

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

FORM 10-Q

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

For the quarterly period ended **September 30, 2019**

or

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

For the transition period from _____ to _____

Commission File Number: 001-35007



Knight-Swift Transportation Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-5589597

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

**20002 North 19th Avenue
Phoenix, Arizona 85027**

(Address of principal executive offices and zip code)

(602) 269-2000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock \$0.01 Par Value	KNX	New York Stock Exchange

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer

☒

Accelerated filer

☐

Non-accelerated filer

☐

Smaller reporting company

☐

Emerging growth company

☐

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

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

There were 170,645,523 shares of the registrant's common stock outstanding as of October 30, 2019.

QUARTERLY REPORT ON FORM 10-Q

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KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

QUARTERLY REPORT ON FORM 10-Q

GLOSSARY OF TERMS

The following glossary provides definitions for certain acronyms and terms used in this Quarterly Report on Form 10-Q. These acronyms and terms are specific to our company, commonly used in our industry, or are otherwise frequently used throughout our document.

Term	Definition
Knight-Swift/the Company/Management/We/Us/Our	Unless otherwise indicated or the context otherwise requires, these terms represent Knight-Swift Transportation Holdings Inc. and its subsidiaries.
2017 Merger	The September 8, 2017 merger of Knight and Swift, pursuant to which we became Knight-Swift Transportation Holdings Inc.
2017 Debt Agreement	The Company's Credit Agreement, entered into on September 29, 2017, consisting of the Revolver and Term Loan, which are defined below.
2018 RSA	Fourth Amendment to the Amended and Restated Receivables Sales Agreement, entered into on July 11, 2018 by Swift Receivables Company II, LLC with unrelated financial entities.
Abilene	Abilene Motor Express, Inc. and its related entities
Abilene Acquisition	See description of the Abilene Acquisition included in Notes 1 and 4 of the footnotes to the condensed consolidated financial statements, within Part I, Item 1 of this Quarterly Report.
Annual Report	Annual Report on Form 10-K
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Board	Knight-Swift's Board of Directors
DOE	United States Department of Energy
EPS	Earnings Per Share
ESPP	Knight-Swift Transportation Holdings Inc. Amended and Restated 2012 Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FLSA	Fair Labor Standards Act
GAAP	United States Generally Accepted Accounting Principles
Knight	Unless otherwise indicated or the context otherwise requires, this term represents Knight Transportation, Inc. and its subsidiaries prior to the 2017 Merger
Quarterly Report	Quarterly Report on Form 10-Q
QTD	Quarter-to-date
Revolver	Revolving line of credit under the 2017 Debt Agreement
RSU	Restricted Stock Unit
SEC	United States Securities and Exchange Commission
Swift	Unless otherwise indicated or the context otherwise requires, this term represents Swift Transportation Company and its subsidiaries prior to the 2017 Merger.
Term Loan	The Company's term loan under the 2017 Debt Agreement
TRP	Transportation Resource Partners
US	The United States of America
YTD	Year-to-date

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2019	December 31, 2018
	(In thousands, except per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 93,996	\$ 82,486
Cash and cash equivalents – restricted	40,831	46,888
Restricted investments, held-to-maturity, amortized cost	10,034	17,413
Trade receivables, net of allowance for doubtful accounts of \$17,424 and \$16,355, respectively	513,906	601,228
Contract balance – revenue in transit	17,332	15,602
Prepaid expenses	73,052	67,011
Assets held for sale	57,395	39,955
Income tax receivable	42,538	6,943
Other current assets	51,884	29,706
Total current assets	900,968	907,232
Gross property and equipment	3,671,073	3,305,944
Less: accumulated depreciation and amortization	(824,144)	(693,107)
Property and equipment, net	2,846,929	2,612,837
Operating lease right-of-use assets	192,504	—
Goodwill	2,918,995	2,919,176
Intangible assets, net	1,391,157	1,420,919
Other long-term assets	71,672	51,721
Total assets	\$ 8,322,225	\$ 7,911,885
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 145,155	\$ 117,883
Accrued payroll and purchased transportation	116,610	126,464
Accrued liabilities	162,913	151,500
Claims accruals – current portion	146,990	160,044
Finance lease liabilities and long-term debt – current portion	36,719	58,672
Operating lease liabilities – current portion	88,371	—
Total current liabilities	696,758	614,563
Revolving line of credit	290,000	195,000
Long-term debt – less current portion	364,766	364,590
Finance lease liabilities – less current portion	59,048	71,248
Operating lease liabilities – less current portion	111,568	—
Accounts receivable securitization	204,723	239,606
Claims accruals – less current portion	199,745	201,327
Deferred tax liabilities	774,683	739,538
Other long-term liabilities	15,641	23,294
Total liabilities	2,716,932	2,449,166
Commitments and contingencies (Notes 11 and 12)		
Stockholders' equity:		
Preferred stock, par value \$0.01 per share; 10,000 shares authorized; none issued	—	—
Common stock, par value \$0.01 per share; 500,000 shares authorized; 170,573 and 172,844 shares issued and outstanding as of September 30, 2019 and December 31, 2018, respectively.	1,705	1,728
Additional paid-in capital	4,263,039	4,242,369

Retained earnings	1,338,374	1,216,852
Total Knight-Swift stockholders' equity	5,603,118	5,460,949
Noncontrolling interest	2,175	1,770
Total stockholders' equity	5,605,293	5,462,719
Total liabilities and stockholders' equity	<u>\$ 8,322,225</u>	<u>\$ 7,911,885</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
(In thousands, except per share data)				
Revenue:				
Revenue, excluding trucking fuel surcharge	\$ 1,090,210	\$ 1,212,020	\$ 3,309,920	\$ 3,545,083
Trucking fuel surcharge	110,312	134,591	337,220	404,343
Total revenue	1,200,522	1,346,611	3,647,140	3,949,426
Operating expenses:				
Salaries, wages, and benefits	375,491	381,174	1,119,700	1,114,252
Fuel	148,699	162,832	438,447	470,617
Operations and maintenance	85,108	87,362	247,311	260,660
Insurance and claims	46,792	52,701	145,724	164,975
Operating taxes and licenses	20,970	21,986	64,333	67,807
Communications	4,913	5,041	14,956	15,783
Depreciation and amortization of property and equipment	106,884	97,708	310,759	287,319
Amortization of intangibles	10,759	10,695	32,144	31,891
Rental expense	28,726	39,806	97,146	140,384
Purchased transportation	251,337	329,338	781,959	989,333
Impairments	—	—	2,182	—
Miscellaneous operating expenses	17,890	13,688	64,634	44,139
Total operating expenses	1,097,569	1,202,331	3,319,295	3,587,160
Operating income	102,953	144,280	327,845	362,266
Other (expenses) income:				
Interest income	1,007	889	3,000	2,191
Interest expense	(7,790)	(7,528)	(22,294)	(21,424)
Other income, net	3,335	3,327	12,575	6,487
Other (expenses) income, net	(3,448)	(3,312)	(6,719)	(12,746)
Income before income taxes	99,505	140,968	321,126	349,520
Income tax expense	24,524	34,624	78,523	80,816
Net income	74,981	106,344	242,603	268,704
Net income attributable to noncontrolling interest	(362)	(463)	(841)	(1,136)
Net income attributable to Knight-Swift	\$ 74,619	\$ 105,881	\$ 241,762	\$ 267,568
Earnings per share:				
Basic	\$ 0.44	\$ 0.60	\$ 1.41	\$ 1.50
Diluted	\$ 0.44	\$ 0.60	\$ 1.40	\$ 1.50
Dividends declared per share:				
	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.18
Weighted average shares outstanding:				
Basic	170,504	176,849	171,841	177,816
Diluted	171,290	177,750	172,524	178,793

See accompanying notes to the condensed consolidated financial statements (unaudited).

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Year-to-Date September 30,	
	2019	2018
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 242,603	\$ 268,704
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment, and intangibles	342,903	319,210
Gain on sale of property and equipment	(27,908)	(26,857)
Impairments	2,182	—
Deferred income taxes	33,102	48,045
Non-cash lease expense	97,307	—
Other adjustments to reconcile net income to net cash provided by operating activities	(3,559)	930
Increase (decrease) in cash resulting from changes in:		
Trade receivables	93,870	(17,191)
Income tax receivable	(35,581)	13,878
Accounts payable	(7,824)	(10,528)
Accrued liabilities and claims accrual	(10,743)	(5,434)
Operating lease liabilities	(97,677)	—
Other assets and liabilities	(16,263)	(10,112)
Net cash provided by operating activities	612,412	580,645
Cash flows from investing activities:		
Proceeds from maturities of held-to-maturity investments	18,695	20,625
Purchases of held-to-maturity investments	(11,410)	(18,933)
Proceeds from sale of property and equipment, including assets held for sale	178,107	150,596
Purchases of property and equipment	(635,957)	(502,738)
Expenditures on assets held for sale	(14,515)	(25,426)
Net cash, restricted cash, and equivalents invested in acquisitions	(1,885)	(101,693)
Other cash flows from investing activities	(1,455)	10,074
Net cash used in investing activities	(468,420)	(467,495)
Cash flows from financing activities:		
Repayment of finance leases and long-term debt	(88,962)	(39,309)
Borrowings on revolving line of credit, net	95,000	110,000
Borrowings under accounts receivable securitization	150,000	35,000
Repayment of accounts receivable securitization	(185,000)	(105,000)
Proceeds from common stock issued	10,621	12,369
Repurchases of the Company's common stock	(86,892)	(100,000)
Dividends paid	(31,184)	(32,287)
Other cash flows from financing activities	(2,739)	(4,270)
Net cash used in financing activities	(139,156)	(123,497)
Net increase (decrease) in cash, restricted cash, and equivalents	4,836	(10,347)
Cash, restricted cash, and equivalents at beginning of period	130,976	151,733
Cash, restricted cash, and equivalents at end of period	\$ 135,812	\$ 141,386

See accompanying notes to condensed consolidated financial statements (unaudited).

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
Condensed Consolidated Statements of Cash Flows (Unaudited) — Continued

	Year-to-Date September 30,	
	2019	2018
	(In thousands)	
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 21,825	\$ 20,186
Income taxes	77,386	16,146
Non-cash investing and financing transactions:		
Equipment acquired included in accounts payable	\$ 47,351	\$ 51,893
Equipment sales receivables	21,570	720
Financing provided to independent contractors for equipment sold	4,565	4,867
Transfers from property and equipment to assets held for sale	114,011	88,544
Right-of-use assets obtained in exchange for new operating lease liabilities	9,285	—
Property and equipment obtained in exchange for new financing lease liabilities	55,230	—

<i>Reconciliation of Cash, Restricted Cash, and Equivalents:</i>	September 30, 2019	December 31, 2018	September 30, 2018	December 31, 2017
	(In thousands)			
<i>Condensed Consolidated Balance Sheets</i>				
Cash and cash equivalents	\$ 93,996	\$ 82,486	\$ 91,335	\$ 76,649
Cash and cash equivalents – restricted ¹	40,831	46,888	48,460	73,657
Other long-term assets ¹	985	1,602	1,591	1,427
<i>Condensed Consolidated Statements of Cash Flows</i>				
Cash, restricted cash, and equivalents	\$ 135,812	\$ 130,976	\$ 141,386	\$ 151,733

¹ Reflects cash and cash equivalents that are primarily restricted for claims payments.

See accompanying notes to condensed consolidated financial statements (unaudited).

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Knight- Swift Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
	(In thousands, except per share data)						
Balances – December 31, 2018	172,844	\$ 1,728	\$ 4,242,369	\$ 1,216,852	\$ 5,460,949	\$ 1,770	\$ 5,462,719
Common stock issued to employees	523	5	8,368		8,373		8,373
Common stock issued to the Board	19	—	531		531		531
Common stock issued under ESPP	61	1	1,716		1,717		1,717
Company shares repurchased	(2,874)	(29)		(86,863)	(86,892)		(86,892)
Shares withheld – RSU settlement				(2,304)	(2,304)		(2,304)
Employee stock-based compensation expense			10,055		10,055		10,055
Cash dividends paid and dividends accrued (\$0.06 per share)				(31,073)	(31,073)		(31,073)
Net income attributable to Knight-Swift				241,762	241,762		241,762
Distribution to noncontrolling interest						(436)	(436)
Net income attributable to noncontrolling interest						841	841
Balances – September 30, 2019	170,573	\$ 1,705	\$ 4,263,039	\$ 1,338,374	\$ 5,603,118	\$ 2,175	\$ 5,605,293
	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Knight- Swift Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
	(In thousands, except per share data)						
Balances – December 31, 2017	177,998	\$ 1,780	\$ 4,219,214	\$ 1,016,738	\$ 5,237,732	\$ 2,638	\$ 5,240,370
Common stock issued to employees	642	6	10,281		10,287		10,287
Common stock issued to the Board	19	—	774		774		774
Common stock issued under ESPP	33	1	1,307		1,308		1,308
Company shares repurchased	(3,076)	(31)		(99,969)	(100,000)		(100,000)
Shares withheld – RSU settlement				(2,550)	(2,550)		(2,550)
Employee stock-based compensation expense			7,220		7,220		7,220
Cash dividends paid and dividends accrued (\$0.06 per share)				(32,100)	(32,100)		(32,100)
Net income attributable to Knight-Swift				267,568	267,568		267,568
Distribution to noncontrolling interest						(1,255)	(1,255)
Net income attributable to noncontrolling interest						1,136	1,136
Net acquisition of remaining ownership interest, previously noncontrolling			(1,873)		(1,873)		(1,873)
Net cumulative-effect adjustment from adopting ASC Topic 606				5,301	5,301		5,301
Balances – September 30, 2018	175,616	\$ 1,756	\$ 4,236,923	\$ 1,154,988	\$ 5,393,667	\$ 2,519	\$ 5,396,186

See accompanying notes to condensed consolidated financial statements (unaudited).

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
Condensed Consolidated Statements of Stockholders' Equity (Unaudited) — Continued

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Knight- Swift Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
	(In thousands, except per share data)						
Balances – June 30, 2019	170,378	\$ 1,703	\$ 4,254,297	\$ 1,274,067	\$ 5,530,067	\$ 1,953	\$ 5,532,020
Common stock issued to employees	176	2	4,668		4,670		4,670
Common stock issued under ESPP	19	—	588		588		588
Employee stock-based compensation expense			3,486		3,486		3,486
Cash dividends paid and dividends accrued (\$0.06 per share)				(10,312)	(10,312)		(10,312)
Net income attributable to Knight-Swift				74,619	74,619		74,619
Distribution to noncontrolling interest						(140)	(140)
Net income attributable to noncontrolling interest						362	362
Balances – September 30, 2019	170,573	\$ 1,705	\$ 4,263,039	\$ 1,338,374	\$ 5,603,118	\$ 2,175	\$ 5,605,293

	Common Stock		Additional Paid-in Capital	Retained Earnings	Total Knight- Swift Stockholders' Equity	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Par Value					
	(In thousands, except per share data)						
Balances – June 30, 2018	178,633	\$ 1,786	\$ 4,232,672	\$ 1,159,687	\$ 5,394,145	\$ 2,239	\$ 5,396,384
Common stock issued to employees	44	—	904		904		904
Common stock issued under ESPP	15	1	530		531		531
Company shares repurchased	(3,076)	(31)		(99,969)	(100,000)		(100,000)
Shares withheld – RSU settlement				(21)	(21)		(21)
Employee stock-based compensation expense			2,817		2,817		2,817
Cash dividends paid and dividends accrued (\$0.06 per share)				(10,590)	(10,590)		(10,590)
Net income attributable to Knight-Swift				105,881	105,881		105,881
Distribution to noncontrolling interest						(183)	(183)
Net income attributable to noncontrolling interest						463	463
Balances – September 30, 2018	175,616	\$ 1,756	\$ 4,236,923	\$ 1,154,988	\$ 5,393,667	\$ 2,519	\$ 5,396,186

See accompanying notes to condensed consolidated financial statements (unaudited).

Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1 — Introduction and Basis of Presentation

Certain acronyms and terms used throughout this Quarterly Report are specific to the Company, commonly used in the trucking industry, or are otherwise frequently used throughout this document. Definitions for these acronyms and terms are provided in the "Glossary of Terms," available in the front of this document.

Description of Business

Knight-Swift is a transportation solutions provider, headquartered in Phoenix, Arizona. During the year-to-date September 30, 2019 period, the Company operated an average of 18,939 tractors (comprised of 16,420 company tractors and 2,519 independent contractor tractors) and 58,394 trailers within the Trucking segment. Additionally, the Company operated an average of 656 tractors and 9,863 containers in the Intermodal segment. The Company's three reportable segments are Trucking, Logistics, and Intermodal.

Segment Realignment

During the first quarter of 2019, the Company reorganized its reportable segments to reflect management's revised reporting structure. Under this revised reporting structure, the Company's three reportable segments, are as follows:

- The Trucking segment now includes the results of the previously-reported Knight Trucking, Swift Truckload, Swift Dedicated, and Swift Refrigerated segments.
- The Logistics segment now includes the results of the Knight brokerage and Swift logistics businesses which were previously included within the Knight Logistics and Swift non-reportable segments, respectively.
- The Intermodal segment now includes the results of the previously-reported Swift Intermodal segment and the results of the Knight intermodal business, which was previously included in the Knight Logistics segment.

The non-reportable segments include support services that Swift's subsidiaries provide to customers and independent contractors (including repair and maintenance shop services, equipment leasing, and insurance), certain driving academy activities, as well as certain legal settlements and accruals, amortization of intangibles related to the 2017 Merger and certain acquisitions, and certain other corporate expenses. Additionally, the non-reportable segments now include Knight's equipment leasing and warranty services to independent contractors and trailer parts manufacturing, which were previously reported within the Knight Logistics segment.

Abilene Acquisition

On March 16, 2018, the Company acquired all of the issued and outstanding equity interests of Abilene. Abilene's trucking and logistics businesses are included under the respective segments. Please refer to Note 4 for more information about the Abilene Acquisition.

Basis of Presentation

The condensed consolidated financial statements and footnotes included in this Quarterly Report include the accounts of Knight-Swift Transportation Holdings Inc. and its subsidiaries and should be read in conjunction with the consolidated financial statements and footnotes included in Knight-Swift's 2018 Annual Report. In management's opinion, these condensed consolidated financial statements were prepared in accordance with GAAP and include all adjustments necessary (consisting of normal recurring adjustments) for the fair statement of the periods presented.

