**KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC**

**Overview**

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# Company Overview

Knight-Swift Transportation Holdings Inc. is North America's largest truckload carrier and a provider of transportation solutions, from its Phoenix, Arizona headquarters. The Company provides multiple truckload transportation and logistics services using a nationwide network of business units and terminals in the United States and Mexico to serve customers throughout North America. In addition to its truckload services, Knight-Swift also contracts with third-party capacity providers to provide a broad range of truckload services to its customers while creating quality driving jobs for our driving associates and successful business opportunities for independent contractors.

During 2017, we covered 0.9 billion loaded miles for shippers throughout North America, contributing to consolidated total revenue of $2.4 billion and consolidated operating income of $200.6 million. As of December 31, 2017, our fleet was comprised of 18,381 company tractors, 4,688 independent contractor tractors, 74,949 trailers, and 9,122 intermodal containers. The Company's six reportable segments are Knight Trucking, Knight Logistics, Swift Truckload, Swift Dedicated, Swift Refrigerated, and Swift Intermodal.

We have historically grown through a combination of organic growth, as well as through mergers and acquisitions (discussed below). Mergers and acquisitions have enhanced Knight's and Swift's businesses and service offerings with additional terminals, driving associates, revenue equipment, and capacity. Our multiple service offerings, capabilities, and transportation modes enable us to transport, or arrange transportation for, general commodities for our diversified customer base throughout the contiguous United States and Mexico using our equipment, information technology, and qualified driving associates and non-driver employees. We are committed to providing our customers with a wide range of truckload and logistics services and continuing to invest considerable resources toward developing a range of solutions for our customers across multiple service offerings and transportation modes. Our overall objective is to provide truckload and logistics services that, when combined, lead the industry for margin and growth, while providing efficient and cost-effective solutions for our customers.

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| Industry and Competition |

Truckload carriers represent the largest part of the transportation supply chain for most retail and manufactured goods in North America and typically transport a full trailer (or container) of freight for a single customer from origin to destination without intermediate sorting and handling. Generally, the truckload industry is compensated based on miles, whereas the less-than-truckload industry is compensated based on package size and/or weight. Overall, the United States trucking industry is large, fragmented, and highly competitive. We compete with thousands of truckload carriers, most of whom operate significantly smaller fleets than we do. Our trucking segments compete with other motor carriers for the services of driving associates, independent contractors, and management employees. To a lesser extent, our intermodal services, as well as our freight brokerage and logistics businesses, compete with railroads, less-than-truckload carriers, logistics providers, and other transportation companies. Our logistics businesses compete with other logistics companies for the services of third-party capacity providers and management employees.

Our industry has encountered the following major economic cycles since 2000:

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| ***Period*** | **Economic Cycle** |
| ***2000 — 2001*** | industry over-capacity and depressed freight volumes |
|  |  |
| ***2002 — 2006*** | economic expansion |
|  |  |
| ***2007 — 2009*** | freight slowdown, fuel price spike, economic recession, and credit crisis |
|  |  |
| ***2010 — 2013*** | moderate recovery. The industry freight data began to show positive trends for both volume and pricing. The slow, steady growth is a result of moderate increases in gross domestic product, coupled with a tighter supply of available tractors. Trends in supply of available tractors were lower due to several years of below average truck builds, an increase in truckload fleet bankruptcies in 2009 and 2010, increasing equipment prices due to stringent EPA requirements, less available credit, and less driver availability. |
|  |  |
| ***2014 — 2016*** | return to pre-recession levels and relative stabilization. In 2014, total spending on transportation, which fell during the 2007 – 2009 recession, returned to pre-recession levels. Truck tonnage grew throughout 2014, followed by decelerating growth in 2015, and relative stabilization in 2016. Capacity became looser in 2015 and 2016, as inventory levels were high and large volumes of tractor purchases created a supply/demand imbalance, putting pressure on pricing. Fuel prices declined. |
|  |  |
| ***2017*** | Demand increased for transportation services, including non-contract market demand, partially due to a strong retail season. Capacity became tighter in the second half of 2017, due to increasing government regulation, the driver shortage, severe storms interrupting business, among other factors. In addition, US fuel prices increased. |

The principal means of competition in our industry are customer service, capacity, and price. In times of strong freight demand, customer service, and capacity become increasingly important, and in times of weak freight demand, pricing becomes increasingly important. Most truckload contracts (other than dedicated contracts) do not guarantee truck availability or load levels. Pricing is influenced by supply and demand.

* The trucking industry faces the following primary challenges, which we believe we are well-positioned to address, as discussed under "Our Competitive Strengths" and "Company Strategy," below:
* tightening industry capacity
* cumulative impacts of regulatory initiatives, such as ELDs, hours-of service limitations for drivers, and others
* uncertainty in the economic environment, including changing supply chain and consumer spending patterns
* driver shortages
* significant and rapid fluctuations in fuel prices;
* increased prices for new revenue equipment, design changes of new engines, and volatility in the used equipment sales market.

# Competitive Strengths

We believe that our principal competitive strengths are our regional presence, customer service (including our ability to provide multiple transportation solutions, and configuration of equipment that satisfies customers' needs), operating efficiency, cost control, and technological enhancements in our revenue equipment and supporting back-office functions.

We believe that regional operations, which have recently expanded with the merger between Knight and Swift, offer several advantages, including:

**Regional Presence**

* obtaining greater freight volumes,
* achieving higher revenue per mile by focusing on high-density freight lanes to minimize non-revenue miles,
* enhancing our ability to recruit and train qualified driving associates,
* enhancing safety and driver development and retention,
* enhancing our ability to provide a high level of service and consistent capacity to our customers,
* enhancing accountability for performance and growth,
* furthering our trucking capabilities to provide various shipping solutions to our customers, and
* furthering our logistics capabilities to contract with more third-party capacity providers.
* **Operating Efficiency and Cost Control**

**Operating Efficiency & Cost Control**

We expect to generate cost and revenue synergies as a result of the 2017 Merger through, among other things, increased operational efficiencies through the adoption of best practices and capabilities from each of Knight and Swift. We operate modern tractors and trailers in order to obtain operating efficiencies and attract and retain driving associates. We believe a generally compatible fleet of tractors and trailers simplifies our maintenance procedures and reduces parts, supplies, and maintenance costs. We regulate vehicle speed, which we believe will maximize fuel efficiency, reduce wear and tear, and enhance safety. We continue to update our fleet with more fuel-efficient post-2014 United States EPA emission compliant engines, install aerodynamic devices on our tractors, and equip our trailers with trailer blades, which have led to meaningful improvements in fuel efficiency. Our logistics and intermodal businesses focus on effectively optimizing and meeting the transportation and logistics requirements of our customers and providing customers with various sources and modes of transportation capacity across our nationwide service network. We invest in technology that enhances our ability to optimize our freight opportunities while maintaining a low cost per transaction.

**Customer Service**

We strive to provide superior, on-time service at a meaningful value to our customers and seek to establish ourselves as a preferred truckload and logistics provider for our customers. We provide truckload capacity for customers in high-density lanes, where we can provide them with a high level of service, as well as flexible and customized logistics services on a nationwide basis. Our trucking services include dry van, refrigerated, and drayage, which also include dedicated and cross-border truckload services, customized according to customer needs. Our logistics and intermodal services include brokerage, intermodal, and certain logistics, freight management, and non-trucking services, which provide various shipping alternatives and transportation modes for customers by utilizing our expansive network of third-party capacity providers and rail partners. We price our trucking, logistics, and intermodal services commensurately with the level of service our customers require and market conditions. By providing customers a high level of service, we believe we avoid competing solely based on price.

**Using Technology that Advances Our Business**

We purchase and deploy technology that we believe will allow us to operate more safely, securely, and efficiently. Substantially all of our company-owned tractors are equipped with in-cab communication devices that enable us to communicate with our driving associates, obtain load position updates, manage our fleets, and provide our customers with freight visibility, as well as with ELDs that automatically record our driving associates' hours-of-service. The majority of our trailers are equipped with trailer-tracking technology that allows us to better manage our trailers. We have purchased and developed software for our logistics businesses that provides greater visibility of the capacity of our third-party providers and enhances our ability to provide our customers with solutions that offer a superior level of service. We have automated many of our back-office functions, and we continue to invest in technology that we expect will allow us to better serve our customers and improve overall efficiency.

**Mission & Strategy**

Our mission is to operate truckload businesses that are industry leading in both margin and growth, while providing cost-effective solutions for our customers. Our success depends on our ability to efficiently and effectively manage our resources in providing transportation and logistics solutions to our customers, as well as our ability to leverage efficiencies and best practices between Knight and Swift. We evaluate growth opportunities based on customer demand and supply chain trends, availability of drivers and third-party capacity providers, expected returns on invested capital, expected net cash flows, and our company-specific capabilities.

# Segment Operating Strategies

Our operating strategy for our trucking segments, which includes Knight Trucking, Swift Truckload, Swift Dedicated, and Swift Refrigerated, is to achieve a high level of asset utilization within a highly disciplined operating system, while maintaining strict controls over our cost structure. We hope to achieve these goals by primarily operating in high-density, predictable freight lanes and attempting to develop and expand our customer base around each of our terminals by providing multiple truckload services for each customer. We believe this operating strategy allows us to take advantage of the large amount of freight transported in the markets we serve. Our terminals enable us to better serve our customers and work more closely with our driving associates. We operate a premium modern fleet that we believe appeals to driving associates and customers, reduces maintenance expenses and driving associate and equipment downtime, and enhances our fuel and other operating efficiencies. We employ technology in a cost-effective manner to assist us in controlling operating costs and enhancing revenue.

## Trucking Segments

Our operating strategy for our trucking segments, which includes Knight Trucking, Swift Truckload, Swift Dedicated, and Swift Refrigerated, is to achieve a high level of asset utilization within a highly disciplined operating system, while maintaining strict controls over our cost structure. We hope to achieve these goals by primarily operating in high-density, predictable freight lanes and attempting to develop and expand our customer base around each of our terminals by providing multiple truckload services for each customer. We believe this operating strategy allows us to take advantage of the large amount of freight transported in the markets we serve. Our terminals enable us to better serve our customers and work more closely with our driving associates. We operate a premium modern fleet that we believe appeals to driving associates and customers, reduces maintenance expenses and driving associate and equipment downtime, and enhances our fuel and other operating efficiencies. We employ technology in a cost-effective manner to assist us in controlling operating costs and enhancing revenue.

## Logistics Business

Our logistics operating strategy is to match the shipping needs of our customers with the capacity provided by our network of third-party carriers and our rail providers. Our goal is to increase our market presence, both in existing operating regions and in other areas where we believe the freight environment meets our operating strategy, while seeking to achieve industry-leading operating margins and returns on investment

## Growth Strategies

We believe we have the terminal network, systems capability, and management capacity to support substantial growth. We have established a geographically diverse network that we believe can support a substantial increase in freight volumes, organic or acquired. Our network and business lines afford us the ability to provide multiple transportation solutions for our customers, and we maintain the flexibility within our network to adapt to freight market conditions. We believe our unique mix of regional management, together with our consistent efforts to centralize certain business functions to achieve collective economies of scale, allow us to develop future company leaders with relevant operating and industry experience, minimize the potential diseconomies of scale that can come with growth in size, take advantage of regional knowledge concerning capacity and customer shipping needs, and manage our overall business with a high level of performance accountability.

