SWIFT TRANSPORTATION COMPANY

Moderator: Jason Bates
July 22, 2016
11:00 a.m. ET

Operator: This is conference # 39720146.

Operator: Good morning my name is (Hannah) and I'll be your conference operator today. At this time, I would like to welcome everyone to the Second Quarter Swift Transportation 2016 Q&A Session Conference Call.

All line shave been placed on mute to prevent any background noise. If you should need during call please press star then zero and an operator will come online to assist you.

Mr. Jason Bates, you begin your conference

Jason Bates: Great thank you, (Hannah). We'd like to welcome everyone out to our second-quarter 2016 Q&A session. As a reminder, we have posted a comprehensive letter to stockholders which summarizes our results on the front page of our Investor Relations Web site.

We'll start the call today with our forward-looking statement disclosure. This call contains statements that may constitute forward-looking statements which are based on information currently available. Such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are inherently uncertain and are based on the current beliefs, assumptions and expectations of company management and current market conditions which are subject to significant risks and uncertainties as set forth in the risk factors section of our most recently filed annual report form 10-K.

As a result of these and other factors, actual results may differ from those set forth in the forward-looking statements and the prices of the Company's securities may fluctuate dramatically. The Company makes no commitment and disclaims any duty to update or revise any forward looking statements to reflect future events, new information or changes in these expectations.

So with that out of the way, I'd like to recognize the members of Swift's management team online today. We have Jerry Moyes, our Founder and Chief Executive Officer; Richard Stocking, our President and Chief Operating Officer; and Ginnie Henkels, our Executive Vice President and Chief Financial Officer. Again, my name is Jason Bates, first Vice President of Finance and Investor Relations Officer and I'll be moderating today's Q&A session.

As part of our evolving IR communication plan, as in quarters past we've strived to streamline the Q&A process by addressing key themes and categories, rather than answering every single question submitted. We have attempted to address each of the relevant topics. However, if you have any follow-up questions, feel free to reach out to me after the call.

Jason Bates: So we'll start today's call with some questions on EPS guidance and expectations followed by a discussion of each of the segments. The first, what are the biggest operational factors that changed between the mid-quarter update when you reaffirmed prior guidance and your current full-year 2016 expectations?

Ginnie Henkels: At the time of the mid-quarter call, we believed we could achieve the lower end of the previously disclosed range which is why we did not change it at that time. This range assumed, as we have said before, that capacity with tighten and demand would strengthen in the second half of the year.

With the contemplated depreciation changes we discussed in the letter and the more conservative outlook on volume and pricing, given that capacity and demand trends, although getting better, do not appear to be firming as quickly as we originally anticipated. Therefore, we have decided to lower the range to a more conservative level.

Jason Bates: Please confirm that the $4 million to $5 million of additional depreciation per quarter is reflected in the non-GAAP EPS guidance range for 2016.

Ginnie Henkels: Yes, this additional depreciation expense is reflected in the revised guidance range for both GAAP and adjusted EPS

Jason Bates: Is the difference between GAAP and adjusted EPS range of $0.07 solely related to the adjustment for amortization of certain intangibles?

Ginnie Henkels: Yes, that is the only expected difference at this time.

Jason Bates: What diluted share count are you assuming in your updated guidance?

Ginnie Henkels: We're assuming a full-year average between 135 million and 136 million shares.

Jason Bates: Can management comment on the overall health of the freight environment, particularly on the retail side? Is management's opinion, where are retail inventories relative to end consumption for Swift's customers and how has this changed over the last several months?

Richard Stocking: There are certain commerce and discount retailers whose business model involved building inventory. That hasn't changed over the past few months. There are other retailers who have been working off of excess inventories and or changing their business models to be just and therefore reducing inventories.

Based on what we know from certain retailers, they seem to be approaching their desired state which gives us hope that freight movements will start to improve in the second half.