With respect to transactional/durational data, references to years pertain to calendar years. Similarly, references to quarters pertain to calendar quarters.

Note regarding comparability — The reported results do not include the results of operations of Abilene and its subsidiaries on and prior to its acquisition by the Company on March 16, 2018 in accordance with the accounting treatment applicable to the transaction.

Changes in Presentation

Changes in presentation associated with adopting accounting pronouncements are included in Note 2.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Beginning in the second quarter of 2019, the Company presents "Contract balance – revenue in transit" as a separate line item on the condensed consolidated balance sheets to improve visibility. The balance was previously disclosed within the footnotes to the condensed consolidated financial statements. Prior period amounts have been reclassified out of "Trade receivables, net" to align with the current period presentation.

Beginning in the second quarter of 2019, the Company presents fuel surcharge revenue generated within only its Trucking segment within "Trucking fuel surcharge" in the condensed consolidated statements of comprehensive income. Fuel surcharge revenue generated within the remaining segments is included in "Revenue, excluding trucking fuel surcharge." Prior period amounts have been reclassified to align with the current period presentation.

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. At the same time, operating expenses generally increase, and tractor productivity of the Company's 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. These factors typically lead to lower operating profitability, as compared to other parts of the year. Additionally, beginning in the latter half of the third quarter and continuing into the fourth quarter, the Company typically experiences surges pertaining to holiday shopping trends toward delivery of gifts purchased over the Internet, as well as the length of the holiday season (consumer shopping days between Thanksgiving and Christmas). However, cyclical changes in the trucking industry, including imbalances in supply and demand, can override the seasonality faced in the industry.

Note 2 — Recently Adopted Accounting Pronouncements

Leases (ASC Topic 842): ASU 2016-02 — Leases

Note: Required annual disclosures regarding ASC Topic 842 are included in Note 9.

Summary of the Standard — In February 2016, the FASB issued ASU 2016-02, which established the new ASC Topic 842, *Leases*, standard. The new standard requires lessees to recognize assets and liabilities arising from both operating and financing leases on the balance sheet. Lessor accounting for leases is largely unaffected. For public business entities, the new standard was effective for fiscal years beginning after December 15, 2018. Companies may apply the amendments in ASU 2016-02 using a modified retrospective approach with an adjustment to retained earnings as of either the beginning of the current year ("ASC Topic 840 Comparative Approach") or the beginning of the earliest period presented ("ASC Topic 842 Comparative Approach").

Adoption Method and Approach — The Company adopted ASC Topic 842 on January 1, 2019 by applying the ASC Topic 840 Comparative Approach, resulting in the recognition of right-of-use assets and lease liabilities related to its operating leases. Comparative information related to periods prior to January 1, 2019 continues to be reported under the legacy guidance in ASC Topic 840.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Practical Expedients — As permitted under ASU 2016-02 (and related ASUs), management elected to apply the package of practical expedients:

- **Lease Identification** — An entity need not reassess whether any expired or existing contracts are or contain leases.
- **Lease Classification** — An entity need not reassess the lease classification for any expired or existing leases (for example, all existing leases that were classified as operating leases in accordance with ASC Topic 840 are now classified as operating leases, and all existing leases that were classified as capital leases in accordance with ASC Topic 840 are now classified as finance leases).
- **Initial Direct Costs** — An entity need not reassess initial direct costs for any existing leases.

Adoption Date Impact — The required disclosures regarding the adoption date impact of ASC Topic 842 on the condensed consolidated balance sheet are presented below.

	December 31, 2018	Opening Balance Adjustments	January 1, 2019
	(in thousands)		
Assets			
Prepaid expenses ²	\$ 67,011	\$ (948)	\$ 66,063
Operating lease right-of-use assets ¹	—	280,527	280,527
Other long-term assets ²	51,721	(1)	51,720
Liabilities			
Accounts payable ²	\$ 117,883	\$ (437)	\$ 117,446
Accrued liabilities ²	151,500	(4,168)	147,332
Operating lease liabilities – current portion ¹	—	119,963	119,963
Operating lease liabilities – less current portion ¹	—	168,232	168,232
Deferred tax liabilities ³	739,538	—	739,538
Other long-term liabilities ²	23,294	(4,012)	19,282

¹ These new line items on the condensed consolidated balance sheets represent the capitalization of the Company's operating leases as lessee.

² The effect of adopting ASC Topic 842 reflects certain reclassifications to adjust the right-of-use assets.

³ Amounts are reflective of deferred tax impacts from capitalizing the Company's operating leases.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Current Period Impact of Adoption — The required quantitative disclosures regarding the current period impact of adopting ASC Topic 842 on the condensed consolidated balance sheet are presented below.

	September 30, 2019		
	As Reported under ASC Topic 842	If Reported Under ASC Topic 840	Effect of Change to ASC Topic 842
	(in thousands)		
Assets			
Prepaid expenses ²	\$ 73,052	\$ 73,285	\$ (233)
Gross property and equipment ⁴	3,671,073	3,646,681	24,392
Accumulated depreciation and amortization ⁴	(824,144)	(822,296)	(1,848)
Operating lease right-of-use assets ¹	192,504	—	192,504
Other long-term assets ²	71,672	71,673	(1)
Liabilities			
Accounts payable ²	\$ 145,155	\$ 146,642	\$ (1,487)
Accrued liabilities ²	162,913	166,404	(3,491)
Finance lease liabilities and long-term debt – current portion ⁴	36,719	14,175	22,544
Operating lease liabilities – current portion ¹	88,371	—	88,371
Operating lease liabilities – less current portion ¹	111,568	—	111,568
Deferred tax liabilities ³	774,683	774,736	(53)
Other long-term liabilities ²	15,641	18,279	(2,638)

¹ Refer to tabular footnote (1) under "Adoption Date Impact" above.

² Refer to tabular footnote (2) under "Adoption Date Impact" above.

³ Refer to tabular footnote (3) under "Adoption Date Impact" above.

⁴ Amounts represent reclassification of operating lease liabilities to finance lease liabilities, as the Company became reasonably certain to purchase certain revenue equipment off of operating leases during the year-to-date period ended September 30, 2019.

ASU 2018-13: Fair Value Measurement (Topic 820): Disclosure Framework – Change to the Disclosure Requirements for Fair Value Measurement

Summary of the Standard — The amendments in this ASU modify several disclosure requirements under ASC Topic 820. These changes include removing the disclosure requirements related to the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and adding disclosure requirements about the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. Additionally, the amendments remove the phrase "at a minimum" from the codification clarifying that materiality should be considered when evaluating disclosure requirements.

Current Period Impact of Adoption — The Company began excluding immaterial disclosures regarding fair value measurements from its Quarterly Reports and Annual Reports during the first quarter of 2019.

Other ASUs

There were various other ASUs that became effective during year-to-date September 30, 2019, which did not have a material impact on the Company's results of operations, financial position, cash flows, or disclosures.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED
Note 3 — Recently Issued Accounting Pronouncements

Date Issued	Reference	Description	Adoption Date and Method	Financial Statement Impact
July 2019	2019-07: Codification Updates to SEC Sections — <i>Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10532, Disclosure Update and Simplification, and Nos. 33-10231 and 33-10442, Investment Company Reporting Modernization, and Miscellaneous Updates</i> ¹	The amendments in this ASU update several topics of the ASC to incorporate changes required by guidance made effective by SEC Final Rule Nos. 33-10532, 33-10231, and 33-10442. These final rules included, among other things, extending the disclosure requirement of presenting changes in stockholders' equity for both current and comparative interim periods, changing the title of the income statement to statement of comprehensive income, and disclosing the dividend per share amount for each class of stock.	July 2019, prospective adoption	Presentation and disclosure impact only
May 2019	2019-05: Financial Instruments —Credit Losses, Topic 326; <i>Targeted Transition Relief</i> ²	The amendments provide entities that hold instruments within the scope of Subtopic 326-20 with the option to irrevocably elect the fair value option in Subtopic 825-10. This fair value option election does not apply to instruments classified as held-to-maturity debt securities.	January 2020, Adoption method varies by amendment	Currently under evaluation, but not expected to be material
April 2019	2019-04: Codification Improvements to Topic 326, <i>Financial Instruments —Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments</i> ²	The amendments address certain issues related to the implementation of ASU 2016-01 – Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, ASU 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and ASU 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments update the treatment of credit losses for accrued interest receivables and related recoveries, remove the prohibition of using projections of future interest rate environments when using a discounted cash flow method to measure expected credit losses, as well as outline other targeted improvements that clarify language and intent, better define scope and improve cross references, among others. The amendments in the ASU are effective for fiscal years beginning after December 15, 2019 and early adoption is permitted.	January 2020, Adoption method varies by amendment	Currently under evaluation, but not expected to be material
March 2019	2019-01: Leases (Topic 842) – <i>Codification Improvements</i> ³	The amendments address certain issues related to the implementation of ASC Topic 842, including; determining the fair value of the underlying asset by lessors that are not manufacturers or dealers, presentation on the statement of cash flows for sales type and direct financing leases, and transition disclosures related to ASC Topic 250. The transition disclosures related to ASC Topic 250 clarify that entities are not required to disclose the impacts of adopting ASC Topic 842 on net income or related per share amounts in both interim and annual reporting periods. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019.	January 2019, Adoption method varies by amendment	The Company will not disclose the impacts of adopting ASC Topic 842 on net income or related per share amounts.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Date Issued	Reference	Description	Adoption Date and Method	Financial Statement Impact
June 2016	2016-13: Financial Instruments – Credit Losses (Topic 326) – <i>Measurement of Credit Losses on Financial Instruments</i> ²	The purpose of this ASU is to amend the current incurred loss impairment methodology with a new methodology that reflects expected credit losses and requires a broader range of reasonable and supportable information to inform credit loss estimates. This is the final credit accounting standard, out of a series, with detailed guidance on the new loss reserve model, Current Expected Credit Loss ("CECL"). Among other provisions, the amendments in the ASU require a financial asset (or group of assets) measured at amortized cost basis to be presented at the net amount expected to be collected. Entities are no longer required to wait until a loss is probable to record it.	January 2020, Adoption method varies by amendment	Currently under evaluation; not expected to be material

1 Adopted during the third quarter of 2019.

2 Management has established an implementation team to evaluate and implement the ASUs related to ASC Topic 326, commonly referred to as the CECL amendments. The diagnostic phase of assessing the financial and business impacts of implementing the standard is underway and includes identifying potential short-term and long-term financing receivables, determining credit quality indicators, analyzing the impact on systems (if any), and developing a preliminary assessment. Based upon the procedures performed in the diagnostic phase, management anticipates that the following key considerations will impact the Company's accounting and reporting under the new standard:

- identification and assessment of receivable pools,
- identification of characteristics that drive credit risk to identify financing receivable pools, and
- determining new/changed estimates and management judgments.

The Company is not anticipating significant changes in accounting, reporting, business processes, or policies and controls as a result of implementing the standard. Based on the information currently available from the diagnostic phase, the impact on the financial statements is not expected to be material. Since management is continuing to evaluate the impact of the standard, disclosures around these preliminary assessments are subject to change.

3 Adopted during the first quarter of 2019.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Note 4 — Abilene Acquisition

Information about the accounting treatment for the Abilene Acquisition including details of the transaction, determination of the total fair value consideration, and allocation of the purchase price at the end of the measurement period are included in the Company's Quarterly Report for the quarter ended March 31, 2019.

The following unaudited pro forma information combines the historical operations of Knight-Swift and Abilene giving effect to the Abilene Acquisition and related transactions as if they had been consummated on January 1, 2018, the beginning of the comparative periods presented.

	Year-to-Date September 30,
	2018 (in thousands, except per share data)
Total revenue	\$ 3,969,067
Net income attributable to Knight-Swift	268,013
Earnings per share – diluted	1.50

The unaudited pro forma condensed combined financial information has been presented for comparative purposes only and includes certain adjustments such as recognition of assets acquired at estimated fair values and related depreciation and amortization, elimination of transaction costs incurred by Knight-Swift and Abilene during the periods presented that were directly related to the Abilene Acquisition, and related income tax effects. The acquisition-related expenses that the Company incurred from the Abilene Acquisition are eliminated from presentation of the unaudited pro forma net income presented above.

The unaudited pro forma condensed combined financial information does not purport to represent the actual results of operations that Knight-Swift and Abilene would have achieved had the companies been combined during the periods presented in the unaudited pro forma condensed combined financial statements and is not intended to project the future results of operations that the combined company may achieve after the identified transactions. The unaudited pro forma condensed combined financial information does not reflect any cost savings that may be realized as a result of the Abilene Acquisition and also does not reflect any restructuring or integration-related costs to achieve those potential cost savings.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED
Note 5 — Restricted Investments, Held-to-Maturity

The following tables present the cost or amortized cost, gross unrealized gains and temporary losses, and estimated fair value of the Company's restricted investments, held-to-maturity:

	September 30, 2019			
	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Temporary Losses	
(In thousands)				
US corporate securities	\$ 10,034	\$ 8	\$ (2)	\$ 10,040
Restricted investments, held-to-maturity	\$ 10,034	\$ 8	\$ (2)	\$ 10,040

	December 31, 2018			
	Cost or Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Temporary Losses	
	(In thousands)			
US corporate securities	\$ 15,296	\$ 1	\$ (16)	\$ 15,281
Municipal bonds	1,082	—	—	1,082
Negotiable certificate of deposits	1,035	—	—	1,035
Restricted investments, held-to-maturity	\$ 17,413	\$ 1	\$ (16)	\$ 17,398

As of September 30, 2019, the contractual maturities of the restricted investments, held-to-maturity, were one year or less. There were 5 securities and 20 securities that were in an unrealized loss position for less than twelve months as of September 30, 2019 and December 31, 2018, respectively. The Company did not recognize any impairment losses related to its held-to-maturity investments during the quarter or year-to-date periods ended September 30, 2019 or 2018, respectively.

Refer to Note 17 for additional information regarding fair value measurements of the Company's investments.

Note 6 — Assets Held for Sale

The Company expects to sell its assets held for sale, which primarily consist of revenue equipment, within the next twelve months. Revenue equipment held for sale totaled \$57.4 million and \$40.0 million as of September 30, 2019 and December 31, 2018, respectively. Net gains on disposals, including disposals of property and equipment classified as assets held for sale, reported in "Miscellaneous operating expenses" in the condensed consolidated statements of comprehensive income, were:

- \$8.6 million and \$11.0 million for the quarter-to-date periods ended September 30, 2019 and 2018, respectively.
- \$27.9 million and \$27.6 million for the year-to-date periods ended September 30, 2019 and 2018, respectively.

The Company did not recognize any impairment losses related to assets held for sale during the quarter or year-to-date periods ended September 30, 2019 or 2018.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED
Note 7 — Goodwill and Other Intangible Assets
Goodwill

The changes in the carrying amount of goodwill were as follows:

	(In thousands)
Goodwill, balance at December 31, 2018	\$ 2,919,176
Adjustments relating to deferred tax assets	(229)
Abilene Acquisition ¹	48
Goodwill, balance at September 30, 2019	\$ 2,918,995

- ¹ The goodwill associated with the Abilene Acquisition was allocated to the Trucking segment and was adjusted for equipment losses and claims incurred prior to the acquisition.

The Company did not record any goodwill impairments during the quarter or year-to-date periods ended September 30, 2019 or 2018.

Other Intangible Assets

Other intangible asset balances were as follows:

	September 30, 2019	December 31, 2018
	(In thousands)	
Customer relationships and non-compete:		
Gross carrying amount ¹	\$ 840,482	\$ 838,100
Accumulated amortization	(89,225)	(57,081)
Customer relationships and non-compete, net	\$ 751,257	\$ 781,019
Trade names:		
Gross carrying amount	639,900	639,900
Intangible assets, net	\$ 1,391,157	\$ 1,420,919

- ¹ The \$2.4 million increase was attributed to a small acquisition that occurred during the third quarter of 2019.

As of September 30, 2019, management anticipates that the composition and amount of amortization associated with intangible assets will be \$10.7 million for the remainder of 2019, \$43.0 million for each of the years 2020 and 2021, \$42.9 million in 2022, and \$42.6 million in 2023. Actual amounts of amortization expense may differ from estimated amounts due to additional intangible asset acquisitions, impairment of intangible assets, accelerated amortization of intangible assets, and other events.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Note 8 — Income Taxes

Effective Tax Rate — The effective tax rate for both quarter-to-date September 30, 2019 and September 30, 2018 was 24.6%. The Company recognized discrete items relating to the partial release of its reserve for uncertain tax positions during the quarter ended September 30, 2019. The Company recognized a discrete item relating to a benefit from an accounting method change during the quarter ended September 30, 2018.

The year-to-date September 30, 2019 and September 30, 2018 effective tax rates were 24.5% and 23.1%, respectively. The Company recognized a discrete item relating to the partial release of its reserve for uncertain tax positions during the year-to-date period ended September 30, 2019. The Company also recognized discrete items relating to stock compensation deductions, a benefit from an accounting method change, and a favorable audit settlement of nondeductible penalties during the year-to-date September 30, 2018 period.

Valuation Allowance — The Company has not established a valuation allowance as it has been determined that, based upon available evidence, a valuation allowance is not required. Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. All other deferred tax assets are expected to be realized and utilized by continued profitability in future periods.

Unrecognized Tax Benefits — During the quarter-to-date September 30, 2019 period, the Company reduced its reserve by \$1.0 million for uncertain tax positions relating to various federal deductions. During the year-to-date September 30, 2019 period, the Company reduced its reserve by \$2.7 million for uncertain tax positions relating to various federal credits and state credits and deductions. Management believes it is reasonably possible that a decrease of up to \$0.6 million in unrecognized tax benefits relating to federal deductions may be necessary within the next twelve months.

Interest and Penalties — Accrued interest and penalties related to unrecognized tax benefits as of September 30, 2019 and December 31, 2018 were approximately \$0.6 million and \$1.4 million, respectively.

Tax Examinations — Certain of the Company's subsidiaries are currently under examination by various state jurisdictions for tax years ranging from 2014 through 2017. At the completion of these examinations, management does not expect any adjustments that would have a material impact on the Company's effective tax rate. Years subsequent to 2013 remain subject to examination.

