YRC WORLDWIDE INC
Form 10-Q
November 06, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2007

OR

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

Commission file number 0-12255

YRC WORLDWIDE INC.

(Exact name of registrant as specified in its charter)

Delaware	**48-0948788**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

10990 Roe Avenue, Overland Park, Kansas **66211**
(Address of principal executive offices) **(Zip Code)**

(913) 696-6100

(Registrant's telephone number, including area code)

No Changes

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x   Accelerated filer ¨   Non-accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at October 31, 2007**
Common Stock, $1 Par Value Per Share	56,632,463 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

YRC Worldwide Inc. and Subsidiaries

(Amounts in thousands except per share data)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 205,197	$ 76,391
Accounts receivable, net	1,252,759	1,190,818
Prepaid expenses and other	286,708	323,882
Total current assets	1,744,664	1,591,091
Property and Equipment:		
Cost	4,040,984	3,841,657
Less accumulated depreciation	1,654,927	1,571,811
Net property and equipment	2,386,057	2,269,846
Goodwill	1,321,775	1,326,583
Intangibles, net	681,134	691,417
Other assets	70,784	73,300
Total assets	$ 6,204,414	$ 5,952,237
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 392,037	$ 397,586
Wages, vacations and employees benefits	435,741	413,759
Other current and accrued liabilities	384,423	324,124
Asset-backed securitization borrowings	310,000	225,000
Current maturities of long-term debt	150,000	
Total current liabilities	1,672,201	1,360,469
Noncurrent Liabilities:		
Long-term debt, less current portion	1,052,275	1,058,496
Deferred income taxes, net	612,968	609,193
Pension and postretirement	243,577	349,723
Claims and other liabilities	330,371	381,807
Commitments and contingencies		
Shareholders Equity:		

Common stock, $1 par value per share	61,416	60,876
Preferred stock, $1 par value per share		
Capital surplus	1,205,378	1,180,578
Retained earnings	1,206,890	1,115,246
Accumulated other comprehensive loss	(36,048)	(54,534)
Treasury stock, at cost (4,802 and 3,679 shares)	(144,614)	(109,617)
Total shareholders equity	2,293,022	2,192,549
Total liabilities and shareholders equity	$ 6,204,414	$ 5,952,237

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED OPERATIONS

YRC Worldwide Inc. and Subsidiaries

For the Three and Nine Months Ended September 30

(Amounts in thousands except per share data)

(Unaudited)

	Three Months		Nine Months	
	2007	**2006**	**2007**	**2006**
Operating Revenue	$ 2,457,731	$ 2,571,087	$ 7,272,578	$ 7,511,027
Operating Expenses:				
Salaries, wages and employees benefits	1,447,409	1,478,622	4,333,774	4,340,435
Operating expenses and supplies	463,623	459,738	1,375,195	1,378,087
Purchased transportation	286,460	277,848	811,412	811,752
Depreciation and amortization	62,232	64,118	181,568	212,280
Other operating expenses	109,153	105,288	338,941	317,754
Losses on property disposals, net	1,400	2,427	1,561	83
Reorganization and settlements	(197)	5,455	13,654	12,936
Total operating expenses	2,370,080	2,393,496	7,056,105	7,073,327
Operating Income	87,651	177,591	216,473	437,700
Nonoperating (Income) Expenses:				
Interest expense	22,715	23,025	64,519	66,684
Other, net	979	(677)	1,257	(2,036)
Nonoperating expenses, net	23,694	22,348	65,776	64,648
Income Before Income Taxes	63,957	155,243	150,697	373,052
Income tax provision	23,213	59,458	53,307	142,879
Net Income	$ 40,744	$ 95,785	$ 97,390	$ 230,173
Average Common Shares Outstanding Basic	57,116	57,464	57,322	57,434
Average Common Shares Outstanding Diluted	57,981	58,396	58,186	58,718
Basic Earnings Per Share	$ 0.71	$ 1.67	$ 1.70	$ 4.01
Diluted Earnings Per Share	$ 0.70	$ 1.64	$ 1.68	$ 3.92

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED CASH FLOWS

YRC Worldwide Inc. and Subsidiaries

For the Nine Months Ended September 30

(Amounts in thousands)

(Unaudited)

	2007	2006
Operating Activities:		
Net income	$ 97,390	$ 230,173
Noncash items included in net income:		
Depreciation and amortization	181,568	212,280
Losses on property disposals, net	1,561	83
Loss on sale of Meridian IQ China		2,843
Deferred income tax benefit	(1,634)	(367)
Other noncash items	6,526	3,832
Changes in assets and liabilities, net:		
Accounts receivable	(70,957)	(162,940)
Accounts payable	(6,543)	(25,873)
Other operating assets	25,094	45,286
Other operating liabilities	(27,069)	(6,266)
Net cash provided by operating activities	205,936	299,051
Investing Activities:		
Acquisition of property and equipment	(313,474)	(319,743)
Proceeds from disposal of property and equipment	31,534	35,070
Acquisition of companies, net of cash acquired		(14,842)
Other	(1,419)	(2,548)
Net cash used in investing activities	(283,359)	(302,063)
Financing Activities:		
Asset-backed securitization borrowings, net	85,000	50,030
Issuance (repayment) of long-term debt, net	150,971	(43,712)
Debt issuance costs	(1,275)	
Proceeds from exercise of stock options	6,530	4,294
Treasury stock repurchase	(34,997)	(19,997)
Net cash provided by (used in) financing activities	206,229	(9,385)
Net Increase (Decrease) In Cash and Cash Equivalents	128,806	(12,397)
Cash and Cash Equivalents, Beginning of Period	76,391	82,361
Cash and Cash Equivalents, End of Period	$ 205,197	$ 69,964

The accompanying notes are an integral part of these statements.

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STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY

YRC Worldwide Inc. and Subsidiaries

For the Nine Months Ended September 30

(Amounts in thousands except per share data)

(Unaudited)

	2007
Common Stock	
Beginning balance	$ 60,876
Exercise of stock options	221
Employer contribution to 401(k) plan	203
Issuance of equity awards, net	116
Ending balance	$ 61,416
Capital Surplus	
Beginning balance	$ 1,180,578
Exercise of stock options, including tax benefits	6,309
Employer contribution to 401(k) plan	7,388
Share-based compensation	10,054
Other, net	1,049
Ending balance	$ 1,205,378
Retained Earnings	
Beginning balance	$ 1,115,246
Cumulative effect adoption of FIN 48, Accounting for Uncertainty in Income Taxes	(5,746)
Net income	97,390
Ending balance	$ 1,206,890
Accumulated Other Comprehensive Loss	
Beginning balance	$ (54,534)
Amortization of pension costs	4,065
Foreign currency translation adjustment	14,421
Ending balance	$ (36,048)
Treasury Stock, At Cost	
Beginning balance	$ (109,617)
Treasury stock repurchase	(34,997)
Ending balance	$ (144,614)
Total Shareholders Equity	$ 2,293,022

