January 1, 2002, the Company is now including those items in revenue in its Statement of Operations. The prior period Statement of Operations has been conformed with the reclassification.

Note 2. Basic and Diluted Earnings per Share

The following table sets forth for the periods indicated the calculation of net earnings per share included in the Company's Condensed Consolidated Statements of Income:

	Three months ended June 30,	
	2001	2002
	(in thousands except	
Numerator:		
Income before extraordinary loss on early extinguishment of debt	$ 554	$ 2,982
Extraordinary loss, net of tax benefit	-	-
Net earnings	$ 554	$ 2,982
Denominator:		
Denominator for basic earnings per share - weighted-average shares	13,967	14,108
Effect of dilutive securities:		
Employee stock options	290	291
Denominator for diluted earnings per share - adjusted weighted-average shares and assumed conversions	14,257	14,399
Net income per share		
Basic and diluted:		
Income before extraordinary loss on early extinguishment of debt	$ 0.04	$ 0.21
Extraordinary loss, net of tax effect	-	-
Total basic and diluted earnings per share:	$ 0.04	$ 0.21

Note 3. Income Taxes

Income tax expense varies from the amount computed by applying the federal corporate income tax rate of 35% to income before income taxes primarily due to state income taxes, net of federal income tax effect, and the effect of the per diem pay structure for drivers.

Note 4. Investment in Transplace

Effective July 1, 2000, the Company combined its logistics business with the logistics businesses of five other transportation companies into a company called Transplace, Inc. ("TPC"). TPC operates a global transportation logistics service and is developing programs for the cooperative purchasing of products, supplies, and services. In the transaction, Covenant contributed its logistics customer list, logistics business software and software licenses, certain intellectual property, intangible assets totaling approximately $5.1 million, and $5.0 million in cash for the initial funding of the venture. In exchange, Covenant received 12.4% ownership in TPC. Upon completion of the transaction, Covenant ceased operating its own transportation logistics and brokerage business, which consisted primarily of the Terminal Truck Broker, Inc. business acquired in November 1999. The contributed operation generated approximately $5.0 million in net brokerage revenue (gross revenue less purchased transportation expense) received on an annualized basis. Initially, the Company accounted for its 12.4% investment in TPC using the equity method of accounting. During the third quarter of 2001, TPC changed its filing status to a C corporation and as a result, management determined it appropriate to account for its investment using the cost method of accounting.

Note 5. Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), which requires the Company to evaluate goodwill and other intangible assets with indefinite useful lives for impairment on an annual basis, with any resulting impairment recorded as a cumulative effect of a change in accounting principle. Goodwill that was acquired in purchase business combinations completed before July 1, 2001, is no longer amortized after January 1, 2002. Furthermore, any goodwill that is acquired in a purchase business combination completed after June 30, 2001, will not be amortized. During the second quarter of 2002, the Company completed its evaluation of its goodwill for impairment and determined that there was no impairment. At June 30, 2002, the Company has $11.0 million of goodwill. Had goodwill not been amortized in previous years, the Company's net income and net income per share would have been as follows for the three and six months ended June 30, 2001:

	Three months ended June 30, 2001	Six months ended June 30, 2001
	(in thousands except per share data)	
Net income as reported	$ 554	$ 783
Add back goodwill amortization	$ 62	$ 124
Adjusted net income	$ 616	$ 907
Basic earnings per share:		
As reported	$0.04	$0.06
Goodwill amortization	-	-
As adjusted	$0.04	$0.06
Diluted earnings per share		
As reported	$0.04	$0.06
Goodwill amortization	-	-
As adjusted	$0.04	$0.06

Note 6. Derivative Instruments and Other Comprehensive Income

In 1998, the FASB issued SFAS No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities, as amended by Statement of Financial Accounting Standards No. 137, Accounting for Derivative

Instruments and Hedging Activities - Deferral of the Effective Date of SFAS Statement No. 133, an amendment of SFAS Statement No. 133, and Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS Statement No. 133. SFAS No. 133 requires that all derivative instruments be recorded on the

balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether a derivative is designated as part of a hedging relationship and, if it is, depending on the type of hedging relationship.

The Company adopted SFAS No. 133 effective January 1, 2001, but had no instruments in place on that date. During the first quarter of 2001, the Company entered into two $10 million notional amount cancelable interest rate swap agreements to manage the risk of variability in cash flows associated with floating-rate debt. Due to the counter-parties' imbedded options to cancel, these derivatives did not qualify, and are not designated as hedging instruments under SFAS No. 133. Consequently, these derivatives are marked to fair value through earnings, in other expense in the accompanying statement of operations. At June 30, 2002, the fair value of these interest rate swap agreements was a liability of $0.9 million.

The Company uses purchase commitments through suppliers to reduce a portion of its cash flow exposure to fuel price fluctuations. At June 30, 2002, the notional amount for fixed price normal purchase commitments for 2002 and 2003 is approximately 18.5 million gallons in the remainder of 2002 and approximately 36.0 million gallons in 2003. In addition, during the third quarter of 2001, the Company entered into two heating oil commodity swap contracts to hedge its cash flow exposure to diesel fuel price fluctuations on floating rate diesel fuel purchase commitments. These contracts are considered highly effective in offsetting changes in anticipated future cash flows and have been designated as cash flow hedges under SFAS No. 133. Each calls for 3.0 million gallons of fuel purchases at a fixed price of $0.695 and $0.629 per gallon before fuel taxes, respectively, through December 31, 2002. These fuel hedge contracts were effective for the quarter and six months ended June 30, 2002. At June 30, 2002, the cumulative fair value of these heating oil contracts was an asset of $0.2 million, which was recorded in accrued expenses with the offset to other comprehensive income, net of taxes.

All changes in the fuel derivatives' fair values were determined to be effective for measurement and recognition purposes. The entire amount of gains and losses are expected to be recognized in earnings within the next six months.

The derivative activity as reported in the Company's financial statements for the six months ended June 30, 2002, was (in thousands):

Net derivative liability at December 31, 2001	$ (1,932)
Changes in statements of operations:	
Loss on derivative instruments that do not qualify as hedging instruments:	
Beginning liability balance	(726)
Loss in value	(211)
Ending derivative liability balance	(937)

Changes in other comprehensive income (loss) relating to fuel hedge contracts that qualify as cash flow hedges:	
Beginning other comprehensive income (loss)	(748)
Gain in value	1,404
Change in deferred taxes relating to other comprehensive income	(534)
Ending other comprehensive income	122
Deferred taxes	75
Ending derivative asset balance, gross	197
Net derivative liability at June 30, 2002	$ (740)

The following is a summary of comprehensive income for the six months ended June 30, 2001 and 2002.

(in thousands)	2001	2
Net income	$ 783	$
Other comprehensive income - Unrealized gain on cash flow hedging derivatives, net of taxes	-	
Comprehensive income	$ 783	$

Note 7. Impairment of Equipment and Change in Estimated Useful Lives

For the past several quarters, the nationwide inventory of used tractors has far exceeded demand. As a result, the market value of used tractors has fallen significantly below both historical levels and the carrying values on the Company's financial statements. The Company has extended the trade cycle of its tractors from three years to four years during 2001, which delayed any significant disposals into 2002 and later years. The market for used tractors has not significantly improved since 2001.