Note 9 — Leases**September 30, 2019 (ASC Topic 842 Disclosures)****Lessee Disclosures for Lease Accounting under ASC Topic 842**

Accounting Policy — Management evaluates the Company's leases based on the underlying asset groups. The assets currently underlying the Company's leases include revenue equipment (primarily tractors and trailers), real estate (primarily buildings, office space, land, and drop yards), as well as technology and other equipment that supports business operations. Management's significant assumptions and judgments include the determination of the discount rate (discussed below), as well as the determination of whether a contract contains a lease (specifically with respect to whether the Company's drop yard contracts contain identified assets).

- **Lease Term** — The Company's leases generally have lease terms corresponding to the useful lives of the underlying assets. Revenue equipment leases have fixed payment terms based on the passage of time, which is typically three to five years for tractors and five to seven years for trailers. Certain finance leases for revenue equipment contain renewal or fixed price purchase options. Real estate leases, excluding drop yards, generally have varying lease terms between five and fifteen years and may include renewal options. Drop yards include month-to-month leases, as well as leases with varying lease terms generally ranging from two to five years.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Options to renew or purchase the underlying assets are considered in the determination of the right-of-use asset and lease liability once reasonably certain of exercise.

- **Portfolio Approach** — The Company typically leases its revenue equipment under master lease agreements, which contain general terms, conditions, definitions, representations, warranties and other general language, while the specific contract provisions are contained within the various individual lease schedules that fall under a master lease agreement. Each individual leased asset within a lease schedule is similar in nature (i.e. all tractors or all trailers) and has identical contract provisions to all of the other individual leased assets within the same lease schedule (such as the contract provisions discussed above). Management has elected to apply the portfolio approach to its revenue equipment leases, as accounting for its revenue equipment under the portfolio approach would not be materially different from separately accounting for each individual underlying asset as a lease. Each individual real estate and other lease is accounted for at the individual asset level.
- **Nonlease components** — Management has elected to combine its nonlease components (such as fixed charges for common area maintenance, real estate taxes, utilities, and insurance) with lease components for each class of underlying asset, as applicable, as the nonlease components in the Company's lease contracts typically are not material. These nonlease components are usually present within the Company's real estate leases. The Company's assets are generally insured by umbrella policies, in which the premiums change from one policy period to the next, making them variable in nature. Accordingly, these insurance costs are excluded from the Company's calculation of right-of-use assets and corresponding lease liabilities.
- **Short-term lease exemption** — Management has elected to apply the short-term lease exemption to all asset groups. Accordingly, leases with terms of twelve months or less are not capitalized and continue to be expensed on a straight-line basis over the term of the lease. This primarily affects the Company's drop yards and corresponding temporary structures on those drop yards. To a lesser extent, certain short-term leases for revenue equipment, technology, and other assets are affected.
- **Discount rate** — The Company uses the rate implicit in the lease, when readily determinable. Otherwise the Company's incremental borrowing rate is applied. Due to the unique structure of the Company's revenue equipment leases, management believes that the rate implicit in the lease is readily determinable for such leases and the implicit rate is used. The Company's use of the implicit rate (rather than the incremental borrowing rate) for its revenue equipment leases does not materially change the Company's financial position or financial results either by financial statement caption or in total. The implicit interest rate is not readily determinable for the Company's real estate and other leases. As such, management applies the Company's incremental borrowing rate, which is defined by GAAP as the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The Company's incremental borrowing rate is based on the results of an independent third-party valuation.
- **Residual values** — The Company's finance leases are typically structured with balloon payments at the end of the lease term equal to the residual value the Company is contracted to receive from certain equipment manufacturers upon sale or trade back to the manufacturers. If the Company does not receive proceeds of the contracted residual value from the manufacturer, the Company is still obligated to make the balloon payment at the end of the lease term.

In connection with certain revenue equipment operating leases, the Company issues residual value guarantees, which provide that if the Company does not purchase the leased equipment from the lessor at the end of the lease term, then the Company is liable to the lessor for an amount equal to the shortage (if any) between the proceeds from the sale of the equipment and an agreed value. To the extent management believes any manufacturer will refuse or be unable to meet its obligation, the Company recognizes additional rental expense to the extent the fair market value at the lease termination is expected to be less than the obligation to the lessor. Proceeds from the sale of equipment under the Company's operating leases generally exceed the payment obligation on substantially all operating leases. Although the Company typically owes certain amounts to its lessors at the end of its revenue equipment leases, the Company's equipment manufacturers have corresponding guarantees back to the Company as to the buyback value of the units.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Lease Cost — The components of the Company's lease cost were as follows:

	Quarter-to-Date September 30, 2019	Year-to-Date September 30, 2019
	(in thousands)	
Operating lease cost:	\$ 28,178	\$ 95,372
Short-term lease cost ¹	638	2,044
Sublease income	(90)	(270)
Rental expense	28,726	97,146
Finance lease cost:		
Amortization of property and equipment	4,661	17,114
Interest expense	677	2,449
Total finance lease cost	5,338	19,563
Total operating and finance lease cost	\$ 34,064	\$ 116,709

¹ Short-term lease cost includes leases with a term of 12 months or less, as well as month-to-month and variable lease costs.

Lease Liability Calculation Assumptions — The assumptions underlying the calculation of the Company's right-of-use assets and lease liabilities are disclosed below.

	September 30, 2019	
	Operating	Finance
Revenue equipment leases		
Weighted average remaining lease term	2.5 years	2.0 years
Weighted average discount rate	2.6%	3.0%
Real estate and other leases		
Weighted average remaining lease term	13.0 years	1.2 years
Weighted average discount rate	4.2%	2.0%

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Maturity Analysis of Lease Liabilities (as Lessee) — Future minimum lease payments for all noncancelable leases were:

	September 30, 2019	
	Operating	Finance
	(In thousands)	
Remainder of 2019	\$ 28,122	\$ 25,253
2020	81,021	15,769
2021	44,363	30,798
2022	26,692	18,508
2023	13,726	1,342
Thereafter	26,302	9,553
Future minimum lease payments	220,226	101,223
Less: amounts representing interest	(20,287)	(5,456)
Present value of minimum lease payments	199,939	95,767
Less: current portion	(88,371)	(36,719)
Lease liabilities – less current portion	\$ 111,568	\$ 59,048

Supplemental Cash Flow Lease Disclosures — The following table sets forth cash paid for amounts included in the measurement of lease liabilities:

	Year-to-Date September 30, 2019
	(In thousands)
Operating cash flows from operating leases	\$ 97,677
Operating cash flows from finance leases	2,329
Financing cash flows from finance leases	88,962

Refer to Note 15 for information regarding the leasing transactions between the Company and related parties.

Lessor Disclosures for Lease Accounting under ASC Topic 842

The Company's wholly-owned financing subsidiaries lease revenue equipment to the Company's independent contractors under operating leases, which generally have terms between three and four years, and include renewal and purchase options. These leases also include variable charges associated with miles driven in excess of the stipulated allowable miles in the contract, which are accounted for separately and presented in the table below. Lease classification is determined based on minimum rental receipts per the agreement, including residual value guarantees, when applicable, as well as receivables due to the Company upon default or cross-default. When independent contractors default on their leases, the Company typically re-leases the equipment to other independent contractors. As such, future lease receipts reflect original leases and re-leases.

The owned assets underlying the Company's leases as lessor primarily consist of revenue equipment. As of September 30, 2019, the gross carrying value of such revenue equipment underlying these leases was \$85.3 million and accumulated depreciation was \$17.0 million. Depreciation is calculated on a straight-line basis down to the residual value, as applicable, over the estimated useful life of the equipment. Depreciation expense for these assets was \$4.1 million for the third quarter of 2019 and \$11.8 million for year-to-date September 30, 2019.

Additionally, the Company periodically leases out real estate for use by third parties, some of which are subleases. These leases have varying terms, and may include renewal options.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Management's significant assumptions and judgments include the determination of the amount the Company expects to derive from the underlying asset at the end of the lease term, as well as whether a contract contains a lease.

Lease Revenue and Rental Income — The components of the Company's lease revenue are included in "Revenue, excluding trucking fuel surcharge" and the Company's rental income is included in "Other income, net" in the condensed consolidated statements of comprehensive income. These amounts are disclosed in the table below.

	Quarter-to-Date September 30, 2019	Year-to-Date September 30, 2019
	(in thousands)	
Operating lease revenue	\$ 10,209	\$ 34,244
Variable lease revenue	568	1,678
Total lease revenue ¹	<u>\$ 10,777</u>	<u>\$ 35,922</u>
Rental income ²	\$ 2,503	\$ 7,443

1 Primarily represents operating revenue earned by the Company's financing subsidiaries for leasing equipment to third-party independent contractors.

2 Represents non-operating income earned from leasing real estate to third parties.

Maturity Analysis of Future Lease Revenues (as Lessor) — Future minimum lease revenues for all noncancelable leases were:

	September 30, 2019
	(In thousands)
Remainder of 2019	\$ 13,820
2020	42,735
2021	29,664
2022	15,628
2023	4,682
Thereafter	1,943
Future minimum lease revenues	<u>\$ 108,472</u>

Refer to Note 15 for information regarding the leasing transactions between the Company and related parties.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED
December 31, 2018 (ASC Topic 840 Disclosures)

Note: The ASC Topic 840 Comparative Approach for adopting ASC Topic 842 requires companies to provide disclosures for all periods that continue to be in accordance with ASC Topic 840. Refer to Note 2 for more information regarding the Company's adoption methods and impact of adoption for ASC Topic 842.

The Company finances a portion of its revenue equipment under capital and operating leases and certain terminals under operating leases.

Capital Leases (as Lessee) — The Company's capital leases are typically structured with balloon payments at the end of the lease term equal to the residual value the Company is contracted to receive from certain equipment manufacturers upon sale or trade back to the manufacturers. If the Company does not receive proceeds of the contracted residual value from the manufacturer, the Company is still obligated to make the balloon payment at the end of the lease term. Certain leases contain renewal or fixed price purchase options. The present value of obligations under capital leases is included under "Capital lease obligations and long-term debt – current portion" and "Capital lease obligations – less current portion" in the condensed consolidated balance sheets. As of December 31, 2018, the leases were collateralized by revenue equipment with a cost of \$154.3 million and accumulated amortization of \$34.2 million. Amortization of the equipment under capital leases is included in "Depreciation and amortization of property and equipment" in the Company's condensed consolidated statements of comprehensive income.

Operating Leases (as Lessee) — Operating leases generally include tractors, trailers, chassis, and facilities. Substantially all lease agreements for revenue equipment have fixed payment terms based on the passage of time. The tractor lease agreements generally stipulate maximum miles and provide for mileage penalties for excess miles. These leases generally run for a period of three to five years for tractors and five to seven years for trailers.

Operating and Capital Leases (as Lessee) — Annual future minimum lease payments for all noncancelable leases were:

	December 31, 2018	
	Operating	Capital
	(In thousands)	
2019	\$ 123,380	\$ 61,285
2020	79,088	15,843
2021	42,441	30,845
2022	24,693	18,528
2023	11,728	1,347
Thereafter	25,403	9,572
Future minimum lease payments	\$ 306,733	\$ 137,420
Less: amounts representing interest		(7,921)
Present value of minimum lease payments		129,499
Less: current portion		(58,251)
Capital lease obligations – less current portion		\$ 71,248

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Operating Leases (as Lessor) — The Company's wholly-owned financing subsidiaries lease revenue equipment to the Company's independent contractors under operating leases. Additionally, the Company periodically leases out facilities for use by third-parties. Annual future minimum lease payments receivable under operating leases for the periods noted below were:

	December 31, 2018
	(In thousands)
2019	\$ 54,080
2020	37,694
2021	22,991
2022	8,343
2023	13
Thereafter	—
Future minimum lease payments receivable	\$ 123,121

Lease classification is determined based on minimum rental payments per the agreement, including residual value guarantees, when applicable, as well as receivables due to the Company upon default or cross-default. When independent contractors default on their leases, the Company typically re-leases the equipment to other independent contractors. As such, future minimum lease payments reflect original leases and re-leases.

Note 10 — Accounts Receivable Securitization

The 2018 RSA is a secured borrowing that is collateralized by the Company's eligible receivables, for which the Company is the servicing agent. The Company's receivable originator subsidiaries sell, on a revolving basis, undivided interests in all of their eligible accounts receivable to Swift Receivables Company II, LLC ("SRCII") who in turn sells a variable percentage ownership in those receivables to the various purchasers. The Company's eligible receivables are included in "Trade receivables, net of allowance for doubtful accounts" in the condensed consolidated balance sheets. As of September 30, 2019, the Company's eligible receivables generally have high credit quality, as determined by the obligor's corporate credit rating.

The 2018 RSA is subject to fees, various affirmative and negative covenants, representations and warranties, and default and termination provisions customary for facilities of this type. The Company was in compliance with these covenants as of September 30, 2019. Collections on the underlying receivables by the Company are held for the benefit of SRCII and the various purchasers and are unavailable to satisfy claims of the Company and its subsidiaries.

The following table summarizes the key terms of the 2018 RSA (dollars in thousands):

	2018 RSA
Effective date	July 11, 2018
Final maturity date	July 9, 2021
Borrowing capacity	\$325,000
Accordion option ¹	\$175,000
Unused commitment fee rate ²	20 to 40 basis points
Program fees on outstanding balances ³	one-month LIBOR + 80 to 100 basis points

¹ The accordion option increases the maximum borrowing capacity, subject to participation of the purchasers.

² The 2018 RSA commitment fee rate is based on the percentage of the maximum borrowing capacity utilized.

³ The 2018 RSA program fee is based on the Company's consolidated total net leverage ratio.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Availability under the 2018 RSA is calculated as follows:

	September 30, 2019	December 31, 2018
	(In thousands)	
Borrowing base, based on eligible receivables	\$ 280,000	\$ 325,000
Less: outstanding borrowings ¹	(205,000)	(240,000)
Less: outstanding letters of credit	(70,841)	(70,900)
Availability under accounts receivable securitization facilities	<u>\$ 4,159</u>	<u>\$ 14,100</u>

¹ Outstanding borrowings are included in "Accounts receivable securitization" in the condensed consolidated balance sheets, offset by \$0.3 million and \$0.4 million of deferred loan costs as of September 30, 2019 and December 31, 2018, respectively. Interest accrued on the aggregate principal balance at a rate of 2.9% and 3.2% as of September 30, 2019 and December 31, 2018, respectively.

Program fees and unused commitment fees are recorded in "Interest expense" in the condensed consolidated statements of comprehensive income. The Company incurred accounts receivable securitization program fees of \$1.8 million and \$2.0 million during the quarter-to-date September 30, 2019 and 2018 periods, respectively. The Company incurred accounts receivable securitization program fees of \$5.6 million and \$6.0 million during the year-to-date September 30, 2019 and 2018 periods, respectively.

Refer to Note 17 for information regarding the fair value of the 2018 RSA.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Note 11 — Commitments

Purchase Commitments

As of September 30, 2019, the Company had outstanding commitments to purchase revenue equipment of \$139.6 million in the remainder of 2019 (\$117.8 million of which were tractor commitments) and none thereafter. These purchases may be financed through any combination of operating leases, finance leases, debt, proceeds from sales of existing equipment, and cash flows from operations.

As of September 30, 2019, the Company had outstanding commitments to purchase facilities and non-revenue equipment of \$6.5 million in the remainder of 2019, \$1.1 million in 2020 through 2021, \$0.1 million in 2022 and none thereafter. Factors such as costs and opportunities for future terminal expansions may change the amount of such expenditures.

TRP Commitments

Since 2003, Knight has entered into partnership agreements with entities that make privately-negotiated equity investments, including Transportation Resource Partners, Transportation Resource Partners III, LP, TRP Capital Partners, LP, TRP CoInvest Partners, (NTI) I, LP, TRP CoInvest Partners, (QLS) I, LP, and TRP CoInvest Partners, FFR I, LP. In these agreements, Knight committed to invest in return for an ownership percentage. During the first quarter of 2019, Knight entered into and fulfilled a \$5.0 million commitment to invest in TRP CoInvest FFR. There were no other material changes related to the TRP commitments during the year-to-date period ended September 30, 2019.

Note 12 — Contingencies and Legal Proceedings

Legal Proceedings

Information is provided below regarding the nature, status, and contingent loss amounts, if any, associated with the Company's pending legal matters. There are inherent uncertainties in these legal matters, some of which are beyond management's control, making the ultimate outcomes difficult to predict. Moreover, management's views and estimates related to these matters may change in the future, as new events and circumstances arise and the matters continue to develop.

The Company has made accruals with respect to its legal matters where appropriate, which are included in "Accrued liabilities" in the condensed consolidated balance sheets. The Company has recorded an aggregate accrual of approximately \$102.0 million, relating to the Company's outstanding legal proceedings as of September 30, 2019.

Based on management's present knowledge of the facts and (in certain cases) advice of outside counsel, management does not believe that loss contingencies arising from pending matters are likely to have a material adverse effect on the Company's overall financial position, operating results, or cash flows after taking into account any existing accruals. However, actual outcomes could be material to the Company's financial position, operating results, or cash flows for any particular period.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

EMPLOYEE COMPENSATION AND PAY PRACTICES MATTERS			
<i>Washington Overtime Class Actions</i>			
The plaintiffs allege one or more of the following, pertaining to Washington state-based driving associates: that Swift 1) failed to pay minimum wages; 2) failed to pay overtime; 3) failed to pay all wages due at established pay periods; 4) failed to provide proper meal and rest periods; 5) failed to provide accurate wage statements; and 6) unlawfully deducted from employee wages. The plaintiffs seek unpaid wages, exemplary damages, interest, other costs, and attorneys' fees.			
Plaintiff(s)	Defendant(s)	Date instituted	Court or agency currently pending in
Troy Slack ¹	Swift Transportation Company of Arizona, LLC and Swift Transportation Corporation	September 9, 2011	United States District Court for the Western District of Washington
Julie Hedglin ¹	Swift Transportation Company of Arizona, LLC and Swift Transportation Corporation	January 14, 2016	United States District Court for the Western District of Washington
Recent Developments and Current Status			
In February 2019, the court granted final approval of the Slack settlement. Additionally, in July 2019, the court granted final approval of the settlement in the Hedglin matter. Both settlements have been paid as of September 30, 2019.			
<i>CRST Expedited</i>			
Plaintiff alleges tortious interference with contract and unjust enrichment related to non-competition agreements entered into with certain of its drivers.			
Plaintiff(s)	Defendant(s)	Date instituted	Court or agency currently pending in
CRST Expedited, Inc.	Swift Transportation Co. of Arizona LLC.	March 20, 2017	United States District Court for the Northern District of Iowa
Recent Developments and Current Status			
In July 2019, a jury issued an adverse verdict in this lawsuit. The Company is reviewing all options including post-trial motions seeking to overturn the jury verdict and if necessary, an appeal. The likelihood that a loss has been incurred is probable and estimable, and the loss has accordingly been accrued as of September 30, 2019.			
<i>California Wage, Meal, and Rest Class Actions</i>			
The plaintiffs generally allege one or more of the following: that the Company 1) failed to pay the California minimum wage; 2) failed to provide proper meal and rest periods; 3) failed to timely pay wages upon separation from employment; 4) failed to pay for all hours worked; 5) failed to pay overtime; 6) failed to properly reimburse work-related expenses; and 7) failed to provide accurate wage statements.			
Plaintiff(s)	Defendant(s)	Date instituted	Court or agency currently pending in
John Burnell ¹	Swift Transportation Co., Inc	March 22, 2010	United States District Court for the Central District of California
James R. Rudsell ¹	Swift Transportation Co. of Arizona, LLC and Swift Transportation Company	April 5, 2012	United States District Court for the Central District of California
Recent Developments and Current Status			
In April 2019, the parties reached settlement of this matter. The likelihood that a loss has been incurred is probable and estimable, and the loss has accordingly been accrued as of September 30, 2019.			