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YRC Worldwide Inc. and Subsidiaries

(Unaudited)

1. **Description of Business**

YRC Worldwide Inc. (also referred to as YRC Worldwide , the Company , we or our), one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of transportation services. These services include global, national and regional transportation as well as logistics. The YRC Worldwide portfolio of brands provides a comprehensive suite of services for the shipment of industrial, commercial and retail goods domestically and internationally. Our reportable segments, which are comprised of our various operating subsidiaries, include the following:

YRC National Transportation (National Transportation) is a holding company for our transportation service providers focused on business opportunities in regional, national and international services. National Transportation is comprised of Yellow Transportation and Roadway. These companies each provide for the movement of industrial, commercial and retail goods, primarily through regionalized and centralized management and customer facing organizations. National Transportation also includes Reimer Express Lines, located in Canada, that specializes in shipments into, across and out of Canada. Approximately 38% of National Transportation shipments are completed in two days or less. In addition to the United States and Canada, National Transportation also serves parts of Mexico and Puerto Rico.

YRC Regional Transportation (Regional Transportation) is a holding company for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. Regional Transportation is comprised of New Penn Motor Express, USF Holland and USF Reddaway. These companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the United States; Quebec, Canada; Mexico; and Puerto Rico. USF Glen Moore, a provider of truckload services throughout the United States, is also a subsidiary of Regional Transportation. Approximately 90% of Regional Transportation less-than-truckload (LTL) shipments are completed in two days or less. In 2006, Regional Transportation also included USF Bestway. In February 2007, the majority of USF Bestway s operations were consolidated into USF Reddaway.

YRC Logistics (Logistics , formerly Meridian IQ) includes the family of companies that plan and coordinate the movement of goods worldwide to provide customers a single source for logistics management solutions. Logistics delivers a wide range of global logistics management services, with the ability to provide customers improved return-on-investment results through flexible, fast and easy-to-implement logistics services and technology management solutions.

At September 30, 2007, approximately 72% of our labor force is subject to various collective bargaining agreements, which predominantly expire in 2008.

2. **Principles of Consolidation and Accounting Policies**

The accompanying consolidated financial statements include the accounts of YRC Worldwide and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in non-majority owned affiliates where the entity is either not a variable interest entity or YRC Worldwide is not the primary beneficiary are accounted for on the equity method. Management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Actual results could differ from those estimates. We have prepared the consolidated financial statements, without audit by an independent public accounting firm, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In management s opinion, all normal recurring adjustments except as otherwise noted, necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included in these financial statements herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

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Property and Equipment

Property and equipment are recorded at cost. In the third quarter of 2006, the Company revised the estimated useful lives and salvage values of certain classes of property and equipment to more appropriately reflect how the Company expects to use the assets over time. Effective July 1, 2006, the Company increased revenue equipment lives to ten to twenty years from three to fourteen years and modified certain salvage values. If the Company had not changed the estimated useful lives and salvage values of this property and equipment, additional depreciation expense of approximately $27.1 million would have been recorded during the nine months ended September 30, 2007. Accordingly, the changes in estimates resulted in an increase in income from continuing operations of approximately $27.1 million (a $17.5 million increase in net income) for the nine months ended September 30, 2007. The change in estimate also increased diluted earnings per share by $0.30 for the nine months ended September 30, 2007.

3. **Restructuring and Reorganization**

In June 2007, Logistics announced the closure of its Montgomery, Alabama flow-through and warehousing facility. Related to this action, we incurred certain restructuring charges.

In January 2007, we announced the consolidation of USF Reddaway and USF Bestway, two subsidiaries within our Regional Transportation segment. As part of the consolidation, effective February 12, 2007, we no longer market the USF Bestway brand. We incurred certain restructuring and other closure related charges in conjunction with this organizational change consisting primarily of employee separation and contract termination costs.

In addition, in January 2007 we announced further organizational changes that brought the management of Yellow Transportation and Roadway under one organization established as YRC National Transportation. We incurred employee separation charges in the first quarter of 2007 related to these changes.

As a part of our 2005 acquisition of USF Corporation, we closed an operating subsidiary (USF Dugan) and consolidated certain administrative functions and locations. We incurred restructuring and other closure related charges related to these actions. During 2007, we have continued to make payments under these obligations.

We reassess the reserve requirements under the above restructuring efforts at the end of each reporting period. A rollforward of the restructuring accrual is set forth below:

(in millions)	Employee Separation	Contract Termination and Other Costs	Total
Balance at December 31, 2006	$ 1.0	$ 6.5	$ 7.5
Restructuring charges	8.6	2.3	10.9
Adjustments [a]	(0.7)	(2.9)	(3.6)
Payments	(4.8)	(2.7)	(7.5)
Balance at September 30, 2007	$ 4.1	$ 3.2	$ 7.3

[a] Included in adjustments are amounts credited to goodwill in accordance with purchase accounting requirements and reduction to severance accruals.

In addition to the above restructuring charges of $10.9 million, we incurred reorganization and other closure related charges of $0.1 million and $7.9 million during the three and nine months ended September 30, 2007, respectively. These charges are included in the Reorganization and settlements caption in the consolidated statements of operations and consist primarily of the following through September 30, 2007:

(in millions)	Three Months		Nine Months	
Acceleration of stock-based compensation related to certain terminated executives	$		$	2.3
Write off of signage and other assets resulting from the YRC Logistics name change				1.4
Other USF Bestway closure related charges		0.1		4.2
Total	$	0.1	$	7.9

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4. **Debt and Financing**

Total debt consisted of the following:

(in millions)	September 30, 2007	December 31, 2006
ABS borrowings, secured by accounts receivable	$ 310.0	$ 225.0
Floating rate notes	150.0	150.0
USF senior notes	261.1	264.7
Roadway senior notes	230.7	234.3
Contingent convertible senior notes	400.0	400.0
Term loan	150.0	
Other	10.5	9.5
Total debt	$ 1,512.3	$ 1,283.5
ABS borrowings	(310.0)	(225.0)
Current maturities	(150.0)	
Long-term debt	$ 1,052.3	$ 1,058.5

Credit Agreement

On August 17, 2007, we entered into a Credit Agreement with certain banks, expiring August 17, 2012, that provides us with a $1.1 billion senior unsecured revolving credit facility, including sublimits available for borrowings under certain foreign currencies and a $150 million senior unsecured term loan. This agreement replaces our existing Amended and Restated Credit Agreement, dated as of May 19, 2005, that provided us with, among other things, a $850 million senior unsecured revolving credit facility. The new agreement also provides for letters of credit to be issued that would, in turn, reduce the borrowing capacity under the revolving credit facility. As of September 30, 2007, $1.0 million was drawn under the revolving credit facility and the term loan of $150 million was also outstanding. At September 30, 2007, the proceeds from the term loan remain in an interest bearing account and are immediately available for corporate purposes.