The Company negotiated a tractor purchase and trade package with Freightliner Corporation for calendar years 2002 and 2003 covering the sale of model year 1998 through 2000 tractors and the purchase of an equal number of replacement units. The significant difference between the carrying values and the sale prices of the used tractors combined with the Company's less profitable results during 2001 caused the Company to test for asset impairment under applicable accounting rules. In the test, the Company measured the expected undiscounted future cash flows to be generated by the tractors over the remaining useful lives and the disposal value at the end of the useful life against the carrying values. The test indicated impairment, and during the fourth quarter of 2001 and the first quarter of 2002, the Company recognized a pre-tax charge of approximately $15.4 million and $3.3 million, respectively, to reflect an impairment in tractor values. The charge related to the Company's approximately 2,100 model year 1998 through 2000 in-use tractors. The Company incurred a loss of approximately $324,000 on guaranteed residuals for leased tractors in the first quarter of 2002, which was recorded in revenue equipment rentals and purchased transportation in the accompanying statement of operations. The Company accrued this loss from January 1, 2002, to the date the tractors were purchased off lease in February 2002.

The approximately 1,400 model year 2001 tractors are not affected by the impairment charges. The Company has evaluated the 2001 model year tractors for impairment and determined that such units were not impaired. These units are not expected to be disposed of for 24 to 36 months following December 31, 2001. The Company has adjusted the depreciation rate of its owned model year 2001 tractors to approximate its recent experience with disposition values and expectation for future disposition values. The Company also increased the lease expense on its leased units since it expects to purchase the leased tractors at the end of the three-year leases and operate them for the last year of its four-year trade cycle. Although management believes the additional depreciation and lease expense will bring the carrying values of the model year 2001 tractors in line with future disposition values, the Company does not have trade-in agreements covering those tractors. These assumptions represent management's best estimate and actual values could differ by the time those tractors are scheduled for trade. Management of the Company estimates the impact of the change in the estimated useful lives and depreciation on the 2001 model year tractors to be approximately $1.5 million pre-tax or $.06 per share annually.

Note 8. Long-term Debt and Securitization Facility

Long-term debt consists of the following at December 31, 2001, and June 30, 2002:

(in thousands)	2001	20
Borrowings under $120 million credit agreement	$26,000	
10-year senior notes	20,000	
Notes to unrelated individuals for non-compete agreements	150	
Note payable to former SRT shareholder, bearing interest at 6.5% with interest payable quarterly	3,000	
Total Long-Term Debt	49,150	
Less current maturities	20,150	
Long-term debt, less current portion	$29,000	

In December 2000, the Company entered into a credit agreement (the "Credit Agreement") with a group of banks with maximum borrowings of $120 million, which matures December 13, 2003. The Credit Agreement provides a revolving credit facility with borrowings limited to the lesser of 90% of the net book value of eligible revenue equipment or $120 million. Letters of credit are limited to an aggregate commitment of $20 million. The Credit Agreement is collateralized by an agreement which includes pledged stock of the Company's subsidiaries, inter-company notes, and licensing agreements. A commitment fee is charged on the daily unused portion of the facility and is adjusted quarterly between 0.15% and 0.25% per annum based on the consolidated leverage ratio. At June 30, 2002, the fee was 0.225% per annum. The Credit Agreement is guaranteed by all of the Company's subsidiaries except CVTI Receivables Corporation ("CRC"). The Credit Agreement includes a "security agreement" such that the Credit Agreement may be collateralized by virtually all assets of the Company if a covenant violation occurs. As of June 30, 2002, the Company had borrowings under the Credit Agreement in the amount of

$39.0 million with a weighted average interest rate of 2.9% and outstanding letters of credit of approximately $17.1 million. The Company had borrowing availability of $63.9 million under the Credit Agreement.

On March 15, 2002 the Company retired its $20 million in senior notes due October 2005 with an insurance company with borrowings from the Credit Agreement. The term agreement required payments for interest semi-annually in arrears with principal payments due in five equal annual installments beginning October 1, 2001. Interest accrued at 7.39% per annum. The Company incurred a $0.9 million after-tax extraordinary loss ($1.4 million pre-tax) to reflect the early extinguishment of this debt in the first quarter of 2002.

At June 30, 2002 and December 31, 2001, the Company has outstanding letters of credit of approximately $17.1 and $12.6 million, respectively.

Maturities of long term debt at June 30, 2002 are as follows (in thousands):

2002	50
2003	39,000
2004	3,000

In December 2000, the Company entered into a $62 million revolving accounts receivable securitization facility (the "Securitization Facility"). On a revolving basis, the Company sells its interests in its accounts receivable to CRC, a wholly-owned bankruptcy-remote special purpose subsidiary. CRC sells a percentage ownership in such receivables to an unrelated financial entity. The transaction does not meet the criteria for sale treatment under SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities and is reflected as a secured borrowing in the financial statements.

The Company can receive up to $62 million of proceeds, subject to eligible receivables and will pay a service fee recorded as interest expense, as defined in the agreement. The Company will pay commercial paper interest rates plus an applicable margin on the proceeds received. The Securitization Facility includes certain significant events that could cause amounts to be immediately due and payable in the event of certain ratios. The proceeds received are reflected as a current liability on the consolidated financial statements because the committed term, subject to annual renewals, is 364 days. As of June 30, 2002 and December 31, 2001, the Company had received $49.1 million and $48.1 million, respectively, in proceeds, with a weighted average interest rate of approximately 1.9%.

The Credit Agreement and Securitization Facility contain certain restrictions and covenants relating to, among other things, dividends, tangible net worth, cash flow, acquisitions and dispositions, and total indebtedness and are cross-defaulted. As of June 30, 2002, the Company is in compliance with the Credit Agreement and Securitization Facility.

Note 9. Recent Accounting Pronouncements

In June 2001, the Financial Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 provides new guidance on the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS No. 143 is effective for the Company's fiscal year beginning in 2003 and the Company is still evaluating the impact on the Company's consolidated financial statements.

In August 2001, the Financial Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 provides new guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of and also broadens the definition of what constitutes discontinued operations and how the results of discontinued operations are to be measured and presented. SFAS No. 144 is effective for the Company's fiscal year beginning in 2002 and is not expected to materially change the methods used by the Company to measure impairment losses on long-lived assets.

In April 2002, the Financial Standards Board issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that statement, SFAS No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. This statement also rescinds SFAS No. 44, Accounting for Intangible Assets of Motor Carriers. This statement amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. In addition, this statement amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed

conditions. SFAS No. 145 is generally effective for the Company's fiscal year beginning in 2003 with earlier application encouraged. The Company is currently evaluating the impact that this standard will have on its consolidated financial statements and believes it will impact presentation of the loss from early extinguishment of debt.

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

The condensed consolidated financial statements include the accounts of Covenant Transport, Inc., a Nevada holding company, and its wholly-owned subsidiaries ("Covenant" or the "Company"). All significant intercompany balances and transactions have been eliminated in consolidation.