Jason Bates: How would management characterize contract negotiations now relative to the last several months? How does the contraction of Class 8 truck orders impacted these conversations and is there still a perception of overcapacity in the trucking market among customers?

Richard Stocking This really varies by customer. Some of our customers are focused on the longer-term and very concerned about tightening capacity, as some of the regulations start to take hold. Others are more shortsighted and are taking advantage of the current overcapacity situation.

But with the spot market rates improving, and with decent volume trends in June and thus far in July, some customers, as recently as last week, have changed their thinking and are starting to express concerns about capacity and availability in the second half of the year. We are encouraged by this recent development with some of our customers and we hope that that trend will continue.

Jason Bates: What are the goals regarding fleet count? Should we expect continued declines in tractors? Which segments in particular?

Ginnie Henkels: As of now, we are expecting the consolidated fleet count to be relatively flat Q2 to Q3 and then potentially increase in Q4 depending on volumes and dedicated contract wins.

Jason Bates: In the shareholder letter, you expressed the expectation for overall truckload market dynamic to improve throughout the remainder of 2016. Can you provide some color around what you're seeing or hearing from customers to support that outlook?

Richard Stocking: Yes, as we just discussed there are a few things that are increasing our optimism for the second half. First, volumes thus far in July have been decent. Typically, July is one of the slowest months and we were fearful it would be extremely poor this year, which it has not; it's been good. Second, inventory overhang is starting to retreat which we are hopeful will drive more improvement. And third, the spot market rates are starting to rebound which is also a favorable signal for the market. In addition, most of our top customers are positive and our discussing capacity needs for the second half. Our seasonal project business is shaping up to be at similar levels as last year and customers are beginning to shift to align with compliant carriers to reduce their capacity risk as the ELD Mandate approaches. Given these early signs, we're cautiously optimistic that the truckload market dynamics could improve throughout the remainder of this year.

Jason Bates: Based on your revised guidance, first-half 2016 earnings will represent 42 percent to 45 percent of full-year earnings, compared to the historical average of 38 percent to 42 percent. Are there any contributors to this shift, the expected lower equipment gains in the second half versus the first half and the incremental depreciation for lower residuals? Or are there other seasonal factors this year relative to prior years?

Ginnie Henkels: The gains in the depreciation are the major contributors to this shift.

Jason Bates: Can you give us a sense of how much annualized cost Swift took out of its cost structure by the various initiatives that were implemented last quarter? When were the majority of these cost savings implemented? Should we consider these cost reductions as permanent reductions or volume variable?

Ginnie Henkels: We provided some examples of the cost-control initiatives we have implemented to provide color on the actions we're taking, but do not intend to quantify them as many of them are still in process and we also believe we have further actions to take. Some of the headcount reductions are volume variable. Our overall objective is to operate as efficiently as we can with lean and effective processes. We have several initiatives underway with very targeted implementation dates that we expect to help drive further improvements in the future.

Jason Bates: Given the discussed cost-control initiatives as a countermeasure to the challenging marketplace, can management comment on operating ratio expectations for the back half of the year? Is average seasonality a reasonable expectation or is there reason to believe the sequential market progression could be better or worse than historical?

Ginnie Henkels: Although our operational metrics should have more of a traditional seasonal pattern, the anticipated depreciation changes and the reduction in gains will have an impact on second half operating-ratio trends.

Jason Bates: Can you elaborate on the charges that Swift incurred in its non-reportable segment last quarter for insurance, leasing and maintenance associated with its owner operators? Will there be recurring charges in the second half of 2016 associated with these items?