Interest related to the Credit Agreement is based on our credit rating and is subject to change. Currently, amounts borrowed under the revolving credit facility and term loan bear interest at LIBOR plus 0.50% and LIBOR plus 0.625%, respectively. Additionally, we are currently obligated to pay a facility fee equal to 0.125% of the total revolving credit facility commitment. In accordance with the terms of the Credit Agreement, we must comply with certain performance covenants. As of September 30, 2007, we were in compliance with all terms of the Credit Agreement.

Asset-Backed Securitization Facility

On August 17, 2007, we amended our asset-backed securitization (ABS) facility to increase the financing limit to $700 million, up from the previous limit of $650 million. The ABS facility continues to provide a letter of credit sublimit of $325 million. The interest rate continues to be a variable rate based on the A1/P1 commercial paper rate, plus a fixed increment for utilization. No other material changes were made to the ABS facility. The expiration date of the 364-day ABS facility remains May 16, 2008.

Future maturities of total debt for the years ending December 31 are as follows:

(in millions)	
2007	$
2008	687.5
2009	101.0
2010	406.0
2011	
Thereafter	301.0
Total	$ 1,495.5

The above reflects contractual maturities for all debt other than our contingent convertible senior notes. These notes are instead presented based on the earliest possible redemption date defined as the first date on which the note holders have the option to require us to purchase their notes (the put date). For the $250 million notes the stated maturity is August 2023 with an initial put date of August 2010 and for the $150 million notes the stated maturity is November 2023 with an initial put date of November 2012.

5. **Employee Benefits**

Components of Net Periodic Pension and Other Postretirement Cost

The following table sets forth the components of our pension costs for the three and nine months ended September 30:

	Three Months		Nine Months	
(in millions)	**2007**	**2006**	**2007**	**2006**
Service cost	$ 9.8	$ 11.1	$ 29.4	$ 33.7
Interest cost	16.4	15.9	49.1	47.5
Expected return on plan assets	(17.4)	(14.8)	(52.3)	(44.4)
Amortization of prior service cost	0.3	0.4	0.9	1.2
Amortization of net loss	2.0	3.0	6.0	8.5
Net periodic pension cost	11.1	15.6	33.1	46.5
Settlement cost			1.4	
Special termination benefit cost			1.5	
Total periodic pension cost	$ 11.1	$ 15.6	$ 36.0	$ 46.5

The settlement and special termination benefit costs of $2.9 million presented above are included in Reorganization and settlements in our consolidated statement of operations for the nine months ended September 30, 2007.

The following table sets forth the components of our other postretirement costs for the three and nine months ended September 30:

	Three Months		Nine Months	
(in millions)	**2007**	**2006**	**2007**	**2006**
Service cost	$ 0.1	$ 0.1	$ 0.3	$ 0.4
Interest cost	0.5	0.5	1.5	1.4
Amortization of prior service cost	0.1	0.1	0.3	0.2
Amortization of net (gain)	(0.1)	(0.1)	(0.3)	(0.2)
Other postretirement cost	$ 0.6	$ 0.6	$ 1.8	$ 1.8

6. **Income Taxes**

Uncertain Tax Positions

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, we recognized a $7.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction of $5.7 million to the January 1, 2007 balance of retained earnings and an increase of $1.4 million to goodwill resulting from prior acquisitions. Additionally, we reclassified a $53 million credit from Prepaid Expenses and Other to Other Current and Accrued Liabilities effective January 1, 2007. We have elected to treat interest and penalties on uncertain tax positions as interest expense and other operating expenses, respectively, rather than continue the treatment as components of the income tax provision as we had prior to the adoption of FIN 48.

The total amounts of unrecognized tax benefits and accrued interest as of the date of adoption were $78.3 million and $2.1 million, respectively. Both are classified on our consolidated balance sheet within Other Current and Accrued Liabilities . The balance of unrecognized tax benefits as of the date of adoption has been adjusted by $3.6 million during the nine months ended September 30, 2007, to reflect the reclass of deferred tax assets associated with certain indirect federal benefits. In connection with the finalization of our 2006 federal income tax return, we have determined the application of certain tax attributes has reduced the amount of unrecognized tax benefits measured under FIN 48. As a result of this determination, the amount of unrecognized tax benefits has been reduced by $4.7 million during the three months ended September 30, 2007, with a resulting reduction to goodwill by the same amount.

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We accrued $1.4 million and $3.0 million of interest on uncertain tax positions during the three and nine months ended September 30, 2007, respectively. We have accrued no penalties relative to uncertain tax positions.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of the date of adoption was $5 million.

Tax years that remain subject to examination for our major tax jurisdictions as of the date of adoption and at September 30, 2007:

		Pre-acquisition tax years	
	YRC Worldwide	**USF Corporation** [a]	**Roadway** [b]
Statute remains open	2003-2006	2000-2005	2001-2003
Tax years currently under examination/exam completed	2003-2005	2000-2005	2001-2003
Tax years not examined	2006	None	None

(a) Years ending on or before May 24, 2005.
(b) Years ending on or before December 11, 2003.

Reasonably possible changes in the next 12 months in the amount of unrecognized tax benefits relate to the following tax positions:

The United States Internal Revenue Service (IRS) has begun an audit of the Company s 2005 tax return and has proposed an adjustment relative to the deduction claimed for contributions to union pension plans. We are protesting the adjustment. The additional tax that could result from the adjustment is approximately $51 million. Pursuant to the provisions of FIN 48, we have posted no tax benefit for this deduction.

The IRS has audited certain pre-acquisition tax returns for a consolidated group acquired in 2005 and disallowed a 2002 loss related to the disposition of the stock of a member of that group. The Company believes the loss is fully deductible and has protested the IRS adjustment. The additional tax that could result should the loss ultimately be totally denied is approximately $37 million. Any tax liability resulting from the audit would affect only goodwill recognized in the allocation of the purchase price of the acquired subsidiary.

Effective Tax Rate

The Company s accounting policy is to report income tax expense for interim reporting periods using an estimated annual effective income tax rate. However, the effects of significant discrete events are not considered in the estimated annual effective tax rate. The tax effects of these events are recognized in the interim period in which the events occur.

For the three months ended September 30, 2007, the Company recorded income tax expense of $23.2 million, resulting in an effective rate of 36.3% compared to 38.3% for the three months ended September 30, 2006.

For the nine months ended September 30, 2007, the Company recorded income tax expense of $53.3 million resulting in an effective rate of 35.4% compared to 38.3% for the nine months ended September 30, 2006. The 2007 rate was favorably impacted by a $1.9 million propane fuel tax credit related to 2006, which was fully recognized in the second quarter. The 2007 effective tax rate is favorably impacted by a projected $7.4 million benefit related to the same credit.

