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SWFT - Q1 2012 Swift Transportation Earnings Conference Call

EVENT DATE/TIME: APRIL 20, 2012 / 5:00PM GMT

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CORPORATE PARTICIPANTS

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Richard Stocking *Swift Transportation - President, COO*

PRESENTATION

Operator

Good afternoon. My name is Derek and I will be your conference operator for today. At this time, I would like to welcome everyone to the Swift Transportation first-quarter 2012 Q&A session. (Operator Instructions). Thank you. Mr. Jason Bates, you may begin.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Great. Thank you, Derek. We want to welcome everyone out today and appreciate all the questions that have been submitted.

As a reminder, we do have our comprehensive letter to stockholders posted on our IR site, and we're going to actually start today with a forward-looking statement disclosure that I'm going to read through today real quick.

This report -- or this call will contain statements that may constitute forward-looking statements which are based on information currently available, usually identified by words such as anticipates, believes, estimates, plans, projects, expects, hopes, intends, will, could, may, or similar expressions which speak only as of the date the statement was made.

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; are based upon 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 annual report, Form 10-K, for the year ended December 31, 2011.

As to the Company's business and financial performance, there are many factors that could cause actual results to differ materially from those in any forward-looking statements. You should understand that there are many important factors in addition to those discussed and in our filings with the SEC that could impact us financially. As a result of these and other factors, actual results may differ from those set forth in the forward-looking statements, and the price 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.

In addition to our GAAP results, this presentation also includes certain non-GAAP financial measures as defined by the SEC. The calculation of each measure, including reconciliation to the most closely-related GAAP measure, and the reasons management believes such non-GAAP measure is useful are included in the schedules attached to our letter to stockholders.

With that out of the way, I'd like to recognize the members of Swift's management team on the line today. We have Jerry Moyes, our Founder and Chief Executive Officer, who is joining us remotely from one of our terminals; 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, and I will be moderating today's Q&A session.

We, again, appreciate all the questions that you have send in that we received yesterday afternoon. We've gone ahead and grouped them into categories, and we'll strive to get through them all as expeditiously as possible today.

So with that, let's start off with a few questions on insurance. What was the $6.7 million insurance charge for adverse development from 2006-2007 due to? Is it ongoing? Is this for underaccruing on insurance reserves? Was this the result of several accidents, one large accident? Does it lead to higher insurance premiums and ongoing insurance costs?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

The $6.7 million charge was related to adjustments in prior-year reserves, the majority of which were related to two claims, one from 2006 and one from 2007.

These types of adjustments happen when the facts and circumstances of the case develop unfavorably, such as new witness testimony comes in, additional surgeries are required for the plaintiff, or the claim itself is settled. When these facts become known, the claim is reassessed and the adjustments are made, and these adjustments can be favorable or unfavorable.

Unfortunately, we do not have the ability to time these developments, and the charges or reductions are taken when the facts are known. Otherwise, we certainly wouldn't have recorded a benefit in the fourth quarter of 2011 only to book a charge in the first quarter of 2012.

Keep in mind, this is the process for older claims. In the current year, the accruals are based on actuarial models and the number of miles driven. The negative adjustments in the first quarter should not have an impact on our insurance premiums going forward or our ongoing insurance costs. We believe that we are adequately reserved for the open claims that we have today, and these reserves are reviewed by an independent third party, as well as our external auditors.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Underlying insurance performance looked pretty good, excluding the prior-year period accrual. Could you talk about recent trends you have been experiencing? How should we think about modeling insurance and claims expense through 2012? Should we still expect total insurance and claims expense for the full year of 2012 to be in the 3.8% to 4% of total revenue, excluding fuel surcharge, range? Do you expect Q2 will be the same as Q1?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

At this point, we believe the range of 3.8% to 4% for the full year to be good.