Except for the historical information contained herein, the discussion in this quarterly report contains forward-looking statements that involve risk, assumptions, and uncertainties that are difficult to predict. Statements that constitute forward-looking statements are usually identified by words such as "anticipates," "believes," "estimates," "projects," "expects," or similar expressions. These statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based upon the current beliefs and expectations of the Company's management and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. The following factors, among others, could cause actual results to differ materially from those in forward-looking statements: excess capacity in the trucking industry; decreased demand for the Company's services or loss of one or more major customers; surplus inventories; recessionary economic cycles and downturns in customers' business cycles; strikes or work stoppages; increases or rapid fluctuations in fuel prices, interest rates, fuel taxes, tolls, and license and registration fees; increases in the prices paid for new revenue equipment; the resale value of the Company's used equipment and the price of new equipment; increases in compensation for and difficulty in attracting and retaining qualified drivers and owner-operators; increases in insurance premiums or deductible amounts or claims relating to accident, cargo, workers' compensation, health, and other matters; seasonal factors such as harsh weather conditions that increase operating costs; competition from trucking, rail, and intermodal competitors; regulatory requirements that increase costs or decrease efficiency; and the ability to identify acceptable acquisition candidates, consummate acquisitions, and integrate acquired operations. Readers should review and consider the various disclosures made by the Company in its press releases, stockholder reports, and public filings, as well as the factors explained in greater detail in the Company's annual report on Form 10-K.

The Company's freight revenue before fuel surcharges and accessorial revenue decreased 1.9%, to $267.9 million in the six months ended June 30, 2002, from $273.0 million during the same period of 2001. The Company's revenue was affected by a 4.4% decrease in weighted average number of tractors partially offset by a 3.1% increase in revenue per tractor. The Company has elected to constrain the size of its fleet until fleet production and profitability improve.

The Company recognized an approximately $3.3 million pre-tax impairment charge and an approximately $0.9 million after-tax extraordinary item to reflect the early extinguishment of debt in the first quarter of 2002. Excluding the impairment charge and extraordinary item, the Company's earnings improved to $4.2 million during the first six months of 2002 compared to $0.8 million during the 2001 period. Including the impairment charge and the extraordinary item, the Company's net income was $1.3 million for the six months ended June 30, 2002.

Covenant reduced the number of teams in its operations during 2001 and into 2002 to better match the demand for expedited long-haul service. The single driver fleets generally operate fewer miles per tractor and experience a greater percentage of non-revenue miles. The additional expenses and 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. The Company's operating statistics and expenses are expected to continue to shift in future periods with the mix of single and team operations.

The Company continues to obtain revenue equipment through its owner-operator fleet and finance equipment under operating leases. Over the past two years, it has become more difficult to retain owner-operators due to the challenging operating conditions. The Company's owner-operator fleet decreased to an average of 348 in the first six months of 2002 compared to an average of 385 in the 2001 period. Owner-operators provide a tractor and a driver and are responsible for all operating expenses in exchange for a fixed payment per mile. The Company does not have the capital outlay of purchasing the tractor. The Company continues to use operating leases as a method of financing its equipment. As of June 30, 2002, the Company had financed approximately 636 tractors and 2,564 trailers under operating leases as compared to 1,084 tractors and 1,619 trailers under operating leases as of June 30, 2001. The payments to owner-operators and the financing of equipment under operating leases are recorded in revenue equipment rentals and purchased transportation and as a result, expenses associated with owned equipment, such as interest and depreciation, are not incurred, and for owner-operator tractors, driver compensation, fuel, and other expenses are not incurred. Because obtaining equipment from owner-operators and under operating leases effectively shifts financing expenses from interest to "above the line" operating expenses, the Company evaluates its efficiency using net margin rather than operating income.

The Company's tractor leases generally run for a term of three years. With the extension of the tractor's trade cycle to approximately four years, the Company has been purchasing the leased tractors at the expiration of the lease term, although there is no commitment to purchase the tractors. To date the purchases have been financed through the Company's line of credit. The tractors are then accounted for as owned equipment. Trailer leases generally run for a term of seven years with the first leases expiring in 2005. The Company has not determined whether it anticipates purchasing trailers at the end of these leases.

The following table sets forth the percentage relationship of certain items to freight revenue:

	Three Months Ended June 30,	
	2001	2002
Freight revenue (1)	100.0%	100.0%
Operating expenses:		
Salaries, wages, and related expenses (1)	44.6	40.9
Fuel expense (1)	15.4	15.0
Operations and maintenance (1)	6.8	7.0
Revenue equipment rentals and purchased transportation	12.2	10.7
Operating taxes and licenses	2.7	2.8
Insurance and claims	4.6	5.6
Communications and utilities	1.3	1.2
General supplies and expenses	2.6	2.6
Depreciation and amortization (2)	7.4	8.6
Total operating expenses	97.8	94.6
Operating income	2.2	5.4
Other (income) expense, net	1.5	0.9
Income before income taxes	0.6	4.5
Income tax expense	0.2	2.4
Income before extraordinary loss on early extinguishment of debt	0.4	2.1
Extraordinary loss on early extinguishment of debt, net of income tax benefit	-	-
Net income	0.4%	2.1%

(1) Freight revenue is total revenue less fuel surcharge and accessorial revenue. In this tab revenue are shown netted against the appropriate expense category. (Fuel expense, $5.8 mi months ending June 30, 2001, and 2002, respectively. Salaries, wages, and related expense the three months ending June 30, 2001, and 2002, respectively. Operations and maintenance three months ending June 30, 2001, and 2002, respectively. Fuel expense, $11.5 million ending June 30, 2001, and 2002, respectively. Salaries, wages, and related expenses, $2.5 months ending June 30, 2001, and 2002, respectively. Operations and maintenance, $0.7 mil ending June 30, 2001, and 2002, respectively.)

(2) Includes a $3.3 million pre-tax impairment charge or 1.2% of revenue in the six months endin

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2002 TO THREE MONTHS ENDED JUNE 30, 2001

Freight revenue (total revenue before fuel surcharge and accessorial revenue) decreased $2.8 million (2.0%), to $138.8 million in the three months ended June 30, 2002, from $141.7 million in the same period of 2001. The Company's revenue was affected by a 6.6% decrease in weighted average number of tractors partially offset by a 5.8% increase in revenue per tractor per week to $2,887 in the 2002 period from $2,730 in the 2001 period. Weighted average tractors decreased to 3,688 in the 2002 period from 3,947 in the 2001 period. The Company has elected to constrain the size of its tractor fleet until fleet production and profitability improve.

Salaries, wages, and related expenses, net of accessorial revenue of $1.8 million in the 2002 period and $1.3 million in the 2001 period, decreased $6.4 million (10.2%), to $56.8 million in the 2002 period, from $63.2 million in the 2001 period. As a percentage of freight revenue, salaries, wages, and related expenses decreased to 40.9% in the 2002 period, from 44.6% in the 2001 period. Wages for over the road drivers as a percentage of freight revenue decreased to 28.5% in the 2002 period from 32.2% in the 2001 period. The decrease was largely attributable to the Company utilizing a larger percentage of single-driver tractors, with only one driver per tractor

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to be compensated, implementing changes in its pay structure and a per diem pay program for its drivers during August 2001. The Company's payroll expense for employees other than over the road drivers increased to 6.9% of freight revenue in the 2002 period from 6.7% of freight revenue in the 2001 period. Health insurance, employer paid taxes, workers' compensation, and other employee benefits remained relatively constant at 6.7% of freight revenue in the 2002 and 2001 periods.

Fuel expense, net of fuel surcharge revenue of $3.2 million in the 2002 period and $5.8 million in the 2001 period, decreased $1.0 million (4.7%), to $20.9 million in the 2002 period, from $21.9 million in the 2001 period. As a percentage of freight revenue, net fuel expense decreased to 15.0% in the 2002 period from 15.4% in the 2001 period. Fuel surcharges amounted to $.028 per loaded mile in the 2002 period compared to $.049 per loaded mile in the 2001 period. Fuel costs may be affected in the future by the Company's fuel hedging and volume purchase commitments from time-to-time and the collectibility of fuel surcharges, as well as by lower fuel mileage if government mandated emissions standards effective October 1, 2002, are implemented as scheduled.