Ginnie Henkels: With regard to insurance, our captive insurance company that provides various insurance products to our owner operators incurred some large losses in the second quarter. Although this can and does happen, the amount of the loss was unusual and is not expected to recur. In our leasing subsidiary, excess turnover has resulted in additional maintenance and truck backlog that is driving up expenses while reducing revenue. We're taking various steps to mitigate the situation, but some of the losses are expected to recur in Q3 related to this item. On the maintenance side, our expenses such as parts, labor rates, etc., have been increasing and we were a bit too slow to increase the rate returns to third parties for our maintenance services. We've been working to change our rates; and the profitability of our third-party shop operations is expected to improve in Q3 and as we move forward. Given these trends, and the fact that we do not expect the $1.5 million legal settlement that was recorded in the other segment to recur, we would expect the operating loss of the non-reportable segment to be in the $4 million to $6 million range in Q3, but should move to profitable level in Q4 given the improvements just discussed as well as some of the seasonal project business that we participate in in the fourth quarter that's reported in this other segment.

Jason Bates: Other EBIT was much more negative than expected driven by owner-operator expenses and legal settlements. Are these legal costs incremental to $0.02 of legal settlements called out in EPS?

Ginnie Henkels: I just covered the first part of this question about the owner-operator expenses, but regarding the latter part of the question, the $0.02 of EPS related to legal settlements refers to two individual items - one was the roughly $1.5 million that was recorded in the other non-reportable segment I just discussed. The other is a $3 million reserve related to a certain cost action that is included in other income and expense on the P&L below the operating-income line.

Jason Bates: So we'll move into the segments starting with the truckload segment. How does July look sequentially and year over year in terms of pricing and load counts across in the truckload business. One of your public competitors suggested July was showing improvement.

Jerry Moyes: Our month-to-date July results are encouraging. “Improvement” is a relative term. In our truckload segment, we are relatively flat in total loaded miles over year-over-year, but that's all with almost 100 less trucks. So our utilization has improved which is one of the key metrics we monitor. We hope to see this trend continue throughout the quarter.

Jason Bates: What is your expectation for the truckload dedicated operational fleets for the remainder of the year?

Richard Stocking The short answer is we expect the combined truckload and dedicated fleets to be relatively flat for the remainder of the year although we will likely experience a mix change between the two segments. Moving some of the OTR trucks, especially those which have been operating the spot market over to our dedicated segment in order to handle new customer awards.

For our truckload fleet, we will continue to closely monitor the fleet size and adjust it as necessary based on the utilization we are able to achieve. The goal is for our sales team to work with our customers and fill the freight basket with profitable freight. However, their ability to do so is somewhat dependent on the overall economic environment. To the extent we are able to achieve our utilization goals in conjunction with adding capacity, we will do so.
Based on our view of the economic environment today, and our desire to

drive continued improvement utilization, we currently expect the truckload segment fleet to be flat to slightly down over the next couple of quarters.

Dedicated is different. In that segment, fleet growth is a function of our ability to earn customer awards at or above our internal profitability threshold. If you look at our dedicated fleet, the total number of trucks is relatively flat year over year, but we have cycled out underperforming fleets and replaced them with more profitable fleets, a process we will continue to follow in conjunction with the addition of several recent customer awards which we'll start in the third and the fourth quarters.

Jason Bates: What are the recent trends in truckload driver turnover in the second quarter 2016 versus the first quarter 2016 as well as year over year?

Jerry Moyes: Our driver turnover has been slightly better in second quarter than it was in first quarter, but it has increased slightly year over year. Keep in mind the past couple of quarters have been some of the toughest quarters in our industry that we've seen in a long time. This struggle is not necessarily a “demand” issue as our top customers are doing fairly well. The issue is that our industry has had too much capacity (a problem that is starting to be ….and we believe will continue to be corrected over the rest of this next year).

But given the demand / capacity imbalance, large amounts of high-quality miles have been tough to come for by our drivers, especially in the first quarter. And even though we have had a variety of driver-friendly initiatives to help keep our drivers at Swift, as opposed to going to drive for some other carrier. The freight environment has been tough, which has caused some drivers to seek employment in other industries. For this reason, we have been more aggressive as of late at managing the size of our fleet to ensure utilization so our drivers can earn a solid wage for their families. Our Company and our industry don't have a driver problem; we have a turnover problem. If we can get that solved, we will go a long ways.