7. **Earnings Per Share**

Dilutive securities, consisting of options to purchase our common stock or rights to receive common stock in the future, included in the calculation of diluted weighted average common shares were 689,000 and 688,000 for the three and nine months ended September 30, 2007, respectively, and 755,000 and 684,000 for the three and nine months ended September 30, 2006, respectively. In addition, dilutive securities related to our net share settle contingent convertible notes were 177,000 for the three and nine months ended September 30, 2007 and 177,000 and 600,000 for the three and nine months ended September 30, 2006, respectively.

The impact of certain other options were excluded from the calculation of diluted earnings per share because average exercise prices were greater than the average market price of common shares. In addition, the computation of the assumed conversion of the convertible senior notes includes inputs of the year-to-date average stock price relative to the stated conversion price. If this

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relationship is such that the year-to-date average stock price is less then the stated conversion price, the computed shares would be antidilutive under the treasury stock method. Data regarding antidilutive securities for the three and nine months ended September 30 is summarized below:

	Three Months		Nine Months	
(in thousands except per share data)	**2007**	**2006**	**2007**	**2006**
Weighted average exercise price per share	$ 43.46	$ 43.46	$ 43.46	$ 43.46
Antidilutive weighted average option shares outstanding	23	23	23	23
Antidilutive convertible senior note conversion shares	849	565	2,800	295

8. **Business Segments**

We report financial and descriptive information about our reportable operating segments on a basis consistent with that used internally for evaluating segment performance and allocating resources to segments. We evaluate performance primarily on operating income and return on capital.

We have three reportable segments, which are strategic business units that offer complementary transportation services to their customers. National Transportation includes carriers that provide comprehensive regional, national and international transportation services. Regional Transportation is comprised of carriers that focus primarily on business opportunities in the regional and next-day delivery markets. Logistics, previously referred to as our Meridian IQ segment, provides domestic and international freight forwarding, warehousing, and cross-dock services, multi-modal brokerage services, and transportation management services.

Information relative to USF Red Star and USF Dugan, previously included in Regional Transportation, has been included in the Corporate segment in 2007 as these entities are no longer operating.

Prior to 2007 we reported four operating segments. In January 2007, we consolidated the management structure of Yellow Transportation and Roadway to form YRC National Transportation. As a result, these two previously separate segments have been combined in 2007. Amounts presented for 2006 have been restated to reflect this change.

The accounting policies of the segments are the same as those described in the Summary of Accounting Policies note in our Annual Report on Form 10-K for the year ended December 31, 2006. We charge management fees and other corporate services to our segments based on the direct benefits received or as a percentage of revenue. Corporate and other operating losses represent residual operating expenses of the holding company, including compensation and benefits and professional services for all periods presented. Corporate identifiable assets primarily refer to cash, cash equivalents and deferred debt issuance costs. Intersegment revenue relates to transportation services between our segments.

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The following table summarizes our operations by business segment:

(in millions)	National Transportation	Regional Transportation	Logistics	Corporate/ Eliminations	Consolidated
As of September 30, 2007					
Identifiable assets	$ 3,393.3	$ 2,220.1	$ 451.7	$ 139.3	$ 6,204.4
As of December 31, 2006					
Identifiable assets	3,269.1	2,179.2	413.5	90.4	5,952.2
Three months ended September 30, 2007					
External revenue	1,708.4	600.4	148.9		2,457.7
Intersegment revenue	0.6		4.0	(4.6)	
Operating income (loss)	90.4	(1.2)	4.2	(5.7)	87.7
Three months ended September 30, 2006					
External revenue	1,794.7	624.7	151.7		2,571.1
Intersegment revenue	1.3		2.0	(3.3)	
Operating income	128.2	48.1	0.8	0.5	177.6
Nine months ended September 30, 2007					
External revenue	5,018.3	1,804.9	449.4		7,272.6
Intersegment revenue	2.6		11.5	(14.1)	
Operating income	216.3	8.5	4.7	(13.0)	216.5
Nine months ended September 30, 2006					
External revenue	5,196.5	1,870.9	443.6		7,511.0
Intersegment revenue	3.8		3.6	(7.4)	
Operating income	321.6	123.0	6.0	(12.9)	437.7

9. **Comprehensive Income**

Comprehensive income for the three and nine months ended September 30 follows:

	Three Months		Nine Months	
(in millions)	2007	2006	2007	2006
Net income	$ 40.7	$ 95.8	$ 97.4	$ 230.2
Other comprehensive income (loss), net of tax:				
Amortization of pension costs	1.2		4.1	
Changes in foreign currency translation adjustments	5.4	(0.2)	14.4	4.3
Other comprehensive income (loss)	6.6	(0.2)	18.5	4.3
Comprehensive income	$ 47.3	$ 95.6	$ 115.9	$ 234.5

10. **Commitments and Contingencies**

Multi-Employer Pension Plans

Yellow Transportation, Roadway, New Penn, USF Holland and USF Reddaway contribute to approximately 20 major multi-employer pension plans for employees that our collective bargaining agreements cover (approximately 70% of total YRC Worldwide employees). The pension plans provide defined benefits to retired participants.

We do not directly manage multi-employer plans. Trustees, half of whom the International Brotherhood of Teamsters (the Teamsters) appoints and half of whom various contributing employers appoint, manage the trusts covering these plans.

Our labor agreements with the Teamsters determine the amounts of our contributions to these plans. We recognize as net pension cost the contractually required contribution for the period and recognize as a liability any contributions due and unpaid.

The Pension Protection Act of 2006

In 2006, the Pension Protection Act became law and modified both the Internal Revenue Code of 1986 (as amended, the Code) as it applies to multi-employer pension plans and the Employment Retirement Income Security Act of 1974 (as amended,

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ERISA). The Code and ERISA (in each case, as so modified) and related regulations establish minimum funding requirements for multi-employer pension plans. The funding status of these plans is determined by the following factors:

- the number of participating active and retired employees
- the number of contributing employers
- the amount of each employer s contractual contribution requirements
- the investment returns of the plans
- plan administrative costs
- the discount rate used to determine the funding status
- the actuarial attributes of plan participants (such as age, estimated life and number of years until retirement)

If any of the multi-employer pension plans to which we contribute fails to:

- meet minimum funding requirements
- meet a funding improvement or rehabilitation plan that the Pension Protection Act may require for certain of our underfunded plans
- obtain from the IRS certain changes to or a waiver of the requirements in how the applicable plan calculates its funding levels or
- reduce pension benefits to a level where the requirements are met

the Pension Protection Act could require us to make additional contributions to any multi-employer pension plan that is in critical status from five to ten percent of the contributions that our collective bargaining agreement requires until the collective bargaining agreement expires. If we fail to make our required contributions to a multi-employer plan under a funding improvement or rehabilitation plan or if a plan fails to meet the benchmarks that an applicable funding improvement or rehabilitation plan provides by the end of a prescribed period, the IRS could impose an excise tax on us. The excise tax would not be credited toward our contributions or the funding status of the plan, as the amounts are deposited directly in the United States general treasury funds.