Operations and maintenance consist primarily of vehicle maintenance, repairs and driver recruitment expenses. Net of accessorial revenue of $0.5 million in the 2002 period and $0.4 million in the 2001 period, operations and maintenance increased $0.1 million (0.8%), to $9.8 million in the 2002 period, from $9.7 million in the 2001 period. As a percentage of freight revenue, operations and maintenance increased to 7.0% in the 2002 period, from 6.8% in the 2001 period. The Company extended the trade cycle on its tractor fleet from three years to four years, which resulted in an increase in the number of required repairs.

Revenue equipment rentals and purchased transportation decreased $2.5 million (14.2%), to $14.8 million in the 2002 period, from $17.3 million in the 2001 period. As a percentage of freight revenue, revenue equipment rentals and purchased transportation decreased to 10.7% in the 2002 period from 12.2% in the 2001 period. The decrease was the result of a smaller fleet of owner-operators during 2002 (an average of 350 for the 2002 quarter compared to 384 in the 2001 quarter) and lower lease expense during the quarter (3.1% of freight revenue in 2002 compared to 3.9% of freight revenue in 2001). The smaller fleet resulted in lower payments to owner operators (7.6% of freight revenue in 2002 compared to 8.3% of freight revenue in 2001). Owner-operators are independent contractors, who provide a tractor and driver and cover all of their operating expenses in exchange for a fixed payment per mile. Accordingly, expenses such as driver salaries, fuel, repairs, depreciation, and interest normally associated with Company-owned equipment are consolidated in revenue equipment rentals and purchased transportation when owner-operators are utilized. As of June 30, 2002, the Company had financed approximately 636 tractors and 2,564 trailers under operating leases as compared to 1,084 tractors and 1,619 trailers under operating leases as of June 30, 2001. The lease expense per tractor will increase in future periods. See Note 7.

Operating taxes and licenses increased $0.1 million (2.0%), to $3.9 million in the 2002 period, from $3.8 million in the 2001 period. As a percentage of freight revenue, operating taxes and licenses remained essentially constant at 2.8% in the 2002 period and 2.7% in the 2001 period.

Insurance and claims, consisting primarily of premiums and deductible amounts for liability, physical damage, and cargo damage insurance and claims, increased $1.3 million (19.5%), to $7.8 million in the 2002 period from $6.6 million in the 2001 period. As a percentage of freight revenue, insurance increased to 5.6% in the 2002 period from 4.6% in the 2001 period. The increase is a result of an industry-wide increase in insurance rates, which the Company addressed by adopting an insurance program with significantly higher deductible exposure that is partially offset by lower premium rates. The deductible amount increased from $5,000 in 2000, to $250,000 in 2001, to $500,000 in March of 2002. The Company currently carries $50.0 million of insurance coverage with a $500,000 aggregate deductible for liability, physical damage, and cargo claims per incident. From March to July 15, 2002, the Company also had an additional $3.0 million layer of deductible exposure between $2.0 million and $5.0 million per incident. On July 15, 2002, the Company eliminated the $3.0 million layer of exposure for claims arising after that date at an increase in cost for that layer of approximately 10%. Claims in excess of these risk retention levels are covered by insurance in amounts which management considers adequate. The Company accrues the estimated cost of the uninsured portion of pending claims. These accruals are based on management's evaluation of the nature and severity of the claim and estimates of future claims development based on historical trends. Insurance and claims expense will vary based on the frequency and severity of claims, the premium expense, and the level of self insured retention.

Communications and utilities expense decreased $0.2 million (10.2%), to $1.7 million in the 2002 period, from $1.9 million in the 2001 period. As a percentage of freight revenue, communications and utilities remained essentially constant at 1.2% in the 2002 period as compared to 1.3% in the 2001 period.

General supplies and expenses, consisting primarily of headquarters and other terminal facilities expenses, remained relatively constant at $3.6 million (2.6% of revenue) and $3.7 million (2.6% of revenue) in the 2002 and 2001 periods, respectively.

Depreciation and amortization, consisting primarily of depreciation of revenue equipment, increased $1.4 million (13.0%), to $11.9 million in the 2002 period from $10.5 million in the 2001 period. As a percentage of freight revenue, depreciation and amortization increased to 8.6% in the 2002 period from 7.4% in the 2001 period. The Company has increased the annual depreciation expense on

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the 2001 model year tractors to approximate the Company's recent experience with disposition values and expectation for future disposition values. In addition, depreciation expense is expected to rise in the future as the cost of new tractors has increased and the residual value has decreased. Depreciation and amortization expense is net of any gain or loss on the disposal of tractors and trailers. Loss on the disposal of tractors and trailers was approximately $0.9 million in the 2002 period compared to a gain of $13,000 in the 2001 period. Amortization expense relates to deferred debt costs incurred and covenants not to compete from five acquisitions. Goodwill amortization ceased beginning January 1, 2002, in accordance with SFAS No. 142, and the Company will evaluate goodwill and certain intangibles for impairment, annually prospectively beginning in 2002. During the second quarter of 2002, the Company completed its analysis of goodwill for impairment and concluded there was no impairment. The favorable impact of goodwill no longer being amortized was approximately $75,000 for the three months ended June 30, 2002.

Other expense, net, decreased $0.9 million (40.5%), to $1.3 million in the 2002 period, from $2.2 million in the 2001 period. As a percentage of freight revenue, other expense decreased to 0.9% in the 2002 period from 1.5% in the 2001 period. Included in the other expense category are interest expense, interest income, and a $0.4 million pre-tax non-cash loss related to the accounting for interest rate derivatives under SFAS 133. The decrease was the result of lower debt balances and more favorable interest rates.

The Company's income tax expense for the 2002 period was $3.3 million or 52.4% of earnings before income taxes. The Company's income tax expense for the 2001 period was $0.3 million or 38.0% of earnings before income taxes. In 2002, the effective tax rate is different from the expected combined tax rate due to permanent differences related to a per diem pay structure implemented during the third quarter of 2001. Due to the nondeductible portion of per diem expenses, the Company's tax rate will fluctuate in future periods as earnings fluctuate.

Primarily as a result of the factors described above, net income increased $2.4 million (439.1%), to $3.0 million in the 2002 period (2.1% of revenue) from $0.6 million in the 2001 period (0.4% of revenue).

As a result of the foregoing, the Company's net margin increased to 2.1% in the 2002 period from 0.4% in the 2001 period.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2002 TO SIX MONTHS ENDED JUNE 30, 2001

Freight revenue (total revenue before fuel surcharge and accessorial revenue) decreased $5.2 million (1.9%), to $267.9 million in the six months ended June 30, 2002, from $273.0 million in the same period of 2001. The Company's revenue was affected by a 4.4% decrease in weighted average tractors partially offset by a 3.1% increase in revenue per tractor per week, to $2,784 in the 2002 period from $2,699 in the 2001 period. Weighted average tractors decreased to 3,700 in the 2002 period from 3,869 in the 2001 period. The Company has elected to constrain the size of its tractor fleet until fleet production and profitability improve.