Jason Bates: You emphasized in your letter that better asset utilization is the focus, but it doesn't seem like deadhead miles changed much year over year. What are the company's goals on asset utilization? How will that impact fleet counts?

Richard Stocking: To be clear, when we discussed utilization we were referring to loaded miles per truck per week. This metric does not include deadhead which is the empty miles we run. That is a separate metric which we monitor as well. Therefore it is possible for us to realize utilization improvements in spite of deadhead increasing slightly. Unfortunately, for various reasons outlined in the letter to stockholders the second quarter, we are unable to realize utilization improvements in the truckload segment. The overall capacity / demand environment will obviously play a role, but our goal is to improve year-over-year utilization between 0.5 percent to 1 percent in the third and fourth quarters of 2016.

Jason Bates: So there were a lot of questions about pricing and spot-market trends that we've seen. But first, for contracts signed in the second quarter of 2015, how did the rates compare to the prior-year period? What is your expectation for contract pricing in the second half of 2016?

Jerry Moyes: Contract rates increases were a positive figure in the second quarter when compared to the same period the prior year. They came in between 0 and positive 2 percent depending on the contract / account. Some customers and lanes had rates that exceeded this range. We anticipate the contract increases in the back half of the year to be relatively in-line with the 0 to 2 percent positive range, offset by the spot market.

Jason Bates: Given the increased reliance on the spot market, given current freight conditions, can you provide a breakdown of the percent of revenue derived from contractual agreements and spot agreements for each segment as of the end of the second quarter of 2016? When do you believe this will shift back towards more exposure to the contractual agreements?

Richard Stocking: If you look at our truckload segment for the first half of 2015, our spot market participation was between 2 percent to 3 percent of our total loaded miles for any given month. Those percentages increased to 4 percent to 7 percent in the first half of 2016. Therefore, our spot market exposure more than doubled. While that is a relevant metric, the more meaningful one is the change in the rate per mile excluding fuel surcharge for this spot business. While the rates for our contract business were up 0 to 2 percent year over year, in the first half of 2016, the rates in our spot business were down between 10 percent to 17 percent year over year depending on the month. So the combination of increased exposure and the dramatic reduction in rates is why we saw the blended rate per total loaded mile, excluding fuel, to decline in the second quarter.

And to be honest with you, even though we anticipate positive contract-rate increases for the second half of 2016, depending on how quickly the spot market bounces back and how quickly we can reduce our exposure to that market, it is likely that the weighted average rate per loaded mile excluding fuel continues to be negative in the back half of the year. Keep in mind, this data is specific to the truckload segment which is the most relevant segment for measuring or analyzing spot market participation. However, this data would be directionally representative of other segments which have experienced increased participation in that market as well.

Jason Bates: What is management expecting with regard to mix (spot market and contractual exposure) for the second half of truckload?

Jerry Moyes: As we've discussed, unless the spot market rebounds from a pricing perspective, we are hoping to see a reduction in our spot market exposure on the back half of this year. As previously discussed, we will be moving trucks out of our truckload segment and into dedicated segment to handle the recent dedicated customer awards. However, if we're still relying heavily on less desirable spot market with our remaining truckload fleet, we will consider adjusting the fleet accordingly.

Jason Bates: How would you compare the current spot-pricing environment with that at the end of the second quarter of 2016?

Jerry Moyes: The current spot-market pricing in July has begun to stabilize. It is still down year over year, but not nearly as severe as it was in the first half of 2016.

Jason Bates: Do you believe the improvement we have seen recently in spot data is just seasonality, slightly better than seasonality, or an inflection in the cycle? Is it too early for us to be feeling the effects of reduced industry capacity from ELDs or truck orders?