In each of these last three years, the expense related to the current-year claims have been higher in the first half and lower in the second half of the year as the actuarial models are trued up for our current-year experience. Through March of this year, our crashes per million miles have improved year over year, so if all goes well we hope to have the same experience this year, but that, obviously, is to be determined.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So there were also several questions with regard to gains. The first one here, guidance of $3 million a quarter for gains for the rest of the year implies $13 million to $14 million total for the full year of 2012, quite a bit higher than your prior expectations for total gains, which was not exceed the full-year 2011 levels of $8.5 million. How much of this upward revision is attributable to higher tractor dispositions versus a stronger used truck market, and are there other factors at play here? Does your guidance for $3 million of gains on sale per quarter going forward include expectations for higher costs to prepare for sales and trade-ins, or will these costs partially offset higher gains? Can you quantify?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

Our current expectations on the gains are higher than we previously thought, primarily because we're selling more tractors on the open market than we originally thought, as opposed to trading them back to the OEMs, and therefore the gains have been higher due to the strength in the used truck market.

We also have more insight into the actual trucks we expect to dispose of this year. Remember that we are disposing trucks primarily based on miles, not age. Therefore, our trade process is not as precise as it once used to be and can vary from our projections based on application of the truck, meaning that if it moves into a team operation and runs more miles quicker, it may be traded earlier than we thought, or if it moves into a dray operation and is running fewer miles, we may keep it longer.

With regard to the trade prep costs, we are not netting all of the trade costs in this $3 million gain per quarter estimate. That is separate and is included in operating supplies and expenses, just as it was in the first quarter.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

There was another question here on the impairment. The question was, why was a property written down for $1.1 million, especially when its value was just $1.7 million? Was there an environmental issue?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

No, there was no environmental issue on this particular property. There is -- it is a vacant property in a very remote area, and we've been trying to sell it and have had zero interest.

So as part of our normal accounting procedures, we regularly assess our assets for impairment, and the current valuations did not support the book value for this property, so therefore an impairment was required.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Summarizing these first three different types of question, there was one here about the adjusted EPS calculation. Why were the impact of certain one-time items, the $5.2 million favorable settlement gain, the $1.8 million cost per tractor trade in preparation, and $6.7 million charge from prior-year claims, not removed from adjusted first-quarter 2012 EPS, particularly since the net adjustment seems to have been favorable? Is there anything about these items that may be repeating? How do you determine what to include in your adjusted EPS calculation?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

This is a great question, and one that has apparently created some confusion. So I want to spend a minute here explaining our adjusted EPS calculations.

We've also found that several analysts and investors are not calculating this consistent with our previously-disclosed definition, so I want to explain that as well.

So our adjusted EPS measure is a specific defined calculation, the purpose of which is to adjust our operational results for non-cash, non-operational items, not necessarily nonrecurring operational items. So that's an important distinction. The measure has a specific definition, and we have been using this adjusted EPS in all of our earnings releases and financial reports filed with the SEC since our IPO. The definition is in each one of our releases and is shown on page 48 of our annual report.

So it's calculated as follows. We take our earnings before taxes and then we add back the amortization of the intangibles from our 2007 going private transaction. We add back any non-cash impairments, such as the $1.1 million on the property I just discussed. We add back any other special non-cash items. We also add back excludable transaction costs, such as the approximately $21 million associated with the write-off of the OID and deferred financing costs that we had as a result of the debt replacement that recurred in March. We also adjust for the marked-to-market impact of interest rate swaps in a given period, which we currently do not have. And then, we also adjust for the amortization of the previous losses recorded in OCI related to the interest rate swaps that we terminated upon the IPO.

So the resulting number is then tax effected using a normalized 39% tax rate and divided by our diluted shares outstanding.

So therefore, getting back to the first part of the question, the insurance and claims adjustments, the gains on sale, and the trade prep expense were not adjusted because they are clearly operational and cash related. The impact of the settlement with the Port of LA is operational because the expenses associated with our business in the port have previously been recorded in operations, for which this benefit is intended to offset. And it also represents cash that was previously paid to us by the port.

The accounting treatment for which the Port of LA -- or for the Port of LA has been reviewed and approved by our auditors. We understand that it is nonrecurring, though, which is why it is clearly and fully disclosed, but it does not meet the requirements for adjusted in our defined EPS calculation.