Depending on the amount involved, a requirement to increase contributions beyond our contractually agreed rate or the imposition of an excise tax on us could have a material adverse impact on the financial results of YRC Worldwide.

Funded status of the Central States Plan

The plan administrators and trustees of multi-employer plans do not routinely provide us with current information regarding the status of each multi-employer pension plan s funding. This will change in the near future because the Pension Protection Act requires multi-employer pension plans to file more current and expanded, routine reports with the IRS, the Department of Labor and other interested parties for plan years beginning after January 1, 2008. At this time, the information that we are providing in this Form 10-Q regarding the funding status, funded percentage or our portion of multi-employer plan theoretical withdrawal liabilities is based on publicly available information, which is often dated, and on the limited information available from plan administrators or plan trustees, which may not be independently validated.

The Pension Protection Act provides that certain plans with a funded percentage of less than 65% will be deemed to be in critical status. Plans in critical status must create a rehabilitation plan to exit critical status within periods that the Pension Protection Act prescribes. The Central States Southeast and Southwest Areas Pension Plan (the Central States Plan) provides retirement benefits to approximately 41% of our total employees. We believe that the funded percentage of the Central States Plan is approximately 50%.

United Parcel Service, Inc. (UPS) has historically been a major participant in the Central States Plan. UPS issued a press release on October 1, 2007 stating that UPS has reached a new tentative labor agreement for unionized employees engaged in UPS package business. The press release indicates that UPS has agreed to withdraw from the Central States Plan and make a multi-billion dollar cash payment to the plan in its new labor agreement with the Teamsters. This new labor agreement would be effective upon the affected UPS Teamster employees ratifying the agreement.

If the new UPS labor agreement is ratified and UPS makes its contractually agreed withdrawal payment to the Central States Plan, we believe the funded percentage of the Central States Plan would increase to approximately 70%. Under the Pension Protection Act, even if the funded percentage exceeds 65%, a plan may be in critical status if it has an accumulated funding deficiency for the current year or certain following years (in each case, excluding the impact of certain IRS permitted extensions of a plan s amortization of unfunded liabilities).

The IRS has granted the Central States Plan an extension on the amortization of its unfunded liabilities through 2014, subject to Central States Plan improving its funding levels during that period and certain other conditions. Assuming that the Central States Plan meets these conditions, it is expected to meet the minimum funding requirements, as the IRS has modified them, through at least 2014. Even so, and even after a UPS withdrawal payment to the Central States Plan, we understand that the Central States Plan believes it will be in critical status under the accumulated funding deficiency test. As a result, we understand that the Central States Plan believes that it will adopt a rehabilitation plan within the time periods that the Pension Protection Act requires, which could be prior to the effective date of our new labor agreement with the Teamsters. Our current labor agreement expires on March 31, 2008. We understand that the Central States Plan believes that the funding levels that the IRS set forth in its amortization extension could form the basis of the rehabilitation plan.

Contingent Withdrawal Liabilities

We understand the Central States Plan revised its actuarial assumptions when calculating the proposed withdrawal liability for UPS and that these changes will apply to future calculations of withdrawal liability for any participating employer irrespective of whether UPS actually withdraws. As a result of these changes, we now believe that our portion of the contingent liability in the case of a full withdrawal or termination from all of the multi-employer pension plans to which we contribute would be in a range from $3.5 billion to $4.5 billion on a pre-tax basis. This estimated range reflects an increase from the amount disclosed in our Annual Report on Form 10-K filed on March 1, 2007. If the Company were subject to withdrawal liability with respect to a plan, ERISA provides that a withdrawing employer can pay the obligation over time determined by the employer s contribution rate prior to withdrawal, which, in some cases, could be up to 20 years. Even so, our applicable subsidiaries have no current intention of taking any action that would subject us to withdrawal obligations.

Class Action Lawsuit

On July 30, 2007, Farm Water Technological Services, Inc. d/b/a Water Tech, and C.B.J.T. d/b/a Agricultural Supply, on behalf of themselves and other plaintiffs, filed a putative class action lawsuit against the Company and 10 other companies engaged in the LTL trucking business in the United States District Court for the Southern District of California. Since that time, other plaintiffs have filed similar cases in various courts across the nation. Under federal court rules, the courts will likely consolidate these cases into a single proceeding. The plaintiffs allege that the defendants, including the Company, conspired to fix fuel surcharges in violation of federal antitrust law and seek unspecified treble damages, injunctive relief, attorneys fees and costs of litigation. The Company believes that its fuel surcharge practices are lawful and these suits are without factual basis or legal merit. An appropriate defense has begun, and the Company intends to defend these allegations vigorously. Given that the actions are at a very preliminary stage, the Company is not able to determine that any potential liability that might result is probable or estimatable and, therefore, the Company has not recorded a liability related to the actions. If an adverse outcome were to occur, it could have a material adverse effect on the Company s consolidated financial condition, cash flows and results of operations.

Grupo Almex

On May 18, 2007, the Company settled the arbitration proceedings initiated against the Company by Gustavo Gonzalez Garcia and various members of his family (the Gonzalez Family) and Autolineas Mexicanas, S.A. de C.V., Servicios Gerenciales del Norte, S.A. de C.V. and Logistica ALM, S.A. de C.V. (collectively, Grupo Almex). Pursuant to the settlement, the Company paid the Gonzalez Family and Grupo Almex $2.0 million and forgave approximately $9.3 million of debt that Soflex, S. de R.L. de C.V. (Soflex) owed to the Company pursuant to a series of notes. The Gonzalez Family wholly owns Soflex. The notes from Soflex were written off as uncollectible debt in 2005 as part of the Company s acquisition consideration for USF Corporation. The Company accrued $0.6 million in 2006 of the $2.0 million settlement. The remaining $1.4 million was expensed in the second quarter of 2007 and is included in Reorganization and settlements in the accompanying consolidated statement of operations.

USF Red Star

In the third quarter of 2007, we reached a settlement agreement with two of the multi-employer pension plans that claimed a withdrawal liability from USF Red Star, a discontinued operation we assumed responsibility for as part of the acquisition of USF Corporation. As a part of the settlements, we agreed to pay $9.4 million to be released from the obligations. As we previously accrued $10.9 million for these obligations, resulting gains on settlement of $1.5 million were recorded during the third quarter of 2007 and are included in Reorganization and settlements in the accompanying consolidated statement of operations.