Richard Stocking: Yes we would characterize it as slightly better than seasonality; we believe it is too early to call it an inflection in the cycle. We have seen improved spot-market data points for a handful of weeks, but keep in mind, that is on the heels of six months of poor data points. While we may be feeling the very early signs, the industry capacity ELD impact is probably not the key driver right now. We hope that will become more prevalent, but you will know it as they will have much more meaningful impact on the rate environment.

Jason Bates: In trying to increase freight levels with new and existing contract customers, aren't they asking for negative rates now as well?

Richard Stocking: Yes, that has been the case all year; that is generally the customers' starting point in contrast to us asking for a decent rate increase. As part of the negotiation, we remind our customers of the importance of long-term thinking and about the value of strategic partnerships. We also remind them of the consequences of thinking short-term. Additionally we help them understand the breadth and the depth of our suite of services that we provide and the variety of unique factors that differentiate Swift from the competition. Sometimes we are successful in negotiating a happy medium; other times we have to demonstrate how serious we are about being disciplined in terms of the freight we haul and we elect to walk away from certain business.

Jason Bates: The sequential reduction in truckload deadhead was impressive in the second quarter of 2016 and you mentioned that the increase in spot-market activity has helped with this; but how easy will it be going forward to continue to take comps out of the business to help sustain or improve your truckload operating ratio if the pricing environment remains at current levels? Or how far along are you in implementing the full extent of your cost-control initiatives?

Richard Stocking: Thank you. Deadhead will continue to be a focal area for us and we believe we have additional opportunities to improve in this metric. Regardless of reducing our exposure to the spot market going forward.

We have talked about a few of the cost-control initiatives in the letter for a couple of reasons. The point was not to quantify each one or provide timelines for implementation or completion. We don't want to get into the practice of our disclosing that level of detail. However, we want to give you as investors the flavor of the type of initiatives we have implemented or in the process of implementing to demonstrate our commitment to cost control.
I know some of you have been following Swift for several years; many of you may recall the significant cost-control culture and belt-tightening discipline we demonstrated in the lean years of 2008 and 2009. We cut close to $100 million of cost out of the business model during that time and we're the only major trucking company to actually improve its operating ratio and EBITDA through that tough economic environment. Obviously, we are not in that same draconian environment today, but as an organization Swift has demonstrated the ability to get lean and cut costs and we are prepared to exercise that same discipline going forward if necessary

Jason Bates: Moving to the dedicated segment, can management provide more color on the growth opportunities for existing customers i.e., the type of account that Swift is growing with. What are management's expectations around the timing of adding 100 to 200 additional trucks during the second half of 2016 and where will these trucks be sourced from, new versus existing equipment?

Richard Stocking: As we mentioned, this dedicated truck count growth is coming from our existing customer base, ranging for retailers to consumer product companies. Based on our implementation schedules with our customers, this growth is expected to be evenly spread between the third and the fourth quarters. If anything, the growth maybe slightly heavier in the third quarter. These trucks will be sourced from a variety of areas including new tractors and redeployed tractors from underperforming fleets.

Jason Bates: How does the tractor productivity on these dedicated wins compare to what Swift achieved in the second quarter?

Jerry Moyes: The tractor productivity for this new growth has been modeled to be very comparable to our existing dedicated fleets.

Jason Bates: How is dedicated pricing holding up? Is the market, competitors behaving rationally?

Richard Stocking: Dedicated pricing behavior has been fairly rational as the typical dedicated contract is a multi-year agreement. Customers understand that pricing needs to support escalating costs for the entire length of that contract.

Jason Bates: Dedicated revenue per tractor per week was up 7.3 percent. Is that due to stronger pricing, better utilization, some combination of the two, something else entirely? How have you assigned credit between those tractors?

Jerry Moyes: The increase in our dedicated revenue, per tractor, per week is due to improvements in both pricing and asset utilization, as we've worked hard to operate our fleets more efficiently while also securing additional backhaul opportunities and other price increases.