* Strengthening our customer relationships
* Improving asset productivity
* Acquiring and growing opportunistically
* Expanding existing terminals
* Diversifying our service offerings

# Customers

Our customers are typically large corporations in the retail (including discount and online retail), food and beverage, consumer products, paper products, transportation and logistics, housing and building, automotive, and manufacturing industries. Many of our customers have extensive operations, geographically distributed locations, and diverse shipping needs.

Consistent with industry practice, our typical customer contracts (other than dedicated contracts) do not guarantee shipment volumes by our customers or truck availability by us. This affords us and our customers some flexibility to negotiate rates in response to changes in freight demand and industry-wide truck capacity. Our dedicated services within the Swift Dedicated and Knight Trucking segments assign particular driving associates and revenue equipment to prescribed routes, pursuant to multi-year agreements. This provides individual customers with a guaranteed source of capacity, and allows our driving associates to have more predictable schedules and routes. Under our dedicated transportation services, we provide driving associates, equipment, maintenance, and, in some instances, transportation management services that supplement the customer's in-house transportation department.

Our terminals are linked to our corporate information technology system in our Phoenix headquarters. The capabilities of this system and its software enhance our operating efficiency by providing cost-effective access to detailed information concerning equipment location and availability, shipment tracking and on-time delivery status, and other specific customer requirements. The system also enables us to respond promptly and accurately to customer requests and assists us in geographically matching available equipment with customer loads. Additionally, our customers can track shipments and obtain copies of shipping documents via our website. We also provide electronic data interchange services to customers desiring these services.

We believe our fleet capacity, terminal network, customer service and breadth of services offer a competitive advantage to major shippers, particularly in times of rising freight volumes when shippers must quickly access capacity across multiple facilities and regions.

We strive to maintain a diversified customer base. Services provided to the Company's largest customer, Wal-Mart, generated 15.8%, 13.7%, and 12.4% of total revenue in 2017, 2016, and 2015, respectively. Revenue generated by Wal-Mart is reported in the Knight Trucking, Swift Truckload, Swift Dedicated, Swift Refrigerated, and Swift Intermodal operating segments. No other customer accounted for 10% or more of total revenue in 2017, 2016, or 2015.

Our top 25 customers drive a substantial portion of our total revenue, as follows (amounts reflect only Swift's result prior to the 2017 Merger date, and Knight-Swift's results after the 2017 Merger date):

* In 2017, our top 25, top 10, and top 5 customers accounted for 56.6%, 39.7%, and 31.7% of our total revenue, respectively.
* In 2016, our top 25, top 10, and top 5 customers accounted for 53.7%, 37.3%, and 27.7% of our total revenue, respectively.
* In 2015, our top 25, top 10, and top 5 customers accounted for 53.1%, 36.2%, and 26.2% of our total revenue, respectively.

# Revenue Equipment

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
| **Model Year** |  | **Tractors (1)** | |  | **Trailers** | |
| ***2019*** |  | — |  |  | 9 |  |
| ***2018*** |  | 2,798 |  |  | 3,968 |  |
| ***2017*** |  | 2,232 |  |  | 8,835 |  |
| ***2016*** |  | 5,185 |  |  | 6,913 |  |
| ***2015*** |  | 4,968 |  |  | 8,846 |  |
| ***2014*** |  | 2,223 |  |  | 5,624 |  |
| ***2013*** |  | 374 |  |  | 5,666 |  |
| ***2012*** |  | 123 |  |  | 4,470 |  |
| ***2011 and prior*** |  | 478 |  |  | 30,618 |  |
| Total |  | 18,381 |  |  | 74,949 |  |
|  |  |  | |  |  | |

We typically purchase or lease tractors and trailers manufactured to our specifications in order to meet a wide variety of customer needs. Growth of our tractor and trailer fleet is determined by market conditions and our experience and expectations regarding equipment utilization. In acquiring revenue equipment, we consider a number of factors, including economy, price, rate, economic environment, technology, warranty terms, manufacturer support, driving associate comfort, and resale value. We maintain strong relationships with our equipment vendors and have the financial flexibility to react as market conditions dictate.

Our current policy is to replace our tractors between 42 months and 60 months after purchase and to replace our trailers over a five- to ten-year period. Changes in the current market for used tractors and trailers, regulatory changes, and difficult market conditions faced by tractor and trailer manufacturers, may result in price increases that may affect the period of time for which we operate our equipment.

Our newer equipment has enhanced features, which we believe tends to lower the overall life cycle costs by reducing safety-related expenses, lowering repair and maintenance expenses, improving fuel economy, and improving driving associate satisfaction. In 2018 and beyond, we will continue to monitor the appropriateness of this relatively short tractor trade-in cycle against the lower capital expenditure and financing costs of a longer tractor trade-in cycle, based on current and future business needs

# Employees

|  |  |  |  |
| --- | --- | --- | --- |
| Company driving associates (including driver trainees) |  | 19,200 |  |
| Technicians and other equipment maintenance personnel |  | 1,400 |  |
| Support personnel (such as corporate managers, sales, and administrative personnel) |  | 4,800 |  |
| Total |  | 25,400 |  |
|  |  |  | |

As of December 31, 2017, we had approximately 780 Trans-Mex driving associates in Mexico that were represented by a union.

## Safety

We are committed to safe and secure operations. We conduct a mandatory intensive driver qualification process, including defensive driving training for all drivers, which includes our company driving associates. We require prospective drivers to meet higher qualification standards than those required by the DOT. We regularly communicate with drivers to promote safety and instill safe work habits through effective use of various media and safety review sessions. We dedicate personnel and resources designed to ensure safe operation and regulatory compliance. We employ technology to assist us in managing risks associated with our business. In addition, we have an innovative recognition program for driver safety performance and emphasize safety through our equipment specifications and maintenance programs. Our Corporate Directors of Safety review all accidents and report weekly to the Senior Director of Safety and Risk Management.

## Insurance

The primary claims arising in our business consist of auto liability, including personal injury, property damage, physical damage, and cargo loss. We self-insure for a significant portion of our claims exposure and related expenses. We also maintain insurance that covers our directors and officers for losses and expenses arising out of claims, based on acts or omissions in their capacities as directors or officers. While under dispatch and the Company's operating authority, the independent contractors the Company contracts with are covered by the Company's liability coverage and self-insurance retention limits. However, each is responsible for physical damage to his or her own equipment, occupational accident coverage, and liability exposure while the truck is used for non-company purposes. Additionally, fleet operators are responsible for any applicable workers' compensation requirements for their employees

## Fuel

We actively manage our fuel purchasing network in an effort to maintain adequate fuel supplies and reduce our fuel costs. Additionally, we utilize a fuel surcharge program to pass a majority of increases in fuel costs to our customers. In 2017, we purchased 14.8% of our fuel in bulk at our Swift, Knight, and dedicated customer locations across the United States and Mexico. We purchased substantially all of the remainder through a network of retail truck stops with which we have negotiated volume purchasing discounts. The volumes we purchase at terminals and through the fuel network vary based on procurement costs and other factors. We seek to reduce our fuel costs by routing our driving associates to truck stops when fuel prices at such stops are cheaper than the bulk rate paid for fuel at our terminals. We primarily store fuel in above-ground storage tanks at most of our other bulk fueling terminals. We believe that we are sufficiently in compliance with applicable environmental laws and regulations relating to the storage and dispensing of fuel.

## Seasonality

In the transportation industry, results of operations generally follow a seasonal pattern. Freight volumes in the first quarter are typically lower due to less consumer demand, customers reducing shipments following the holiday season, and inclement weather impeding operations. At the same time, operating expenses generally increase, and tractor productivity of our fleet, independent contractors, and third-party carriers decreases during the winter months due to decreased fuel efficiency, increased cold-weather-related equipment maintenance and repairs, and increased insurance claims and costs attributed to higher accident frequency from harsh weather. During this period, the profitability of our operations is generally lower than during other parts of the year. Additionally, we have seen surges between Thanksgiving and Christmas resulting from holiday shopping trends toward delivery of gifts purchased over the Internet, as well as the impact of shorter holiday seasons (Thanksgiving holiday recently falling closer to Christmas).

# Industry Regulation

Our operations are regulated and licensed by various federal, state, and local government agencies in North America, including the DOT, the FMCSA, and the United States Department of Homeland Security, among others. Our company, as well as our driving associates and independent contractors, must comply with enacted governmental regulations regarding safety, equipment, and operating methods. Examples include regulation of equipment weight, equipment dimensions, driver hours-of-service, driver eligibility requirements, on-board reporting of operations, and ergonomics. The following discussion presents recently enacted federal, state, and local regulations that have an impact on our operations.

## Hours-of-service

From time to time, the FMCSA proposes and implements changes to regulations impacting hours-of-service. Such changes 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. No such changes are currently proposed. However, any future changes to hours-of-service regulations could materially and adversely affect our operations and profitability.

## Safety and Fitness Ratings

There are currently two methods of evaluating the safety and fitness of carriers: CSA BASICS, which evaluates and ranks fleets on certain safety-related standards by analyzing data from recent safety events and investigation results, and DOT SafeStat, which is based on an on-site investigation and affects a carrier's ability to operate in interstate commerce. Additionally, the FMCSA has proposed rules in the past that would change the methodologies used to determine carrier safety and fitness.

***DOT SafeStat —*** SafeStat is currently the only safety measurement system in effect. Both Knight and Swift currently have a satisfactory SafeStat DOT rating, which is the best available rating under the current safety rating scale. If we were to receive 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.

***CSA BASICs —*** In December 2010, the FMCSA introduced an enforcement and compliance model that ranks on seven categories of safety-related data. The seven categories of safety-related data, known as BASICs, currently include Unsafe Driving, Fatigued Driving (hours-of-service), Driver Fitness, Controlled Substances/Alcohol, Vehicle Maintenance, Hazardous Materials Compliance, and Crash Indicator.  Carriers are grouped by category with other carriers that have a similar number of safety events (i.e. crashes, inspections, or violations) and carriers are ranked and assigned a rating percentile or score to prioritize them for interventions if they are above a certain threshold.

Certain CSA BASICs information was initially published and made available to carriers, as well as the general public. However, in December 2015, as part of the Fixing America's Surface Transportation ("FAST") Act, Congress mandated that the FMCSA remove all CSA scores from public view until a more comprehensive study regarding the effectiveness of CSA BASICs improving truck safety could be completed. 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. The study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate, and reliable. The FMCSA is expected to provide its report to Congress in early 2018 outlining the changes it will make to the CSA program in response to the study.

It is unclear if, when, and to what extent any such changes will occur. However, any changes that increase the likelihood of us receiving unfavorable scores could adversely affect our results of operations and profitability.