¹ Individually and on behalf of all others similarly situated.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

INDEPENDENT CONTRACTOR MATTERS			
<i>Ninth Circuit Independent Contractor Misclassification Class Action</i>			
The putative class alleges that Swift misclassified independent contractors as independent contractors, instead of employees, in violation of the FLSA and various state laws. The lawsuit also raises certain related issues with respect to the lease agreements that certain independent contractors have entered into with Interstate Equipment Leasing, LLC. The putative class seeks unpaid wages, liquidated damages, interest, other costs, and attorneys' fees.			
Plaintiff(s)	Defendant(s)	Date instituted	Court or agency currently pending in
Joseph Sheer, Virginia Van Dusen, Jose Motolinia, Vickii Schwalm, Peter Wood ¹	Swift Transportation Co., Inc., Interstate Equipment Leasing, Inc., Jerry Moyes, and Chad Killebrew	December 22, 2009	Unites States District Court of Arizona and Ninth Circuit Court of Appeals
Recent Developments and Current Status			
In April 2019, the court granted preliminary approval of the settlement in this matter. Based on the above, the likelihood that a loss has been incurred is probable and estimable, and the loss has accordingly been accrued as of September 30, 2019.			

¹ Individually and on behalf of all others similarly situated.

Self Insurance

The Company is insured against auto liability ("AL") claims under self-insured retention ("SIR") policies. Effective November 1, 2018, all AL claims provide for coverage up to \$250.0 million per occurrence. Knight's AL claims have SIRs ranging from \$1.0 million to \$3.0 million per occurrence depending on the policy period with per occurrence limits of \$130.0 million prior to November 1, 2018. Swift AL claims have \$250.0 million of coverage per occurrence, subject to a \$10.0 million SIR per occurrence.

For the policy periods March 1, 2017 through February 28, 2020, the Knight SIR is \$1.0 million with additional responsibility up to \$1.6 million per occurrence within its primary limit and applicable aggregate limits. For the policy period March 1, 2016 to March 1, 2017, the Knight SIR was \$2.5 million with no additional aggregate limits or deductibles within the primary AL policy. Knight also carries a \$2.5 million aggregate deductible for any loss or losses within the excess coverage layer.

The Company is self-insured for workers' compensation coverage. Swift maintains statutory coverage limits, subject to a \$5.0 million SIR for each accident or disease. Effective March 1, 2019, Knight maintains statutory coverage limits, subject to a \$2.0 million SIR for each accident or disease. Prior to March 1, 2019, the Knight SIR was \$1.0 million per occurrence. Additionally, through Knight, the Company maintains primary and excess coverage for employee medical expenses and hospitalization, with self-insured retention of \$0.3 million per claimant. Since January 1, 2015, Swift has been fully insured on its medical benefits, subject to contributed premiums.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED
Note 13 — Share Repurchase Plan

On May 31, 2019, the Company announced that the Board approved the repurchase of up to \$250.0 million worth of the Company's outstanding common stock (the "2019 Knight-Swift Share Repurchase Plan"). With the adoption of the 2019 Knight-Swift Share Repurchase Plan, the Company terminated the \$250.0 million repurchase plan previously approved by the Board in June 2018 (the "2018 Knight-Swift Share Repurchase Plan"). There was approximately \$0.2 million remaining under the 2018 Knight-Swift Share Repurchase Plan upon termination.

The following table presents the Company's repurchases of its common stock under the respective share repurchase plans, excluding advisory fees:

Share Repurchase Plan		Quarter-to-Date September 30, 2019		Quarter-to-Date September 30, 2018	
Board Approval Date	Authorized Amount	Shares	Amount	Shares	Amount
(in thousands)					
June 1, 2018 ¹	\$250,000	—	\$ —	3,076	\$ 100,000
May 30, 2019 ²	\$250,000	—	—	—	—
		—	\$ —	3,076	\$ 100,000

Share Repurchase Plan		Year-to-Date September 30, 2019		Year-to-Date September 30, 2018	
Board Approval Date	Authorized Amount	Shares	Amount	Shares	Amount
(in thousands)					
June 1, 2018 ¹	\$250,000	2,315	\$ 70,500	3,076	\$ 100,000
May 30, 2019 ²	\$250,000	559	16,392	—	—
		2,874	\$ 86,892	3,076	\$ 100,000

¹ As of December 31, 2018, \$70.7 million remained available under the 2018 Knight-Swift Share Repurchase Plan.

² As of September 30, 2019, \$233.6 million remained available under the 2019 Knight-Swift Share Repurchase Plan.

Note 14 — Weighted Average Shares Outstanding

Basic and diluted earnings per share, as presented in the condensed consolidated statements of comprehensive income, are calculated by dividing net income attributable to Knight-Swift by the respective weighted average common shares outstanding during the period.

The following table reconciles basic weighted average shares outstanding to diluted weighted average shares outstanding:

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018	2019	2018
(In thousands)				
Basic weighted average common shares outstanding	170,504	176,849	171,841	177,816
Dilutive effect of equity awards	786	901	683	977
Diluted weighted average common shares outstanding	171,290	177,750	172,524	178,793
Anti-dilutive shares excluded from diluted earnings per share ¹	408	48	829	48

¹ Shares were excluded from the dilutive-effect calculation because the outstanding awards' exercise prices were greater than the average market price of Knight-Swift's common stock for the periods presented.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED
Note 15 — Related Party Transactions

The following table presents Knight-Swift's transactions with companies controlled by and/or affiliated with its related parties:

	Quarter-to-Date September 30,				Year-to-Date September 30,			
	2019		2018		2019		2018	
	Provided by Knight-Swift	Received by Knight-Swift	Provided by Knight-Swift	Received by Knight-Swift	Provided by Knight-Swift	Received by Knight-Swift	Provided by Knight-Swift	Received by Knight-Swift
	(In thousands)							
Freight Services:								
Central Freight Lines ¹	\$ 6,830	\$ —	\$ —	\$ —	\$ 13,789	\$ —	\$ 427	\$ —
SME Industries ¹	54	—	176	—	271	—	623	—
Total	\$ 6,884	\$ —	\$ 176	\$ —	\$ 14,060	\$ —	\$ 1,050	\$ —
Facility and Equipment Leases:								
Central Freight Lines ¹	\$ —	\$ 92	\$ 222	\$ 92	\$ 322	\$ 277	\$ 690	\$ 277
Other Affiliates ¹	5	—	4	—	14	—	15	—
Total	\$ 5	\$ 92	\$ 226	\$ 92	\$ 336	\$ 277	\$ 705	\$ 277
Other Services:								
Central Freight Lines ¹	\$ 817	\$ —	\$ —	\$ —	\$ 1,359	\$ —	\$ —	\$ —
Updike Distribution and Logistics ²	—	—	—	—	4	—	554	—
Other Affiliates ¹	9	650	9	701	27	1,980	27	2,055
Total	\$ 826	\$ 650	\$ 9	\$ 701	\$ 1,390	\$ 1,980	\$ 581	\$ 2,055

¹ Entities affiliated with former Board member Jerry Moyes include Central Freight Lines, SME Industries, Compensi Services, and DPF Mobile. Transactions with these entities that are controlled by and/or are otherwise affiliated with Jerry Moyes, include freight services, facility and equipment leases, equipment sales, and other services.

- **Freight Services Provided by Knight-Swift** — The Company charges each of these companies for transportation services.
- **Freight Services Received by Knight-Swift** — Transportation services received from Central Freight represent less-than-truckload freight services rendered to haul parts and equipment to Company shop locations.
- **Other Services Provided by Knight-Swift** — Other services provided by the Company to the identified related parties include equipment sales and miscellaneous services.
- **Other Services Received by Knight-Swift** — Consulting fees and certain third-party payroll and employee benefits administration services from the identified related parties are included in other services received by the Company.

In conjunction with Swift's September 8, 2016 announcement that Jerry Moyes would retire from his position as Chief Executive Officer effective December 31, 2016, Swift entered into an agreement with Mr. Moyes to memorialize the terms of his retirement, which was assumed by Knight-Swift. Swift contracted with Mr. Moyes to serve as a non-employee consultant from January 1, 2017 through December 31, 2019, during which time Swift pays Mr. Moyes a monthly consulting fee in cash.

The following is a rollforward of the accrued liability for the consulting fees:

	(In thousands)
Accrued consulting fees – Jerry Moyes, balance at December 31, 2018 ^{1a}	\$ 2,225
Less: payments	(1,625)
Accrued consulting fees – Jerry Moyes, balance at September 30, 2019 ^{1a}	\$ 600

^{1a} The balance is included in "Accrued liabilities" in the condensed consolidated balance sheet.

- ² Knight had an arrangement with Updike Distribution and Logistics, a company that is owned by the father and three brothers of Executive Vice President of Sales and Marketing, James Updike, Jr. The arrangement allowed Updike Distribution and Logistics to purchase fuel from Knight's vendors at cost, plus an administrative fee. The arrangement was discontinued during the second quarter of 2018. Activities in the year-to-date period ended September 30, 2019 pertain to sales of various spare parts and tractor accessories.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Receivables and payables pertaining to related party transactions were:

	September 30, 2019		December 31, 2018	
	Receivable	Payable	Receivable	Payable
	(In thousands)			
Central Freight Lines	\$ 4,996	\$ —	\$ 254	\$ —
SME Industries	3	—	24	—
Other Affiliates	—	19	—	20
Total	<u>\$ 4,999</u>	<u>\$ 19</u>	<u>\$ 278</u>	<u>\$ 20</u>

Note 16 — Information by Segment and Geography
Segment Information

As discussed in Note 1, the Company reorganized its reportable segments during the first quarter of 2019. Accordingly, the Company now has three reportable segments: Trucking, Logistics, and Intermodal, as well as the non-reportable segments, discussed below. Based on how economic factors affect the nature, amount, timing, and uncertainty of revenue or cash flows, the Company disaggregates revenues by reportable segment for the purposes of applying the ASC Topic 606 guidance.

Trucking

The Trucking segment is comprised of irregular route and dedicated, refrigerated, expedited, flatbed, and cross-border operations. Abilene's trucking operations are also included after the March 16, 2018 acquisition date.

Logistics

The Logistics segment is primarily comprised of brokerage and other freight management services. Abilene's logistics operations are also included after the March 16, 2018 acquisition date.

Intermodal

The Intermodal segment includes revenue generated by moving freight over the rail in the Company's containers and other trailing equipment, combined with the Company's revenue for drayage to transport loads between the railheads and customer locations.

Non-reportable

The non-reportable segments include support services provided to the Company's customers and independent contractors (including repair and maintenance shop services, equipment leasing, warranty services, and insurance), trailer parts manufacturing, certain driving academy activities, as well as certain corporate expenses (such as legal settlements and accruals and amortization of intangibles related to the 2017 Merger and certain acquisitions).

Intersegment Eliminations

Certain operating segments provide transportation and related services for other affiliates outside of their reportable segment. For certain operating segments, such services are billed at cost, and no profit is earned. For the other operating segments, revenues for such services are based on negotiated rates, and are reflected as revenues of the billing segment. These rates are adjusted from time to time, based on market conditions. Such intersegment revenues and expenses are eliminated in Knight-Swift's consolidated results.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

The following tables present the Company's financial information by segment:

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
Revenue:	(In thousands)			
Trucking	\$ 986,768	\$ 1,070,978	\$ 2,980,040	\$ 3,190,174
Logistics	86,213	113,387	258,094	301,764
Intermodal	108,937	130,369	343,499	360,683
Subtotal	\$ 1,181,918	\$ 1,314,734	\$ 3,581,633	\$ 3,852,621
Non-reportable segments	30,597	47,115	97,958	145,589
Intersegment eliminations	(11,993)	(15,238)	(32,451)	(48,784)
Total revenue	\$ 1,200,522	\$ 1,346,611	\$ 3,647,140	\$ 3,949,426

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
Operating income (loss):	(In thousands)			
Trucking	\$ 109,409	\$ 140,592	\$ 350,356	\$ 367,500
Logistics	3,692	10,151	15,996	18,725
Intermodal	(2,652)	9,688	3,901	18,116
Subtotal	\$ 110,449	\$ 160,431	\$ 370,253	\$ 404,341
Non-reportable segments	(7,496)	(16,151)	(42,408)	(42,075)
Operating income	\$ 102,953	\$ 144,280	\$ 327,845	\$ 362,266

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
Depreciation and amortization of property and equipment:	(In thousands)			
Trucking	\$ 91,390	\$ 80,417	\$ 262,742	\$ 236,170
Logistics	185	158	499	419
Intermodal	3,355	3,029	10,018	8,747
Subtotal	\$ 94,930	\$ 83,604	\$ 273,259	\$ 245,336
Non-reportable segments	11,954	14,104	37,500	41,983
Depreciation and amortization of property and equipment	\$ 106,884	\$ 97,708	\$ 310,759	\$ 287,319

Geographical Information

In the aggregate, total revenue from the Company's foreign operations was less than 5.0% of consolidated total revenue for the quarter and year-to-date periods ended September 30, 2019 and 2018. Additionally, long-lived assets on the Company's foreign subsidiary balance sheets were less than 5.0% of consolidated total assets as of September 30, 2019 and December 31, 2018.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Note 17 — Fair Value Measurement

ASC Topic 820, *Fair Value Measurements and Disclosures*, requires that the Company disclose estimated fair values for its financial instruments. The estimated fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Changes in assumptions could significantly affect these estimates. Because the fair value is estimated as of September 30, 2019 and December 31, 2018, the amounts that will actually be realized or paid at settlement or maturity of the instruments in the future could be significantly different.

The estimated fair values of the Company's financial instruments as of September 30, 2019 and December 31, 2018 represent management's best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. The estimated fair value measurements maximize the use of observable inputs. However, in situations where there is little, if any, market activity for the asset or liability at the measurement date, the estimated fair value measurement reflects management's own judgments about the assumptions that market participants would use in pricing the asset or liability. These judgments are developed by the Company based on the best information available under the circumstances.

The following summary presents a description of the methods and assumptions used to estimate the fair value of each class of financial instrument.

Restricted Investments, Held-to-Maturity — The estimated fair value of the Company's restricted investments, held-to-maturity, is based on quoted prices in active markets that are readily and regularly obtainable. See Note 5 for additional disclosures regarding restricted investments, held-to-maturity.

Transportation Resource Partners — The estimated fair value of the Company's investments with Transportation Resource Partners are privately negotiated equity investments. The carrying amount of these investments approximates the fair value.

Equity Securities — The estimated fair value of the Company's investments in equity securities is based on quoted prices in active markets that are readily and regularly obtainable.

Debt Instruments and Leases — For notes payable under the Revolver and the Term Loan, fair value approximates the carrying value due to the variable interest rate. The carrying value of the 2018 RSA approximates fair value, as the underlying receivables are short-term in nature and only eligible receivables (such as those with high credit ratings) are qualified to secure the borrowed amounts. For finance and operating leases, the carrying value approximates the fair value, as the Company's finance and operating leases are structured to amortize in a manner similar to the depreciation of the underlying assets.

Other — Cash and cash equivalents, restricted cash, net accounts receivable, income tax refund receivable, and accounts payable represent financial instruments for which the carrying amount approximates fair value, as they are short-term in nature. These instruments are accordingly excluded from the disclosures below. All remaining balance sheet amounts excluded from the below are not considered financial instruments, subject to this disclosure.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

The following table presents the carrying amounts and estimated fair values of the Company's major categories of financial assets and liabilities:

	September 30, 2019		December 31, 2018	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(In thousands)				
Financial Assets:				
Restricted investments, held-to-maturity ¹	\$ 10,034	\$ 10,040	\$ 17,413	\$ 17,398
TRP Investments	32,350	32,350	20,646	20,646
Investments in equity securities ²	4,783	4,783	—	—
Financial Liabilities:				
Term Loan, due October 2020 ³	\$ 364,766	\$ 365,000	\$ 364,590	\$ 365,000
2018 RSA, due July 2021 ⁴	204,723	205,000	239,606	240,000
Revolver, due October 2022	290,000	290,000	195,000	195,000

¹ Refer to Note 5 for the differences between the carrying amounts and estimated fair values of the Company's restricted investments, held-to-maturity.

² The investments are carried at fair value and are included in "Other long-term assets" on the condensed consolidated balance sheets.

³ The carrying amount of the Term Loan is included in "Long-term debt – less current portion," and is net of \$0.2 million and \$0.4 million in deferred loan costs as of September 30, 2019 and December 31, 2018, respectively.

⁴ The carrying amount of the 2018 RSA is included in "Accounts receivable securitization," and is net of \$0.3 million and \$0.4 million in deferred loan costs as of September 30, 2019 and December 31, 2018, respectively.