Jason Bates: Dedicated seems to be evolving as your most stable line of business. It also seems to be presenting you with a steady stream of growth opportunities. Would you consider making an acquisition in the dedicated market and or would you consider concentrating the bulk of your growth-oriented sales initiatives in this attractive segment?

Richard Stocking: We're pleased with the progress our dedicated team has been able to achieve and feel confident that our current initiatives will allow for these improvements to grow and be sustained. Keep in mind we grew organically by close to 40 percent over the past couple of years and our confident in our ability to continue to grow organically without having to pay an acquisition premium

Jason Bates: What are your expectations for the second half of 2016 in terms of dedicated weekly revenue ex FSC?

Jerry Moyes: While we do not disclose the level of specific on this segment or metrics, but I will say that we're excited about the remaining portion of this year and feel that the expected truck growth will further increase profitability.

Jason Bates: Moving to the intermodal segment, how much margin expansion is contemplated in intermodal? What are the biggest risks to expanding margins? What factors could drive upside to plan at these segments in the second half of 2016?

Richard Stocking: We remain committed to expanding our margins to the mid-90s operating ratio and maintain our belief that this is an attainable mid- to long-term objective. The biggest risk to expanding margins are not generating adequate volumes or experiencing unsustainably low pricing results. We have right sized our cost structure to the level of the volumes we anticipate for the balance of this year. Additionally, we have maintained a disciplined pricing strategy in bids throughout the bid season. This is reflected in the revenue per load improvement in Q2. These actions have mitigated what we believe are the primary risks to expanding margins. Upside to plan could be delivered by exceeding either our volume or pricing expectations along with continued acceleration of cost reduction in dray and rail costs.

Jason Bates: Several railroads noted that they expect the consumer to be weak in the second half of the year. Do you agree?

Richard Stocking: There is clearly uncertainty in consumer demand. We are offsetting this risk by winning additional business with new customers along with expanding our market share with our current customers.

We feel that we have had a successful bid season to date with a few final large bids nearing completion. This should allow us to either mitigate consumer weakness or accelerate our growth rate if consumer demand is stronger than anticipated.

Jason Bates: We have heard the intermodal volumes have further weakened in July. Would you concur?

Jerry Moyes: July is typically a more difficult volume month with the combination of Independence Day holiday and a reduced number of workdays relative to other months. We are experiencing increased demand strength in many markets although there are some markets that the demand is lagging. Overall, we don't feel that demand has weakened; however, continuing in-line with the improvements that we saw in second half of Q2.

Jason Bates: Would you consider divesting the intermodal segment if unable to consistently obtain profitability targets?

Richard Stocking: Similar to what we have reiterated on prior calls, we believe intermodal can offer long-term value to both Swift customers and shareholders. Many of our current customers value a true asset base, multimodal transportation solution of which Swift is one of only a few companies that can truly offer this value to their customers. That being said intermodal, like every other business at Swift, must cover its cost of capital. If we feel the intermodal division is not likely to attain this objective, we will evaluate all of our options.

We still believe we can reach a mid-90s operating ratio on a consistent basis and that remains our objective. We feel our real contracts are competitive and we're focused on growing top-line revenue while implementing cost-control initiatives. The first half of the year was a challenge from a volume perspective; however, we do not believe we're entering a long-term market downturn. As inventory levels are reduced and customers better understand the impact of upcoming ELD requirements, we anticipate a gradual strengthening of demand as we move further into the year. We feel our operating model is refined, our service and safety results are strong and we have taken costs out of our intermodal division. The foundational components to deliver consistent profitability are in place as we continue to bring in more profitable priced volumes.

Jason Bates: Moving to the Swift refrigerated segment, how much margin expansion is contemplated in Swift refrigerated? What are the biggest risks to expanding margins? What factors could drive upside to plan at these segments in the second half of the year?