Salaries, wages, and related expenses, net of accessorial revenue of $3.2 million in the 2002 period and $2.5 million in the 2001 period, decreased $12.1 million (9.8%), to $111.1 million in the 2002 period, from $123.3 million in the 2001 period. As a percentage of freight revenue, salaries, wages, and related expenses decreased to 41.5% in the 2002 period, from 45.2% in the 2001 period. Wages for over the road drivers as a percentage of freight revenue decreased to 28.9% in 2002 from 32.3% in 2001. The decrease was largely attributable to the Company utilizing a larger percentage of single-driver tractors, with only one driver per tractor to be compensated, implementing changes in its pay structure and a per diem pay program for its drivers during August 2001. The Company's payroll expense for employees other than over the road drivers increased to 7.0% of freight revenue in the 2002 period from 6.7% of freight revenue in the 2001 period. Health insurance, employer paid taxes, workers' compensation, and other employee benefits decreased to 6.8% of freight revenue in the 2002 period from 7.2% of freight revenue in the 2001 period due in part to paying lower taxes due to lower payroll amounts.

Fuel expense, net of fuel surcharge revenue of $4.5 million in the 2002 period and $11.5 million in the 2001 period, decreased $1.0 million (2.2%), to $41.7

million in the 2002 period, from $42.6 million in the 2001 period. As a percentage of freight revenue, net fuel expense remained essentially constant at 15.6% in the 2002 and 2001 periods. Fuel surcharges amounted to $.020 per loaded mile in the 2002 period compared to $.051 per loaded mile in the 2001 period. Fuel costs may be affected in the future by the Company's fuel hedging and volume purchase commitments from time-to-time and the collectibility of fuel surcharges, as well as by lower fuel mileage if government mandated emissions standards effective October 1, 2002, are implemented as scheduled.

Operations and maintenance consist primarily of vehicle maintenance, repairs and driver recruitment expenses. Net of accessorial revenue of $1.0 million in the 2002 period and $0.7 million in the 2001 period, operations and maintenance increased $0.2 million (1.2%), to $18.2 million in the 2002 period, from $18.0 million in the 2001 period. As a percentage of freight revenue, operations and maintenance increased to 6.8% in the 2002 period, from 6.6% in the 2001 period. The Company extended the trade cycle on its tractor fleet from three years to four years, which resulted in an increase in the number of required repairs.

Revenue equipment rentals and purchased transportation decreased $4.6 million (13.4%), to $29.6 million in the 2002 period, from $34.2 million in the 2001 period. As a percentage of freight revenue, revenue equipment rentals and purchased transportation

decreased to 11.1% in the 2002 period from 12.5% in the 2001 period. The decrease was the result of a smaller fleet of owner-operators during 2002 (an average of 348 in 2002 compared to an average of 385 in 2001) and lower lease payments during the six month period (3.5% of freight revenue in the 2002 period compared to 4.0% of freight revenue in the 2001 period). The smaller fleet resulted in lower payments to owner operators (7.5% of freight revenue in 2002 compared to 8.6% of freight revenue in 2001). Owner-operators are independent contractors, who provide a tractor and driver and cover all of their operating expenses in exchange for a fixed payment per mile. Accordingly, expenses such as driver salaries, fuel, repairs, depreciation, and interest normally associated with Company-owned equipment are consolidated in revenue equipment rentals and purchased transportation when owner-operators are utilized. As of June 30, 2002, the Company had financed approximately 636 tractors and 2,564 trailers under operating leases as compared to 1,084 tractors and 1,619 trailers under operating leases as of June 30, 2001. The lease expense per tractor will increase in future periods. See Note 7.

Operating taxes and licenses decreased $0.2 million (2.5%), to $7.2 million in the 2002 period, from $7.4 million in the 2001 period. As a percentage of freight revenue, operating taxes and licenses remained essentially constant at 2.7% in the 2002 and 2001 periods.

Insurance and claims, consisting primarily of premiums and deductible amounts for liability, physical damage, and cargo damage insurance and claims, increased $3.7 million (32.6%), to $15.0 million in the 2002 period from $11.3 million in the 2001 period. As a percentage of freight revenue, insurance increased to 5.6% in the 2002 period from 4.1% in the 2001 period. The increase is a result of an industry-wide increase in insurance rates, which the Company addressed by adopting an insurance program with significantly higher deductible exposure that is partially offset by lower premium rates. The deductible amount increased from $5,000 in 2000, to $250,000 in 2001, to $500,000 in March of 2002. The Company currently carries $50.0 million of insurance coverage with a $500,000 aggregate deductible for liability, physical damage, and cargo claims per incident. From March to July 15, 2002, the Company also had an additional $3.0 million layer of deductible exposure between $2.0 million and $5.0 million per incident. On July 15, 2002, the Company eliminated the $3.0 million layer of exposure for claims arising after that date at an increase in cost for that layer of approximately 10%. Claims in excess of these risk retention levels are covered by insurance in amounts which management considers adequate. The Company accrues the estimated cost of the uninsured portion of pending claims. These accruals are based on management's evaluation of the nature and severity of the claim and estimates of future claims development based on historical trends. Insurance and claims expense will vary based on the frequency and severity of claims, the premium expense, and the level of self insured retention.

Communications and utilities expense decreased $0.1 million (3.1%), to $3.5 million in the 2002 period, from $3.7 million in the 2001 period. As a percentage of freight revenue, communications and utilities remained essentially constant at 1.3% in the 2002 and 2001 periods.

General supplies and expenses, consisting primarily of headquarters and other terminal facilities expenses, remained relatively constant at $7.1 million (2.7% of revenue) and $7.0 million (2.6% of revenue) in the 2002 and 2001 periods, respectively.

Depreciation, amortization and impairment charge, consisting primarily of depreciation of revenue equipment, increased $6.0 million (30.2%), to $26.0 million in the 2002 period from $19.9 million in the 2001 period. As a percentage of freight revenue, depreciation and amortization increased to 9.7% in the 2002 period from 7.3% in the 2001 period. The increase is primarily the result of a $3.3 million pre-tax impairment charge related to approximately 327 model year 1998 through 2000 in use tractors. See "Impairment of Tractor Values and Future Expense" below for additional information. The Company's approximately 1,400 model year 2001 tractors were not affected by the charge. The Company has increased the annual depreciation expense on the 2001 model year tractors to approximate the Company's recent experience with disposition values and expectation for future disposition values. In addition, depreciation expense is expected to rise in the future as the cost of new tractors has increased and the residual value has decreased. Depreciation and amortization expense is net of any gain or loss on the disposal of tractors and trailers. Loss on the disposal of tractors and trailers was approximately $1.4 million in the 2002 period compared to a gain of $0.1 million in the 2001 period. Amortization expense relates to deferred debt costs incurred and covenants not to compete from five acquisitions. Goodwill amortization ceased beginning January 1, 2002, in accordance with SFAS No. 142, and the Company will evaluate goodwill and certain intangibles for impairment, annually prospectively beginning in 2002. During the second quarter of 2002, the Company tested its goodwill for impairment and found no impairment. The positive impact of goodwill no longer being amortized was approximately $150,000 for the six months ended June 30, 2002.

Other expense, net, decreased $2.3 million (52.6%), to $2.1 million in the 2002 period, from $4.5 million in the 2001 period. As a percentage of freight revenue, other expense decreased to 0.8% in the 2002 period from 1.6% in the 2001 period. Included in the other expense category are interest expense, interest income, and a $0.2 million pre-tax non-cash loss related to the accounting for interest rate derivatives under SFAS 133. The decrease was the result of lower debt balances and more favorable interest rates.