CSA BASICS scores do not currently have a direct impact on a carrier's safety rating.  However, the occurrence of unfavorable scores in one or more categories may affect driving associate recruiting and retention by causing qualified driving associates to seek employment with other carriers, cause our customers to direct their business away from us and to carriers with higher fleet rankings, subjecting us to an increase in compliance reviews and roadside inspections, or causing us to incur greater than expected expenses in our attempts to improve unfavorable scores, any of which could adversely affect our results of operations and profitability.

***Safety Fitness Determination —***In January 2016, the FMCSA published a Notice of Proposed Rulemaking ("NPRM") in the Federal Register, regarding carrier safety fitness determination. The NPRM proposed new methodologies that would have determined when a motor carrier was not fit to operate a commercial motor vehicle. Key proposed changes that were included in the NPRM are as follows:

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| • | There would be only one safety rating of "unfit," as compared to the current rules, which have three safety ratings (satisfactory, conditional, and unsatisfactory). | | | | |
| • | Carriers could be determined "unfit" by failing two or more BASICs, investigation results, or a combination of the two. | | | |
| • | Stricter standards would be used for BASICs with a higher correlation to crash risk (Unsafe Driving and Hours-of-Service Compliance). | | | | |
| • | All investigation results would be used, not just results from comprehensive on-site reviews. | |
| • | Violations of a revised list of "critical" and "acute" safety regulations would result in failing a BASIC. | | |
| • | Carriers would be assessed monthly. |

Public comments on the proposed rule were due 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 and that the FMCSA must first finalize its review of the CSA scoring system. Based on this feedback and other concerns raised by industry stakeholders, in March 2017, the FMCSA withdrew the Notice of Proposed Rulemaking related to the new safety rating system. In its notice of withdrawal, the FMCSA noted that a new rulemaking related to a similar process may be initiated in the future. Therefore, it is uncertain if, when, or under what form any such rule could be implemented.

## Moving Ahead for Progress in the 21st Century Bill

In July 2012, Congress passed the Moving Ahead for Progress in the 21st Century bill into law. Included in the highway bill was a provision that mandates electronic logging devices in commercial motor vehicles to record hours-of-service. Additionally, in response to the bill, a final rule related to entry-level driver training was passed in 2016, as well as amendments to the Drug and Alcohol Clearinghouse rules.

***ELD —*** During 2012, the FMCSA published a Supplemental NPRM, announcing its plan to proceed with the ELDs and hours-of-service supporting documents rulemaking. The ELD rule became final in December 2015, as published in the Federal Register, with an effective date of February 16, 2016. The ELD rule phases in over a four-year period:

|  |  |
| --- | --- |
| • | Phase 1 (February 16, 2016 through December 18, 2017): Carriers and drivers subject to the rule may voluntarily use ELDs or use other forms of logging devices. |
| • | Phase 2 (December 18, 2017 through December 16, 2019): Carriers and drivers subject to the rule can use Automatic On-board Recording Devices ("AOBRD") that were installed prior to December 18, 2017 or ELDs certified and registered after December 16, 2015. |
| • | Phase 3 (after December 16, 2019): All drivers and carriers subject to the rule must use certified and registered ELDs that comply with the requirements of the ELD regulations. |

Although the final ELD rule may have a large impact on the industry as a whole, we have not experienced an adverse impact on Knight-Swift, as we previously installed ELDs in our operational trucks in conjunction with our efforts to improve efficiency and communications with driving associates and independent contractors. However, we believe that more effective hours-of-service enforcement under the ELD Rule may improve our competitive position by causing all carriers to adhere more closely to hours-of-service requirements.

***Entry-Level Driver Training —*** In December 2016, the FMCSA established new minimum training standards for certain individuals applying for (or upgrading) a Class A or Class B commercial driver's license, or obtaining a hazardous materials, passenger, or school bus endorsement on their commercial driver's license for the first time. These individuals are subject to the Entry-level driver training requirements and must complete a prescribed program of theory and behind-the wheel instruction. The final rule requires that behind-the-wheel proficiency of an entry-level truck driver be determined solely by the instructor's evaluation of how well the driver-trainee performs the fundamental vehicle controls skills and driving procedures set forth in the curricula, but does not have a minimum training hours requirement, as proposed by the FMCSA earlier in 2016. The final rule went into effect on February 6, 2017, with a compliance date of February 7, 2020. Upon the compliance date, training schools will be required to register with the FMCSA's Training Provider Registry and certify that their program meets the classroom and driving standards. The effect of this rule could result in a decrease in fleet production and driver availability, either of which could adversely affect our business or operations.

***Commercial Driver's License Drug and Alcohol Clearinghouse —*** In December 2016, the FMCSA amended the Federal Motor Carrier Safety Regulations to establish requirements of the Commercial Driver's License Drug and Alcohol Clearinghouse, a database under its administration that will contain information about violations of the FMCSA's drug and alcohol testing program for holders of commercial driver's licenses. In addition to requiring employers to check the database for driver applicant drug and alcohol test failures, the final rule requires employers to check the database to determine whether current employees have incurred a drug or alcohol violation that would prohibit them from performing safety-sensitive functions. The final rule became effective on January 4, 2017, with a compliance date of January 6, 2020. Upon implementation, the rule may reduce the number of available drivers in an already constrained driver market.

## Prohibiting Coercion of Commercial Motor Vehicle Drivers

In November 2015, the Prohibiting Coercion of Commercial Motor Vehicle Drivers rule became final, as published in the Federal Register and adopted by the FMCSA. The rule explicitly prohibits motor carriers from coercing drivers to violate certain FMCSA regulations, including driver hours-of-service limits, Commercial Drivers' License regulations, drug and alcohol testing rules, and hazardous materials regulations, among others. Under the rule, drivers can report incidents of coercion to the FMCSA, who is authorized to issue penalties against the motor carrier. We have not experienced any significant impacts from this rule.

## Speed Limiting Devices

In September 2016, the NHTSA and FMCSA proposed regulations that would require speed limiting devices on vehicles with a gross vehicle weight rating of more than 26,000 pounds for the service life of the vehicle. The speed was expected to be limited to 62, 65, or 68, but ultimately would have been be set by the final rule. Based on the agencies' review of the available data, limiting the speed of these heavy vehicles would reduce the severity of crashes involving these vehicles and reduce the resulting injuries and fatalities. Public comments on the proposed rule were due in November 2016, and 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. The effect of this rule, to the extent it became effective, could result in a decrease in fleet production and driver availability, either of which could adversely affect our business or operations.

For safety, we electronically govern the speed of substantially all of our company tractors. Additionally, our independent contractor agreements include statements that independent contractors must comply with the Company's speed policy.

## Food Safety Modernization Act of 2011 ("FSMA")

In April 2016, the Food and Drug Administration published a final rule establishing requirements for shippers, loaders, carriers by motor vehicle and rail vehicle, and receivers engaged in the transportation of food, to use sanitary transportation practices to ensure the safety of the food they transport as part of the FSMA.  This rule sets forth requirements related to:

|  |  |
| --- | --- |
| • | the design and maintenance of equipment used to transport food, |
| • | the measures taken during food transportation to ensure food safety, | |
| • | the training of carrier personnel in sanitary food transportation practices, and | | |
| • | 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 also applicable when we perform as a carrier or as a broker. We believe we have been in compliance with these requirement since that time. However, if we are found to be in violation of applicable laws or regulations related to the FSMA, we could be subject to substantial fines, penalties and/or criminal liability, any of which could have a material adverse effect on our business, financial condition, and results of operations

## Legislation Regarding Independent Contractors

Tax and other regulatory authorities have sought in the past to assert that independent contractors in the trucking industry are employees rather than independent contractors.  Federal legislators continue to introduce legislation concerning the classification of independent contractors as employees, including legislation that proposes to increase the tax and labor penalties against employers who intentionally or unintentionally misclassify employees as independent contractors and are found to have violated employees' overtime 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 FLSA to independent contractors, and
* impose notice requirements based upon employment or independent contractor status and fines for failure to comply

Some states have adopted initiatives to increase their revenues from items such as unemployment, workers' compensation, and income taxes, and we believe a reclassification of independent contractors as employees would help states with this initiative.  Federal and state taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status.

Further, class actions and other lawsuits have been filed against us and other members of our industry seeking to reclassify independent contractors as employees for a variety of purposes, including workers' compensation and health care coverage. Our defense of such class actions and other lawsuits has not always been successful, and we have been subject to adverse judgments with respect to such matters.  If our independent contractors were determined to be our employees, we would incur additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment, and tort laws, which could potentially include prior periods, as well as potential liability for employee benefits and tax withholdings.  We currently observe and monitor our compliance with current related and applicable laws and regulations, but we cannot predict whether laws and regulations adopted in the future regarding the classification of our independent contractors will adversely affect our business or operations.

# Risk Factors

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Our risks are grouped into the following risk categories:** | | | | | | |
| **Strategic** |  | **Operational** |  | **Compliance** |  | **Financial** |
| \*Industry and Competition |  | \*Company Growth |  | \*Trucking Industry Regulation |  | \*Capital Requirements |
| \*Market Changes |  | \*Employees |  | \*Environmental Regulation |  | \*Debt |
| \*Macroeconomic Changes |  | \*Independent Contractors |  | \*Insurance Regulation |  | \*Investments |
| \*Mergers and Acquisitions |  | \*Vendors and Suppliers |  |  |  | \*Goodwill and Intangibles |
| \*International Operations |  | \*Customers |  |  |  | \*Common Stock |
|  |  | \*Information Systems |  |  |  | \*Dividends |

## Insurance and claims expenses could significantly reduce our earnings.

Our future insurance and claims expense might exceed historical levels, which could reduce our earnings. We self-insure or insure through our captive insurance companies a significant portion of our claims exposure resulting from workers' compensation, auto liability, general liability, cargo and property damage claims, as well as Knight's employee health insurance, 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. Prior to the 2017 Merger, Knight's auto liability self-insured retention was $1.0 million per occurrence and Swift's was $10.0 million per occurrence. Such self-insured retention levels continue at our Knight and Swift businesses following the 2017 Merger. Higher self-insured retention levels may increase the impact of auto liability occurrences on our results of operations. We are also responsible for our legal expenses relating to such claims. We reserve for anticipated losses and expenses and periodically evaluate and adjust our claims reserves to reflect our experience. Estimating the number and severity of claims, as well as related judgment or settlement amounts, is inherently difficult. This, along with legal expenses, incurred but not reported claims, and other uncertainties can cause unfavorable differences between actual self-insurance costs and our reserve estimates. Accordingly, ultimate results may differ from our estimates, which could result in losses over our reserved amounts.

We maintain insurance with licensed insurance carriers above the amounts in which we self-insure. Although we believe our aggregate insurance limits should be sufficient to cover reasonably expected claims, it is possible that the amount of one or more claims could exceed our aggregate coverage limits. If any claim were to exceed our coverage, we would bear the excess, in addition to our other self-insured amounts.  Insurance carriers have raised premiums for many businesses, including transportation companies. As a result, our insurance and claims expense could increase, or we could raise our self-insured retention when our policies are renewed or replaced. Our results of operations and financial condition could be materially and adversely affected if (1) cost per claim, premiums, or the number of claims significantly exceeds our coverage limits or retention amounts; (2) we experience a claim in excess of our coverage limits; (3) our insurance carriers fail to pay on our insurance claims; or (4) we experience a claim for which coverage is not provided.