We are trying to be as transparent as we possibly can in our disclosures in an attempt to help you make the appropriate modeling decisions. We are not trying to be deceptive; in fact, it's just the opposite, which is why we've generated a 20-page disclosure. What we are learning is that too much disclosure and transparency may be confusing people as we try to read -- as they try to read between the lines, not realizing that we have already filled in the blanks. We will evaluate our level of disclosure going forward.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Great, Ginnie. Thank you. So let's go ahead and shift gears here a little and focus on our strong operational performance in the quarter.

Richard, there were several questions on our rates. The first one, should we think about the guidance for 3% to 4% improvement in truckload pricing for the full year as being uniformly spread throughout the year, or will it be impacted by any seasonality? Also, will the increases be evenly spread amongst your customer base or skewed towards any particular industry?

Richard Stocking - *Swift Transportation - President, COO*

We believe our year-over-year consolidated rate increase percentage will be relatively consistent throughout the remaining quarters of the year, in that 3% to 4% range. And additionally, we don't anticipate a large variation from these levels towards any particular industry.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Based on the contracts you currently have in place, or those you are working on, for the remainder of the year, can you describe how pricing increases may change from quarter to quarter?

Richard Stocking - *Swift Transportation - President, COO*

Sure. As I mentioned previously, we don't currently anticipate large variations in the year-over-year price increases from one quarter to the next.

However, when that has occurred in the past, it has commonly been a result of large changes to our business mix, such as an additional -- an addition of a substantial dedicated or refrigerated piece of business, or significant increases in our contracted rates with top customers.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Can you provide any comments or insight into the current bid season? Have there been any changes in duration? For example, is Swift signing two- to three-year contracts?

Richard Stocking - *Swift Transportation - President, COO*

As we've discussed in the past, what used to be a traditional bid season in the first quarter has slowly morphed into a drawn-out process that is more evenly distributed throughout the year.

Entering into multi-year contracts is not new; however, when we do that, we typically incorporate yearly reviews and price escalators into that contract. Having said that, we feel good that the bids we have processed thus far in 2012 are consistent with our goals and objectives for this year.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Was the 3.5% increase in pricing a reference to loaded or total rate per mile?

Richard Stocking - *Swift Transportation - President, COO*

It is referring to our loaded rate per mile.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Can you provide some color on how rates trended in the first quarter on a monthly basis?

Richard Stocking - *Swift Transportation - President, COO*

While we do not disclose the monthly details behind our rate per mile, I can say that the trend was positive and built continuously throughout the quarter.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

What is your view on spot pricing? Are there any regions that pricing has been weaker or stronger?

Richard Stocking - *Swift Transportation - President, COO*

As we previously shared, we do not anticipate -- or participate very much in the spot market. However, we do provide our customers with capacity repositioning options to meet their transportation needs, and that market has seemed relatively consistent on a year-over-year basis.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So your revenue per tractor per week improved approximately 7% on a year-over-year basis in the first quarter. In 2011, the year-over-year improvement in this metric declined approximately 1% each quarter from the first quarter to the fourth quarter. Should we expect a similar trend this year?

Richard Stocking - *Swift Transportation - President, COO*

Our year-over-year improvement in revenue per tractor per week was partially driven by our planned fleet reduction and resulting in increased utilization, as well as our other initiatives centered around more miles per truck.

We don't anticipate the same year-over-year improvements in the second quarter as we add back equipment, but we should see improvements in the third and the fourth.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So, Richard, there was also a lot of questions about deadhead. The first one here, your deadhead percent was down again on a year-over-year basis, but I noticed that it increased sequentially. Are there seasonal factors that make Q1 deadhead higher than in other quarters?

Richard Stocking - *Swift Transportation - President, COO*

Yes, it does. Seasonality trends do come into play and should be considered when analyzing deadhead. Generally, deadhead is higher in the first quarter due to seasonality and fourth quarter due to some of the holidays.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

What should we expect with deadhead on a go-forward basis?