Recurring Fair Value Measurements (Assets) — The following table depicts the level in the fair value hierarchy of the inputs used to estimate fair value of assets measured on a recurring basis as of September 30, 2019:

	Estimated Fair Value	Fair Value Measurements at Reporting Date Using:				Total Unrealized Gains
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs		
		(In thousands)				
<i>As of September 30, 2019</i>						
Investments in equity securities ¹	\$ 4,783	\$ 4,783	\$ —	\$ —	\$ 402	

¹ Total unrealized gains for these investments are included within "Other income, net" within the condensed consolidated statements of comprehensive income for the quarter and year-to-date periods ended September 30, 2019.

As of December 31, 2018, there were no major categories of assets on the condensed consolidated balance sheets estimated at fair value that were measured on a recurring basis.

Recurring Fair Value Measurements (Liabilities) — As of September 30, 2019 and December 31, 2018, there were no major categories of liabilities on the condensed consolidated balance sheets estimated at fair value that were measured on a recurring basis.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) — CONTINUED

Nonrecurring Fair Value Measurements (Assets) — The following table depicts the level in the fair value hierarchy of the inputs used to estimate fair value of assets measured on a nonrecurring basis as of September 30, 2019 and December 31, 2018:

	Estimated Fair Value	Fair Value Measurements at Reporting Date Using:								
		Level 1 Inputs			Level 2 Inputs		Level 3 Inputs		Total Losses	
		(In thousands)								
As of September 30, 2019										
Leasehold improvements ¹	\$	—	\$	—	\$	—	\$	—	\$	(2,182)
As of December 31, 2018										
Software ²	\$	—	\$	—	\$	—	\$	—	\$	(550)
Equipment ³		2,800		—		2,800		—		(2,248)

- During the second quarter of 2019, the Company incurred an impairment of leasehold improvements related to the early termination of a lease on one of its operating properties.
- During the fourth quarter of 2018, the Company incurred impairment charges related to replaced software systems.
- During the fourth quarter of 2018, the Company identified a potential impairment when performing a cost analysis related to the operation of the Company's airplane. Once a potential impairment was identified, the Company performed a valuation using a market approach primarily based upon recent sales history of similar aircraft and industry publications (Level 2 inputs). The Company determined that the asset was impaired and incurred related charges of \$2.2 million, which were allocated between the Trucking and Logistics segments based on each segment's use of the asset.

Nonrecurring Fair Value Measurements (Liabilities) — As of September 30, 2019 and December 31, 2018, the Company had no major categories of liabilities estimated at fair value that were measured on a nonrecurring basis.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report contains certain statements that may be considered "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Section 27A of the Securities Act of 1933, as amended. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation:

- any projections of or guidance regarding earnings, earnings per share, revenues, cash flows, dividends, capital expenditures, or other financial items,
- any statement of plans, strategies, and objectives of management for future operations,
- any statements concerning proposed acquisition plans, new services, or developments,
- any statements regarding future economic conditions or performance, and
- any statements of belief and any statements of assumptions underlying any of the foregoing.

In this Quarterly Report, forward-looking statements include, but are not limited to, statements we make concerning:

- the ability of our infrastructure to support future growth, whether we grow organically or through potential acquisitions,
- the future impact of the 2017 Merger and the Abilene Acquisition, including achievement of anticipated synergies,
- the flexibility of our model to adapt to market conditions,
- our ability to recruit and retain qualified driving associates,
- future safety performance,
- future performance of our segments or businesses,
- our ability to gain market share,
- the ability, desire, and effects of expanding our logistics, brokerage, and intermodal operations,
- future equipment prices, our equipment purchasing or leasing plans, and our equipment turnover (including expected tractor trade-ins),
- our ability to sublease equipment to independent contractors,
- the impact of pending legal proceedings,
- the expected freight environment, including freight demand and volumes,
- economic conditions and growth, including future inflation, consumer spending, supply chain conditions, and US Gross Domestic Product ("GDP") changes,
- future pricing terms from vendors and suppliers,
- expected liquidity and methods for achieving sufficient liquidity,
- future fuel prices and the expected impact of fuel efficiency initiatives,
- future expenses and our ability to control costs,
- future operating profitability,
- future third-party service provider relationships and availability,
- future contracted pay rates with independent contractors and compensation arrangements with driving associates,
- our expected need or desire to incur indebtedness,
- future capital expenditures and expected sources of liquidity, capital allocation, capital structure, capital requirements, and growth strategies and opportunities,
- expected capital expenditures,

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

- future mix of owned versus leased revenue equipment,
- future asset utilization,
- future return on capital,
- future share repurchases and dividends,
- future tax rates,
- future trucking industry capacity and balance between industry demand and capacity,
- future rates,
- future depreciation and amortization,
- expected tractor and trailer fleet age,
- future investment in and deployment of new or updated technology,
- political conditions and regulations, including trade regulation, quotas, duties, or tariffs, and any future changes to the foregoing,
- future purchased transportation expense, and
- others.

Such statements may be identified by their use of terms or phrases such as "believe," "may," "could," "will," "would," "should," "expects," "estimates," "designed," "likely," "foresee," "goals," "seek," "target," "forecast," "projects," "anticipates," "plans," "intends," "hopes," "strategy," "objective," "continue," "outlook," and similar terms and phrases. Forward-looking statements are based on currently available operating, financial, and competitive information. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to materially differ from those set forth in, contemplated by, or underlying the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Part I, Item 1A "Risk Factors" in our 2018 Annual Report, and various disclosures in our press releases, stockholder reports, and other filings with the SEC.

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

Reference to Glossary of Terms

Certain acronyms and terms used throughout this Quarterly Report are specific to our company, commonly used in our industry, or are otherwise frequently used throughout our document. Definitions for these acronyms and terms are provided in the "Glossary of Terms," available in the front of this document.

Reference to Annual Report

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements (unaudited) and footnotes included in this Quarterly Report, as well as the consolidated financial statements and footnotes included in our 2018 Annual Report.

Executive Summary

Company Overview

Knight-Swift Transportation Holdings Inc. is North America's largest truckload carrier and a provider of transportation solutions, headquartered in Phoenix, Arizona. The Company provides multiple truckload transportation, intermodal, and logistics services using a nationwide network of business units and terminals in the US 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 shipping solutions to its customers while creating quality driving jobs for our driving associates and successful business opportunities for independent contractors. Our three reportable segments are Trucking, Logistics, and Intermodal. Additionally, we have various non-reportable segments. Refer to Note 1 and Note 16 in Part I, Item 1 of this Quarterly Report for descriptions of our segments.

Our objective is to operate our business with industry-leading margins and growth while providing safe, high-quality, cost-effective solutions for our customers.

Revenue

- Our trucking services include irregular route and dedicated, refrigerated, expedited, flatbed, and cross-border transportation of various products, goods, and materials for our diverse customer base. We primarily generate revenue by transporting freight for our customers through our Trucking segment.
- Our brokerage and intermodal operations provide a multitude of shipping solutions, including additional sources of truckload capacity and alternative transportation modes, by utilizing our vast network of third-party capacity providers and rail providers, as well as certain logistics and freight management services. Revenue in our brokerage and intermodal operations is generated through our Logistics and Intermodal segments.
- Our non-reportable segments include support services provided to our customers and independent contractors (including repair and maintenance shop services, equipment leasing, warranty services, and insurance), trailer parts manufacturing, as well as certain corporate expenses (such as legal settlements and accruals, certain impairments, and amortization of intangibles related to the 2017 Merger and certain acquisitions).
- In addition to the revenues earned from our customers for the trucking and non-trucking services discussed above, we also earn fuel surcharge revenue from our customers through our fuel surcharge program, which serves to recover a majority of our fuel costs. This applies only to loaded miles and typically does not offset non-paid empty miles, idle time, and out-of-route miles driven. 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. Therefore, many of these programs have a time lag between when fuel costs change and when the change is reflected in fuel surcharge revenue for our Trucking segment.

Expenses — Our most significant expenses vary with miles traveled and include fuel, driving associate-related expenses (such as wages and benefits), and services purchased from independent contractors and other transportation providers (such as railroads, drayage providers, and other trucking companies). Maintenance and tire expenses, as well as the cost of insurance and claims generally vary with the miles we travel, but also have a controllable component based on safety improvements, fleet age, efficiency, and other factors. Our primary fixed costs are depreciation and lease expense for revenue equipment and terminals, amortization of intangible assets, interest expense, and non-driver employee compensation.

Operating Statistics — We measure our consolidated and segment results through certain operating statistics, which are discussed under "Results of Operations — Segments — Operating Statistics," below. Our results are affected by various economic, industry, operational, regulatory, and other factors, which are discussed in detail in "Part I, Item 1A. Risk Factors," in our 2018 Annual Report as well as in various disclosures in our press releases, stockholder reports, and other filings with the SEC.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Key Financial Highlights and Operating Metrics

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018	2019	2018
GAAP financial data:				
	(Dollars in thousands, except per share data)			
Total revenue	\$ 1,200,522	\$ 1,346,611	\$ 3,647,140	\$ 3,949,426
Revenue, excluding trucking fuel surcharge ¹	\$ 1,090,210	\$ 1,212,020	\$ 3,309,920	\$ 3,545,083
Net income attributable to Knight-Swift	\$ 74,619	\$ 105,881	\$ 241,762	\$ 267,568
Diluted EPS	\$ 0.44	\$ 0.60	\$ 1.40	\$ 1.50
Operating Ratio	91.4%	89.3%	91.0%	90.8%
Non-GAAP financial data:				
Adjusted Net Income Attributable to Knight-Swift ²	\$ 82,802	\$ 115,122	\$ 279,610	\$ 293,265
Adjusted EPS ²	\$ 0.48	\$ 0.65	\$ 1.62	\$ 1.64
Adjusted Operating Ratio ² (2018 – recast)	89.6%	87.1%	88.6%	88.8%
Revenue equipment:				
Average tractors ³	18,899	18,906	18,939	19,266
Average trailers ⁴ (2018 – recast)	57,889	60,215	58,394	62,661
Average containers	9,861	9,366	9,863	9,203

¹ Beginning in the second quarter of 2019, the Company presents fuel surcharge revenue generated within only its Trucking segment within "Trucking fuel surcharge" in the condensed consolidated statements of comprehensive income. Fuel surcharge revenue generated within the remaining segments is included in "Revenue, excluding trucking fuel surcharge." Prior period amounts have been reclassified to align with the current period presentation.

² Adjusted Net Income Attributable to Knight-Swift, Adjusted EPS, and Adjusted Operating Ratio are non-GAAP financial measures and should not be considered alternatives, or superior to, the most directly comparable GAAP financial measures. However, management believes that presentation of these non-GAAP financial measures provides useful information to investors regarding the Company's results of operations. Adjusted Net Income Attributable to Knight-Swift, Adjusted EPS, and Adjusted Operating Ratio are reconciled to the most directly comparable GAAP financial measures under "Non-GAAP Financial Measures," below.

³ Reflects operational tractors within the Trucking segment, including company tractors and tractors owned by independent contractors. Our tractor fleet had a weighted average age of 2.0 years and 2.4 years as of September 30, 2019 and 2018, respectively.

⁴ Our trailer fleet had a weighted average age of 7.4 years and 7.2 years as of September 30, 2019 and 2018, respectively.

Market Trends and Company Performance

Trends and Outlook — As a result of strong market fundamentals in 2018, capacity increased in the market as tractor orders were at record levels and trucking employment began to grow. This resulted in an oversupply of capacity in the market, which led to lower spot market rates and downward pressure on contract rates in 2019. The supply expansion in 2018 began to show signs of rationalization in the first half of 2019 as truck orders declined significantly, trucking employment numbers began to slow, and the used equipment market softened. Increased competition for volume in the third quarter freight environment resulted in more pricing pressure than expected. We continue to expect a seasonal improvement in demand during the fourth quarter of 2019, however, less robust than originally anticipated. We believe the rationalization of capacity has accelerated and should lead to a more favorable freight environment in the second half of 2020.

Driver sourcing continues to be a headwind for the trucking industry, as among other market factors, the national unemployment rate remained low, ending the third quarter of 2019 at 3.5%. Additionally, increased competition for driving academy graduates and experienced hires, as well as increased safety regulations, continued to hamper driver sourcing efforts throughout the industry.

The US economy grew at a moderate pace during the year-to-date period ended September 30, 2019, as indicated by an expected annualized growth rate of 2.7% in the first quarter, 2.3% in the second quarter, and 2.0% in the third quarter. Third-party forecasts note that the US gross domestic product is expected to grow at a slower pace during the fourth quarter and into 2020. The third quarter 2019 US employment cost index rose 2.8% and 0.7% on a year-over-year and sequential basis, respectively. The tight US labor market is expected to continue to remain inflationary, likely prompting employers to continue raising employee pay rates and improving benefits.

We continued to generate meaningful free cash flow, maintain a healthy balance sheet, and focus on the fundamentals of our business as we navigated through the softer freight environment. While our consolidated operations showed progress and resilience in the first half of the year, continued market pressures negatively affected our consolidated results in the third quarter of 2019. An oversupply of truckload capacity in the freight market resulted in greater than expected pressure on our Trucking segment's revenue per loaded mile, excluding fuel surcharge and intersegment transactions, which decreased by 2.7% from the third quarter of 2018 to the third quarter of 2019. We also experienced increased competition in the intermodal market, which led to a 10.3% reduction in volume and 6.8% less revenue per load year-over-year for the third quarter. The reduced revenues from these factors, as well as the cost of exiting certain underperforming dedicated business, resulted in a 28.6% decrease in consolidated operating income, compared to the same quarter of last year.

Our consolidated operating income decreased by 9.5% on a year-to-date basis, driven by the market pressures discussed above. While miles per tractor within our Trucking segment decreased by 6.4%, its revenue per loaded mile, excluding fuel surcharge and intersegment transactions increased by 3.4% on a comparative year-to-date basis. Additionally, the increased competition in the intermodal market led to a 7.9% reduction in load volume, partially offset by 3.2% more revenue per load during the year-to-date period ended September 30, 2019, compared to the same period last year.

Overall, we remain committed to further improving long-term profitability as we continue to leverage opportunities across the Knight-Swift brands, efficiently deploy our assets, invest in innovation, and advance our enterprise-wide efforts in safety and the driver experience, while maintaining a relentless focus on cost control. In this environment, we will continue to monitor the markets in order to evaluate acquisition candidates, share repurchase opportunities, and other opportunities that create value for our stockholders and further advance our long-term strategies.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

Note: The reported results do not include the results of operations of Abilene on and prior to its acquisition by the Company on March 16, 2018 in accordance with the accounting treatment applicable to the transaction.

Comparison Between the Quarters Ended September 30, 2019 and 2018 — The \$31.3 million decrease in net income attributable to Knight-Swift to \$74.6 million during the quarter ended September 30, 2019 from \$105.9 million during the same period last year includes the following:

- **Contributor** — \$31.2 million decrease in operating income within our Trucking segment due to an oversupply of truckload capacity in the 2019 freight market, resulting in lower revenue per loaded mile. We also incurred incremental expenses associated with exiting several underperforming refrigerated and dry dedicated accounts during the third quarter of 2019.
- **Contributor** — \$12.3 million decrease in operating income within our Intermodal segment due to a reduction in volume from continued market pressures.
- **Offset** — \$10.1 million decrease in consolidated income tax expense, was primarily due to a decrease in pretax earnings and a partial release of our reserve for uncertain tax positions recognized as a discrete item in the third quarter of 2019, as compared to the third quarter of 2018. During the third quarter of 2018, we also recognized discrete items related to a benefit of an accounting method change. All of these factors resulted in an effective tax rate of 24.6% for both the third quarter of 2019 and the third quarter 2018.

Comparison Between Year-to-Date September 30, 2019 and 2018 — The \$25.8 million decrease in net income attributable to Knight-Swift to \$241.8 million during year-to-date September 30, 2019 from \$267.6 million during the same period last year includes the following:

- **Contributor** — \$17.1 million decrease in operating income within our Trucking segment due to the factors discussed above.
- **Contributor** — \$14.2 million decrease in operating income within our Intermodal segment from continued market pressures and relatively worse inclement weather at the onset of 2019, compared to 2018.
- **Contributor** — \$15.5 million in costs (within the non-reportable segments) associated with an adverse jury verdict issued in July 2019 related to an ongoing lawsuit. These costs were recorded in "Miscellaneous operating expenses" in the condensed consolidated statements of comprehensive income.
- **Offset** — \$13.9 million increase in operating margin improvements within our independent contractor programs, included within the non-reportable segments.
- **Offset** — \$6.1 million increase in "Other income, net," primarily attributed to investment income from our TRP investments and an increase in rental income from our operating properties.
- **Offset** — \$2.3 million decrease in consolidated income tax expense, primarily due to a decrease in pretax earnings and was partially offset by a decrease in stock compensation deductions recognized as a discrete item and a partial release of our reserve for uncertain tax positions during the year-to-date September 30, 2019 period. During the year-to-date September 30, 2018 period, we also recognized discrete items related to stock compensation deductions, a benefit of an accounting method change, and a favorable audit settlement of nondeductible penalties. All of these factors resulted in an effective tax rate of 24.5% and 23.1% for the year-to-date September 30, 2019 and 2018 periods, respectively.

See additional discussion of our operating results within "Results of Operations — Consolidated Operating and Other Expenses" below.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

Liquidity and Capital — During the year-to-date September 30, 2019 period, we generated \$612.4 million in cash flows from operations, used \$457.9 million for capital expenditures (net of equipment sales proceeds), reduced our operating lease liabilities by \$88.4 million, repurchased \$86.9 million worth of our common stock, and returned \$31.2 million to our stockholders in the form of quarterly dividends. We ended the quarter with \$94.0 million in unrestricted cash and cash equivalents, \$290.0 million outstanding on the Revolver, \$365.0 million in face value of long-term debt, and \$5.6 billion of stockholders' equity. See discussion under "Liquidity and Capital Resources" and "Off-Balance Sheet Arrangements" for additional information.

Results of Operations — Segments

During the first quarter of 2019, the Company reorganized its reportable segments. Accordingly, the Company now has three reportable segments: Trucking, Logistics, and Intermodal, as well as certain non-reportable segments. Refer to Notes 1 and 16 to the condensed consolidated financial statements, included in Part I, Item 1 of this Quarterly Report for descriptions of the operations of these reportable segments.