The Company's income tax expense for the six months ended June 30, 2002 was $4.1 million or 65.1% of earnings before income taxes. The Company's income tax expense for the 2001 period was $0.5 million or 38.0% of earnings before income taxes. In 2002, the effective tax rate is different from the expected combined tax rate due to permanent differences related to a per diem pay structure

implemented during the third quarter of 2001. Due to the nondeductible effect of per diem, the Company's tax rate will fluctuate in future periods as earnings fluctuate.

Primarily as a result of the factors described above, net income increased $0.5 million (67.7%), to $1.3 million in the 2002 period (0.5% of revenue) from $0.8 million in the 2001 period (0.3% of revenue).

As a result of the foregoing, the Company's net margin increased to 0.5% in the 2002 period from 0.3% in the 2001 period.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's growth has required significant capital investments. The Company historically has financed its expansion requirements with borrowings under a line of credit, cash flows from operations, long-term operating leases, and borrowings under installment notes payable to commercial lending institutions and equipment manufacturers. The Company's primary sources of liquidity at June 30, 2002, were funds provided by operations, proceeds under the Securitization Facility (as defined below), borrowings under its primary credit agreement, which had maximum available borrowing of $120.0 million at June 30, 2002 (the "Credit Agreement") and operating leases of revenue equipment. The Company believes its sources of liquidity are adequate to meet its current and projected needs for at least the next twelve months.

Net cash provided by operating activities was $30.7 million in the 2002 period and $35.1 million in the 2001 period. The 2001 period included an unusually large collection of receivables that had resulted from billing problems during 2000. In 2002, there was an increase in depreciation and amortization which included a $3.3 million pre-tax impairment charge as well as an increase in claims accruals as the Company increased its self-insured retention amounts.

Net cash used in investing activities was $28.3 million in the 2002 period and $27.8 million in the 2001 period. The cash used in 2002 related to the financing of tractors, which were previously financed through operating leases, using proceeds from the Credit Agreement. In 2001, approximately $15 million was related to the financing of the Company's headquarters facility, which was previously financed through an operating lease that expired in March 2001. The Company financed the facility using proceeds from the Credit Agreement. Anticipated capital expenditures are expected to increase in the second half of 2002 as the Company has agreed to purchase and trade approximately 1,000 tractors and expects to purchase and trade a significant number of trailers if an acceptable arrangement can be reached. The Company expects capital expenditures, primarily for revenue equipment (net of trade-ins) to be approximately $50.0 million in the second half of 2002 and $80 million in 2003, in each case exclusive of acquisitions.

Net cash used in financing activities was $1.6 million in the 2002 period and $9.1 million in the 2001 period. At June 30, 2002, the Company had outstanding debt of $94.5 million, primarily consisting of $49.1 million in the Securitization Facility, $39.0 million drawn under the Credit Agreement, and $3.4 million of checks written in excess of bank balances. Interest rates on this debt range from 1.9% to 6.5%.

During the first quarter of 2002, the Company prepaid the remaining $20.0 million in previously outstanding 7.39% ten year private placement notes with borrowings from the Credit Agreement. In conjunction with the prepayment of the borrowings, the Company recognized an approximate $0.9 million after-tax extraordinary item to reflect the early extinguishment of debt.

In December 2000, the Company entered into the Credit Agreement with a group of banks, which matures December 2003. Borrowings under the Credit Agreement are based on the banks' base rate or LIBOR and accrue interest based on one, two, or three month LIBOR rates plus an applicable margin that is adjusted quarterly between 0.75% and 1.25% based on cash flow coverage. At June 30, 2002, the margin was 1.125%. The Credit Agreement is guaranteed by the Company and all of the Company's subsidiaries except CVTI Receivables Corp.

The Credit Agreement has a maximum borrowing limit of $120.0 million. Borrowings related to revenue equipment are limited to the lesser of 90% of net book value of revenue equipment or $120.0 million. Letters of credit are limited to an aggregate commitment of $20.0 million. The Credit Agreement includes a "security agreement" such that the Credit Agreement may be collateralized by virtually all assets of the Company if a covenant violation occurs. A commitment fee, that is adjusted quarterly between 0.15% and 0.25% per annum based on cash flow coverage, is due on the daily unused portion of the Credit Agreement. As of June 30, 2002, the Company had borrowings under the Credit Agreement in the amount of $39.0 million with a weighted average interest rate of 2.9% and the Company had borrowing availability of $63.9 million under the Credit Agreement.

In December 2000, the Company entered into a $62 million revolving accounts receivable securitization facility (the "Securitization Facility"). On a revolving basis, the Company sells its interests in its accounts receivable to CVTI Receivables Corp. ("CRC"), a wholly-owned bankruptcy-remote special purpose subsidiary incorporated in Nevada. CRC sells a percentage ownership in such receivables to an unrelated financial entity. The Company can receive up to $62 million of proceeds, subject to eligible receivables, and will pay a service fee recorded as interest expense, based on commercial paper interest rates plus an applicable margin of 0.41%

per annum and a commitment fee of 0.10% per annum on the daily unused portion of the Facility. The Securitization Facility is collateralized by the receivables of CRC. The net proceeds under the Securitization Facility are required to be shown as a current liability because the term, subject to annual renewals, is 364 days. The transaction did not meet the criteria for sale treatment under Financial Accounting Standard No. 140 and is reflected as a secured borrowing in the financial statements. As of June 30, 2002, there were $49.1 million in borrowings outstanding.

The Credit Agreement and Securitization Facility contain certain restrictions and covenants relating to, among other things, dividends, tangible net worth, cash flow, acquisitions and dispositions, and total indebtedness. These agreements are cross-defaulted.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make decisions based upon estimates, assumptions, and factors it considers 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 management's 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 of the financial statements contained in the Company's annual report on Form 10-K. Other footnotes describe various elements of the financial statements and the assumptions on which specific amounts were determined.

The Company's critical accounting policies include the following:

Revenue Recognition - Freight revenue, drivers' wages and other direct operating expenses are recognized on the date shipments are delivered to the customer.

Property and Equipment - Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Revenue equipment has been depreciated over five to eight years with salvage values ranging from 18% to 48%. Gains or losses on disposal of revenue equipment are included in the caption entitled depreciation, amortization and impairment charge in the statements of operations. Impairment can be impacted by management's estimate of the property and equipment's useful lives.

Impairment of Long-Lived Assets - The Company ensures that long-lived assets to be disposed of are reported at the lower of the carrying value or the fair value less costs to sell. The Company evaluates the carrying value of long-lived assets held for use for impairment losses by analyzing the operating performance and future cash flows for those assets, whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. The Company adjusts the carrying value of the underlying assets if the sum of expected undiscounted cash flows is less than the carrying value. Impairment can be impacted by management's projection of future cash flows, the level of cash flows and salvage values, the methods of estimation used for determining fair values and the impact of guaranteed residuals.