Richard Stocking - *Swift Transportation - President, COO*

We've made a lot of improvements over the past several quarters, and this continues to be a focus for us.

However, on a consolidated basis, the future year-over-year improvements may be masked a little bit as a result of growth in our dedicated intermodal and Mexico business, which typically have higher empty miles.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Do you think the mild winter helped reduce deadhead in the quarter?

Richard Stocking - *Swift Transportation - President, COO*

While weather can play a factor, the year-over-year impact on our consolidated deadhead percentage for the quarter was relatively insignificant. The lion's share of our improvement came from our internal initiatives centered around optimizing our network and loading our trucks where they land.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So a year ago, you listed empty miles in the first quarter as 12.8%, but the latest release showed that at 12.1%. What changed?

Richard Stocking - *Swift Transportation - President, COO*

I actually had our team go back and verify this. We reviewed our first-quarter 2011 10-Q, as well as our first-quarter 2011 earnings call presentation. And both showed our deadhead percentage was clearly at 12.1%. Both of these documents are available to our -- on our investor relations website. So feel free to reach out to Jason if you have any questions relative to that number.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Okay. There are a lot of questions about volume trends and utilization and some of the things that Swift is doing in this regard. The first one here, can you please confirm your year-over-year percent change in total loaded miles in the first quarter? Based on my calculation, the improvement appears to be less than I would've expected. Does it imply a weakening or slowing of growth, or is it a function of fleet changes, driver turnover, intermodal activity, or something else?

Richard Stocking - *Swift Transportation - President, COO*

Our year-over-year total trucking loaded miles improved 0.6% in the first quarter. This moderate improvement is primarily a function of our planned fleet reduction, designed to enhance the utilization of our existing assets, combined with a focus on growing our intermodal volumes within the quarter.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

How do you rate your success reducing your fleet at the start of the year to improve utilization? Did you have business that you are not able to service as a result, or was it a success?

Richard Stocking - *Swift Transportation - President, COO*

We were very pleased with the results of our planned fleet reduction. We feel our team did a good job of matching our equipment, capacity, and seasonal demand.

Having an appropriate-sized fleet allowed us to ensure we are hauling the best freight for our network, ensuring optimal balance and improved profitability. That may mean we pass on certain less desirable freight, but we believe it was a good decision and we will continue to monitor the size of our fleet to ensure we are properly balanced with our capacity and the high-quality demand.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

It looks like Swift had a higher tractor utilization this quarter. What initiatives, like the Plus One initiative, have you been implementing to improve utilization and what are your expectations for continued improvement?

Richard Stocking - *Swift Transportation - President, COO*

As we've discussed, the planned fleet reduction played a role in our 3.1% improvement year over year for loaded utilization in Q1.

We do have various process improvement projects and longer-term initiatives, such as the Plus One initiative, which we believe will further enhance our efficiency.

Regarding expectations for 2012, I would say that we will continue to closely monitor the size of our fleet and the focus on our initiatives with the goal of realizing approximately 3%-ish utilization improvement on a full-year basis.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Can you discuss volume trends throughout the quarter? You had commented that margins started out slightly week. Did that improve? And has that momentum continued into April?

Richard Stocking - *Swift Transportation - President, COO*

As we mentioned at some of the conferences that we attended this quarter, we were pleased by the year-over-year volumes in January and February. We did not experience a typical uptick in freight volumes in March that we have seen in years past.

As many of our peers have pointed out, last March was abnormally strong due to the pent-up demand that carried over from January and February as a result of the poor weather. Therefore, the March comp this year was difficult to begin with.

Having said that, thus far April volumes have been slightly better than March. On a year-to-date basis, compared to our internal targets, we are ahead on loaded utilization and very close on our total loaded miles.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Regarding the comment in your letter to stockholders on a, quote, cautiously optimistic outlook on the industry, can you please elaborate on what factors are making you cautious and what factors are making you optimistic?