Consolidating Tables for Total Revenue and Operating Income (Loss)

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
Revenue:	(In thousands)			
Trucking	\$ 986,768	\$ 1,070,978	\$ 2,980,040	\$ 3,190,174
Logistics	86,213	113,387	258,094	301,764
Intermodal	108,937	130,369	343,499	360,683
Subtotal	\$ 1,181,918	\$ 1,314,734	\$ 3,581,633	\$ 3,852,621
Non-reportable segments	30,597	47,115	97,958	145,589
Intersegment eliminations	(11,993)	(15,238)	(32,451)	(48,784)
Total revenue	\$ 1,200,522	\$ 1,346,611	\$ 3,647,140	\$ 3,949,426

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
Operating income (loss):	(In thousands)			
Trucking	\$ 109,409	\$ 140,592	\$ 350,356	\$ 367,500
Logistics	3,692	10,151	15,996	18,725
Intermodal	(2,652)	9,688	3,901	18,116
Subtotal	\$ 110,449	\$ 160,431	\$ 370,253	\$ 404,341
Non-reportable segments	(7,496)	(16,151)	(42,408)	(42,075)
Operating income	\$ 102,953	\$ 144,280	\$ 327,845	\$ 362,266

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Operating Statistics

Our chief operating decision makers monitor the GAAP results of our reportable segments, as supplemented by certain non-GAAP information. Refer to "Non-GAAP Financial Measures" below for more details. Additionally, we use a number of primary indicators to monitor our revenue and expense performance and efficiency.

Operating Statistic	Relevant Segment(s)	Description
Average Revenue per Tractor	Trucking	Measures productivity and represents revenue (excluding fuel surcharge and intersegment transactions) divided by average tractor count
Total Miles per Tractor	Trucking	Total miles (including loaded and empty miles) a tractor travels on average
Average Length of Haul	Trucking	Average of miles traveled with loaded trailer cargo, based on order counts
Non-paid Empty Miles Percentage	Trucking	Percentage of miles without trailer cargo
Average Tractors	Trucking, Intermodal	Average tractors in operation during the period
Average Trailers	Trucking	Average trailers in operation during the period
Average Revenue per Load	Logistics, Intermodal	Total revenue (excluding intersegment transactions) divided by load count
Gross Margin Percentage	Logistics (Brokerage only)	Brokerage gross margin (revenue, excluding intersegment transactions, less purchased transportation expense, excluding intersegment transactions) as a percentage of brokerage revenue, excluding intersegment transactions
Average Containers	Intermodal	Average containers in operation during the period
GAAP Operating Ratio	Trucking, Logistics, Intermodal	Measures operating efficiency and is widely used in our industry as an assessment of management's effectiveness in controlling all categories of operating expenses. Calculated as operating expenses as a percentage of total revenue, or the inverse of operating margin.
Adjusted Operating Ratio	Trucking, Logistics, Intermodal	Measures operating efficiency and is widely used in our industry as an assessment of management's effectiveness in controlling all categories of operating expenses. Consolidated and segment Adjusted Operating Ratios are reconciled to their corresponding GAAP operating ratios under "Non-GAAP Financial Measures," below.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Segment Review
Trucking Segment

We generate revenue in the Trucking segment primarily through irregular route, dedicated, refrigerated, flatbed, expedited, and cross-border service offerings. Generally, we are paid a predetermined rate per mile or per load for our trucking services. Additional revenues are generated 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 segment 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 segment 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 condensed consolidated statements of comprehensive income. 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 segment are depreciation and rent expenses from leasing and acquiring revenue equipment and terminals, as well as compensating our non-driver employees.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018 (recast)	2019	2018 (recast)	QTD 2018	YTD 2018
	(Dollars in thousands, except per tractor data)				Increase (Decrease)	
Total revenue	\$ 986,768	\$ 1,070,978	\$ 2,980,040	\$ 3,190,174	(7.9 %)	(6.6 %)
Revenue, excluding fuel surcharge and intersegment transactions	\$ 876,385	\$ 936,301	\$ 2,642,663	\$ 2,785,672	(6.4 %)	(5.1 %)
GAAP: Operating income	\$ 109,409	\$ 140,592	\$ 350,356	\$ 367,500	(22.2 %)	(4.7 %)
Non-GAAP: Adjusted Operating Income ²	\$ 109,758	\$ 140,944	\$ 353,585	\$ 368,360	(22.1 %)	(4.0 %)
Average revenue per tractor ¹	\$ 46,372	\$ 49,524	\$ 139,536	\$ 144,590	(6.4 %)	(3.5 %)
GAAP: Operating ratio ¹	88.9%	86.9%	88.2%	88.5%	200 bps	(30 bps)
Non-GAAP: Adjusted Operating Ratio ^{1 2}	87.5%	84.9%	86.6%	86.8%	260 bps	(20 bps)
Non-paid empty miles percentage ¹	12.8%	13.1%	12.9%	12.6%	(30 bps)	30 bps
Average length of haul (miles) ¹	431	419	429	419	2.9 %	2.4 %
Total miles per tractor ¹	23,397	24,402	69,578	74,363	(4.1 %)	(6.4 %)
Average tractors ^{1 3}	18,899	18,906	18,939	19,266	—	(1.7 %)
Average trailers ¹	57,889	60,215	58,394	62,661	(3.9 %)	(6.8 %)

¹ Defined under "Operating Statistics," above.

² Refer to "Non-GAAP Financial Measures" below.

³ Includes 16,564 and 15,710 average company-owned tractors for the third quarter of 2019 and 2018, respectively.

Includes 16,420 and 15,690 average company-owned tractors for the year-to-date September 30, 2019 and 2018 periods, respectively.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

Comparison Between the Quarters Ended September 30, 2019 and 2018 — Our Trucking segment maintained year-over-year and sequential stability in operational tractors within the fleet, with an average tractor count of 18,899 in the third quarter of 2019. Total revenue and revenue, excluding fuel surcharge and intersegment transactions, decreased by \$84.2 million and \$59.9 million, respectively. In the third quarter of 2019, operating ratio increased to 88.9% from 86.9% and Adjusted Operating Ratio increased to 87.5% from 84.9%, as compared to the same quarter last year. This resulted in a corresponding 22.2% decrease in operating income and a 22.1% decrease in Adjusted Operating Income. Our average revenue per tractor decreased by 6.4% as a result of a 4.1% decrease in miles per tractor, and a 2.7% decrease in revenue per loaded mile, excluding fuel surcharge and intersegment transactions. During the quarter, we incurred incremental expenses associated with exiting several underperforming refrigerated and dry dedicated accounts. We expect less volatility in the dedicated operating segment in the coming quarters.

Our focus in our 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.

Comparison Between Year-to-Date September 30, 2019 and 2018 — Although total revenue decreased by \$210.1 million, and revenue, excluding fuel surcharge and intersegment transactions, decreased by \$143.0 million, operating ratio improved by 30 basis points to 88.2% from 88.5% and Adjusted Operating Ratio improved by 20 basis points to 86.6% from 86.8%. The decrease in revenue was partially offset by the improvements in margins, causing a 4.7% decrease in operating income and a 4.0% decrease in Adjusted Operating Income on a year-to-date basis. Revenue per loaded mile, excluding fuel surcharge and intersegment transactions increased by 3.4%, while miles per tractor decreased by 6.4%, resulting in a 3.5% decrease in average revenue per tractor.

Logistics Segment

The Logistics segment is less asset-intensive than the Trucking segment and is dependent upon capable non-driver employees, modern and effective information technology, and third-party capacity providers. Logistics revenue is primarily generated by its brokerage operations. 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). 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 Logistics segment is the (primarily) variable cost of purchased transportation that we pay to third-party capacity providers, included in "Purchased transportation" in the condensed consolidated statements of comprehensive income. Variability in this expense depends on truckload capacity, availability of third-party capacity providers, rates charged to customers, current freight demand, and customer shipping needs. Fixed Logistics operating expenses primarily include non-driver employee compensation and benefits recorded in "Salaries, wages, and benefits" and depreciation and amortization expense recorded in "Depreciation and amortization of property and equipment" in the condensed consolidated statements of comprehensive income.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018 (recast)	2019	2018 (recast)	QTD 2018	YTD 2018
	(Dollars in thousands, except per load data)				Increase (Decrease)	
Total revenue	\$ 86,213	\$ 113,387	\$ 258,094	\$ 301,764	(24.0 %)	(14.5 %)
Revenue, excluding intersegment transactions	\$ 83,631	\$ 111,397	\$ 251,126	\$ 293,849	(24.9 %)	(14.5 %)
Operating income	\$ 3,692	\$ 10,151	\$ 15,996	\$ 18,725	(63.6 %)	(14.6 %)
Revenue per load – Brokerage only ¹	\$ 1,368	\$ 1,506	\$ 1,423	\$ 1,583	(9.2 %)	(10.1 %)
Gross margin percentage – Brokerage only ¹	14.0%	17.1%	16.0%	14.6%	(310 bps)	140 bps
GAAP: Operating ratio ¹	95.7%	91.0%	93.8%	93.8%	470 bps	—
Non-GAAP: Adjusted Operating Ratio ^{1 2}	95.6%	90.9%	93.6%	93.6%	470 bps	—

¹ Defined under "Operating Statistics," above.

² Refer to "Non-GAAP Financial Measures" below.

Comparison Between the Quarters Ended September 30, 2019 and 2018 — In the third quarter of 2019, operating ratio in the Logistics segment increased to 95.7% from 91.0% and Adjusted Operating Ratio increased to 95.6% from 90.9%, as compared to the third quarter of 2018, resulting in a 63.6% decrease in operating income. Brokerage gross margin decreased to 14.0% in the third quarter of 2019 from 17.1% in the third quarter of 2018. While we achieved a sequential increase in brokerage revenue, excluding intersegment transactions of 4.2%, the continued competitive market during the third quarter of 2019 resulted in a 25.0% decrease in brokerage revenue, excluding intersegment transactions, as compared to the third quarter of 2018. This was driven by a 17.4% decrease in brokerage load volumes and a 9.2% decrease in brokerage revenue per load. Competition progressed throughout the quarter, further pressuring revenue and margins. As we navigate through the competitive market, we continue to invest in people and technology that we believe will lead to improved operating efficiency.

Comparison Between Year-to-Date September 30, 2019 and 2018 — Operating ratio was unchanged at 93.8% and Adjusted Operating Ratio was unchanged at 93.6% for year-to-date September 30, 2019, compared to the same period last year, despite a 14.5% decrease in total revenue. Operating income decreased by 14.6%, primarily reflecting the decrease in total revenue. The 140 basis point improvement in brokerage gross margin to 16.0% for year-to-date September 30, 2019 from 14.6% in the same period last year was driven by a 13.9% decrease in purchased transportation expense. This was partially offset by a 12.4% decrease in brokerage revenue, excluding intersegment transactions, as brokerage revenue per load decreased by 10.1% and brokerage load volumes decreased by 2.5%.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Intermodal Segment

The 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 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 Intermodal segment is the cost of purchased transportation that we pay to third-party capacity providers (including rail providers), which is primarily variable and included in "Purchased transportation" in the condensed consolidated statements of comprehensive income. Purchased transportation varies as it relates to rail capacity, freight demand, and customer shipping needs. The main fixed costs in the Intermodal segment are depreciation of our containers and chassis, as well as non-driver employee compensation and benefits.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018 (recast)	2019	2018 (recast)	QTD 2018	YTD 2018
	(Dollars in thousands, except per load data)				Increase (Decrease)	
Total revenue	\$ 108,937	\$ 130,369	\$ 343,499	\$ 360,683	(16.4 %)	(4.8 %)
Revenue, excluding intersegment transactions	\$ 108,758	\$ 130,166	\$ 342,162	\$ 360,126	(16.4 %)	(5.0 %)
Operating (loss) income	\$ (2,652)	\$ 9,688	\$ 3,901	\$ 18,116	(127.4 %)	(78.5 %)
Average revenue per load ¹	\$ 2,393	\$ 2,568	\$ 2,429	\$ 2,354	(6.8 %)	3.2 %
GAAP: Operating ratio ¹	102.4%	92.6%	98.9%	95.0%	980 bps	390 bps
Non-GAAP: Adjusted Operating Ratio ^{1 2}	102.4%	92.6%	98.9%	95.0%	980 bps	390 bps
Load count	45,445	50,678	140,844	152,990	(10.3 %)	(7.9 %)
Average tractors ^{1 3}	625	645	656	615	(3.1 %)	6.7 %
Average containers ¹	9,861	9,366	9,863	9,203	5.3 %	7.2 %

¹ Defined under "Operating Statistics," above.

² Refer to "Non-GAAP Financial Measures" below.

³ Includes 553 and 560 company-owned tractors for the third quarter 2019 and 2018, respectively.

Includes 579 and 524 company-owned tractors for the year-to-date September 30, 2019 and 2018 periods, respectively.

Comparison Between the Quarters Ended September 30, 2019 and 2018 — During the third quarter of 2019, our Intermodal segment produced an operating ratio of 102.4%, compared to 92.6% during the third quarter of 2018. Continued market pressures contributed to a 16.4% decrease in revenue, excluding intersegment transactions, as load counts decreased 10.3% and revenue per load decreased 6.8%. We are focused on increasing load volumes with a diversified customer base, while improving our cost structure through reduced rail and drayage expenses. We expect improved results in future quarters.

Comparison Between Year-to-Date September 30, 2019 and 2018 — Our Intermodal segment produced a 98.9% operating ratio during year-to-date September 30, 2019, compared to 95.0% during the same period last year. Although average revenue per load increased by 3.2%, this was offset by a 7.9% decrease in load volumes, resulting in a 4.8% decrease in total revenue and a 5.0% decrease in revenue, excluding intersegment transactions. Our results were negatively affected by inclement weather impacting rail lanes and slower rail transit times at the onset of 2019, followed by increased market pressures continuing throughout the current year-to-date period. Additionally, we added container capacity to facilitate our growth plan within this segment, which increased our driver costs and our fixed costs.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Non-reportable Segments

The non-reportable segments include support services provided to our customers and independent contractors (including repair and maintenance shop services, equipment leasing, warranty services, and insurance), trailer parts manufacturing, certain driving academy activities, as well as certain corporate expenses (such as legal settlements and accruals, certain impairments, and \$10.3 million in quarterly amortization of intangibles related to the 2017 Merger).

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018 (recast)	2019	2018 (recast)	QTD 2018	YTD 2018
	(Dollars in thousands)				Increase (Decrease)	
Total revenue	\$ 30,597	\$ 47,115	\$ 97,958	\$ 145,589	(35.1 %)	(32.7 %)
Operating loss	\$ (7,496)	\$ (16,151)	\$ (42,408)	\$ (42,075)	(53.6 %)	0.8 %

Comparison Between the Quarters Ended September 30, 2019 and 2018 — The decrease in total revenue within our non-reportable segments is primarily attributed to a decrease in leasing and insurance activities with independent contractors. This was accompanied by a corresponding decrease in the operating expenses associated with these activities.

Comparison Between Year-to-Date September 30, 2019 and 2018 — The decrease in total revenue within our non-reportable segments is primarily attributed to a decrease in leasing and insurance activities with independent contractors. The change in operating loss in our non-reportable segments was affected by \$15.5 million in costs associated with an adverse jury verdict issued in July 2019 related to an ongoing lawsuit, which was offset by improved profitability related to our leasing activities with independent contractors.

Results of Operations — Consolidated Operating and Other Expenses

Consolidated Operating Expenses

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

Note: The reported results do not include the results of operations of Abilene on and prior to its acquisition by the Company on March 16, 2018 in accordance with the accounting treatment applicable to the transaction.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
	(Dollars in thousands)				Increase (Decrease)	
Salaries, wages, and benefits	\$ 375,491	\$ 381,174	\$ 1,119,700	\$ 1,114,252	(1.5 %)	0.5 %
% of total revenue	31.3%	28.3%	30.7%	28.2%	300 bps	250 bps
% of revenue, excluding trucking fuel surcharge	34.4%	31.4%	33.8%	31.4%	300 bps	240 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 represent the largest component of salaries, wages, and benefits expense.

Several ongoing market factors have reduced the pool of available driving associates, contributing to a challenging driver sourcing market, which we believe will continue. Having a sufficient number of qualified driving associates is our biggest headwind, although we continue to seek ways to attract and retain qualified driving associates, including heavily investing in our recruiting efforts, our driving academies, and technology and terminals that improve the experience of driving associates. As a result of the tight market for qualified driving associates, we granted pay increases to our driving associates over the last twelve months, as supported by increases in customer rates. We expect driving associate pay to remain inflationary, which could result in additional driving associate pay increases in the future.

- **Comparison Between the Quarters Ended September 30, 2019 and 2018** — Consolidated salaries, wages, and benefits decreased by \$5.7 million. This decrease was primarily due to a decrease in non-driver salaries and wages, lower workers' compensation expense, partially offset by a 2.6% increase in miles driven by company driving associates, and an increase in driver pay rates.
- **Comparison Between Year-to-Date September 30, 2019 and 2018** — The \$5.4 million increase in consolidated salaries, wages, and benefits includes a \$6.6 million increase in expense from Abilene's results for the full year-to-date September 30, 2019, compared to the portion of the year-to-date September 30, 2018 period following the Abilene Acquisition on March 16, 2018.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
	(Dollars in thousands)				Increase (Decrease)	
Fuel	\$ 148,699	\$ 162,832	\$ 438,447	\$ 470,617	(8.7 %)	(6.8 %)
% of total revenue	12.4%	12.1%	12.0%	11.9%	30 bps	10 bps
% of revenue, excluding trucking fuel surcharge	13.6%	13.4%	13.2%	13.3%	20 bps	(10 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, or 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 segment. 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, management of tractor speeds, fleet updates for more fuel-efficient engines, management of fuel procurement, and driving associate training programs that we believe contribute to controlling our fuel expense.

- Comparison Between the Quarters Ended September 30, 2019 and 2018 — The \$14.1 million decrease in consolidated fuel expense is primarily due to a decrease in average DOE fuel prices to \$3.02 per gallon for the third quarter of 2019 from \$3.24 per gallon for the third quarter of 2018, and was partially offset by a 2.6% increase in the total miles driven by company driving associates.
- Comparison Between Year-to-Date September 30, 2019 and 2018 — The \$32.2 million decrease in consolidated fuel expense is primarily due to a decrease in average DOE fuel prices to \$3.05 per gallon for year-to-date September 30, 2019 from \$3.15 per gallon for year-to-date September 30, 2018, and a 0.6% reduction in the total miles driven by company driving associates.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
	(Dollars in thousands)				Increase (Decrease)	
Operations and maintenance	\$ 85,108	\$ 87,362	\$ 247,311	\$ 260,660	(2.6 %)	(5.1 %)
% of total revenue	7.1%	6.5%	6.8%	6.6%	60 bps	20 bps
% of revenue, excluding trucking fuel surcharge	7.8%	7.2%	7.5%	7.4%	60 bps	10 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 2019, which could increase future driving associate development and recruiting costs and negatively affect our operations and maintenance expense. We expect to continue refreshing our tractor fleet in the coming quarters, and anticipate that maintenance costs will gradually decrease as we reduce the average age of our fleet.