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In June 2007, we reached a settlement agreement with a certain multi-employer pension plan that claimed a withdrawal liability from USF Red Star. As a part of the settlement, we agreed to pay $26.4 million to be released from the obligation. As we had previously accrued $31.3 million for this obligation, a resulting gain on settlement of $4.9 million was recorded during the second quarter of 2007 and is included in Reorganization and settlements in the accompanying consolidated statement of operations.

11. **Stock Repurchase Program**

In April 2006, our Board of Directors approved a stock repurchase program that authorized the Company to repurchase up to $100 million of its common stock. During the three months ended September 30, 2007, the Company purchased 1.1 million shares under this program at a weighted-average cost of $31.13 per share for a total cost of $35.0 million. In 2006, the Company purchased 521,100 shares under this program at a weighted-average cost of $38.34 per share for a total cost of $20.0 million. At September 30, 2007, $45 million remains available under the authorized program.

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12. **Guarantees of the Contingent Convertible Senior Notes and Senior Floating Rate Notes**

In August 2003, YRC Worldwide issued 5.0% contingent convertible senior notes due 2023. In November 2003, we issued 3.375% contingent convertible senior notes (the August and November issuances, collectively, may also be known as the contingent convertible senior notes) due 2023. In December 2004, we completed exchange offers pursuant to which holders of the contingent convertible senior notes could exchange their notes for an equal amount of new net share settled contingent convertible senior notes. Substantially all notes were exchanged as part of the exchange offers. In May 2005, we completed the private placement of $150 million in aggregate principal amount of senior floating rate notes due 2008. In connection with the net share settled contingent convertible senior notes and the floating rate notes, the following 100% owned subsidiaries of YRC Worldwide have issued guarantees in favor of the holders of the net share settled contingent convertible senior notes and floating rate notes: Yellow Transportation, Inc. Mission Supply Company, Yellow Relocation Services, Inc., YRC Worldwide Technologies, Inc., YRC Logistics, Inc. (formerly Meridian IQ Inc.), YRC Logistics Global, LLC (formerly MIQ LLC), Globe.com Lines, Inc., Roadway LLC, Roadway Next Day Corporation, Roadway Express, Inc., USF Holland and Regional Transportation (formerly known as USF Corporation). Each of the guarantees is full and unconditional and joint and several.

The condensed consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of YRC Worldwide or any guarantor to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information as of September 30, 2007 and December 31, 2006 with respect to the financial position, for the three and nine months ended September 30, 2007 and 2006 for results of operations and for the nine months ended September 30, 2007 and 2006 for the statement of cash flows of YRC Worldwide and its subsidiaries. The Parent column presents the financial information of YRC Worldwide, the primary obligor of the contingent convertible senior notes and the floating rate notes. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the net share settled contingent convertible senior notes and the floating rate notes. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws and Yellow Roadway Receivables Funding Corporation, the special-purpose entity that is associated with our ABS agreement.

Condensed Consolidating Balance Sheets

September 30, 2007

(in millions)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$ 168	$ 22	$ 15	$	$ 205
Intercompany advances receivable		(78)	78		
Accounts receivable, net	3	(16)	1,278	(12)	1,253
Prepaid expenses and other	3	124	160		287
Total current assets	174	52	1,531	(12)	1,745
Property and equipment		3,435	606		4,041
Less accumulated depreciation		(1,524)	(131)		(1,655)
Net property and equipment		1,911	475		2,386
Investment in subsidiaries	3,885	466	(36)	(4,315)	
Receivable from affiliate	(732)	714	18		
Goodwill, intangibles and other assets	258	1,852	313	(350)	2,073
Total assets	$ 3,585	$ 4,995	$ 2,301	$ (4,677)	$ 6,204
Intercompany advances payable	$ 497	$ (534)	$ 242	$ (205)	$
Accounts payable	25	295	79	(7)	392
Wages, vacations and employees benefits	26	363	47		436
Other current and accrued liabilities	(15)	220	183	(4)	384
Asset-backed securitization borrowings			310		310
Current maturities of long-term debt	150				150

Total current liabilities	683	344	861	(216)	1,672
Payable to affiliate	(133)	60	223	(150)	
Long-term debt, less current portion	550	501	1		1,052
Deferred income taxes, net	20	431	162		613
Pension and postretirement	244				244
Claims and other liabilities	93	3	234		330
Commitments and contingencies					
Shareholders equity	2,128	3,656	820	(4,311)	2,293
Total liabilities and shareholders equity	$ 3,585	$ 4,995	$ 2,301	$ (4,677)	$ 6,204

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December 31, 2006

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 20	$ 21	$ 35	$	$ 76
Intercompany advances receivable		(68)	68		
Accounts receivable, net	5	11	1,193	(18)	1,191
Prepaid expenses and other	22	193	109		324
Total current assets	47	157	1,405	(18)	1,591
Property and equipment	1	3,258	583		3,842
Less accumulated depreciation	(1)	(1,461)	(110)		(1,572)
Net property and equipment		1,797	473		2,270
Investment in subsidiaries	3,372	254	5	(3,631)	
Receivable from affiliate	(563)	426	137		
Goodwill, intangibles and other assets	262	1,869	310	(350)	2,091
Total assets	$ 3,118	$ 4,503	$ 2,330	$ (3,999)	$ 5,952
Intercompany advances payable	$ 402	$ (548)	$ 355	$ (209)	$
Accounts payable	15	321	71	(9)	398
Wages, vacations and employees benefits	15	338	61		414
Other current and accrued liabilities	18	135	171		324
Asset-backed securitization borrowings			225		225
Total current liabilities	450	246	883	(218)	1,361
Payable to affiliate	(101)	28	223	(150)	
Long-term debt, less current portion	550	508			1,058
Deferred income taxes, net	18	430	161		609
Pension and postretirement	350				350
Claims and other liabilities	12	38	332		382
Commitments and contingencies					
Shareholders equity	1,839	3,253	731	(3,631)	2,192
Total liabilities and shareholders equity	$ 3,118	$ 4,503	$ 2,330	$ (3,999)	$ 5,952

Condensed Consolidating Statements of Operations

For the three months ended September 30, 2007 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 10	$ 2,076	$ 460	$ (88)	$ 2,458
Operating expenses:					
Salaries, wages and employees benefits	8	1,193	246		1,447
Operating expenses and supplies	6	413	121	(76)	464
Purchased transportation		218	87	(18)	287
Depreciation and amortization		48	14		62
Other operating expenses		93	16		109
Losses on property disposals, net		1			1
Reorganization and settlements					
Total operating expenses	14	1,966	484	(94)	2,370
Operating income (loss)	(4)	110	(24)	6	88

Nonoperating (income) expenses:					
Interest expense	9	9	5		23
Other, net	6	53	(59)	1	1
Nonoperating (income) expenses, net	15	62	(54)	1	24
Income (loss) before income taxes	(19)	48	30	5	64
Income tax provision (benefit)	(5)	17	12	(1)	23
Net income (loss)	$ (14)	$ 31	$ 18	$ 6	$ 41