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

## Insuring risk through our captive insurance companies could adversely impact our operations.

We insure a portion of our risk through our captive insurance companies, Mohave and Red Rock. In addition to insuring portions of our own risk, Mohave provides reinsurance coverage to third-party insurance companies associated with our affiliated companies' independent contractors. Red Rock insures a share of our automobile liability risk. The insurance and reinsurance markets are subject to market pressures. Our captive insurance companies' abilities or needs to access the reinsurance markets may involve the retention of additional risk, which could expose us to volatility in claims expenses.

To comply with certain state insurance regulatory requirements, cash and cash equivalents must be paid to Red Rock and Mohave as capital investments and insurance premiums, to be restricted as collateral for anticipated losses. The restricted cash is used for payment of insured claims. In the future, we may continue to insure our automobile liability risk through our captive insurance subsidiaries, which will cause increases in the required amount of our restricted cash or other collateral, such as letters of credit. Significant increases in the amount of collateral required by third-party insurance carriers and regulators would reduce our liquidity.

## Compliance Risk

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

We have authority to operate in the United States, as granted by the DOT, Mexico (as granted by the Secretaría de Comunicaciones y Transportes), and various Canadian provinces (as granted by the Ministries of Transportation and Communication in such provinces). In the United States, we are also regulated by the EPA, United States Department of Homeland Security, and other agencies in states in which we operate. Our company driving associates, independent contractors, and third-party capacity providers also must comply with the applicable safety and fitness regulations of the DOT, including those relating to drug and alcohol testing, driver safety performance, and hours-of-service. Matters such as weight, equipment dimensions, exhaust emissions, and fuel efficiency are also subject to government regulations.  We also may become subject to new or more restrictive regulations relating to fuel efficiency, exhaust emissions, hours-of-service, drug and alcohol testing, ergonomics, on-board reporting of operations, collective bargaining, security at ports, speed limiters, driver training, and other matters affecting safety or operating methods. Future laws and regulations may be more stringent, require changes in our operating practices, influence the demand for transportation services, or require us to incur significant additional costs. Higher costs incurred by us, or by our suppliers who pass the costs onto us through higher supplies and materials pricing, could adversely affect our results of operations. In addition, the Trump administration has indicated a desire to reduce regulatory burdens that constrain growth and productivity, and also to introduce legislation such as infrastructure spending, that could improve growth and productivity. Changes in regulations, such as those related to trailer size and gross vehicle weight limits, hours-of-service, mandating ELDs, and drug and alcohol testing, could increase capacity in the industry or improve the position of certain competitors, either of which could negatively impact pricing and volumes, or require additional investments by us. The short and long term impacts of changes in legislation or regulations are difficult to predict and could materially adversely affect our operations.

Our lease contracts with independent contractors are governed by federal leasing regulations, which impose specific requirements on us and the independent contractors. In the past, Swift has been the subject of lawsuits, alleging violations of lease agreements or failure to follow the contractual terms, some of which resulted in adverse decisions against Swift. We could be subjected to similar lawsuits and decisions in the future, which if determined adversely to us, could have an adverse effect on our financial condition.

In December 2016, the FMCSA established new minimum training standards for certain individuals applying for (or upgrading) a Class A or Class B commercial driver's license, or obtaining a hazardous materials, passenger, or school bus endorsement on their commercial driver's license for the first time. These individuals must complete a prescribed program of theory and behind-the wheel instruction. The final rule requires that behind-the-wheel proficiency of an entry-level truck driver be determined solely by the instructor's evaluation of how well the driver-trainee performs the fundamental vehicle controls skills and driving procedures set forth in the curricula, but does not have a minimum training hours requirement, as proposed by the FMCSA earlier in 2016. The final rule went into effect in February 2017, with a compliance date of February 7, 2020. Upon the compliance date, training schools, including the driving academies we operate, will be required to register with the FMCSA's Training Provider Registry and certify that their program meets the classroom and driving standards.

"Regulation" in Part I, Item 1 of this Annual Report, discusses in detail several proposed, pending, suspended, and final regulations that could materially impact our business and operations.

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

Under CSA, fleets are evaluated and ranked against their peers based on certain safety-related standards. As a result, our fleet could be ranked poorly as compared to our peer carriers. We recruit and retain first-time driving associates to be part of our fleet, and these driving associates may have a higher likelihood of creating adverse safety events under CSA. The occurrence of future deficiencies could affect driving associate recruitment by causing high-quality driving associates to seek employment with other carriers or limit the pool of available driving associates 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 business, financial condition and results of operations. Additionally, competition for driving associates with favorable safety backgrounds may increase, which could necessitate increases in driving associate-related compensation costs. Further, we may incur greater than expected expenses in our attempts to improve unfavorable scores .

In December 2015, Congress passed a new highway funding bill called Fixing America's Surface Transportation Act (the "FAST Act"), which calls for significant CSA reform. The FAST Act directs the FMCSA to conduct studies of the scoring system used to generate CSA rankings to determine if it is effective in identifying high-risk carriers and predicting future crash risk. This study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate , and reliable. The FMCSA is expected to provide its report to Congress outlining the changes it will make to the CSA program in response to the study. It is unclear if, when, and to what extent any such changes will occur. However, any changes that increase the likelihood of us receiving unfavorable scores could adversely affect our results of operations and profitability.

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

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

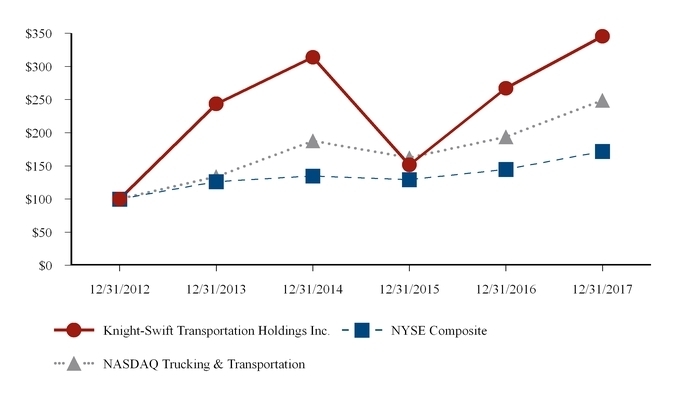
The FMCSA has proposed regulations that would modify the existing rating system and the safety labels assigned to motor carriers evaluated by the DOT. Under regulations that were proposed in 2016, the methodology for determining a carrier's DOT safety rating would be expanded to include the on-road safety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

# Properties

Our Knight and Swift headquarters are both located in Phoenix, Arizona. Including Knight's former headquarters location, which was re-purposed as a regional operations facility, our combined headquarters cover approximately 200 acres, consisting of about 300 thousand square feet of office space, 150 thousand square feet of repair and maintenance facilities, a twenty thousand square-foot driving associates' center and restaurant, an eight thousand square-foot recruiting and training center, a six thousand square-foot warehouse, a 300-space parking structure, as well as two truck wash and fueling facilities.

We have over 80 locations in the United States and Mexico, including our headquarters, terminals, driving academies, and certain other locations, which are included in the table below. Our terminals may include customer service, marketing, fuel, and/or repair facilities, which are used by our trucking, Knight Logistics, Swift Intermodal, and Swift's non-reportable segments. We also own or lease parcels of vacant land, drop yards, and space for temporary trailer storage for ourselves and other carriers, as well as several non-operating facilities, which are excluded from the table below. As of December 31, 2017, our aggregate monthly rent for all leased properties was approximately $0.9 million with varying terms expiring through December 2053. We believe that substantially all of our property and equipment is in good condition and our facilities have sufficient capacity to meet our current needs.

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|  |  | **Owned/Leased** | | |  | **Brand** | | | | | | |  |  |
| **Location** |  | **Owned** |  | **Leased** |  | **Knight** |  | **Swift** |  | **Barr Nunn** |  | **Kold Trans** |  | **Total** |
| ***Arizona*** |  | 4 |  |  |  | 2 |  | 2 |  |  |  |  |  | 4 |
| ***California*** |  | 7 |  | 2 |  | 3 |  | 6 |  |  |  |  |  | 9 |
| ***Colorado*** |  | 2 |  |  |  | 1 |  | 1 |  |  |  |  |  | 2 |
| ***Florida*** |  | 2 |  | 1 |  | 1 |  | 1 |  | 1 |  |  |  | 3 |
| ***Georgia*** |  | 2 |  | 1 |  | 1 |  | 2 |  |  |  |  |  | 3 |
| ***Idaho*** |  | 1 |  | 2 |  | 2 |  | 1 |  |  |  |  |  | 3 |
| ***Illinois*** |  | 2 |  | 1 |  |  |  | 3 |  |  |  |  |  | 3 |
| ***Indiana*** |  | 2 |  |  |  | 1 |  | 1 |  |  |  |  |  | 2 |
| ***Iowa*** |  | 1 |  |  |  | 1 |  |  |  |  |  |  |  | 1 |
| ***Kansas*** |  | 2 |  |  |  | 1 |  | 1 |  |  |  |  |  | 2 |
| ***Massachusetts*** |  |  |  | 1 |  |  |  | 1 |  |  |  |  |  | 1 |
| ***Mexico*** |  | 3 |  |  |  |  |  | 3 |  |  |  |  |  | 3 |
| ***Michigan*** |  | 1 |  | 1 |  | 1 |  | 1 |  |  |  |  |  | 2 |
| ***Minnesota*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***Mississippi*** |  | 2 |  |  |  | 2 |  |  |  |  |  |  |  | 2 |
| ***Missouri*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***Nevada*** |  | 4 |  |  |  | 2 |  | 2 |  |  |  |  |  | 4 |
| ***New Jersey*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***New Mexico*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***New York*** |  | 1 |  | 1 |  |  |  | 2 |  |  |  |  |  | 2 |
| ***North Carolina*** |  | 2 |  |  |  | 1 |  |  |  | 1 |  |  |  | 2 |
| ***Ohio*** |  | 2 |  | 1 |  | 1 |  | 1 |  | 1 |  |  |  | 3 |
| ***Oklahoma*** |  | 2 |  |  |  | 1 |  | 1 |  |  |  |  |  | 2 |
| ***Oregon*** |  | 2 |  |  |  | 1 |  | 1 |  |  |  |  |  | 2 |
| ***Pennsylvania*** |  | 2 |  | 2 |  | 1 |  | 2 |  | 1 |  |  |  | 4 |
| ***South Carolina*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***South Dakota*** |  |  |  | 1 |  | 1 |  |  |  |  |  |  |  | 1 |
| ***Tennessee*** |  | 3 |  |  |  | 1 |  | 2 |  |  |  |  |  | 3 |
| ***Texas*** |  | 7 |  | 1 |  | 3 |  | 5 |  |  |  |  |  | 8 |
| ***Utah*** |  | 2 |  | 1 |  | 1 |  | 1 |  |  |  | 1 |  | 3 |
| ***Virginia*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***Washington*** |  | 2 |  |  |  | 1 |  | 1 |  |  |  |  |  | 2 |
| ***West Virginia*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***Wisconsin*** |  | 1 |  |  |  |  |  | 1 |  |  |  |  |  | 1 |
| ***Total Properties*** |  | 68 |  | 16 |  | 30 |  | 49 |  | 4 |  | 1 |  | 84 |