Richard Stocking: The expectation within our Swift refrigeration is to consistently improve profitability. Profitability for the second half of this year is expected to be in the mid-90s when accounting for the potential depreciation impact discussed in the letter to stockholders. With further yield expansion into 2017 and beyond, we believe these expectations are realistic and very achievable. Obviously risks to this expansion would include a variety of different factors such as loss of key customers, driver shortages, sharp increases in fuel, increases in accidents and so on and so forth

Jason Bates: You reduced the refrigerated segment fleet by 117 tractors on sequential basis in the second quarter. Should we expect additional sequential reductions in the quarters ahead? In other words, where do you think the fleet will shake out over time given demand trends and utilization goals?

Jerry Moyes: We made the decision to reduce our tractor count in the first and second quarter of this year based on the available freight levels during those time periods. This reduction allowed us to more efficiently operate our fleet and is one of the key factors which has led to second-quarter profitability improvement. We feel confident we can sustain these improvements going forward and don't have any potential fleet reductions planned for the second half of the year. We are hopeful to be able to grow this fleet at the capacity tightens.

Jason Bates: Refrigerated truck counts were down 6.7 percent sequentially? Is that segment seeing more weakness in the supply-demand dynamics than other segments of the business?

Richard Stocking: The combination of a slightly weaker refrigerated freight market at the outset of the quarter and the ongoing impact of the customers lost in the first quarter, again a supply-demand imbalance. However as the quarter progressed, freight volumes improved as a result of our success in attracting new customers which helped increase our load utilization. We are extremely pleased with the progress made and we believe we can continue this momentum throughout the second half of this year and into 2017.

Jason Bates: A couple questions on debt and CapEx. Does your expectation of keeping leverage below 1.99 times include additional repurchases in the second half of 2016?

Ginnie Henkels: Yes, we do expect to have additional repurchases in the second half. But given the reduction in earnings and the corresponding impact of free cash flow to keep our leverage ratio below 1.99 our net debt reductions for the full year will likely be more than the $30 million to $50 million originally targeted. With lower free cash flow and higher debt reduction, the amount available for repurchases will be less than originally anticipated.

Jason Bates: For trucks and trailers, could you talk about directionally how we could see CapEx trending next year?

Ginnie Henkels: We have not yet completed our capital plan for 2017, but based on what I know today, I would expect our tractor purchases to be a bit heavier and our trailer purchases to be a bit lighter.

Jason Bates: So we'll move into a handful of miscellaneous questions here before we wrap up. The first, how is the driver wage environment?

Richard Stocking: Enabling our drivers with the opportunity to earn a competitive wage remains a top priority. In fact, delivering a better life for our drivers will always remain the top priority here at Swift. We're currently focusing on several driver-friendly initiatives that will help drivers be more satisfied and productive while at work as they will help increase home-time requests and miles driven. We will continue to focus on increasing our utilization which will enable our drivers to bring home more money to their families, so we're bringing predictability in our drivers' home time and their paychecks.

Jason Bates: How were the gains on sale broken down among the different operating segments last quarter?

Ginnie Henkels: We're not disclosing exactly how the gains were accounted for in each of our segments, but I will say that generally speaking the gains are allocated based on the amount and type of equipment each segment utilizes. So a larger segment, such as truckload, would recognize a higher portion of the total gains to be allocated

Jason Bates: How should we think about that change of the $6 million to $9 million of gains on sales projected in the second half of the year?

Ginnie Henkels: The gain on sales in the second half should be relatively consistent between the third and fourth quarters, roughly $3 million to $4.5 million per quarter. This is assuming no dramatic fluctuations in the used equipment market.

Jason Bates: Used tractor prices found a trough in early third quarter 2016. What is the risk of further erosion considering the potential lack of retail buying interest or elevated rate of disposal ahead of and into the ELD mandate?