Richard Stocking - *Swift Transportation - President, COO*

Sure. As I recently mentioned, when we compare ourselves to our prior-year performance, as well as our current-year internal targets for our truckload service offering, we are ahead in several categories -- loaded utilization, deadhead percent, and rate per loaded mile.

We have already achieved 30%-plus of our targeted annual growth in our dedicated service offering, and our intermodal service offering revenue is up 44.8% year over year. So as you can see, we have a lot of reason to be optimistic.

We are cautious about speed, or lack thereof, of the overall macroeconomic recovery and continue to keep a close eye on the driver market.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

What is the current capacity situation across the industry? Are dynamics still tight? How concerned are shippers with peak capacity, given the lengthy peak in Q4? Has availability in March changed shippers' attitudes?

Richard Stocking - *Swift Transportation - President, COO*

We've talked a lot over the past three to six months about the building demand, the supply imbalance in our industry. As we look forward to the back half of the year, assuming a similar macroeconomic environment to what we've experienced last year, our sense from customers is that ensuring capacity availability, especially for their peak, is a high priority to them and us.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Good. Okay, we're going to talk a little bit here about CapEx and trucks. There were a lot of questions to this regard. Based on the comments regarding net CapEx, what is the potential magnitude or range of the change possible in 2012 from the $250 million initial guidance?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

At this point, I would not expect it to be lower than $190 million. It could be anywhere from the $190 million to the $250 million.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So the plan to add 100 to 200 trucks sequentially, but $250 million net CapEx is a moving target. So what level of trucks are built into the $250 million? In other words, how does that truck growth build into your CapEx target?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

Right, so the level of net cash CapEx will fluctuate primarily based on the lease versus buy decisions, not the total trucks we're bringing in. We pretty much know what that is going to be.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Why did you spend capital to prep the fleet for sale? Was it replacing engines?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

No, it was generally not replacing engines, but we do have various parts, such as the DEF filters, tires, which have increased in price, and various other parts that we do replace before selling the trucks.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Why did you temporarily reduce the fleet, and not permanently reduce it?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

We're not expecting our volumes to decrease year over year. With that said, we have increased the number of trucks we have running primarily in dedicated operations and have decreased those running over the road.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So if CapEx is lower this year, how would you expect this to affect your earnings per share? How do lease rates compare to the rate on the term loan facility?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

This is a good question. The lease rates are generally more attractive than our term loan, which is why we're considering a slight shift. Therefore, all else equal, it would be slightly beneficial to EPS.

But if they do come in the form of an operating lease, for which the interest is included in rent expense rather than below the line, it would slightly be a negative to our OR.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

What is the availability to add additional trucks, so beyond the 100 to 200 guidance, if the demand materializes? Is this limited by drivers?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

We do have great flexibility, actually, with the size of our fleet. Just by holding onto the trucks a little longer, a month or two, we can increase the size of our fleet by 500-plus trucks. So we have great flexibility with the size of our fleet, so the limitation is obviously freight and drivers.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So as Swift adds to its operating fleet throughout the year, will those additions come primarily through operating leases? Do you anticipate the fleet mix between Company-owned and leased tractors changing much, and if so, how should we think about rental expense versus depreciation going forward?

Also, can you talk about how you think about using cash, and whether fleet growth or paying down debt has the priority?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

Okay. With regard to owned versus leased, as we've discussed we are currently analyzing this, but it will be a mixture of both.

And so, therefore, just as we do, I think it's probably best to look at rental expense and depreciation going forward, combined, so looking at the total of those two together when you're modeling that.

And then, with regard to cash versus fleet growth, we have previously stated that our goal is to pay a minimum of $500 million to $100 million of debt each year -- or, I'm sorry, $50 million -- $500 million would be great, but it's $50 million to $100 million of debt each year, which is a priority for us. And then, after that, it will depend on the situation and the current environment.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So there were a lot of questions about -- you talk about debt paydown, about debt and leverage and interest expense and how to look at that going forward. The first one here, how do you plan to move to your net -- how do you plan to move your net leverage ratio target of 2.8 to 2.9, and do you plan to primarily grow EBITDA or pay down additional debt in 2012 to achieve this goal?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

It will be a combination of both EBITDA growth and debt paydown.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

How should we think about modeling quarterly interest expense for the rest of 2012? Does guidance for $122 million interest expense assume any incremental debt paydown this year?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

The $122 million does not assume any incremental paydown, other than what was discussed and itemized in the letter.