Stockholder Return Graph

# Selected Financial Data

## Summary P&L



|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| ***Consolidated income statement GAAP data(1):*** | **2017** | | | | |  | | **2016** | | | | | |  | **2015** | | | | |  | | **2014 (8)** | | | | | |  | | **2013** | | | | | |
| Total revenue | $ | 2,425,453 | | |  |  | | $ | | 1,118,034 | | |  |  | $ | 1,182,964 | |  | |  | | $ | | 1,102,332 | |  | |  | | $ | | 969,237 | |  | | |
| Operating expenses | 2,224,823 | | | |  |  | | 969,555 | | | | |  |  | 1,004,964 | | |  | |  | | 939,610 | | | |  | |  | | 855,328 | | | |  | | |
| Operating income | 200,630 | | | |  |  | | 148,479 | | | | |  |  | 178,000 | | |  | |  | | 162,722 | | | |  | |  | | 113,909 | | | |  | | |
| Interest income & other income | 1,765 | | | |  |  | | 5,248 | | | | |  |  | 9,502 | | |  | |  | | 9,838 | | | |  | |  | | 3,257 | | | |  | | |
| Interest expense | (8,686 | | | | ) |  | | (897 | | | | | ) |  | (998 | | | ) | |  | | (730 | | | | ) | |  | | (462 | | | | ) | | |
| Income before income taxes | 193,709 | | | |  |  | | 152,830 | | | | |  |  | 186,504 | | |  | |  | | 171,830 | | | |  | |  | | 116,704 | | | |  | | |
| Net income | 485,425 | | | |  |  | | 95,238 | | | | |  |  | 118,457 | | |  | |  | | 104,021 | | | |  | |  | | 70,024 | | | |  | | |
| Net income attributable to Knight-Swift | 484,292 | | | |  |  | | 93,863 | | | | |  |  | 116,718 | | |  | |  | | 102,862 | | | |  | |  | | 69,282 | | | |  | | |
| Basic earnings per share | 4.38 | | | |  |  | | 1.17 | | | | |  |  | 1.43 | | |  | |  | | 1.27 | | | |  | |  | | 0.87 | | | |  | | |
| Diluted earnings per share | 4.34 | | | |  |  | | 1.16 | | | | |  |  | 1.42 | | |  | |  | | 1.25 | | | |  | |  | | 0.86 | | | |  | | |
| Cash dividend per share on Class A common stock | 0.24 | | | |  |  | | 0.24 | | | | |  |  | 0.24 | | |  | |  | | 0.24 | | | |  | |  | | 0.24 | | | |  | | |
| Operating ratio (2) | 91.7 | | | | % |  | | 86.7 | | | | | % |  | 85.0 | | | % | |  | | 85.2 | | | | % | |  | | 88.2 | | | | % | | |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  | | | **December 31,** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| ***Consolidated balance sheet GAAP data(1):*** | | | **2017** | | | | | |  | | **2016** | | | |  | **2015** | | | | |  | | **2014 (8)** | | | | | |  | | **2013** | | | | | | |
| Working capital | | | $ | 313,657 | | |  | |  | | $ | 111,541 | |  |  | $ | 164,090 | |  | |  | | $ | | 145,667 | |  | |  | | $ | | 101,768 | |  | | | |
| Total assets | | | 7,683,442 | | | |  | |  | | 1,078,525 | | |  |  | 1,120,232 | | |  | |  | | 1,082,285 | | | |  | |  | | 807,121 | | | |  | | | |
| Total debt (3) | | | 970,905 | | | |  | |  | | 18,000 | | |  |  | 112,000 | | |  | |  | | 134,400 | | | |  | |  | | 38,000 | | | |  | | | |
| Knight-Swift stockholders' equity | | | 5,237,732 | | | |  | |  | | 786,473 | | |  |  | 738,398 | | |  | |  | | 677,760 | | | |  | |  | | 553,588 | | | |  | | | |

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| ***Operating data (unaudited):(1)*** | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2014 (8)** | | |  | **2013** | | |
| Average revenue per tractor (5) | $ | 184,920 |  |  | $ | 172,185 |  |  | $ | 173,329 |  |  | $ | 171,510 |  |  | $ | 160,186 |
| Average length of haul (miles) | 479 | |  |  | 498 | |  |  | 503 | |  |  | 492 | |  |  | 479 | |
| Non-paid empty miles percentage | 12.6 | | % |  | 12.5 | | % |  | 12.0 | | % |  | 10.1 | | % |  | 10.6 | |
| Average tractors (6) (7) | 9,432 | |  |  | 4,706 | |  |  | 4,793 | |  |  | 4,173 | |  |  | 4,017 | |
| Average trailers(7) | 31,967 | |  |  | 12,288 | |  |  | 11,789 | |  |  | 9,732 | |  |  | 9,405 | |
| Average containers | 9,122 | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |

## Consolidating Tables for Total Revenue and Operating Income

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
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|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **2017** | | | | | |  | **2016** | | | | | |  | **2015** | | | | | |
| ***Total revenue:*** | **(Dollars in thousands)** | | | | | | | | | | | | | | | | | | | |
| Knight – Trucking | $ | 906,484 |  |  | 37.4 | % |  | $ | 900,368 |  |  | 80.5 | % |  | $ | 952,098 |  |  | 80.5 | % |
| Knight – Logistics | $ | 234,155 |  |  | 9.7 | % |  | $ | 226,912 |  |  | 20.3 | % |  | $ | 249,365 |  |  | 21.1 | % |
| Swift – Truckload | $ | 609,112 |  |  | 25.1 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Swift – Dedicated | $ | 200,628 |  |  | 8.3 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Swift – Refrigerated | $ | 254,102 |  |  | 10.5 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Swift – Intermodal | $ | 130,441 |  |  | 5.4 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Subtotal | $ | 2,334,922 |  |  | 96.4 | % |  | $ | 1,127,280 |  |  | 100.8 | % |  | $ | 1,201,463 |  |  | 101.6 | % |
| Non-reportable segments | $ | 115,530 |  |  | 4.8 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Intersegment eliminations | $ | (24,999 | ) |  | (1.2 | )% |  | $ | (9,246 | ) |  | (0.8 | )% |  | $ | (18,499 | ) |  | (1.6 | )% |
| Total revenue | $ | 2,425,453 |  |  | 100.0 | % |  | $ | 1,118,034 |  |  | 100.0 | % |  | $ | 1,182,964 |  |  | 100.0 | % |

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|  | **2017** | | | | | |  | **2016** | | | | | |  | **2015** | | | | | |
| ***Operating income (loss):*** | **(Dollars in thousands)** | | | | | | | | | | | | | | | | | | | |
| Knight – Trucking (1) | $ | 92,298 |  |  | 46.0 | % |  | $ | 136,229 |  |  | 91.7 | % |  | $ | 162,143 |  |  | 91.1 | % |
| Knight – Logistics | $ | 12,600 |  |  | 6.3 | % |  | $ | 12,250 |  |  | 8.3 | % |  | $ | 15,857 |  |  | 8.9 | % |
| Swift – Truckload | $ | 74,924 |  |  | 37.3 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Swift – Dedicated | $ | 22,410 |  |  | 11.2 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Swift – Refrigerated | $ | 13,626 |  |  | 6.8 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Swift – Intermodal | $ | 5,977 |  |  | 3.0 | % |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Subtotal | $ | 221,835 |  |  | 110.6 | % |  | $ | 148,479 |  |  | 100.0 | % |  | $ | 178,000 |  |  | 100.0 | % |
| Non-reportable segments | $ | (21,205 | ) |  | (10.6 | )% |  | $ | — |  |  | — | % |  | $ | — |  |  | — | % |
| Operating income | $ | 200,630 |  |  | 100.0 | % |  | $ | 148,479 |  |  | 100.0 | % |  | $ | 178,000 |  |  | 100.0 | % |
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# Segment Review

## Knight Trucking Segment

We generate revenue in the Knight Trucking segment through dry van, refrigerated, and drayage service offerings. Generally, we are paid a predetermined rate per mile or per load for our trucking services. Additional revenues are generated in all four of our trucking segments (Knight Trucking, Swift Truckload, Swift Dedicated, and Swift Refrigerated) by charging for tractor and trailer detention, loading and unloading activities, dedicated services, and other specialized services, as well as through the collection of fuel surcharge revenue to mitigate the impact of increases in the cost of fuel. The main factors that affect the revenue generated by our trucking segments are rate per mile from our customers, the percentage of miles for which we are compensated, and the number of loaded miles we generate with our equipment.

The most significant expenses in the trucking segments are primarily variable and include fuel and fuel taxes, driving associate-related expenses (such as wages, benefits, training, and recruitment), and costs associated with independent contractors primarily included in "Purchased transportation" in the consolidated income statements. Maintenance expense (which includes costs for replacement tires for our revenue equipment) and insurance and claims expenses have both fixed and variable components. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency, and other factors. The main fixed costs in the trucking segments are depreciation and rent expenses from leasing and acquiring revenue equipment and terminals, as well as compensating our non-driver employees.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands, except per tractor data)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| Total revenue | $ | 906,484 |  |  | $ | 900,368 |  |  | $ | 952,098 |  |  | 0.7 | % |  | (5.4 | ) % | |
| Revenue, net of fuel surcharge and intersegment transactions | $ | 797,706 |  |  | $ | 810,358 |  |  | $ | 830,710 |  |  | (1.6 | ) % |  | (2.4 | ) % | |
| Operating income | $ | 92,298 |  |  | $ | 136,229 |  |  | $ | 162,143 |  |  | (32.2 | ) % |  | (16.0 | ) % | |
| Average revenue per tractor (1) | $ | 174,553 |  |  | $ | 172,185 |  |  | $ | 173,329 |  |  | 1.4 | % |  | (0.7 | ) % | |
| GAAP: Operating ratio (1) | 89.8 | | % |  | 84.9 | | % |  | 83.0 | | % |  | 490 | bps |  | 190 | bps | |
| Non-GAAP: Adjusted Operating Ratio  (1) | 85.3 | | % |  | 82.9 | | % |  | 79.6 | | % |  | 240 | bps |  | 330 | bps | |
| Non-paid empty miles percentage(1) | 12.9 | | % |  | 12.5 | | % |  | 12.0 | | % |  | 40 | bps |  | 50 | bps | |
| Average length of haul (miles)(1) | 483 | |  |  | 498 | |  |  | 503 | |  |  | (3.0 | ) % |  | (1.0 | ) % | |
| Average tractors(1) (2) | 4,570 | |  |  | 4,706 | |  |  | 4,793 | |  |  | (2.9 | ) % |  | (1.8 | ) % | |
| Average trailers(1) (3) | 12,383 | |  |  | 12,288 | |  |  | 11,789 | |  |  | 0.8 | % |  | 4.2 | % | |

*2017 Compared to 2016—*TheKnight Trucking segment total revenue increased $6.1 million, consisting of an $18.8 million increase in fuel surcharge revenue from higher average fuel prices, partially offset by a $12.7 million decrease in revenue, net of fuel surcharge and intersegment transactions. Average revenue per loaded mile increased 4.3% due to an increase in non-contract opportunities and rates during the year. This was partially offset by a 2.4% decrease in average miles per tractor, a difficult driver market, and other network disruptions, thus resulting in a 1.4% increase in average revenue per tractor. Additionally, non-paid empty miles increased, as a percentage of total miles.