Insurance and Other Claims - The Company's insurance program for liability, workers compensation, group medical, property damage, cargo loss and damage, and other sources involves self insurance with high risk retention levels. In 2001, the Company adopted an insurance program with significantly higher deductibles. The deductible amount increased from $5,000 in 2000, to $250,000 in 2001, to $500,000 in March of 2002. The Company currently carries $50.0 million of insurance coverage with a $500,000 aggregate deductible for liability, physical damage, and cargo claims per incident. From March to July 15, 2002, the Company also had an additional $3.0 million layer of deductible exposure between $2.0 million and $5.0 million per incident. On July 15, 2002, the Company eliminated the $3.0 million layer of exposure for claims arising after that date at an increase in cost for that layer of approximately 10%. Losses in excess of these risk retention levels are covered by insurance in amounts which management considers adequate. The Company accrues the estimated cost of the uninsured portion of pending claims. These accruals are based on management's evaluation of the nature and severity of the claim and estimates of future claims development based on historical trends. Insurance and claims expense will vary based on the frequency and severity of claims, the premium expense and the level of self insured retention.

Derivative Instruments and Hedging Activities - The Company engages in activities that expose it to market risks, including the effects of changes in interest rates and fuel prices. Financial exposures are managed as an integral part of the Company's risk management program, which seeks to reduce potentially adverse effects that the volatility of the interest rate and fuel markets may have on operating results. Hedging activities could defer the recognition of losses to future periods. All derivatives are recognized on the balance sheet at their fair values. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. When it is determined that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively.

When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Company continues to carry the derivative on the balance sheet at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company continues to carry the derivative on the balance sheet at its fair value, removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet and recognizes any gain or loss in earnings. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the Company continues to carry the derivative on the balance sheet at its fair value, and gains and losses that were accumulated in other comprehensive income are recognized immediately in earnings. In all other situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the balance sheet, and recognizes any changes in its fair value in earnings. The Company does not regularly engage in speculative transactions, nor does it regularly hold or issue financial instruments for trading purposes.

Lease Accounting - The Company leases a significant portion of its tractor and trailer fleet using operating leases. Substantially all of the leases have residual value guarantees under which the Company must insure that the lessor receives a negotiated amount for the equipment at the expiration of the lease. In accordance with SFAS No. 13, Accounting for Leases, the rental expense under these leases is reflected as an operating expense under "revenue equipment rentals and purchased transportation." Operating leases are carried off balance sheet in accordance with SFAS No. 13.

Contractual Obligations and Commitments - The Company had commitments outstanding related to equipment, debt obligations, and diesel fuel purchases as of January 1, 2002. Contractual commitments changed during the first quarter of 2002 as a result of the payoff of senior notes with proceeds from the Credit Agreement, and the purchase of 327 tractors off lease in February, 2002. The Company had commitments to acquire revenue equipment for approximately $154 million at December 31, 2001. These purchases are expected to be financed by debt, proceeds from sales of existing equipment, and cash flows from operations. The Company has the option to cancel such commitments with 60 days notice.

The following table sets forth the Company's contractual cash obligations and commitments as of January 1, 2002.

Payments Due By Period (in thousands)	Total	2002	2003	2004	2005
Long Term Debt	$ 49,150	$ 20,150	$ 26,000	$ 3,000	$ -
Short Term Debt	48,130	48,130	-	-	-
Operating Leases	68,517	20,137	15,393	7,944	7,151
Lease residual value guarantees	55,153	15,720	19,562	-	423
Purchase Obligations:					
Diesel fuel	68,147	31,427	36,720	-	-
Equipment	153,698	72,298	81,400	-	-
Total Contractual Cash Obligations	$442,795	$207,862	$179,075	$10,944	$ 7,574

INFLATION AND FUEL COSTS

Most of the Company's operating expenses are inflation-sensitive, with inflation generally producing increased costs of operations. During the past three years, the most significant effects of inflation have been on revenue equipment prices and the compensation paid to the drivers. Innovations in equipment technology and comfort have resulted in higher tractor prices, and there has been an industry-wide increase in wages paid to attract and retain qualified drivers. The Company historically has limited the effects of inflation through increases in freight rates and certain cost control efforts.

In addition to inflation, fluctuations in fuel prices can affect profitability. Fuel expense comprises a larger percentage of revenue for Covenant than many other carriers because of Covenant's long average length of haul. Most of the Company's contracts with customers contain fuel surcharge provisions. Although the Company historically has been able to pass through most long-term increases in fuel

prices and taxes to customers in the form of surcharges and higher rates, increases in fuel expense usually are not fully recovered. In the fourth quarter of 1999, fuel prices escalated rapidly and have remained high throughout most of 2000, 2001, and into 2002. This has increased the Company's cost of operating.

SEASONALITY

In the trucking industry, revenue generally decreases as customers reduce shipments during the winter holiday season and as inclement weather impedes operations. At the same time, operating expenses generally increase, with fuel efficiency declining because of engine idling and weather creating more equipment repairs. For the reasons stated, first quarter net income historically has been lower than net income in each of the other three quarters of the year. The Company's equipment utilization typically improves substantially between May and October of each year because of the trucking industry's seasonal shortage of equipment on traffic originating in California and the Company's ability to satisfy some of that requirement. The seasonal shortage typically occurs between May and August because California produce carriers' equipment is fully utilized for produce during those months and does not compete for shipments hauled by the Company's dry van operation. During September and October, business increases as a result of increased retail merchandise shipped in anticipation of the holidays.

IMPAIRMENT OF TRACTOR VALUES AND FUTURE EXPENSE

For the past several quarters, the nationwide inventory of used tractors has far exceeded demand. As a result, the market value of used tractors has fallen significantly below both historical levels and the carrying values on the Company's financial statements. The Company had extended the trade cycle of its tractors from three years to four years during 2001, which delayed any significant disposals into 2002 and later years. The market for used tractors did not improve during the remaining portion of 2001.

The Company negotiated a tractor purchase and trade package with Freightliner Corporation for calendar years 2002 and 2003 covering the sale of model year 1998 through 2000 tractors and the purchase of an equal number of replacement units. The significant difference between the carrying values and the sale prices of the used tractors combined with the Company's less profitable results during 2001 caused the Company to test for asset impairment under applicable accounting rules. In the test, the Company measured the expected undiscounted future cash flows to be generated by the tractors over the remaining useful lives and the disposal value at the end of the useful life against the carrying values. The test indicated impairment, and during the fourth quarter of 2001, and the first quarter of 2002, the Company recognized pre-tax charges of approximately $15.4 million and $3.3 million, respectively, to reflect an impairment in tractor values. The charges related to the Company's approximately 2,100 model year 1998 through 2000 in-use tractors.

The approximately 1,400 model year 2001 tractors are not affected by the impairment charges. The Company has evaluated the 2001 model year tractors for impairment and determined that such units were not impaired. These units are not expected to be disposed of for 24 to 36 months following December 31, 2001. The Company has adjusted the depreciation rate of its owned model year 2001 tractors to approximate its recent experience with disposition values and expectation concerning future disposition values. Although management believes the additional depreciation will bring the carrying values of the model year 2001 tractors in line with future disposition values, the Company does not have trade-in agreements covering those tractors. These assumptions represent management's best estimate and actual values could differ by the time those tractors are scheduled for trade. Management of the Company estimates the impact of the change in the estimated useful lives and depreciation on the 2001 model year tractors to be approximately $1.5 million pre-tax or $.06 per share annually.

Because of the adverse change from historical purchase prices and residual values, the annual expense per tractor on model year 2003 and 2004 tractors is expected to be higher than the annual expense on the model year 1999 and 2000 units being replaced. Management expects the increase in depreciation expense to be approximately one-half cent per mile pre-tax during the first year and grow to approximately one cent per mile pre-tax as all of these new units are delivered. By the time the model year 2001 tractors are traded and the entire fleet is converted, management expects the total increase in expense to be approximately one and one-half cent pre-tax per mile. If the tractors are leased instead of purchased, the references to increased depreciation would be reflected as additional lease expense.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks from changes in (i) certain commodity prices and (ii) certain interest rates on its debt.