And on page 10 of the letter, at the bottom of the table, we show a pro forma annualized cash interest of $114 million, and then non-cash amortization of OID and financing fees at $5.5 million for a total of 19.5 million -- $119.5 million, which would equate to roughly $29.9 million per quarter, assuming no further debt reductions. As I just mentioned, we do expect we will pay down additional debt, but these numbers do not take that into consideration.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

When can you start paying down or refinancing your 10% notes? Do you expect to do so once you can?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

The $500 million of 10% notes are not callable until December of 2014. We can repay them prior to 2014, but the applicable premium required to do so is extraordinary, so therefore that is very unlikely.

We do have the ability to repay 35% of the notes at a reasonable premium prior to December 2013 with any equity proceeds. But again, given our current stock price, this is also very unlikely.

So we will consider -- or we'll continue to monitor the market and look for any accretive opportunities we have to tender or otherwise call these notes, but do not expect any activity here in the near term.

As of May 15 of this year, we are able to call the remaining $15.2 million of the 12.5% notes from the going private transaction, and we've actually issued notice to do so today.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So if Swift elects to incur lower cash -- net cash CapEx due to increased use of leased tractors, would you elect to pay down more balance-sheet debt? Under the new credit agreement, are there any provisions that constrain how many operating leases the Company can take on?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

Yes, that is our intention. If we leased more, we would attempt to pay down more debt.

We do not have a specific constraint on the number of operating leases, but having more operating leases increases our rent expense, which does have an impact on our EBITDA, which then impacts our financial covenant ratios. So this is one of the factors that we do analyze when making our lease versus buy decisions.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

What was your consolidated interest coverage ratio at March 31?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

It was 4.15.

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Jason Bates - *Swift Transportation - VP Finance, IR Director*

Can you briefly touch on the scheduled prepayments still in place on the new term loan B-1 tranche? In other words, the timings and the amounts?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

As we discussed in the letter, the prepayments that we made earlier this week extinguished the scheduled payments through June of 2013 on this B-1 tranche, which, again, in total is $210 million.

From that point, after June of 2013, the scheduled payments are $5.25 million in each of September and December of 2013, and then a total of $42 million in 2014, $52.5 million in 2015, and $78.75 million in 2016.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Great, thank you.

Richard, there were some questions about our business mix and dedicated operations. One of them here, are there any additional opportunities for dedicated business currently in the pipeline, either at Wal-Mart or other customers? How much of this is already being performed by other for-hire carriers versus customers outsourcing volumes carried by their private fleets?

Richard Stocking - *Swift Transportation - President, COO*

As I had mentioned previously, we have had a strong first quarter in our dedicated service offering, having already realized 30%-plus of our annual growth objectives. But for the most -- most of this growth comes from the for-hire carriers versus the private fleet.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

There were also a lot of questions around driver availability, turnover trends, unseated truck counts, driver pay increases, recruiting costs, recruiting methods, etc. Can you provide a summary of the current driver market, as well as the challenges you are facing, and do these same challenges apply to the owner/operator market?

Richard Stocking - *Swift Transportation - President, COO*

That's a loaded question. Let's start off with driver availability.

As many of you know, we have a unique driver recruiting process here at our Company, which we feel differentiates us from many of our competitors. Our Academy infrastructure enables us to create our own driver population and provides us with a pipeline of drivers, especially in times of high unemployment.

So while many of our peers who rely more heavily on experienced drivers are suffering with driver shortages, we don't suffer to the same extent. We do somewhat, but not to the same extent.