Jerry Moyes: Used truck markets softened earlier in the year, but it seems to have found the bottom as of late. Given the potential lack of retail buy-in and increased disposals related to the ELD mandate, we are expecting the market to be relatively soft which is why we are evaluating our depreciation useful lives and residual volumes.

Jason Bates: What factors in the marketplace could offset the benefit of the ELD mandate?

Richard Stocking: Some of the minor concerns cited include enforcement, consequences for violation, ability for carriers to continue to falsify logs, et cetera. However, from our perspective the more meaningful concern would be if the ELD mandate or implementation were to be postponed. We're already seeing this mandate affecting customers, the bid activity and fully expect this mandate, once implemented, to tighten capacity throughout the network. Once this capacity contraction occurs, we believe Swift is extremely well-positioned to benefit.

Jason Bates: If you record further depreciation expense in the third quarter 2016, how long will that continue?

Ginnie Henkels: The depreciation base is expected to increase in Q3 and then will continue at that run rate subject to changes in the fleet size combined with the mix of owned versus leased equipment.

Jason Bates: With all the talk regarding autonomous trucks, do you have a view as to when the technology will be available and meaningfully implemented?

Jerry Moyes: No. I'm aware of several of these trucks that are being tested in Nevada and some select states in the United States; and that this technology is more widely used in Europe, but as to when it will make a more meaningful impact throughout the truckload industry is very difficult to predict.

Jason Bates: Can you discuss any special initiatives you may be developing in e-commerce arena? Is that space more or less competitive than the traditional big-box retailer segment?

Richard Stocking: Although I won't disclose any of our proprietary initiatives tied to this arena, I will say that we are extremely excited about the rapid emergence of e-commerce and feel we are strongly aligned with some of the fastest growing companies in this space. We look forward to expanding these partnerships into a variety of our suite of services.

Jason Bates: Do you believe that the OOIDA lawsuit regarding ELDs has any merit or will the mid-December 2017 deadline for installing ELDs hold?

Jerry Moyes: We cannot comment on the merit. The FMCSA has weighed in with the support of ELD and it's very unlikely that the Supreme Court will take this case, but it's possible; therefore we can only guess at this time.

Jason Bates: So that concludes the questions. We will go ahead and turn the call over to Jerry for a wrap-up.

Jerry Moyes: In summary I want to reiterate the past two quarters have been a couple of the most difficult quarters that I can remember in the past several years. In spite of this difficult environment, we're fairly pleased with the operation results our team has delivered. As we discussed, the capacity, the demand imbalance has been very prevalent which has created a variety of challenges.

As I said earlier most of our top customers are doing very well and are showing year-over-year improvements in their volumes. Both first-quarter and second quarter 8 of our top-10 customers have shown improvement in their top-line volumes in the US. I believe the current challenge for Swift is not so much of a customer demand, but rather an industry-supply issue.

However, I also believe the industry capacity is slowly beginning to right-size itself. We are seeing very low class-A orders and the bankruptcies are on the rise. With the approaching ELD mandates next year, the capacity imbalance issue should become less pronounced which will eventually cause the pendulum to swing in the direction of the carrier as it relates to rate discussions.

We are cautiously optimistic about the back half of the year, but recognized that some of the items that we've discussed will continue to weigh in on our industry. As such, we feel that it's prudent to be cautious in our expectations for the remainder of the year. Rest assured, as an organization, we'll work diligently to exceed expectations, but we also want to be assured that these expectations are real and achievable.

I just want to reiterate that the second quarter, about two-thirds of our business is in our truckload and our dedicated; and second quarter, we achieved about an 88 operating ratio, so this isn't quite as bad as everybody thinks it is.

Once again, I want to thank you for your continued support of Swift and look forward to talking with you again in early September at our mid-quarter third-quarter conference call. Thank you everyone.

Operator: That concludes today's conference call. Thank you everyone for your time. You may now disconnect.

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