COMMODITY PRICE RISK

Prices and availability of all petroleum products are subject to political, economic, and market factors that are generally outside the Company's control. Because the Company's operations are dependent upon diesel fuel, significant increases in diesel fuel costs could materially and adversely affect the Company's results of operations and financial condition. Historically, the Company has been able to

recover a portion of short-term fuel price increases from customers in the form of fuel surcharges. The price and availability of diesel fuel can be unpredictable as well as the extent to which fuel surcharges could be collected to offset such increases. For the first six months of 2002, diesel fuel expenses net of fuel surcharge represented 15.5% of the Company's total operating expenses and 15.6% of freight revenue. The Company uses purchase commitments through suppliers to reduce a portion of its exposure to fuel price fluctuations. At June 30, 2002, the national average price of diesel fuel as provided by the U.S. Department of Energy was $1.281 per gallon. At June 30, 2002, the notional amount for purchase commitments during 2002 was 18.5 million gallons. At June 30, 2002, the price of the notional 18.5 million gallons would have produced approximately $1.4 million of income to offset fuel expense if the price of fuel remained the same as of June 30, 2002. At June 30, 2002, a ten percent increase in the price of fuel would produce an additional $2.3 million of income to offset fuel expense. At June 30, 2002, a ten percent decrease in the price of fuel would produce $0.9 million of additional fuel expense. In addition, during the third quarter of 2001, the Company entered into two heating oil commodity swap contracts to hedge its exposure to diesel fuel price fluctuations. These contracts are considered highly effective and each calls for

4.5 million gallons of fuel purchases at a fixed price of $0.695 and $0.629 per gallon, respectively, through the remainder of 2002. At June 30, 2002 the cumulative fair value of these heating oil contracts was an asset of $0.2 million, which was recorded in accrued expenses with the offset to other comprehensive loss, net of taxes. The Company does not enter into contracts with the objective of earning financial gains on price fluctuations, nor does it trade in these instruments when there are no underlying related exposures.

INTEREST RATE RISK

The Credit Agreement, provided there has been no default, carries a maximum variable interest rate of LIBOR for the corresponding period plus 1.25%. During the first quarter of 2001, the Company entered into two $10 million notional amount interest rate swap agreements to manage the risk of variability in cash flows associated with floating-rate debt. At June 30, 2002, the Company had drawn $39 million under the Credit Agreement. Approximately $19 million was subject to variable rates and the remaining $20 million was subject to interest rate swaps that fixed the interest rates at 5.16% and 4.75% plus the applicable margin per annum. The swaps expire January 2006 and March 2006. These derivatives are not designated as hedging instruments under SFAS 133 and consequently are marked to fair value through earnings. At June 30, 2002, the fair value of these interest rate swap agreements was a liability of $0.9 million. Assuming the June 30, 2002 variable rate borrowings, each one-percentage point increase or decrease in LIBOR would affect the Company's pre-tax interest expense by $190,000 on an annualized basis.

The Company does not trade in derivatives with the objective of earning financial gains on price fluctuations, on a speculative basis, nor does it trade in these instruments when there are no underlying related exposures.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.
None

Items 2 and 3. Not applicable

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

The Annual Meeting of Stockholders of Covenant Transport, Inc. was held on May 16, 2002, for the purpose of (a) electing seven directors for one-year terms, and (b) ratification of the selection of KPMG LLP as independent public accountants for the Company for 2002. Proxies for the meeting were solicited pursuant to Section 14(a) of the Securities Exchange Act of 1934, and there was no solicitation in opposition to management's nominees. Each of management's nominees for director as listed in the Proxy Statement was elected.

The voting tabulation on the election of directors was as follows:

	Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTA
David R. Parker	13,296,039	-	1,072
Michael W. Miller	13,296,039	-	1,072
R. H. Lovin, Jr.	13,829,201	-	539

Mark A. Scudder	14,250,320	-	118
William T. Alt	14,251,020	-	117
Hugh O. Maclellan, Jr.	13,756,418	-	612
Robert E. Bosworth	14,250,120	-	118

The voting tabulation on the selection of accountants was "FOR" 14,262,270; "AGAINST" 102,455; and "ABSTAIN" 3,880.

Item 5. Not applicable

Item 6. Exhibits and Reports on Form 8-K.
(a) Exhibits

Exhibit Number	Reference	Description
3.1	(1)	Restated Articles of Incorporation.
3.2	(1)	Amended Bylaws dated September 27, 1994.
4.1	(1)	Restated Articles of Incorporation.
4.2	(1)	Amended Bylaws dated September 27, 1994.
10.1	(1)	401(k) Plan filed as Exhibit 10.10.
10.2	(2)	Outside Director Stock Option Plan, filed as Exhibit A.
10.3	(3)	Amendment No. 1 to the Outside Director Stock Option Plan, fi
10.4	(4)	Credit Agreement by and among Covenant Asset Management, Inc. Transport, Inc., Bank of America, N.A., and Lenders, dated De filed as Exhibit 10.9.
10.5	(4)	Loan Agreement dated December 12, 2000, among CVTI Receivable and Covenant Transport, Inc., and Three Pillars Funding Corpo Equitable Securities Corporation, filed as Exhibit 10.10.
10.6	(4)	Receivables Purchase Agreement dated as of December 12, 2000, Receivables Corp., Covenant Transport, Inc., and Southern Ref Transport, Inc., filed as Exhibit 10.11.
10.7	(5)	Clarification of Intent and Amendment No. 1 to Loan Agreement March 7, 2001, among CVTI Receivables Corp., Covenant Tr Funding Corporation, and SunTrust Equitable Securities Corpor
10.8	(6)	Incentive Stock Plan, Amended and Restated as of May 17, 2001
10.9	(7)	Amendment No. 1 to Credit Agreement dated August 28, 2001, am Inc., Covenant Transport, Inc., Bank of America, N.A., and ea which is a party to the Credit Agreement, filed as Exhibit 10

Previously filed as an exhibit to and incorporated by reference from:

1) Form S-1, Registration No. 33-82978, effective October 28, 1994.
2) Schedule 14A, filed April 13, 2000.
3) Form 10-Q for the quarter ended September 30, 2000.
4) Form 10-K for the year ended December 31, 2000.
5) Form 10-Q for the quarter ended March 31, 2001.
6) Schedule 14A, filed April 5, 2001.
7) Form 10-Q/A, filed July 30, 2002.

(b) There were no reports on Form 8-K filed during the second quarter ended June 30, 2002.

SIGNATURE

Pursuant to the requirements 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 TRANSPORT, INC.

Date: November 7, 2002 /s/ Joey B. Hogan

Joey B. Hogan
Senior Vice President and Chief Financial Officer

CERTIFICATIONS

I, David R. Parker, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A for the quarterly period ended June 30, 2002 of Covenant Transport, 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; and

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.

Date: November 7, 2002 /s/ David R. Parker

David R. Parker
Chief Executive Officer

I, Joey B. Hogan, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A for the quarterly period ended June 30, 2002 of Covenant Transport, 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; and

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.

Date: November 7, 2002 /s/ Joey B. Hogan

Joey B. Hogan
Chief Financial Officer