Having said that, we have noticed that as of late it has become increasingly difficult to attract high-quality students, as well as experienced drivers, which we also target. Additionally, with the slowing improving job market, the driver retention has become more problematic. The combination of these issues has caused our unmanned truck count to begin to rise, creating downward pressure on our utilization.

However, we do not disclose the specific unmanned truck or driver turnover figures. Currently, our utilization is strong; however, this is -- if this dynamics continues, it could partially offset some of the utilization improvements going forward.

To combat these issues, we currently have various initiatives underway to improve the quality of life for our drivers geared around improving work/life balance, increasing their W-2s with miles driven, and improving overall job satisfaction.

We have talked in the past about our driver ranking program, which rewards drivers based on several key categories. This program will also be the tool we use to pass along driver increases to the extent necessary, as it will ensure that additional compensation is tied to positive performance. Timing and amount of a driver increase will be tied to market conditions.

Finally, while the owner/operator market is a little unique, given their independent contractor status, I believe the entire industry will face similar challenges on recruiting and retaining the owner/operator.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Great. Thanks, Richard. There was a question here about Mexico. How are the cross-border revenues with Mexico developing?

Richard Stocking - *Swift Transportation - President, COO*

Very well. While we do not disclose specific details around our Mexico service offering, I will say that we are very happy with our team in Mexico as they continue to build great relationships with our customers and suppliers.

If you look on a year-over-year basis, we grew approximately 50 trucks and expect to continue to grow in 2012. Additionally, we are focused on growing our intermodal presence in Mexico. We are pleased with the growth in profitability and revenue that we've seen with both these offerings.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

You mentioned intermodal. There was a lot of questions about intermodal. Other revenues, especially with intermodal, were strong in the quarter and accounted for roughly 13% of net revenues. How do you look at this segment going forward and do you have any long-term goals for what portion of your business is generated from outside the core trucking operations?

Richard Stocking - *Swift Transportation - President, COO*

We don't have a specific percentage target, but our goals are to continue to expand in both intermodal and logistics, which is our freight under management and our brokerage business. These are two of our strategic focus areas for 2012.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Other revenues, which is mainly intermodal, experienced a material increase year over year. Is your growth goal still 20% to 25% for the full year of 2012, or has that target increased?

Richard Stocking - *Swift Transportation - President, COO*

Yes, as you mentioned, our stated goal here is 20% to 25%. We are pleased with our ability to grow the top line of this business more than 40% in the first quarter, which was a function of several wins with new and existing customers.

While we hope to continue to realize stronger than anticipated year-over-year revenue growth, we will be pleased if our full-year growth rate falls within the previously stated range.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

How much of the 36.1% COFC revenue growth in the first quarter was from volume versus pricing?

Richard Stocking - *Swift Transportation - President, COO*

COFC volumes were up approximately 28% year over year. The remaining increase was due to pricing, as well as an increase in fuel surge revenue.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Can you quantify roughly what portion of total intermodal revenues are COFC versus TOFC?

Richard Stocking - *Swift Transportation - President, COO*

We do not disclose a specific percentage split between COFC and TOFC. However, we have stated that TOFC is a much smaller percentage of the total intermodal revenue.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

How did the growth of your intermodal business affect its profitability in the quarter? Do you expect it to be profitable for the year?

Richard Stocking - *Swift Transportation - President, COO*

Again, we don't disclose specific profitability for any of our service offerings at this time. However, we have mentioned in the past that intermodal was profitable in 2011 and we expect improved profitability throughout 2012.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

What are you planning for net intermodal container additions for the remainder of the year?

Richard Stocking - *Swift Transportation - President, COO*

We are in that approximately 2,000 or so.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

We saw some solid increases in other revenue with 30% year-over-year growth. You quantified the other rates -- or you quantified the growth rates achieved in intermodal. Could you give us some color on the growth rate in brokerage and the other segment?

Richard Stocking - *Swift Transportation - President, COO*

Yes. As discussed in the letter, revenue from these other services grew 12% year over year. The logistics growth rate was substantial, but still remains a very small piece of our other revenue because at this point it includes only what is brokered to a third party, not what is hauled by Swift.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Will you talk about the profitability of the intermodal and brokerage service offering and/or the returns profile versus your more asset-intensive truckload business?