The respective quarter and year-to-date decreases of \$2.3 million and \$13.3 million in consolidated operations and maintenance expense were both attributed to the reduced maintenance expense associated with refreshing our fleet with newer equipment. As a percentage of revenue, excluding trucking fuel surcharge, the expense remained relatively flat.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
(Dollars in thousands)					Increase (Decrease)	
Insurance and claims	\$ 46,792	\$ 52,701	\$ 145,724	\$ 164,975	(11.2 %)	(11.7 %)
% of total revenue	3.9%	3.9%	4.0%	4.2%	—	(20 bps)
% of revenue, excluding trucking fuel surcharge	4.3%	4.3%	4.4%	4.7%	—	(30 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 limits 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. In future periods, our higher self-insured retention limits, as well as a tightening of excess insurance markets, may cause our consolidated insurance and claims expense to fluctuate more.

Consolidated insurance and claims expense decreased by \$5.9 million for the third quarter and by \$19.3 million for year-to-date September 30, 2019, as compared to the same periods last year. This was primarily due to overall improvements in the frequency and severity of our claims experience, as a result of fewer miles traveled and our increased focus on improving our safety standards for our driving associates and independent contractors.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
(Dollars in thousands)					Increase (Decrease)	
Operating taxes and licenses	\$ 20,970	\$ 21,986	\$ 64,333	\$ 67,807	(4.6 %)	(5.1 %)
% of total revenue	1.7%	1.6%	1.8%	1.7%	10 bps	10 bps
% of revenue, excluding trucking fuel surcharge	1.9%	1.8%	1.9%	1.9%	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.

Consolidated operating taxes and licenses decreased by \$1.0 million for the third quarter and \$3.5 million for year-to-date September 30, 2019, as compared to the same periods last year, but remained relatively flat as a percentage of revenue, excluding trucking fuel surcharge.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
(Dollars in thousands)					Increase (Decrease)	
Communications	\$ 4,913	\$ 5,041	\$ 14,956	\$ 15,783	(2.5 %)	(5.2 %)
% of total revenue	0.4%	0.4%	0.4%	0.4%	—	—
% of revenue, excluding trucking fuel surcharge	0.5%	0.4%	0.5%	0.4%	10 bps	10 bps

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

Consolidated communications expense remained relatively flat as a percentage of revenue, excluding trucking fuel surcharge for both the third quarter and year-to-date September 30, 2019, as compared to the same periods last year.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
(Dollars in thousands)					Increase (Decrease)	
Depreciation and amortization of property and equipment	\$ 106,884	\$ 97,708	\$ 310,759	\$ 287,319	9.4 %	8.2 %
% of total revenue	8.9%	7.3%	8.5%	7.3%	160 bps	120 bps
% of revenue, excluding trucking fuel surcharge	9.8%	8.1%	9.4%	8.1%	170 bps	130 bps

Depreciation relates primarily to our owned tractors, trailers, buildings, electronic logging devices, 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. 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.

- **Comparison Between the Quarters Ended September 30, 2019 and 2018** — Consolidated depreciation and amortization of property and equipment increased by \$9.2 million. The 170 basis point increase in the expense as a percentage of revenue, excluding trucking fuel surcharge, is due to increasing the ratio of owned versus leased equipment.
- **Comparison Between Year-to-Date September 30, 2019 and 2018** — The \$23.4 million increase in consolidated depreciation and amortization of property and equipment includes a \$2.1 million increase in expense from Abilene's results for year-to-date September 30, 2019, compared to the portion of year-to-date September 30, 2018 following the Abilene Acquisition on March 16, 2018. The 130 basis point increase in the expense as a percentage of revenue, excluding trucking fuel surcharge is due to an increase in owned versus leased equipment.

We expect consolidated depreciation and amortization of property and equipment to increase both in total and as a percentage of consolidated revenue, excluding trucking fuel surcharge, as we plan to purchase, rather than lease, new equipment in the remainder of 2019.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
(Dollars in thousands)					Increase (Decrease)	
Amortization of intangibles	\$ 10,759	\$ 10,695	\$ 32,144	\$ 31,891	0.6 %	0.8 %
% of total revenue	0.9%	0.8%	0.9%	0.8%	10 bps	10 bps
% of revenue, excluding trucking fuel surcharge	1.0%	0.9%	1.0%	0.9%	10 bps	10 bps

Amortization of intangibles relates to intangible assets identified with the 2017 Merger, the Abilene Acquisition, and other acquisitions. See Note 7 in Part I, Item 1, of this Quarterly Report for further details regarding the Company's intangible assets. The \$0.1 million quarter over quarter increase in amortization of intangibles was attributed to a small acquisition that occurred during the third quarter of 2019. This, along with a \$0.2 million increase in amortization of intangibles from the March 16, 2018 Abilene Acquisition, comprised the \$0.3 million increase in the expense on a year-to-date basis.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
	(Dollars in thousands)				Increase (Decrease)	
Rental expense	\$ 28,726	\$ 39,806	\$ 97,146	\$ 140,384	(27.8 %)	(30.8 %)
% of total revenue	2.4%	3.0%	2.7%	3.6%	(60 bps)	(90 bps)
% of revenue, excluding trucking fuel surcharge	2.6%	3.3%	2.9%	4.0%	(70 bps)	(110 bps)

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

Consolidated rental expense decreased by \$11.1 million for the third quarter and \$43.2 million for year-to-date September 30, 2019, as compared to the same periods last year. This was primarily due to increasing our ratio of owned versus leased equipment.

We expect consolidated rental expense to continue to decrease both in total and as a percentage of consolidated revenue, excluding trucking fuel surcharge, as we plan to purchase, rather than lease, new equipment in the remainder of 2019.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
	(Dollars in thousands)				Increase (Decrease)	
Purchased transportation	\$ 251,337	\$ 329,338	\$ 781,959	\$ 989,333	(23.7 %)	(21.0 %)
% of total revenue	20.9%	24.5%	21.4%	25.1%	(360 bps)	(370 bps)
% of revenue, excluding trucking fuel surcharge	23.1%	27.2%	23.6%	27.9%	(410 bps)	(430 bps)

Purchased transportation expense is comprised of payments to independent contractors in our trucking operations, as well as 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 as 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.

We expect purchased transportation will increase as a percentage of revenue if we grow our logistics and intermodal businesses. The increase could be partially offset if independent contractors exit the market due to regulatory changes.

Consolidated purchased transportation expense decreased by \$78.0 million for the third quarter and \$207.4 million for year-to-date September 30, 2019, as compared to the same periods last year. This was primarily due to decreases in miles driven by independent contractors of 27.9% and 31.7% for the quarter and year-to-date periods, respectively, as well as lower purchased transportation expense from third-party carrier activities in our Logistics and Intermodal segments.

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
	(Dollars in thousands)				Increase (Decrease)	
Impairments	\$ —	\$ —	\$ 2,182	\$ —	—	100.0

The \$2.2 million year-to-date impairment was related to leasehold improvements (within the Trucking segment) from the early termination of a lease of one of our operating properties during the second quarter of 2019.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
(Dollars in thousands)					Increase (Decrease)	
Miscellaneous operating expenses	\$ 17,890	\$ 13,688	\$ 64,634	\$ 44,139	30.7	46.4

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

- **Comparison Between the Quarters Ended September 30, 2019 and 2018** — The \$4.2 million increase in net consolidated miscellaneous operating expenses is primarily attributable to a \$2.4 million decrease in gain on sales of equipment due to a softer used truck market in 2019.
- **Comparison Between Year-to-Date September 30, 2019 and 2018** — The \$20.5 million increase in net consolidated miscellaneous operating expenses is primarily due to \$15.5 million associated with an adverse jury verdict issued in July 2019 related to an ongoing lawsuit. This was partially offset by a \$0.3 million increase in gain on sales of equipment.

Consolidated Other Expenses, net

	Quarter-to-Date September 30,		Year-to-Date September 30,		QTD 2019 vs.	YTD 2019 vs.
	2019	2018	2019	2018	QTD 2018	YTD 2018
(Dollars in thousands)					Increase (Decrease)	
Interest expense	\$ 7,790	\$ 7,528	\$ 22,294	\$ 21,424	3.5%	4.1%
Other income, net	(3,335)	(3,327)	(12,575)	(6,487)	0.2%	93.8%
Income tax expense	24,524	34,624	78,523	80,816	(29.2%)	(2.8%)

Interest expense — Interest expense is comprised of debt and finance lease interest expense as well as amortization of deferred loan costs. Interest expense for the third quarter and year-to-date September 30, 2019 period remained relatively flat when compared to the same periods last year.

Other income, net — Other income, net is primarily comprised of non-operating income and expense that may arise outside of the normal course of business. Other income, net remained relatively flat for the third quarter of 2019, compared to the third quarter of 2018. The \$6.1 million year-to-date increase in consolidated other income, net is primarily attributed to investment income from our TRP investments and an increase in rental income from our operating properties.

Income tax expense — In addition to the discussion below, Note 8 in Part I, Item 1 of this Quarterly Report provides further analysis related to income taxes.

- **Comparison Between the Quarters Ended September 30, 2019 and 2018** — The \$10.1 million decrease in consolidated income tax expense was primarily due to a decrease in pretax earnings and a partial release of our reserve for uncertain tax positions recognized as a discrete item in the third quarter of 2019, as compared to the third quarter of 2018. During the third quarter of 2018, we also recognized discrete items related to a benefit of an accounting method change. All of these factors resulted in an effective tax rate of 24.6% for both the third quarter of 2019 and the third quarter of 2018.

Comparison Between Year-to-Date September 30, 2019 and 2018 — The \$2.3 million decrease in consolidated income tax expense was primarily due to a decrease in pretax earnings and was partially offset by a decrease in stock compensation deductions recognized as a discrete item and a partial release of our reserve for uncertain tax positions during the year-to-date September 30, 2019 period. During the year-to-date September 30, 2018 period, we also recognized discrete items related to stock compensation deductions, a benefit of an accounting method change, and a favorable audit settlement of nondeductible penalties. All of these factors resulted in an effective tax rate of 24.5% and 23.1% for the year-to-date September 30, 2019 and 2018 periods, respectively.

Non-GAAP Financial Measures

The terms "Adjusted Net Income Attributable to Knight-Swift," "Adjusted EPS," and "Adjusted Operating Ratio," as we define them, are not presented in accordance with GAAP. These financial measures supplement our GAAP results in evaluating certain aspects of our business. We believe that using these measures improves comparability in analyzing our performance because they remove the impact of items from our operating results that, in our opinion, do not reflect our core operating performance. Management and the Board focus on Adjusted Net Income Attributable to Knight-Swift, Adjusted EPS, and Adjusted Operating Ratio as key measures of our performance, all of which are reconciled to the most comparable GAAP financial measures and further discussed below. We believe our presentation of these non-GAAP financial measures is useful because it provides investors and securities analysts the same information that we use internally for purposes of assessing our core operating performance.

Adjusted Net Income Attributable to Knight-Swift, Adjusted EPS, and Adjusted Operating Ratio are not substitutes for their comparable GAAP financial measures, such as net income, cash flows from operating activities, operating income, or other measures prescribed by GAAP. There are limitations to using non-GAAP financial measures. Although we believe that they improve comparability in analyzing our period to period performance, they could limit comparability to other companies in our industry if those companies define these measures differently. Because of these limitations, our non-GAAP financial measures should not be considered measures of income generated by our business or discretionary cash available to us to invest in the growth of our business. Management compensates for these limitations by primarily relying on GAAP results and using non-GAAP financial measures on a supplemental basis.

Pursuant to the requirements of Regulation G, the following tables reconcile GAAP consolidated net income attributable to Knight-Swift to non-GAAP consolidated Adjusted Net Income attributable to Knight-Swift, GAAP consolidated earnings per diluted share to non-GAAP consolidated Adjusted EPS, GAAP consolidated Operating Ratio to non-GAAP consolidated Adjusted Operating Ratio, and GAAP reportable segment Operating Ratio to non-GAAP reportable segment Adjusted Operating Ratio.

Note: The reported results do not include the results of Abilene on and prior to its acquisition by Knight on March 16, 2018 in accordance with the accounting treatment applicable to the transaction.

Non-GAAP Reconciliation:

Consolidated Adjusted Net Income Attributable to Knight-Swift and Adjusted EPS

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018	2019	2018
	(In thousands)			
GAAP: Net income attributable to Knight-Swift	\$ 74,619	\$ 105,881	\$ 241,762	\$ 267,568
Adjusted for:				
Income tax expense attributable to Knight-Swift	24,524	34,624	78,523	80,816
Income before income taxes attributable to Knight-Swift	99,143	140,505	320,285	348,384
Amortization of intangibles ¹	10,759	10,695	32,144	31,891
Impairments ²	—	—	2,182	—
Legal accruals ³	—	—	15,500	—
Severance expense ⁴	—	1,568	—	1,568
Adjusted income before income taxes	109,902	152,768	370,111	381,843
Provision for income tax expense at effective rate	(27,100)	(37,646)	(90,501)	(88,578)
Non-GAAP: Adjusted Net Income Attributable to Knight-Swift	\$ 82,802	\$ 115,122	\$ 279,610	\$ 293,265

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED

Note: Since the numbers reflected in the table below are calculated on a per share basis, they may not foot due to rounding.

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018	2019	2018
GAAP: Earnings per diluted share	\$ 0.44	\$ 0.60	\$ 1.40	\$ 1.50
Adjusted for:				
Income tax expense attributable to Knight-Swift	0.14	0.19	0.46	0.45
Income before income taxes attributable to Knight-Swift	0.58	0.79	1.86	1.95
Amortization of intangibles ¹	0.06	0.06	0.19	0.18
Impairments ²	—	—	0.01	—
Legal accruals ³	—	—	0.09	—
Severance expense ⁴	—	0.01	—	0.01
Adjusted income before income taxes	0.64	0.86	2.15	2.14
Provision for income tax expense at effective rate	(0.16)	(0.21)	(0.52)	(0.50)
Non-GAAP: Adjusted EPS	\$ 0.48	\$ 0.65	\$ 1.62	\$ 1.64

1 "Amortization of intangibles" reflects the non-cash amortization expense relating to intangible assets identified in the 2017 Merger, Abilene Acquisition, and other acquisitions. Refer to Note 4 in Part I, Item 1 of this Quarterly Report for additional details regarding the Abilene Acquisition.

2 "Impairments" reflects the non-cash impairment of leasehold improvements (within the Trucking segment) incurred during the early termination of a lease related to one of our operating properties.

3 "Legal accruals" reflects anticipated costs associated with an adverse jury verdict issued in July 2019 related to an ongoing lawsuit, which is included in "Miscellaneous operating expenses" in the condensed consolidated statements of comprehensive income for the year-to-date period ended September 30, 2019. The Company is reviewing all options including post-trial motions seeking to overturn the jury verdict and if necessary, an appeal.

4 Severance expenses were incurred during the third quarter of 2018 in relation to certain organizational changes at Swift.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Non-GAAP Reconciliation: Consolidated Adjusted Operating Ratio

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
GAAP Presentation				
	(Dollars in thousands)			
Total revenue	\$ 1,200,522	\$ 1,346,611	\$ 3,647,140	\$ 3,949,426
Total operating expenses	(1,097,569)	(1,202,331)	(3,319,295)	(3,587,160)
Operating income	\$ 102,953	\$ 144,280	\$ 327,845	\$ 362,266
Operating ratio	91.4%	89.3%	91.0%	90.8%
Non-GAAP Presentation				
Total revenue	\$ 1,200,522	\$ 1,346,611	\$ 3,647,140	\$ 3,949,426
Trucking fuel surcharge	(110,312)	(134,591)	(337,220)	(404,343)
Revenue, excluding trucking fuel surcharge	1,090,210	1,212,020	3,309,920	3,545,083
Total operating expenses	1,097,569	1,202,331	3,319,295	3,587,160
Adjusted for:				
Trucking fuel surcharge	(110,312)	(134,591)	(337,220)	(404,343)
Amortization of intangibles ¹	(10,759)	(10,695)	(32,144)	(31,891)
Impairments ²	—	—	(2,182)	—
Legal accruals ³	—	—	(15,500)	—
Severance expense ⁴	—	(1,568)	—	(1,568)
Adjusted Operating Expenses	976,498	1,055,477	2,932,249	3,149,358
Adjusted Operating Income	\$ 113,712	\$ 156,543	\$ 377,671	\$ 395,725
Adjusted Operating Ratio	89.6%	87.1%	88.6%	88.8%

¹ See Non-GAAP Reconciliation: Consolidated Adjusted Net Income Attributable to Knight-Swift footnote 1.

² See Non-GAAP Reconciliation: Consolidated Adjusted Net Income Attributable to Knight-Swift footnote 2.

³ See Non-GAAP Reconciliation: Consolidated Adjusted Net Income Attributable to Knight-Swift footnote 3.

⁴ See Non-GAAP Reconciliation: Consolidated Adjusted Net Income Attributable to Knight-Swift footnote 4.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Non-GAAP Reconciliation: Reportable Segment Adjusted Operating Ratio
Trucking Segment

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
GAAP Presentation	(Dollars in thousands)			
Total revenue	\$ 986,768	\$ 1,070,978	\$ 2,980,040	\$ 3,190,174
Total operating expenses	(877,359)	(930,386)	(2,629,684)	(2,822,674)
Operating income	\$ 109,409	\$ 140,592	\$ 350,356	\$ 367,500
Operating ratio	88.9%	86.9%	88.2%	88.5%
Non-GAAP Presentation				
Total revenue	\$ 986,768	\$ 1,070,978	\$ 2,980,040	\$ 3,190,174
Fuel surcharge	(110,312)	(134,591)	(337,220)	(404,343)
Intersegment transactions	(71)	(86)	(157)	(159)
Revenue, excluding fuel surcharge and intersegment transactions	876,385	936,301	2,642,663	2,785,672
Total operating expenses	877,359	930,386	2,629,684	2,822,674
Adjusted for:				
Fuel surcharge	(110,312)	(134,591)	(337,220)	(404,343)
Intersegment transactions	(71)	(86)	(157)	(159)
Amortization of intangibles ¹	(349)	(352)	(1,047)	(860)
Impairments ²	—	—	(2,182)	—
Adjusted Operating Expenses	766,627	795,357	2,289,078	2,417,312
Adjusted Operating Income	\$ 109,758	\$ 140,944	\$ 353,585	\$ 368,360
Adjusted Operating Ratio	87.5%	84.9%	86.6%	86.8%

1 "Amortization of intangibles" reflects the non-cash amortization expense relating to intangible assets identified in the Abilene Acquisition and historical Knight acquisitions. Refer to Note 4 in Part I, Item 1 of this Quarterly Report for additional details regarding the Abilene Acquisition.