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For the three months ended September 30, 2006 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 14	$ 2,184	$ 469	$ (96)	$ 2,571
Operating expenses:					
Salaries, wages and employees benefits	7	1,248	231	(8)	1,478
Operating expenses and supplies	7	407	125	(79)	460
Purchased transportation		215	70	(7)	278
Depreciation and amortization		49	15		64
Other operating expenses		90	16		106
Losses on property disposals, net		2			2
Reorganization and settlements		2	3		5
Total operating expenses	14	2,013	460	(94)	2,393
Operating income (loss)		171	9	(2)	178
Nonoperating (income) expenses:					
Interest expense	9	7	7		23
Other, net	6	30	(35)	(1)	
Nonoperating (income) expenses, net	15	37	(28)	(1)	23
Income (loss) before income taxes	(15)	134	37	(1)	155
Income tax provision (benefit)	(4)	50	15	(2)	59
Net income (loss)	$ (11)	$ 84	$ 22	$ 1	$ 96

For the nine months ended September 30, 2007 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 34	$ 6,165	$ 1,345	$ (272)	$ 7,272
Operating expenses:					
Salaries, wages and employees benefits	28	3,565	741		4,334
Operating expenses and supplies	21	1,228	372	(246)	1,375
Purchased transportation		624	215	(28)	811
Depreciation and amortization		140	42		182
Other operating expenses		286	53		339
(Gains) losses on property disposals, net		(3)	4		1
Reorganization and settlements	4	7	3		14
Total operating expenses	53	5,847	1,430	(274)	7,056
Operating income (loss)	(19)	318	(85)	2	216
Nonoperating (income) expenses:					
Interest expense	25	25	15		65
Other, net	20	160	(181)	2	1
Nonoperating (income) expenses, net	45	185	(166)	2	66
Income (loss) before income taxes	(64)	133	81		150
Income tax provision (benefit)	(18)	45	30	(4)	53

Net income (loss)	$ (46)	$ 88	$ 51	$ 4	$ 97

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For the nine months ended September 30, 2006 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 44	$ 6,390	$ 1,375	$ (298)	$ 7,511
Operating expenses:					
Salaries, wages and employees benefits	30	3,675	664	(29)	4,340
Operating expenses and supplies	26	1,236	365	(249)	1,378
Purchased transportation		621	206	(15)	812
Depreciation and amortization		167	45		212
Other operating expenses		270	48		318
Reorganization and settlements	1	8	4		13
Total operating expenses	57	5,977	1,332	(293)	7,073
Operating income (loss)	(13)	413	43	(5)	438
Nonoperating (income) expenses:					
Interest expense	26	22	19		67
Other, net	9	99	(105)	(5)	(2)
Nonoperating (income) expenses, net	35	121	(86)	(5)	65
Income (loss) before income taxes	(48)	292	129		373
Income tax provision (benefit)	(12)	109	50	(4)	143
Net income (loss)	$ (36)	$ 183	$ 79	$ 4	$ 230

Condensed Consolidating Statements of Cash Flows

For the nine months ended September 30, 2007 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	$ (199)	$ 442	$ (37)	$	$ 206
Investing activities:					
Acquisition of property and equipment		(250)	(63)		(313)
Proceeds from disposal of property and equipment		15	16		31
Other			(1)		(1)
Net cash used in investing activities		(235)	(48)		(283)
Financing activities:					
Asset-backed securitization borrowings, net			85		85
Issuance (repayment) of long-term debt, net	150		1		151
Debt issuance costs	(1)				(1)
Treasury stock repurchase	(35)				(35)
Proceeds from exercise of stock options	6				6
Intercompany advances / repayments	227	(206)	(21)		
Net cash provided by (used in) financing activities	347	(206)	65		206

Net increase (decrease) in cash and cash equivalents	148	1	(20)		129
Cash and cash equivalents, beginning of period	20	21	35		76
Cash and cash equivalents, end of period	$ 168	$ 22	$ 15	$	$ 205

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For the nine months ended September 30, 2006 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	$ (87)	$ 359	$ 27	$	$ 299
Investing activities:					
Acquisition of property and equipment		(271)	(48)		(319)
Proceeds from disposal of property and equipment		35			35
Acquisition of companies, net of cash acquired	(15)				(15)
Other		4	(6)		(2)
Net cash used in investing activities	(15)	(232)	(54)		(301)
Financing activities:					
Asset-backed securitization borrowings, net			50		50
Issuance (repayment) of long-term debt, net	(44)				(44)
Proceeds from exercise of stock options	4				4
Treasury stock repurchase	(20)				(20)
Intercompany advances / repayments	165	(121)	(44)		
Net cash provided by (used in) financing activities	105	(121)	6		(10)
Net increase (decrease) in cash and cash equivalents	3	6	(21)		(12)
Cash and cash equivalents, beginning of period	20	18	44		82
Cash and cash equivalents, end of period	$ 23	$ 24	$ 23	$	$ 70

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13. **Guarantees of the Senior Notes Due 2008**

In connection with the senior notes due 2008 that the Company assumed by virtue of the Roadway merger agreement, and in addition to the primary obligor, Roadway LLC, YRC Worldwide and its following 100% owned subsidiaries have issued guarantees in favor of the holders of the senior notes due 2008: Roadway Next Day Corporation, New Penn Motor Express, Inc., Roadway Express, Inc., Roadway Reverse Logistics, Inc. and Roadway Express International, Inc. Each of the guarantees is full and unconditional and joint and several.

The condensed consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of YRC Worldwide or any guarantor subsidiary to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information of YRC Worldwide and its subsidiaries as of September 30, 2007 and December 31, 2006 with respect to the financial position, for the three and nine months ended September 30, 2007 and 2006 for the results of operations and for the nine months ended September 30, 2007 and 2006 for the statement of cash flows. The primary obligor column presents the financial information of Roadway LLC. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the senior notes due 2008 including YRC Worldwide, the holding company. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws and Yellow Roadway Receivables Funding Corporation, the special-purpose entity that is associated with our ABS agreement.