Operating ratio and Adjusted Operating Ratio increased, as driving associate-related costs and less gain on sale of equipment continued to present cost headwinds in the Knight Trucking segment, and are continuing to be challenging in 2018. Our focus in the Knight Trucking segment remains on developing our freight network, improving the productivity of our assets, and controlling costs, in areas where we have experienced higher than normal inflation, such as maintenance, driving associate pay, and professional fees.

Knight Trucking depreciation and amortization of property and equipment as a percentage of Knight Trucking revenue, net of fuel surcharge and intersegment transactions remained relatively flat in 2017, compared to 2016. Rising new equipment prices in 2017 caused expense to increase; however, this was offset by a decrease in the segment's tractor to trailer ratio and older fleet.

Knight Trucking purchased transportation expense as a percentage of Knight Trucking revenue, net of fuel surcharge and intersegment transactions increased 80 basis points to 7.9% in 2017. This increase was predominately related to increases in fuel reimbursements to our independent contractors due to the increase in average diesel fuel prices, as well as a 2.8% increase in miles driven by independent contractors.

*2016 Compared to 2015* —Knight Trucking segment total revenue decreased $51.7 million, consisting of a $31.3 million decrease in fuel surcharge revenue driven by lower average fuel prices and a $20.4 million decrease in revenue, net of fuel surcharge and intersegment transactions. Average miles per tractor increased 1.4% in 2016, compared to 2015. However, this improvement was offset by a 1.5% decrease in average revenue per loaded mile, and an increase in non-paid empty miles percentage rate to 12.5% from 12.0%. This negatively affected our tractor productivity, as measured by average revenue per tractor, net of fuel surcharge, which decreased by 0.7% in 2016, compared to 2015.

Operating ratio and Adjusted Operating Ratio increased from 2015 to 2016. Higher net fuel expense, less gain on sale of revenue equipment, and higher driving associate-related expenses were the main factors negatively affecting our 2016 operating results when compared to the prior year.

Depreciation and amortization expense for the Knight Trucking segment, as a percentage of Knight Trucking revenue, was 13.8% in 2016, compared to 12.9% in 2015. Factors contributing to the increase were the decrease in average revenue per tractor, rising new equipment prices, and an increase in our tractor to trailer ratio.

## Knight Logistics Segment

The Knight Logistics segment is less asset-intensive than the trucking segments and is instead dependent upon capable non-driver employees, modern and effective information technology, and third-party capacity providers. Knight Logistics' revenue is generated primarily by its brokerage and intermodal operating units. We also provide logistics, freight management and other non-trucking services to our customers through our Knight Logistics segment. We generate additional revenue by offering specialized logistics solutions (including, but not limited to, origin management, surge volume, disaster relief, special projects, and other logistic needs). Knight Logistics' revenue is mainly affected by the rates we obtain from customers, the freight volumes we ship through third-party capacity providers, and our ability to secure third-party capacity providers to transport customer freight.

The most significant expense in the Knight Logistics segment is the (primarily) variable cost of purchased transportation that we pay to third-party capacity providers (including rail providers), included in "Purchased transportation" in the consolidated income statements. This expense generally varies depending upon truckload and rail capacity, availability of third-party capacity providers, rates charged to customers, and current freight demand and customer shipping needs. Other Knight Logistics operating expenses are generally fixed and primarily include non-driver employee compensation and benefits recorded in "Salaries, wages, and benefits" in the consolidated income statements, and depreciation and amortization expense recorded in "Depreciation and amortization of property and equipment."

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands, except per load data)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| Total revenue | $ | 234,155 |  |  | $ | 226,912 |  |  | $ | 249,365 |  |  | 3.2 | % |  | (9.0 | ) % | |
| Revenue, net of intersegment transactions | $ | 227,952 |  |  | $ | 217,790 |  |  | $ | 231,029 |  |  | 4.7 | % |  | (5.7 | ) % | |
| Operating income | $ | 12,600 |  |  | $ | 12,250 |  |  | $ | 15,857 |  |  | 2.9 | % |  | (22.7 | ) % | |
| Revenue per load – Brokerage only | $ | 1,357 |  |  | $ | 1,275 |  |  | $ | 1,509 |  |  | 6.4 | % |  | (15.5 | ) % | |
| Gross margin percentage (1)  – Brokerage only | 15.4 | | % |  | 16.5 | | % |  | 15.9 | | % |  | (110 | ) bps |  | 60 | bps | |
| GAAP: Operating ratio (1) | 94.6 | | % |  | 94.6 | | % |  | 93.6 | | % |  | — |  |  | 100 | bps | |
| Non-GAAP: Adjusted Operating Ratio  (1) | 94.5 | | % |  | 94.4 | | % |  | 93.1 | | % |  | 10 | bps |  | 130 | bps | |

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| (1) | Defined under "Operating Statistics," above. |

*2017 Compared to 2016 —*TheKnight Logistics segment's total revenue increased $7.2 million, while operating ratio and Adjusted Operating Ratio remained flat. Revenue, net of intersegment transactions increased 11.5% in the Knight brokerage business, which is the largest component of the Knight Logistics segment. This was driven by a 6.4% increase in revenue per load and a 4.7% increase in load volume in the Knight brokerage business. Gross margin percentage in Knight's brokerage business decreased 110 basis points in 2017, compared to 2016, due to an increase in purchased transportation costs.

Depreciation and amortization of property and equipment expense within our Knight Logistics segment increased by $0.7 million from 2016 to 2017, which was primarily due to an increase in equipment leased to third parties. As a percentage of Knight Logistics revenue, net of intersegment transactions, depreciation and amortization of property and equipment remained relatively flat. Absent offsetting growth in our Knight Logistics segments, our expense as a percentage of revenue in this category could increase in the future.

We plan to continue to invest in our Knight Logistics segment, including transportation management technology, which we believe will continue to improve our return on capital, compared with asset-based operations.

*2016 Compared to 2015 —* KnightLogistics revenue decreased, primarily due to declining revenue from the non-Trucking services as we exited our agricultural sourcing business in the first quarter of 2016, as well as due to lower revenue per load from lower fuel surcharge. Revenue in the Knight brokerage business, which is the largest component of our Logistics segment, decreased in 2016 compared to 2015; however, we continued to see load volume growth. A shorter length of haul and lower non-contract pricing offset this load volume growth. We achieved this growth by increasing our Logistics services to our customers through our third-party carriers and rail providers.

Purchased transportation expense within our Knight Logistics segment decreased as expected with the decrease in Knight Logistics revenue; however increased costs associated with exiting our agriculture sourcing business in the first quarter of 2016 partially offset the decrease in purchased transportation expense.

## Swift Segments

*Swift Truckload, Swift Dedicated, and Swift Refrigerated* — We generate revenue in the Swift trucking segments through dry van, refrigerated, dedicated, drayage, flatbed, and cross-border service offerings. Refer to "Knight Trucking Segment," above for discussion of revenues generated and expenses incurred in all of the Company's trucking segments.

*Swift Intermodal* — The Swift Intermodal segment complements our regional operating model, allows us to better serve customers in longer haul lanes, and reduces our investment in fixed assets. Through the Swift Intermodal segment, we generate revenue by moving freight over the rail in our containers and other trailing equipment, combined with revenue for drayage to transport loads between railheads and customer locations. The most significant expense in the Swift Intermodal segment is the (primarily) variable cost of purchased transportation that we pay to third-party capacity providers (including rail providers), included in "Purchased transportation" in the consolidated income statements. Purchased transportation varies as it relates to rail capacity, freight demand, and customer shipping needs. The main fixed costs in the Swift Intermodal segment are depreciation of our containers and chassis, as well as non-driver employee compensation and benefits.

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|  | **September 9, 2017 – December 31, 2017** | | | | | | | | | | | | | | |
|  | **Swift** | | |  | **Swift** | | |  | **Swift** | | |  | **Swift** | | |
|  | **Truckload** | | |  | **Dedicated** | | |  | **Refrigerated** | | |  | **Intermodal** | | |
|  | **(Dollars in thousands, except per tractor and per load data)** | | | | | | | | | | | | | | |
| Total revenue | $ | 609,112 |  |  | $ | 200,628 |  |  | $ | 254,102 |  |  | $ | 130,441 |  |
| Revenue, net of fuel surcharge | $ | 536,848 |  |  | $ | 179,847 |  |  | $ | 229,826 |  |  | $ | 112,865 |  |
| Operating income | $ | 74,924 |  |  | $ | 22,410 |  |  | $ | 13,626 |  |  | $ | 5,977 |  |
| Average revenue per tractor (1) | $ | 196,864 |  |  | $ | 187,928 |  |  | $ | 194,933 |  |  | N/A | |  |
| Average revenue per load (1) | N/A | |  |  | N/A | |  |  | N/A | |  |  | $ | 1,882 |  |
| GAAP: Operating ratio (1) | 87.7 | | % |  | 88.8 | | % |  | 94.6 | | % |  | 95.4 | | % |
| Non-GAAP: Adjusted Operating Ratio (1) | 86.0 | | % |  | 87.5 | | % |  | 94.1 | | % |  | 94.7 | | % |
| Non-paid empty miles percentage(1) | 13.2 | | % |  | 17.4 | | % |  | 7.1 | | % |  | N/A | |  |
| Average length of haul (miles)(1) | 610 | |  |  | 191 | |  |  | 394 | |  |  | N/A | |  |
| Average tractors(1) (2) | 2,727 | |  |  | 957 | |  |  | 1,179 | |  |  | 166 | |  |
| Average trailers (containers for Intermodal) (1) (2) | 11,176 | |  |  | 4,667 | |  |  | 1,353 | |  |  | 9,122 | |  |

*Swift Truckload, Swift Dedicated, and Swift Refrigerated* — For September 9, 2017 through December 31, 2017, the strong freight market positively affected revenue, net of fuel surcharge, in our Swift Truckload, Swift Dedicated, and Swift Refrigerated segments, as evidenced by average revenue per tractor in these segments. Operating and Adjusted Operating Ratios in the Swift trucking segments have been improving, but are facing headwinds largely due to the challenging driver market we are experiencing. Sourcing and retaining high-quality driving associates remains a significant challenge and tractor counts have been accordingly decreasing in these segments. This has increased pressure on our recruiting efforts, as well as driving associate wage expenses. In addition, Swift adopted more stringent hiring practices in October 2017 that negatively impacted operating results in the current period, but are expected to improve operating costs in the future. In an effort to combat these headwinds, we remain disciplined with our cost control initiatives, as well as improving yield, asset efficiency, and return on investment in Swift's trucking segments.