Richard Stocking - *Swift Transportation - President, COO*

As previously discussed, our brokerage and intermodal business is a key focus for us this year as we strive to improve our returns on net assets. Both of these services have lower margins than our traditional truckload business, but have higher returns because they require less asset investment.

As we grow both of these services, you should expect to see a higher consolidated OR, but better returns on net assets.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So purchased transportation costs were up significantly on a year-over-year basis. How should we think about this cost item going forward relative to your expectations for growth within your intermodal segment?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

As our intermodal, our logistics, and our owner/operators grow, our purchased transportation line item will increase as a percent of net revenue, but driver wages, fuel, etc., should decrease as a percentage.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

There were a couple of procedural questions, Ginnie. One was, can you go back to reporting loaded miles and total miles, please?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

We'll take a look at that going forward.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Would it be possible for you to report a full balance sheet in the quarterly letters and not just in the 10-K?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

Yes. We can definitely do that.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

Can you provide more color on the recent announcement with Oracle Transportation Management? What are you budgeting in terms of costs associated with this project, and how should they start ramping up?

Ginnie Henkels - *Swift Transportation - EVP, CFO*

The cost of the TMS system itself and the implementation will be capitalized as PP&E and depreciated over five years; therefore, it should not have a significant impact in any one period.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

So I will note that we did have a lot of questions asking if we feel comfortable with current consensus expectations for the second quarter or for the full year. And we generally do not give guidance on our EPS expectations, so at this point we won't be answering that one.

But there were some questions with regard to longer-term guidance with regard to our margin targets, Richard. And so, the question was, what do we feel is a reasonable target or margin improvement goal for the Company over the next couple of years?

Richard Stocking - *Swift Transportation - President, COO*

Yes, sure. We also do not disclose specific guidance for our expected OR, but we do expect continued OR improvements in each of our service offerings.

Our intermodal and logistics offerings are growing at a more rapid pace than our trucking service, and these asset-light services operate at a higher OR but better return on net assets than our trucking service. As the asset-light services grow, we expect to see an increase in our return on assets, but overall consolidated OR may not improve as much, due to the mix.

But again, our plan is to achieve improved margins in each of our service offerings. As we continue to grow these asset-light services and they become large enough to break out, we will move to segment reporting, which we are targeting for our next annual report.

Jason Bates - *Swift Transportation - VP Finance, IR Director*

What is the longer-term view on truck count? Is there a way to grow the fleet over the long term?

Richard Stocking - *Swift Transportation - President, COO*

Certainly there is. To the extent our freight basket is full, we have the drivers, and we are meeting our utilization goals, and we are operating at a healthy margin, we will definitely add trucks.

And this concludes our questions we've received that Jason compiled together.

In summary, we are extremely proud of the efforts of each of our 20,000 team members and the results we have generated. We have doubled our year-over-year earnings. Our rates are up. Our utilization is up. Our deadhead continues to improve. We are achieving solid growth in our dedicated and asset-light service offerings.

For nine of the past 10 quarters, we have realized year-over-year improvements in our adjusted operating ratio, which is very exciting. We continue to derive process improvements throughout our business transformation initiatives, our hikes, and our strategic focus teams.

We remain committed to developing a culture of leadership, discipline, accountability, and trust. Trust is at the core of what we do. We take great pride in fulfilling our commitments to our customers, our employees, and you, the shareholders. We hope that we have earned your trust by delivering results and are discouraged by the few individuals that seem to misconstrue our intentions.

We said we would pay down debt, and we have. We said we would improve our utilization before growing, and that's what we're doing. We said we would focus on discipline and cost containment, and we have. We will continue to focus on delivering on our commitments and appreciate your support. We believe there is nothing faster than the speed of trust and we want to thank each of you for your time today. Thank you.

Operator

Thank you for your participation in today's conference call. You may now disconnect.