Condensed Consolidating Balance Sheets

September 30, 2007

(in millions)	**Primary Obligor**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$	$ 185	$ 20	$	$ 205
Intercompany advances receivable		(16)	16		
Accounts receivable, net		(46)	1,308	(9)	1,253
Prepaid expenses and other		41	246		287
Total current assets		164	1,590	(9)	1,745
Property and equipment		1,095	2,946		4,041
Less accumulated depreciation		(245)	(1,410)		(1,655)
Net property and equipment		850	1,536		2,386
Investment in subsidiaries	97	3,914	202	(4,213)	
Receivable from affiliate	183	(634)	451		
Goodwill, intangibles and other assets	651	1,249	1,023	(850)	2,073
Total assets	$ 931	$ 5,543	$ 4,802	$ (5,072)	$ 6,204
Intercompany advances payable	$	$ 156	$ 49	$ (205)	$
Accounts payable		124	272	(4)	392
Wages, vacations and employees benefits		182	254		436
Other current and accrued liabilities	17	53	318	(4)	384
Asset-backed securitization borrowings			310		310
Current maturities of long-term debt		150			150
Total current liabilities	17	665	1,203	(213)	1,672
Payable to affiliate		517	133	(650)	
Long-term debt, less current portion	231	550	271		1,052
Deferred income taxes, net	(5)	240	378		613
Pension and postretirement		244			244
Claims and other liabilities		94	236		330
Commitments and contingencies					

Shareholders equity	688	3,233	2,581	(4,209)	2,293
Total liabilities and shareholders equity	$ 931	$ 5,543	$ 4,802	$ (5,072)	$ 6,204

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December 31, 2006

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$	$ 38	$ 38	$	$ 76
Intercompany advances receivable		(14)	14		
Accounts receivable, net		(20)	1,222	(11)	1,191
Prepaid expenses and other	(2)	83	243		324
Total current assets	(2)	87	1,517	(11)	1,591
Property and equipment		1,019	2,823		3,842
Less accumulated depreciation		(199)	(1,373)		(1,572)
Net property and equipment		820	1,450		2,270
Investment in subsidiaries		3,377	208	(3,585)	
Receivable from affiliate	155	(552)	397		
Goodwill, intangibles and other assets	651	1,257	1,033	(850)	2,091
Total assets	$ 804	$ 4,989	$ 4,605	$ (4,446)	$ 5,952
Intercompany advances payable	$	$ 87	$ 122	$ (209)	$
Accounts payable		114	286	(2)	398
Wages, vacations and employees benefits		165	249		414
Other current and accrued liabilities	2	76	246		324
Asset-backed securitization borrowings			225		225
Total current liabilities	2	442	1,128	(211)	1,361
Payable to affiliate		549	101	(650)	
Long-term debt, less current portion	234	550	274		1,058
Deferred income taxes, net	(5)	234	380		609
Pension and postretirement		350			350
Claims and other liabilities		26	356		382
Commitments and contingencies					
Shareholders equity	573	2,838	2,366	(3,585)	2,192
Total liabilities and shareholders equity	$ 804	$ 4,989	$ 4,605	$ (4,446)	$ 5,952

Condensed Consolidating Statements of Operations

For the three months ended September 30, 2007 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 879	$ 1,680	$ (101)	$ 2,458
Operating expenses:					
Salaries, wages and employees benefits		504	943		1,447
Operating expenses and supplies		171	386	(93)	464
Purchased transportation		88	208	(9)	287
Depreciation and amortization		20	42		62
Other operating expenses		37	72		109
(Gains) losses on property disposals, net		(1)	2		1
Reorganization and settlements					
Total operating expenses		819	1,653	(102)	2,370
Operating income (loss)		60	27	1	88

Nonoperating (income) expenses:					
Interest expense	3	10	10		23
Other, net	(13)	40	(27)	1	1
Nonoperating (income) expenses, net	(10)	50	(17)	1	24
Income before income taxes	10	10	44		64
Income tax provision	3	6	14		23
Net income	$ 7	$ 4	$ 30	$	$ 41

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For the three months ended September 30, 2006 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 948	$ 1,715	$ (92)	$ 2,571
Operating expenses:					
Salaries, wages and employees benefits		545	941	(8)	1,478
Operating expenses and supplies		169	365	(74)	460
Purchased transportation		100	186	(8)	278
Depreciation and amortization		21	43		64
Other operating expenses		38	68		106
Losses on property disposals, net		1	1		2
Reorganization and settlements			5		5
Total operating expenses		874	1,609	(90)	2,393
Operating income		74	106	(2)	178
Nonoperating (income) expenses:					
Interest expense	3	9	11		23
Other, net	(13)	30	(15)	(2)	
Nonoperating (income) expenses, net	(10)	39	(4)	(2)	23
Income before income taxes	10	35	110		155
Income tax provision	3	15	43	(2)	59
Net income	$ 7	$ 20	$ 67	$ 2	$ 96

For the nine months ended September 30, 2007 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 2,592	$ 4,973	$ (293)	$ 7,272
Operating expenses:					
Salaries, wages and employees benefits		1,506	2,828		4,334
Operating expenses and supplies		504	1,141	(270)	1,375
Purchased transportation		260	576	(25)	811
Depreciation and amortization		57	125		182
Other operating expenses		114	225		339
(Gains) losses on property disposals, net		(5)	6		1
Reorganization and settlements		5	9		14
Total operating expenses		2,441	4,910	(295)	7,056
Operating income		151	63	2	216
Nonoperating (income) expenses:					
Interest expense	10	26	29		65
Other, net	(39)	124	(86)	2	1
Nonoperating (income) expenses, net	(29)	150	(57)	2	66
Income before income taxes	29	1	120		150
Income tax provision	10	6	40	(3)	53

Net income (loss)	$ 19	$ (5)	$ 80	$ 3	$ 97

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For the nine months ended September 30, 2006 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 2,726	$ 5,070	$ (285)	$ 7,511
Operating expenses:					
Salaries, wages and employees benefits		1,585	2,784	(29)	4,340
Operating expenses and supplies		510	1,101	(233)	1,378
Purchased transportation		279	551	(18)	812
Depreciation and amortization		67	145		212
Other operating expenses		108	210		318
(Gains) losses on property disposals, net		(1)	1		
Reorganization and settlements		3	10		13
Total operating expenses		2,551	4,802	(280)	7,073
Operating income (loss)		175	268	(5)	438
Nonoperating (income) expenses:					
Interest expense	10	26	31		67
Other, net	(40)	83	(40)	(5)	(2)
Nonoperating (income) expenses, net	(30)	109	(9)	(5)	65
Income before income taxes	30	66	277		373
Income tax provision	11	31	105	(4)	143
Net income	$ 19	$ 35	$ 172	$ 4	$ 230

Condensed Consolidating Statements of Cash Flows

For the nine months ended September 30, 2007 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	$ 26	$ (17)	$ 197	$	$ 206
Investing activities:					
Acquisition of property and equipment		(92)	(221)		(313)
Proceeds from disposal of property and equipment		19	12		31
Other			(1)		(1)
Net cash used in investing activities		(73)	(210)		(283)
Financing activities:					
Asset backed securitization borrowings, net			85		85
Issuance (repayment) of long-term debt, net		150	1		151
Debt issuance costs		(1)			(1)
Treasury stock repurchase		(35)			(35)
Proceeds from exercise of stock options		6			6
Intercompany advances / repayments	(26)	117	(91)		
Net cash provided by (used in) financing activities	(26)	237	(5)		206