*Swift Intermodal* — For September 9, 2017 through December 31, 2017, we saw improvements in the Swift Intermodal segment's revenue, net of fuel surcharge, driven by a strong revenue per container. This segment's operating and Adjusted Operating Ratios were positively affected by the aforementioned increase in load count as well as improved drayage efficiencies. Additionally, Swift Intermodal benefited from the impact of fuel prices on fuel surcharge revenue. We are focused on improving Swift Intermodal by right-sizing its cost infrastructure, increasing container turns, and driving operational efficiencies.

*Swift Non-reportable Segments*—A $16.7 million impairment related to terminating Swift's ERP system was included within the operating expenses of the Swift non-reportable segments in the September 9, 2017 through December 31, 2017 period.

## Consolidated Operating Expenses

The following tables present certain operating expenses from our consolidated income statements, including each operating expense as a percentage of total revenue and as a percentage of revenue before fuel surcharge. Fuel surcharge revenue can be volatile and is primarily dependent upon the cost of fuel, rather than operation expenses unrelated to fuel. Therefore, we believe that revenue before fuel surcharge is a better measure for analyzing many of our expenses and operating metrics.

**Note:** Our 2017 results of operations include the results of operations of Swift after September 8, 2017. Results for periods on and prior to September 8, 2017 reflect only those of Knight and do not include the results of operations of Swift. Accordingly, comparisons between our 2017 results and prior periods may not be meaningful.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Salaries, wages, and benefits*** | $ | 688,543 |  |  | $ | 333,929 |  |  | $ | 334,069 |  |  | 106.2 | % |  | — |  |
| % of total revenue | 28.4 | | % |  | 29.9 | | % |  | 28.2 | | % |  | (150 bps) |  |  | 170 | bps |
| % of revenue before fuel surcharge | 31.6 | | % |  | 32.5 | | % |  | 31.5 | | % |  | (90 bps) |  |  | 100 | bps |

Salaries, wages, and benefits expense is primarily affected by the total number of miles driven by company driving associates, the rate per mile we pay our company driving associates, and employee benefits, including healthcare, workers' compensation, and other benefits. To a lesser extent, non-driver employee headcount, compensation, and benefits affect this expense. Driving associate wages is the largest component of salaries, wages, and benefits expense. We believe the driver market will continue to remain challenging and that several ongoing market factors have further reduced the pool of available driving associates. Having a sufficient number of qualified driving associates continues to be a major concern and our biggest headwind, although we continue to seek ways to attract and retain qualified driving associates, including investing in technology and terminals that improve the experience of driving associates. We expect driving associate pay to be inflationary, and we anticipate granting additional increases to our driving associates in the near term if supported by increases in the rates we receive from our customers as the market for qualified driving associates continues to tighten.

*2017 Compared to 2016 —* The $354.6 million increase in consolidated salaries, wages, and benefits includes $352.6 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period, which included the wage increase we granted to over-the-road driving associates that was effective upon the 2017 Merger closing. Further, Knight's salaries, wages, and benefits expense increased $2.0 million from 2016 to 2017. In 2017, we recorded $5.6 million in merger-related bonuses and accelerated stock compensation expense recorded upon the close of the 2017 Merger. These items were offset primarily by a 6.9% decrease in miles driven by Knight's company driving associates from 2016 to 2017. As a percentage of revenue before fuel surcharge, Knight's expense remained relatively flat.

*2016 Compared to 2015 —* Salaries, wages, and benefits expense, as a percentage of total revenue, increased to 29.9% in 2016 from 28.2% in 2015. The primary reason for the increase is attributable to lower total revenue in 2016 compared to 2015, as the dollar expense remained relatively flat.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Fuel*** | $ | 274,956 |  |  | $ | 129,696 |  |  | $ | 152,752 |  |  | 112.0 | % |  | (15.1 | %) |
| % of total revenue | 11.3 | | % |  | 11.6 | | % |  | 12.9 | | % |  | (30 bps) |  |  | (130 bps) |  |
| % of revenue before fuel surcharge | 12.6 | | % |  | 12.6 | | % |  | 14.4 | | % |  | — |  |  | (180 bps) |  |

Fuel expense consists primarily of diesel fuel expense for our company-owned tractors and fuel taxes. The primary factors affecting our fuel expense are the cost of diesel fuel, the fuel economy of our equipment, and the miles driven by company driving associates.

Our fuel surcharge programs help to offset increases in fuel prices, but apply only to loaded miles and typically do not offset non-paid empty miles, idle time, and out-of-route miles driven.  Typical fuel surcharge programs involve a computation based on the change in national or regional fuel prices.  These programs may update as often as weekly, but typically require a specified minimum change in fuel cost to prompt a change in fuel surcharge revenue for our trucking segments. Therefore, many of these programs have a time lag between when fuel costs change and when the change is reflected in fuel surcharge revenue.  Due to this time lag, our fuel expense, net of fuel surcharge, negatively impacts our operating income during periods of sharply rising fuel costs and positively impacts our operating income during periods of falling fuel costs. We continue to utilize our fuel efficiency initiatives such as trailer blades, idle-control, managing tractor speeds, updating our fleet with more fuel-efficient engines, managing fuel procurement, and driving associate training programs that we believe contribute to controlling our fuel expense.

*2017 Compared to 2016 —* The $145.3 million increase in consolidated fuel expense includes $131.2 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's fuel expense increased $14.1 million from 2016 to 2017. As a percentage of revenue before fuel surcharge, consolidated fuel expense was consistent, despite higher average United States diesel fuel prices in 2017 of $2.65, compared to 2016 of $2.30. Higher diesel fuel prices were offset by a 6.9% decrease in miles driven by Knight's company driving associates.

*2016 Compared to 2015 —* Fuel expense decreased, as a percentage of total revenue, to 11.6% in 2016, from 12.9% in 2015, as the US National Average Diesel Fuel price decreased by 14.9% in 2016. Fuel prices were falling throughout 2015 and bottomed out in the first quarter of 2016, before rising in each of the remaining quarters of 2016.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Operations and maintenance*** | $ | 164,307 |  |  | $ | 76,246 |  |  | $ | 80,855 |  |  | 115.5 | % |  | (5.7 | %) |
| % of total revenue | 6.8 | | % |  | 6.8 | | % |  | 6.8 | | % |  | — |  |  | — |  |
| % of revenue before fuel surcharge | 7.5 | | % |  | 7.4 | | % |  | 7.6 | | % |  | 10 | bps |  | (20 bps) |  |

Operations and maintenance expense consists of direct operating expenses, equipment maintenance, and tire expense.  Operations and maintenance expenses are affected by the age of our company-owned fleet of tractors and trailers. We expect the driver market to remain competitive throughout 2018, which could increase future driving associate development and recruiting costs and negatively affect our operations and maintenance expense. We expect to begin refreshing our Knight and Swift tractor fleets in the coming quarters, and anticipate that maintenance costs will gradually decrease as we reduce the average age of our fleet.

*2017 Compared to 2016 —* The $88.1 million increase in operations and maintenance expense includes $81.6 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Increasing maintenance expense is negatively impacting performance in our Swift Truckload, Swift Dedicated, and Swift Refrigerated segments. Knight's operations and maintenance expense increased $6.5 million from 2016 to 2017. With rising equipment prices and a soft used equipment market, Knight extended its tractor trade cycle beginning in the third quarter of 2016. Accordingly, equipment maintenance expense increased from 2016 to 2017 as Knight has been maintaining its tractors for comparatively longer periods. As a percentage of revenue before fuel surcharge, consolidated operations and maintenance expense was relatively consistent. Direct operating expenses, including operating supplies and driving associate development and recruiting costs also increased from 2016 to 2017.

*2016 Compared to 2015 —* Operations and maintenance expense, as a percentage of total revenue, remained flat at 6.8% in 2016 and 2015. Operations and maintenance expense as a percentage of revenue before fuel surcharge, decreased to 7.4% in 2016 from 7.6% in 2015, due to improved cost control measures at Knight. Direct operating expenses decreased as a percentage of total revenue before fuel surcharge in 2016 due to lower operating supply costs and drayage related operating costs.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Insurance and claims*** | $ | 95,199 |  |  | $ | 34,441 |  |  | $ | 33,632 |  |  | 176.4 | % |  | 2.4 | % |
| % of total revenue | 3.9 | | % |  | 3.1 | | % |  | 2.9 | | % |  | 80 | bps |  | 20 | bps |
| % of revenue before fuel surcharge | 4.4 | | % |  | 3.3 | | % |  | 3.2 | | % |  | 110 | bps |  | 10 | bps |

Insurance and claims expense consists of premiums for liability, physical damage, and cargo, and will vary based upon the frequency and severity of claims, as well as our level of self-insurance, and premium expense. In recent years, insurance carriers have raised premiums for many businesses, including transportation companies, and as a result, our insurance and claims expense could increase in the future, or we could raise our self-insured retention when our policies are renewed or replaced. Insurance and claims expense also varies based on the number of miles driven by company driving associates and independent contractors, the frequency and severity of accidents, trends in development factors used in actuarial accruals, and developments in large, prior-year claims.

*2017 Compared to 2016 —* The $60.8 million increase in consolidated insurance and claims expense includes $60.0 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's insurance and claims expense increased $0.8 million from 2016 to 2017. As a percentage of revenue before fuel surcharge, consolidated insurance and claims expense increased by 110 basis points. The increase is predominately associated with Swift's higher self-retention limits assumed following the close of the 2017 Merger, which may cause our insurance and claims expense to fluctuate more in future periods.

*2016 Compared to 2015 —* Insurance and claims expense, as a percentage of total revenue, increased to 3.1% in 2016, from 2.9% in 2015. Insurance and claims expense as a percentage of total revenue before fuel surcharge increased slightly to 3.3% in 2016 from 3.2% in 2015, and increased slightly on a per mile basis, year-over-year. The increase was partly due to the decrease in total revenue in 2016 from 2015, combined with slightly higher premium costs and changes in the severity of claims.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Operating taxes and licenses*** | $ | 40,544 |  |  | $ | 18,728 |  |  | $ | 18,911 |  |  | 116.5 | % |  | (1.0 | %) |
| % of total revenue | 1.7 | | % |  | 1.6 | | % |  | 1.6 | | % |  | 10 | bps |  | — |  |
| % of revenue before fuel surcharge | 1.9 | | % |  | 1.8 | | % |  | 1.8 | | % |  | 10 | bps |  | — |  |

Operating taxes and licenses include state franchise taxes, federal highway use taxes, property taxes, vehicle license and registration fees, fuel and mileage taxes, among others. The expense is impacted by changes in the tax rates and registration fees associated with our tractor fleet and regional operating facilities.

*2017 Compared to 2016 —* The $21.8 million increase in consolidated operating taxes and licenses includes $21.7 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's operating taxes and licenses expense remained relatively flat from 2016 to 2017. As a percentage of revenue before fuel surcharge, consolidated operating taxes and licenses remained relatively flat from 2016 to 2017.