2 See Non-GAAP Reconciliation: Consolidated Adjusted Net Income Attributable to Knight-Swift footnote 2.

Logistics Segment

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
GAAP Presentation	(Dollars in thousands)			
Total revenue	\$ 86,213	\$ 113,387	\$ 258,094	\$ 301,764
Total operating expenses	(82,521)	(103,236)	(242,098)	(283,039)
Operating income	\$ 3,692	\$ 10,151	\$ 15,996	\$ 18,725
Operating ratio	95.7%	91.0%	93.8%	93.8%
Non-GAAP Presentation				
Total revenue	\$ 86,213	\$ 113,387	\$ 258,094	\$ 301,764
Intersegment transactions	(2,582)	(1,990)	(6,968)	(7,915)
Revenue, excluding intersegment transactions	83,631	111,397	251,126	293,849
Total operating expenses	82,521	103,236	242,098	283,039
Adjusted for:				
Intersegment transactions	(2,582)	(1,990)	(6,968)	(7,915)
Adjusted Operating Expenses	79,939	101,246	235,130	275,124
Adjusted Operating Income	\$ 3,692	\$ 10,151	\$ 15,996	\$ 18,725
Adjusted Operating Ratio	95.6%	90.9%	93.6%	93.6%

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CONTINUED
Intermodal Segment

	Quarter-to-Date September 30,		Year-to-Date September 30,	
	2019	2018 (recast)	2019	2018 (recast)
GAAP Presentation				
	(Dollars in thousands)			
Total revenue	\$ 108,937	\$ 130,369	\$ 343,499	\$ 360,683
Total operating expenses	(111,589)	(120,681)	(339,598)	(342,567)
Operating (loss) income	\$ (2,652)	\$ 9,688	\$ 3,901	\$ 18,116
Operating ratio	102.4%	92.6%	98.9%	95.0%
Non-GAAP Presentation				
Total revenue	\$ 108,937	\$ 130,369	\$ 343,499	\$ 360,683
Intersegment transactions	(179)	(203)	(1,337)	(557)
Revenue, excluding intersegment transactions	108,758	130,166	342,162	360,126
Total operating expenses	111,589	120,681	339,598	342,567
Adjusted for:				
Intersegment transactions	(179)	(203)	(1,337)	(557)
Adjusted Operating Expenses	111,410	120,478	338,261	342,010
Adjusted Operating (Loss) Income	\$ (2,652)	\$ 9,688	\$ 3,901	\$ 18,116
Adjusted Operating Ratio	102.4%	92.6%	98.9%	95.0%

Liquidity and Capital Resources

Sources of Liquidity

Our primary sources of liquidity are funds provided by operations and the following:

Source	September 30, 2019
	(In thousands)
Cash and cash equivalents, excluding restricted cash	\$ 93,996
Availability under Revolver, due October 2022 ¹	475,713
Availability under 2018 RSA, due July 2021 ²	4,159
Total unrestricted liquidity	\$ 573,868
Cash and cash equivalents – restricted ³	41,816
Restricted investments, held-to-maturity, amortized cost ³	10,034
Total liquidity, including restricted cash and restricted investments	\$ 625,718

- As of September 30, 2019, we had \$290.0 million in borrowings under our \$800.0 million Revolver. We additionally had \$34.3 million in outstanding letters of credit (discussed below), leaving \$475.7 million available under the Revolver.
- Based on eligible receivables at September 30, 2019, our borrowing base for the 2018 RSA was \$280.0 million, while outstanding borrowings were \$205.0 million. We additionally had \$70.8 million in outstanding letters of credit (discussed below), leaving \$4.2 million available under the 2018 RSA. Refer to Note 10 in Part I, Item 1 of this Quarterly Report for more information regarding the 2018 RSA.
- Restricted cash and restricted investments are primarily held by our captive insurance companies for claims payments. "Cash and cash equivalents – restricted" consists of \$40.8 million, included in "Cash and cash equivalents — restricted" in the condensed consolidated balance sheet and held by Mohave and Red Rock for claims payments. The remaining \$1.0 million is included in "Other long-term assets" and is held in escrow accounts to meet statutory requirements.

Uses of Liquidity

Our business requires substantial amounts of cash for operating activities, including salaries and wages paid to our employees, contract payments to independent contractors, insurance and claims payments, tax payments, and others. We also use large amounts of cash and credit for the following activities:

Capital Expenditures — When justified by customer demand, as well as our liquidity and our ability to generate acceptable returns, we make substantial cash capital expenditures to maintain a modern company tractor fleet, refresh our trailer fleet, fund replacement of our revenue equipment fleet, and, to a lesser extent, fund upgrades to our terminals and technology in our logistics service offerings. We expect that net capital expenditures from the aforementioned projects will be in the range of \$550.0 million – \$575.0 million for the full-year 2019. We believe we have ample flexibility with our trade cycle and purchase agreements to alter our current plans if economic or other conditions warrant.

Over the long-term, we will continue to have significant capital requirements, which may require us to seek additional borrowing, lease financing, or equity capital. The availability of financing or equity capital will depend upon our financial condition and results of operations as well as prevailing market conditions. If such additional borrowing, lease financing, or equity capital is not available at the time we need it, then we may need to borrow more under the Revolver (if not then fully drawn), extend the maturity of then-outstanding debt, rely on alternative financing arrangements, engage in asset sales, limit our fleet size, or operate our revenue equipment for longer periods.

There can be no assurance that we will be able to obtain additional debt under our existing financial arrangements to satisfy our ongoing capital requirements. However, we believe the combination of our expected cash flows, financing available through operating and finance leases, available funds under the 2018 RSA, and availability under the Revolver will be sufficient to fund our expected capital expenditures for at least the next twelve months.

Principal and Interest Payments — As of September 30, 2019, we had debt and finance lease obligations of \$955.3 million, which are discussed under "Material Debt Agreements," below. Certain cash flows from operations are committed to minimum payments of principal and interest on our debt and lease obligations. Additionally, when our financial position allows, we periodically make voluntary prepayments on our outstanding debt balances.

Letters of Credit — Pursuant to the terms of the 2017 Debt Agreement and the 2018 RSA, our lenders may issue standby letters of credit on our behalf. When we have letters of credit outstanding, the availability under the Revolver or 2018 RSA is reduced accordingly. Standby letters of credit are typically issued for the benefit of regulatory authorities, insurance companies and state departments of insurance for the purpose of satisfying certain collateral requirements, primarily related to our automobile, workers' compensation, and general insurance liabilities.

Share Repurchases — From time to time, and depending on free cash flow availability, debt levels, common stock prices, general economic and market conditions, as well as Board approval, we may repurchase shares of our outstanding common stock. As of September 30, 2019, the Company had \$233.6 million remaining under the 2019 Knight-Swift Share Repurchase Plan. Additional details are discussed in Note 13 in Part I, Item 1 of this Quarterly Report.

Working Capital

As of September 30, 2019 and December 31, 2018, we had a working capital surplus of \$204.2 million and \$292.7 million, respectively. The decrease is primarily due to the adoption of ASC Topic 842, *Leases*, which, among other things, requires the recognition of \$88.4 million in the current portion of operating lease liabilities on the condensed consolidated balance sheet as of September 30, 2019. Since the Company adopted the ASC Topic 840 Comparative Approach, there was no current portion of lease liabilities recorded on the December 31, 2018 condensed consolidated balance sheet.

Material Debt Agreements

As of September 30, 2019, we had \$955.3 million in material debt obligations at the following carrying values:

- \$364.8 million: Term Loan, due October 2020, net of \$0.2 million in deferred loan costs
- \$204.7 million: 2018 RSA outstanding borrowings, due July 2021, net of \$0.3 million in deferred loan costs
- \$95.8 million: Finance lease obligations
- \$290.0 million: Revolver, due October 2022

As of December 31, 2018, we had \$929.1 million in material debt obligations at the following carrying values:

- \$364.6 million: Term Loan, due October 2020, net of \$0.4 million in deferred loan costs
- \$239.6 million: 2018 RSA outstanding borrowings, due July 2021, net of \$0.4 million in deferred loan costs
- \$129.5 million: Capital lease obligations
- \$195.0 million: Revolver, due October 2022
- \$0.4 million: Other

Cash Flow Analysis

	Year-to-Date September 30,		Change
	2019	2018	
	(In thousands)		
Net cash provided by operating activities	\$ 612,412	\$ 580,645	\$ 31,767
Net cash used in investing activities	(468,420)	(467,495)	(925)
Net cash used in financing activities	(139,156)	(123,497)	(15,659)

Net Cash Provided by Operating Activities

Comparison Between Year-to-Date September 30, 2019 and 2018 — The \$31.8 million increase in net cash provided by operating activities was primarily due to a \$111.1 million increase in cash collected from our customers, partially offset by a \$61.2 million increase in cash paid for income taxes and a \$34.4 million decrease in operating income, due to the factors discussed in "Results of Operations — Segments " and "Results of Operations — Consolidated Operating and Other Expenses," above.

Net Cash Used in Investing Activities

Comparison Between Year-to-Date September 30, 2019 and 2018 — The \$0.9 million increase in net cash used in investing activities was due to a \$105.7 million increase in capital expenditures, net of disposal proceeds, partially offset by a \$99.8 million decrease in net cash used for acquisitions.

Net Cash Used in Financing Activities

Comparison Between Year-to-Date September 30, 2019 and 2018 — Net cash used in financing activities increased by \$15.7 million, which was primarily due to a \$49.7 million increase in repayments of finance leases and long-term debt, and a \$15.0 million decrease in net borrowings on the Revolver. This was partially offset by a \$35.0 million decrease in net repayments on the 2018 RSA and a \$13.1 million decrease in repurchases of our common stock.

Contractual Obligations

"Liquidity and Capital Resources," above, includes details regarding changes in our contractual obligations table during the year-to-date September 30, 2019 period. Aside from these items, there were no material changes to the contractual obligations table, which was included in our 2018 Annual Report.

Off Balance Sheet Arrangements

Information about our off balance sheet arrangements is included in Note 11 of the notes to our condensed consolidated financial statements, included in Part I, Item 1 of this Quarterly Report, which is incorporated by reference herein. See also "Contractual Obligations," above.

Seasonality

Discussion regarding the impact of seasonality on our business is included in Note 1 in the notes to the condensed consolidated financial statements, included in Part I, Item 1 of this Quarterly Report, incorporated by reference herein.

Inflation

Inflation can have an impact on our operating costs. A prolonged period of inflation could cause interest rates, fuel, wages, and other costs to increase, which would adversely affect our results of operations unless freight rates correspondingly increased. Consistent with trends in the trucking industry overall, we have recently experienced inflationary pressures with respect to driver wages, as compared to prior years.

Recently Issued Accounting Pronouncements

See Part I, Item 1 of this Quarterly Report, which is incorporated herein by reference, for the impact of recently issued accounting pronouncements on the Company's condensed consolidated financial statements, as follows:

- Note 2 for accounting pronouncements adopted during year-to-date September 30, 2019.
- Note 3 for accounting pronouncements issued during year-to-date September 30, 2019.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***Interest Rate Risk***

We have exposure from variable interest rates, primarily related to our 2017 Debt Agreement and 2018 RSA. These variable interest rates are impacted by changes in short-term interest rates. We primarily manage interest rate exposure through a mix of variable rate debt (weighted average rate of 2.87% as of September 30, 2019) and fixed rate equipment lease financing. Assuming the level of borrowings as of September 30, 2019, a hypothetical one percentage point increase in interest rates would increase our annual interest expense by \$8.6 million.

Commodity Price Risk

We have commodity exposure with respect to fuel used in company-owned tractors. Increases in fuel prices would continue to raise our operating costs, even after applying fuel surcharge revenue. Historically, we have been able to recover a majority of fuel price increases from our customers in the form of fuel surcharges. The weekly average diesel price per gallon in the US, as reported by the DOE, decreased to an average of \$3.02 for the third quarter of 2019 from an average of \$3.24 for the third quarter of 2018. The weekly average diesel price per gallon in the US decreased to an average of \$3.05 for year-to-date September 30, 2019 from an average of \$3.15 for year-to-date September 30, 2018. We cannot predict the extent or speed of potential changes in fuel price levels in the future, the degree to which the lag effect of our fuel surcharge programs will impact us as a result of the timing and magnitude of such changes, or the extent to which effective fuel surcharges can be maintained and collected to offset such increases. We generally have not used derivative financial instruments to hedge our fuel price exposure in the past, but continue to evaluate this possibility.

ITEM 4. CONTROLS AND PROCEDURES***Disclosure Controls and Procedures***

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) to ensure that material information relating to us, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to other members of senior management and the Board. Our management, with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures. Based on this evaluation, as of the end of the period covered by this Quarterly Report on Form 10-Q our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms, and (2) accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended September 30, 2019, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. We base our internal control over financial reporting on the criteria set forth in the 2013 COSO Internal Control: Integrated Framework.

We have confidence in our disclosure controls and procedures and internal control over financial reporting. Nevertheless, our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures and internal control over financial reporting will prevent all errors, misstatements, or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
PART II OTHER INFORMATION
ITEM 1. LEGAL PROCEEDINGS

Information about our legal proceedings is included in Note 12 of the notes to our condensed consolidated financial statements, included in Part I, Item 1, of this Quarterly Report for the period ended September 30, 2019, and is incorporated by reference herein. Based on management's present knowledge of the facts and (in certain cases) advice of outside counsel, management does not believe that loss contingencies arising from pending matters are likely to have a material adverse effect on the Company's overall financial position, operating results, or cash flows after taking into account any existing accruals. However, actual outcomes could be material to the Company's financial position, operating results, or cash flows for any particular period.

ITEM 1A. RISK FACTORS

While we attempt to identify, manage, and mitigate risks and uncertainties associated with our business, some level of risk and uncertainty will always be present. Our 2018 Annual Report, in the section entitled "Item 1A. Risk Factors," describes some of the risks and uncertainties associated with our business.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value that May Yet be Purchased Under the Plans or Programs ¹
July 1, 2019 to July 31, 2019	—	\$ —	—	\$ 233,607,968
August 1, 2019 to August 31, 2019	—	\$ —	—	\$ 233,607,968
September 1, 2019 to September 30, 2019	—	\$ —	—	\$ 233,607,968
Total	—	\$ —	—	\$ 233,607,968

¹ On May 31, 2019, the Company announced that the Board approved the \$250.0 million 2019 Knight-Swift Share Repurchase Plan, replacing the 2018 Knight-Swift Share Repurchase Plan. There is no expiration date associated with the 2019 Knight-Swift Share Repurchase Plan.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.
ITEM 6. EXHIBITS

Exhibit Number	Description	Page or Method of Filing
2.1*	Agreement and Plan of Merger, dated as of April 9, 2017, by and among Swift Transportation Company, Bishop Merger Sub, Inc., and Knight Transportation, Inc.	Incorporated by reference to Exhibit 2.1 of Form 8-K filed on April 13, 2017
3.1	Restated Certificate of Incorporation of Knight-Swift Transportation Holdings Inc.	Incorporated by reference to Exhibit 3.1 of Form 10-Q for the quarter ended September 30, 2018
3.2	Second Amended and Restated By-laws of Knight-Swift Transportation Holdings Inc.	Incorporated by reference to Exhibit 3.2 of Form 8-K filed on November 15, 2018
31.1	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by David A. Jackson, the Company's Chief Executive Officer (principal executive officer).	Filed herewith
31.2	Certification pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Adam W. Miller, the Company's Chief Financial Officer (principal financial officer).	Filed herewith
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by David A. Jackson, the Company's Chief Executive Officer.	Furnished herewith
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Adam W. Miller, the Company's Chief Financial Officer.	Furnished herewith
101.INS	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith
101.CAL	XBRL Taxonomy Calculation Linkbase Document	Filed herewith
101.LAB	XBRL Taxonomy Label Linkbase Document	Filed herewith
101.PRE	XBRL Taxonomy Presentation Linkbase Document	Filed herewith
101.DEF	XBRL Taxonomy Extension Definition Document	Filed herewith
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	Filed herewith

* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to supplementally furnish to the SEC a copy of any omitted schedule upon request by the SEC.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

SIGNATURES

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

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

Date: November 6, 2019

/s/ David A. Jackson

David A. Jackson

Chief Executive Officer and President, in his capacity as
such and on behalf of the registrant

Date: November 6, 2019

/s/ Adam W. Miller

Adam W. Miller

Chief Financial Officer, in his capacity as such and on
behalf of the registrant

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, David A. Jackson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Knight-Swift Transportation Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ David A. Jackson

David A. Jackson

Chief Executive Officer (principal executive officer)

RULE 13a-14(a)/15d-14(a) CERTIFICATION

I, Adam W. Miller, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Knight-Swift Transportation Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2019

/s/ Adam W. Miller

Adam W. Miller

Chief Financial Officer

(principal financial officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Knight-Swift Transportation Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Jackson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

a Delaware corporation

Date: November 6, 2019

By: /s/ David A. Jackson

David A. Jackson

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Knight-Swift Transportation Holdings Inc. and will be retained by Knight-Swift Transportation Holdings Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Knight-Swift Transportation Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Adam W. Miller, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

KNIGHT-SWIFT TRANSPORTATION HOLDINGS INC.

a Delaware corporation

Date: November 6, 2019

By: /s/ Adam W. Miller

Adam W. Miller

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Knight-Swift Transportation Holdings Inc. and will be retained by Knight-Swift Transportation Holdings Inc. and furnished to the Securities and Exchange Commission or its staff upon request.