*2016 Compared to 2015 —* Operating taxes and licenses expense, as a percentage of total revenue, remained relatively flat in 2016 and 2015.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | | |
| ***Communications*** | $ | 10,691 |  |  | $ | 4,182 |  |  | $ | 4,095 |  |  | 155.6 | % |  | 2.1 | % | |
| % of total revenue | 0.4 | | % |  | 0.4 | | % |  | 0.3 | | % |  | — |  |  | 10 | bps | |
| % of revenue before fuel surcharge | 0.5 | | % |  | 0.4 | | % |  | 0.4 | | % |  | 10 | bps |  | — |  | |

Communications expense is comprised of costs associated with our tractor and trailer tracking systems, information technology systems, and phone systems.

*2017 Compared to 2016 —* The $6.5 million increase in consolidated communications expense includes $6.2 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's communications expense slightly increased from 2016 to 2017, but remained flat as a percentage of revenue before fuel surcharge, as did consolidated communications expense.

*2016 Compared to 2015 —* Communications expense, as a percentage of total revenue, remained flat at 0.4% for 2016 and 2015.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Depreciation and amortization of property and equipment*** | $ | 193,733 |  |  | $ | 115,660 |  |  | $ | 110,523 |  |  | 67.5 | % |  | 4.6 | % | |
| % of total revenue | 8.0 | | % |  | 10.3 | | % |  | 9.3 | | % |  | (230 bps) |  |  | 100 | bps | |
| % of revenue before fuel surcharge | 8.9 | | % |  | 11.2 | | % |  | 10.4 | | % |  | (230 bps) |  |  | 80 | bps | |

Depreciation relates primarily to our owned tractors, trailers, ELDs and other communication units, and other similar assets. Changes to this fixed cost are generally attributed to increases or decreases to company-owned equipment, the relative percentage of owned versus leased equipment, and fluctuations in new equipment purchase prices, which have historically been precipitated in part by new or proposed federal and state regulations (such as the EPA engine emissions requirements relating to post-2014 model tractors and the California trailer efficiency requirements). Depreciation can also be affected by the cost of used equipment that we sell or trade and the replacement of older used equipment. Management periodically reviews the condition, average age, and reasonableness of estimated useful lives and salvage values of our equipment and considers such factors in light of our experience with similar assets, used equipment market conditions, and prevailing industry practice.

*2017 Compared to 2016 —* The $78.1 million increase in consolidated depreciation and amortization of property and equipment includes $77.1 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's depreciation and amortization of property and equipment increased slightly in 2017 compared to 2016.

Knight extended its trade cycle for its tractors and reduced its average tractor count, which reduced capital expenditures. Knight has been proactive in managing its preventative maintenance program with a goal of partially mitigating the additional maintenance cost commonly associated with a slightly older fleet. We expect to begin refreshing Knight and Swift tractor fleets through replacement units in the coming quarters, and anticipate that depreciation and amortization costs will increase in future quarters.

*2016 Compared to 2015 —* Consolidated depreciation and amortization of property and equipment, as a percentage of total revenue, increased from 2015 to 2016, in part due to the decrease in fuel surcharge revenue. As a percentage of revenue before fuel surcharge, depreciation and amortization increased to 11.2% in 2016 from 10.4% in 2015. This increase was due to a combination of the decrease in revenue before fuel surcharge, driven by the decrease in average revenue per tractor in our Knight Trucking segment, and the decrease in revenue from our less asset-intensive Knight Logistics segment, driven by the decrease in revenue per load and reduced non-Trucking service revenue.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Amortization of intangibles*** | $ | 13,372 |  |  | $ | 500 |  |  | $ | 500 |  |  | 2,574.4 | % |  | — |  |
| % of total revenue | 0.6 | | % |  | — | | % |  | — | | % |  | 60 | bps |  | — |  |
| % of revenue before fuel surcharge | 0.6 | | % |  | — | | % |  | — | | % |  | 60 | bps |  | — |  |

Amortization of intangibles primarily relates to intangible assets identified with the 2017 Merger. See Note 4 and Note 11 in Part II, Item 8, of this Annual Report for further details regarding the Company's intangible assets, historical amortization, and anticipated future amortization.

*2017 Compared to 2016 —* The $12.9 million increase in consolidated amortization of intangibles is entirely attributed to Swift's amortization of the intangible assets identified with the 2017 Merger.

*2016 Compared to 2015 —* There was no change in amortization of intangibles from 2015 to 2016.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | | |
| ***Rental expense*** | $ | 74,224 |  |  | $ | 5,036 |  |  | $ | 4,695 |  |  | 1,373.9 | % |  | 7.3 | % | |
| % of total revenue | 3.1 | | % |  | 0.5 | | % |  | 0.4 | | % |  | 260 | bps |  | 10 | bps | |
| % of revenue before fuel surcharge | 3.4 | | % |  | 0.5 | | % |  | 0.4 | | % |  | 290 | bps |  | 10 | bps | |

Rental expense consists primarily of payments for tractors and trailers financed with operating leases. The primary factors affecting the expense are the size our revenue equipment fleet and the relative percentage of owned versus leased equipment.

*2017 Compared to 2016 —* The $69.2 million increase in consolidated rental expense includes $69.0 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's rental expense increased slightly from 2016 to 2017, but remained flat as a percentage of revenue before fuel surcharge. Consolidated rental expense as a percentage of revenue before fuel surcharge increased, as Swift historically obtained a larger portion of its equipment through operating leases, as compared to Knight.

*2016 Compared to 2015 —* As a percentage of revenue before fuel surcharge, rental expense was consistent from 2015 to 2016.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | | |
| ***Purchased transportation*** | $ | 594,113 |  |  | $ | 233,863 |  |  | $ | 246,864 |  |  | 154.0 | % |  | (5.3 | %) | |
| % of total revenue | 24.5 | | % |  | 20.9 | | % |  | 20.9 | | % |  | 360 | bps |  | — |  | |
| % of revenue before fuel surcharge | 27.3 | | % |  | 22.7 | | % |  | 23.3 | | % |  | 460 | bps |  | (60 bps) |  | |

Purchased transportation expense is comprised of (1) payments to independent contractors in our trucking operations and (2) payments to third-party capacity providers related to logistics, freight management, and non-trucking services in our logistics and intermodal businesses.  Purchased transportation is generally affected by capacity in the market as well changes in fuel prices. As capacity tightens, our payments to third-party capacity providers and to independent contractors tend to increase. Additionally, as fuel prices increase, payments to third-party capacity providers and independent contractors increase.

*2017 Compared to 2016 —* The $360.3 million increase in consolidated purchased transportation includes $347.3 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's purchased transportation expense increased by $13.0 million and increased as a percentage of revenue before fuel surcharge by 140 basis points. US diesel fuel prices were higher on average in 2017 at $2.65, compared to 2016 at $2.30, which increased our payments made to independent contractors for fuel reimbursements. Additionally, there was a 2.8% increase in miles driven by independent contractors from 2016 to 2017. In 2017, we also incurred $0.1 million in driver-incentive expenses related to the 2017 Merger.

We expect purchased transportation will increase as a percentage of revenue if we are successful in continuing to grow our logistics businesses, as well as Swift Intermodal. The increase could be partially offset if independent contractors exit the market with recent regulatory changes or further increased if we need to pay independent contractors more to stay with us in light of such regulatory changes. Third-party capacity has recently tightened, and we anticipate that this trend will continue into 2018.

*2016 Compared to 2015 —* Purchased transportation expense, as a percentage of total revenue, remained flat at 20.9% for 2016 and 2015. The overall decrease in this category is primarily due to lower fuel surcharge equivalent payments to independent contractors and third-party capacity providers.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Impairments*** | $ | 16,844 |  |  | $ | — |  |  | $ | — |  |  | — |  |  | — |  |
| % of total revenue | 0.7 | | % |  | — | | % |  | — | | % |  | 70 | bps |  | — |  |
| % of revenue before fuel surcharge | 0.8 | | % |  | — | | % |  | — | | % |  | 80 | bps |  | — |  |

*2017 Compared to 2016 —* During the third quarter of 2017, we terminated the implementation of Swift's ERP system, resulting in a pre-tax impairment loss of $16.7 million. During the fourth quarter of 2017, management reassessed the fair value of certain tractors within one of the Company's leasing subsidiaries, determining that there was a pre-tax impairment loss of $0.1 million.

*2016 Compared to 2015 —* There were no impairments in 2016 or 2015.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Miscellaneous operating expenses, net*** | $ | 41,781 |  |  | $ | 17,274 |  |  | $ | 18,068 |  |  | 141.9 | % |  | (4.4 | %) |
| % of total revenue | 1.7 | | % |  | 1.5 | | % |  | 1.5 | | % |  | 20 | bps |  | — |  |
| % of revenue before fuel surcharge | 1.9 | | % |  | 1.7 | | % |  | 1.7 | | % |  | 20 | bps |  | — |  |

Miscellaneous operating expenses, net primarily consists of legal and professional services fees, general and administrative expenses, other costs, as well as gain on sales of equipment.

*2017 Compared to 2016 —* The $24.5 million increase in consolidated miscellaneous operating expenses, net includes $19.2 million of expense from Swift's results for the September 9, 2017 through December 31, 2017 period. Knight's miscellaneous operating expenses, net increased $5.3 million from 2016 to 2017, and increased 50 basis points as a percentage of revenue before fuel surcharge. The increase is primarily due to Knight's $4.3 million decrease in gain on sales of equipment, as Knight extended the trade cycle of its tractors in the latter half of 2016 and throughout 2017, resulting in fewer units disposed of in 2017 compared to 2016. The used tractor market continued to be soft throughout much of 2017, but showed signs of strengthening in the latter half of the year. We believe the used equipment market will continue to help offset other miscellaneous operating expenses, but not to the extent Knight and Swift experienced in prior years, and we expect a similar environment throughout 2018. We additionally recorded $0.9 million in 2017 for merger-related statutory filings associated with the 2017 Merger.

*2016 Compared to 2015 —* Miscellaneous operating expenses decreased from 2015 to 2016 due to decreased legal expenses. This was partially offset by a decrease in gain on sale of used equipment to $8.1 million in 2016, from $15.3 million in 2015, as a result of a soft used equipment resale market prevalent in 2016.

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|  | **2017** | | |  | **2016** | | |  | **2015** | | |  | **2017 vs. 2016** | |  | **2016 vs. 2015** | |
|  | **(Dollars in thousands)** | | | | | | | | | | |  | **Increase (decrease)** | | | | |
| ***Merger-related costs*** | $ | 16,516 |  |  | $ | — |  |  | $ | — |  |  | — |  |  | — |  |
| % of total revenue | 0.7 | | % |  | — | | % |  | — | | % |  | 70 | bps |  | — |  |
| % of revenue before fuel surcharge | 0.8 | | % |  | — | | % |  | — | | % |  | 80 | bps |  | — |  |

*2017 Compared to 2016 —* Direct and incremental costs associated with the 2017 Merger were recorded on a separate line item in the consolidated income statement in 2017 as "Merger-related costs." These costs were primarily incurred for legal and professional fees associated with the transaction. See other merger-related operating expenses associated with the 2017 Merger discussed within "Salaries, wages, and, benefits" and "Miscellaneous operating expenses, net" above.

*2016 Compared to 2015 —* Not applicable.